MOCK TEST PAPER

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

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

1. (a) 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.

Mohan Ltd. wants to seek your guidance as whether these costs can be capitalized into the cost of the new building. You are required to advise in line with AS 10 "Property, Plant and Equipment".

(b) X Ltd. negotiates with Bharat Petroleum Corporation Ltd (BPCL), for construction of "Franchise Retail Petrol Outlet Stations". Based on proposals submitted to different "Zonal offices of BPCL, the final approval for one outlet each in Zone A, Zone B, Zone C, Zone D, is awarded to X Ltd. Agreement (in single document) is entered into with BPCL for ₹ 490 lakhs. The agreement lays down values for each of the four outlets (₹ 88 + 132 + 160 + 110 lakhs) in addition to individual completion time. Comment whether X Ltd., will treat it as a single contract or four separate contracts.

(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

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Net realizable value of inventory as on 31st March, 2017 is ₹ 107.75 per unit. What will be the value of Inventory as per AS 2?

(d) M/s X& Co. (a partnership firm), had a turnover of ₹ 1.25 crores (excluding other income) and borrowings of ₹ 0.95 crores in the previous year. It wants to avail the exemptions available in application of Accounting Standards to non-corporate entities for the year ended 31.3.2016. Advise the management of M/s X & Co in respect of the exemptions of provisions of ASs, as per the directive issued by the ICAI. ***(4 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 record these transactions in the Investment Account in Meera's books for the year ended 31st March 2018 transferring any profits or losses on these transactions to Profit and Loss account. Apply average cost basis.

Expenses and tax to be ignored.

(b) Krishan bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2015 on the following terms(for both cars):

Down payment	6,00,000	
1st Installment at the end of first year		4,20,000
2nd Installment at the end of 2nd year		4,90,000
3rd Installment at the end of 3rd year		5,50,000

Interest is charged at 10% p.a.

Krishan provides depreciation @ 25% on the diminishing balances.

On 31.3.2018 Krishan failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Krishan agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Krishan after 3 months with interest @ 20% p.a.

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You are required to:

(i) Calculate the cash price of the cars and the interest paid with each installment.

(ii) Prepare Car Account in the books of Krishan assuming books are closed on March 31, every year. Figures may be rounded off to the nearest rupee. ***(8+ 8 = 16 Marks)***

3. The accountant of Tiger Club gave the following information about the receipts and payments of the club for the year ended 31st March, 2017:

Receipts:	₹
Subscriptions	1,24,260
Fair receipts	14,400
Variety show receipts (net)	25,620
Interest	1,380
Bar collections	44,700
Payments:	
Premises	60,000
Rent	4,800
Rates and taxes	7,560
Printing and stationary	2,820
Sundry expenses	10,700
Wages	5,040
Fair expenses	14,340
Honorarium to secretary	22,000
Bar purchases (payments)	34,620
Repairs	1,920
New car (less proceeds of old car ₹ 18,000)	75,600

The following additional information could be obtained:-

	1.4.2016	31.3.2017
	₹	₹
Cash in hand	900	Nil
Bank balance as per cash-book	48,840	20,700
Cheque issued for sundry expenses not presented to the bank (entry has been duly made in the cash book)	540	180
Subscriptions due	7,200	5,880
Premises (at cost)	1,74,000	2,34,000
Provision for depreciation on premises	1,12,800	-
Car (at cost)	73,140	93,600
Accumulated depreciation on car	61,740	-
Bar inventory	4,260	5,220
Creditors for bar purchases	3,540	2,580

Annual honorarium of secretary is ₹ 24,000. Depreciation on premises is to be provided at 5% on written down value. Depreciation on new car is to be provided at 20%.

You are required to prepare the Receipts and Payments Account and Income and Expenditure Account of Tiger Club for the year ended 31.3.2017. ***(16 Marks)***

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4. The following is the summarized Balance Sheet of Weak Ltd. as on 31.3.2017:

Liabilities	₹	Assets	₹
Equity shares of ₹ 100 each	1,00,00,000	Fixed assets	1,25,00,000
12% cumulative preference shares of ₹ 100 each	50,00,000	Investments (Market value ₹ 9,50,000)	10,00,000
10% debentures of ₹ 100 each	40,00,000	Current assets	1,00,00,000
Trade payables	50,00,000	P & L A/c	6,00,000
Provision for taxation	1,00,000		
	2,41,00,000		2,41,00,000

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to ₹ 40 each.

(ii) All preference shares are reduced to ₹ 60 each.

(iii) The rate of interest on debentures is increased to 12%. The debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes ₹ 20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of ₹ 40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at ₹ 45,00,000.

(vii) The taxation liability of the company is settled at ₹ 1,50,000.

(viii) Investments to be brought to their market value.

(ix) It is decided to write off the debit balance of Profit and Loss account.

You are required to pass Journal entries and show the Balance sheet of the company after giving effect to the above. ***(16 Marks)***

5 (a) 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.

Calculate the amount of the claim that will be admitted by the insurance company.

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(b) A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2017:

	(₹)
Debit balances in Debtors Ledger on 01-04-2017	1,79,100
Credit balances in Debtors Ledger on 01-04-2017	4,700
Transactions during the month of April, 2017 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2017	4,900

(10+6 = 16 marks)

6. Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2017 is as follows:

Liabilities	₹	₹	*Assets*	₹
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2017.

The remaining partners agreed to share profits and losses equally in future.

The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.

The average profits of the past 3 years were as follows:

Year ended	₹	
31.3.2017	3,30,000	(as per draft accounts)
31.3.2016	2,32,000	
31.3.2015	2,20,000	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows:

Plant to be depreciated by 10%

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Creditors amounting to ₹ 10,000 were omitted to be recorded;

₹ 6,000 is to be written off from stock;

Provision for doubtful debts to be created @ 5% of the debtors;

Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2017 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(I) Capital accounts of partners as on 1.4.2017 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2017 after Anuj's retirement. ***(16 Marks)***

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

(a) State under which head the following accounts should be classified in Balance Sheet, as per Schedule III of the Companies Act, 2013:

(i) Share application money received in excess of issued share capital.

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

(iv) Uncalled liability on shares and other partly paid investments.

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

(viii) Cash equivalents.

(b) The Board of Directors of X Ltd. decided on 31.3.2017 to increase sale price of certain items of goods sold retrospectively from 1st January, 2017. As a result of this decision the company has to receive ₹ 5 lakhs from its customers in respect of sales made from 1.1.2017 to 31.3.2017. But the Company's Accountant was reluctant to make-up his mind.

You are asked to offer your suggestion in line with AS 9.

(c) Classify the following activities as (i) Operating Activities, (ii) Investing Activities, (iii) Financing Activities:

a. Purchase of Machinery.

b. Proceeds from issuance of equity share capital

c. Cash Sales.

d. Proceeds from long-term borrowings.

e. Proceeds from Trade receivables.

f. Cash receipts from Trade receivables.

g. Trading Commission received.

h. Purchase of investment.

i. Redemption of Preference Shares.

j. Cash Purchases.

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k. Proceeds from sale of investment

l. Purchase of fixed asset.

m. Cash paid to suppliers.

n. Interim Dividend paid on equity shares.

o. Wages and salaries paid.

p. Proceed from sale of patents.

(d) Harish has the following bills due on different dates:

(i) ₹ 5,000 due on 5.3.2017

(ii) ₹ 7,500 due on 7.4.2017

(iii) ₹ 6,000 due on 17.7.2017

(iv) ₹ 8,000 due on 14.9.2017

It was agreed to settle the total amount due by a single cheque payment. Find the date on which the payment can be settled by single cheque.

(e) 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. ***(4 x 4 Marks =16 Marks)***

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MOCK TEST PAPER

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) 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.

(b) As per AS 7 on ‘Construction Contracts’, when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:

(a) separate proposals have been submitted for each asset;

(b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and

(c) the costs and revenues of each asset can be identified.

In the given case, each outlet is submitted as a separate proposal to different Zonal Office, which can be separately negotiated, and costs and revenues thereof can be separately identified. Hence, each asset will be treated as a “single contract” even if there is one document of contract.

Therefore, four separate contract accounts have to be recorded and maintained in the books of X Ltd. For each contract, principles of revenue and cost recognition have to be applied separately and net income will be determined for each asset as per AS -7.

(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

<u>Total units purchased and total cost:</u>

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) The question deals with the issue of Applicability of Accounting Standards to a non-corporate entity. For availment of the exemptions, first of all, it has to be seen that M/s X& Co. falls in which level of the non-corporate entities. Its classification will be done on the basis of the classification of non-

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corporate entities as prescribed by the ICAI. According to the ICAI, non-corporate entities can be classified under 3 levels viz Level I, Level II (SMEs) and Level III (SMEs).

An entity whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year, will fall under the category of Level I entities. Non-corporate entities which are not Level I entities but fall in any one or more of the following categories are classified as Level II entities:

(i) All commercial, industrial and business reporting entities, whose turnover (excluding other income) exceeds rupees one crore but does not exceed rupees fifty crore in the immediately preceding accounting year.

(ii) All commercial, industrial and business reporting entities having borrowings (including public deposits) in excess of rupees one crore but not in excess of rupees ten crore at any time during the immediately preceding accounting year.

(iii) Holding and subsidiary entities of any one of the above.

As the turnover of M/s X& Co. is more than ₹ 1 crore, it falls under 1st criteria of Level II non-corporate entities as defined above. Even if its borrowings of ₹ 0.95 crores is less than ₹ 1 crores, it will be classified as Level II Entity. In this case, AS 3, AS 17, AS 21, AS 23, AS 27 will not be applicable to M/s X & Co. Relaxations from certain requirements in respect of AS 15, AS 19, AS 20, AS 25, AS 28 and AS 29 are also available to M/s X& Co.

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

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

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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 $\left(\frac{\text{Rs.} 54,000}{44,000 \text{ shares}} \times 20,000 \text{ shares}\right)$		₹ 24,545
	Profit on sale of 20,000 shares (₹ 28,000 – ₹ 24,545)		₹ 3,455

(b) Calculation of Interest and Cash Price

No. of installments	*Outstanding balance at the end after the payment of installment*	*Amount due at the time of installment*	*Outstanding balance at the end before the payment of installment*	*Interest*	*Outstanding balance at the beginning*
[1]	*[2]*	*[3]*	*[4] = 2 +3*	*[5] = 4 x 10/110*	*[6] = 4-5*
3rd	-	5,50,000	5,50,000	50,000	5,00,000
2nd	5,00,000	4,90,000	9,90,000	90,000	9,00,000
1st	9,00,000	4,20,000	13,20,000	1,20,000	12,00,000

Total cash price = ₹ 12,00,000+ 6,00,000 (down payment) = ₹ 18,00,000.

Cars Account in the books of Krishan

Date	*Particulars*	*₹*	*Date*	*Particulars*	*₹*
1.4.2015	To Fair Value Motors A/c	18,00,000	31.3.2016	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2016	To Balance b/d	13,50,000	31.3.2017	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2017	To Balance b/d	10,12,500	31.3.2018	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			10,12,500

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3. **Tiger Club**

Receipts and Payments Account

for the year ended 31st March, 2017

Receipts	₹	*Payments*	₹
To Opening balance:		By Premises	60,000
Cash on hand	900	By Rent	4,800
Bank balance	48,840	By Rates and taxes	7,560
To Subscriptions	1,24,260	By Printing and stationary	2,820
To Fair receipts	14,400	By Sundry expenses	10,700
To Variety show receipts (net)	25,620	By Wages	5,040
To Interest	1,380	By Fair expenses	14,340
To Bar collections	44,700	By Honorarium to secretary	22,000
To Sale proceeds of old car	18,000	By Bar purchases (payments)	34,620
		By Repairs	1,920
		By New Car	93,600
		By Closing balance:	
		Cash in hand	Nil
		Bank balance	20,700
	2,78,100		2,78,100

Income and Expenditure Account

for the year ended 31st March, 2017

Expenditure	₹	₹	*Income*	₹	₹
To Rent		4,800	By Subscriptions	1,24,260	
To Rates and taxes		7,560	*Add:* Due as on 31.3.17	5,880	
To Printing and stationary		2,820		1,30,140	
To Wages		5,040	*Less*: Due as on 31.3.16	(7,200)	1,22,940
To Honorarium to secretary		24,000	By Surplus from fair:		
To Sundry expenses		10,700	Fair receipts	14,400	
To Repairs		1,920	*Less:* Fair expenses	14,340	60
To Depreciation on			By Surplus from variety show		25,620
Premises @ 5% *	6,060				
Car @20% of 93,600	18,720	24,780	By Interest		1,380
			By Profit from bar (W.N.2)		12,000

* [(1,74,000 -1,12,800) x 0.05 + 60,000x0.05]

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To Excess of income over expenditure		86,980	By Profit from sale of car (W.N. 3)		6,600
		1,68,600			1,68,600

Working Notes:

1. **Calculation of bar purchases**

Bar Creditors Account

Dr.			Cr.
	₹		₹
To Bank A/c	34,620	By Balance b/d	3,540
To Balance c/d	2,580	By Bar purchases	33,660
	37,200		37,200

2. **Profit from bar**

	₹	₹
Bar collections		44,700
Less: Bar inventory consumed-		
Opening inventory	4,260	
Add: Purchases	33,660	
	37,920	
Less: Closing inventory	5,220	32,700
		12,000

3. **Profit on sale of car**

	₹
Sale proceeds of old car	18,000
Less: W.D.V. of old car (₹ 73,140-₹ 61,740)	11,400
	6,600

4. Journal Entries in the books of Weak Ltd.

		₹	₹
(i)	Equity share capital (₹100) A/c Dr.	1,00,00,000	
	To Equity Share Capital (₹40) A/c		40,00,000
	To Capital Reduction A/c		60,00,000
	(Being conversion of equity share capital of ₹100 each into ₹40 each as per reconstruction scheme)		
(ii)	12% Cumulative Preference Share capital (₹100) A/c Dr.	50,00,000	
	To 12% Cumulative Preference Share Capital (₹60) A/c		30,00,000
	To Capital Reduction A/c		20,00,000
	(Being conversion of 12% cumulative preference share capital of ₹100 each into ₹60 each as per reconstruction scheme)		
(iii)	10% Debentures A/c Dr.	40,00,000	
	To 12% Debentures A/c		28,00,000

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	To Capital Reduction A/c		12,00,000
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)		
(iv)	Trade payables A/c Dr.	20,00,000	
	To Equity Share Capital A/c		12,00,000
	To Capital Reduction A/c		8,00,000
	(Being a creditor of ₹20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of ₹40 each in full settlement of his dues as per reconstruction scheme)		
(v)	Provision for Taxation A/c Dr.	1,00,000	
	Capital Reduction A/c Dr.	50,000	
	To Current assets(bank A/c) A/c		1,50,000
	(Being liability for taxation settled)		
(vi)	Capital Reduction A/c Dr.	99,00,000	
	To P & L A/c		6,00,000
	To Fixed Assets A/c		37,50,000
	To Current Assets A/c		55,00,000
	To Investments A/c		50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Fixed Assets, Current Assets, Investments through capital reduction account)		
(vii)	Capital Reduction A/c Dr	50,000	
	To Capital Reserve A/c		50,000
	(Being balance in capital reduction account transferred to capital reserve account)		

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2017

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	82,00,000
	b	Reserves and Surplus	2	50,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	28,00,000
3		**Current liabilities**		
	a	Trade Payables		30,00,000
		Total		**1,40,50,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	87,50,000

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b	Investments	5	9,50,000
2	**Current assets**	6	43,50,000
	Total		**1,40,50,000**

Notes to accounts

		₹
1. Share Capital		
Equity share capital		
Issued, subscribed and paid up		
1,30,000 equity shares of ₹40 each		52,00,000
Preference share capital		
Issued, subscribed and paid up		
50,000 12% Cumulative Preference shares of ₹60 each		30,00,000
Total		**82,00,000**
2. Reserves and Surplus		
Capital Reserve		50,000
3. Long-term borrowings		
Secured		
12% Debentures		28,00,000
4. Tangible assets		
Fixed Assets	1,25,00,000	
Adjustment under scheme of reconstruction	(37,50,000)	87,50,000
5. Investments	10,00,000	
Adjustment under scheme of reconstruction	(50,000)	9,50,000
6. Current assets	45,00,000	
Adjustment under scheme of reconstruction	(1,50,000)	43,50,000

Working Note:

Capital Reduction Account

	₹		₹
To Current Asset	50,000	By Equity share capital	60,00,000
To P & L A/c	6,00,000	By 12% Cumulative preference share capital	20,00,000
To Fixed assets	37,50,000	By 10% Debentures	12,00,000
To Current assets	55,00,000	By Trade payables	8,00,000
To Investment	50,000		
To Capital Reserve (bal. fig.)	50,000		
	1,00,00,000		1,00,00,000

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5. (a) 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

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

(b) General Ledger Adjustment Account in Debtors Ledger

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2017	To Balance b/d	4,700	1.4.2017	By Balance b/d	1,79,100
01.04.2017 to 30.4.2017	To Debtors ledger adjustment A/c:		01.04.2017 to 30.4.2017	By Debtors ledger adjustment A/c:	
	Cash received	8,62,850		Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2017	By Balance c/d	4,900

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30.04.2017	To Balance c/d (bal.fig)	2,48,850			
		11,88,450			11,88,450

6. Partners' Capital Accounts as on 1.4.2017

	Anuj	Ayush	Piyush		Anuj	Ayush	Piyush
To Anuj		22,950	68,850	By Balance b/d	3,75,000	2,80,000	2,25,000
To Revaluation Loss	37,400	37,400	18,700	By General Reserves	75,200	75,200	37,600
To Bank FD To 8% Loan	2,34,000 2,70,600			By Ayush and Piyush	91,800		
To Balance c/d*		3,03,450	3,03,450	By Cash (Bal. fig.)	-	8,600	1,28,400
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2017 after Anuj's retirement

Liabilities	*Amount (₹)*	*Assets*	*Amount (₹)*
Anuj's Loan	2,70,600	Plant (90% of ₹ 7,87,000)	7,08,300
Creditors (2,16,000+10,000)	2,26,000	Stock (₹ 1,03,000 less ₹ 6,000)	97,000
Capital Accounts*:		Debtors (95% of ₹ 1,56,000)	1,48,200
Ayush	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

*Total of capital balances should be ₹ 6,06,900 which is proportioned to individual partners in their profit sharing ratio.

Working Notes:

1. Profit / Loss on revaluation

Revaluation Account

	Amount (₹)		*Amount (₹)*
To Plant	78,700	By Interest on FD	9,000
To Creditors	10,000	By Loss on revaluation	93,500
To Inventory	6,000		
To Provision for doubtful debts	7,800		
	1,02,500		1,02,500

2. Calculation of Goodwill

Goodwill Valuation

Profit of year ended	₹
31.3.2017 (₹ 3,30,000 less ₹ 93,500)	2,36,500
31.3.2016	2,32,000

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31.3.2015	2,20,000
Total Profits	6,88,500

Average Profit = 6,88,500/3 = 2,29,500

Goodwill valued at 1 year purchase amounting ₹ 2,29,500.

3. Adjustment for goodwill among partners

Anuj's share of goodwill (2,29,500 x 2/5) = 91,800

Gaining ratio of Ayush and Piyush

Ayush	Piyush
$\frac{1}{2}-\frac{2}{5}$	$\frac{1}{2}-\frac{1}{5}$
$\frac{5-4}{10}=\frac{1}{10}$	$\frac{5-2}{10}=\frac{3}{10}$

Gaining Ratio = 1: 3

Entry for adjustment of goodwill

		₹	₹
Ayush's capital A/c	Dr.	22,950	
Piyush's capital A/c	Dr.	68,850	
To Anuj's capital A/c			91,800
(Being Anuj's share of goodwill debited to remaining partners in their gaining ratio)			

7. (a) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

(vii) Shareholders' Fund / Money received against share warrants

(viii) Current Assets

(b) As per AS 9 'Revenue Recognition', the additional revenue on account of increase in sales price with retrospective effect, as decided by Board of Directors of X Ltd., of ₹5 lakhs to be recognized as income for financial year 2016-17, only if the company is able to assess the ultimate collection with reasonable certainty. If at the time of raising of any claim it is unreasonable to expect ultimate collection, revenue recognition should be postponed.

(c) (i) Operating Activities: c, e, f, g, j, m, o.

(ii) Investing Activities: a, h, k, l, p.

(iii) Financing Activities: b, d, i, n.

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(d) Calculation of number of days from the base date

Due date	*Amount (₹)*	*No. of days from 5.3.17*	*Product*
5.3.2017	5,000	0	0
7.4.2017	7,500	33	2,47,500
17.7.2017	6,000	134	8,04,000
14.9.2017	8,000	193	15,44,000
	26,500		25,95,500

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2017 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2017. So on 11th June, 2017, all bills will be settled by a single cheque payment.

(e) 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

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Test Series: March, 2018

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

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

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

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

1. (a) 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. ***(5 Marks)***

(b) Aman Chauhan, an old man, by a registered deed of gift, granted certain landed property to Anna, his daughter. By the terms of the deed, it was stipulated that an annuity of ₹ 20, 000 should be paid every year to Vijay, who was the brother of Aman Chauhan. On the same day, Anna made a promise to Vijay and executed in his favour an agreement to give effect to the stipulation. Anna failed to pay the stipulated sum. In an action against her by Vijay, she contended that since Vijay had not furnished any consideration, he has no right of action.

Examining the provisions of the Indian Contract Act, 1872, decide, whether the contention of Anna is valid? ***(5 Marks)***

(c) Explain the Deontological Approach as a source of ethical standard. ***(5 Marks)***

(d) Explain the factors which are responsible for the growing importance of communication of an organization. ***(5 Marks)***

2. (a) Examine whether the Payment of Bonus Act, 1965 be applicable to the following cases:

(i) Jagdish, who is working in a social welfare organization.

(ii) Dinesh, an employee employed by an establishment engaged in an industry carried on by a department of the Central Government ***(4 Marks)***

(b) As per the provisions of the Contract Act, 1872, examine whether the following agreements are valid or void?

(i) R sells the goodwill of his shop to S for ` 50,00,000 and promises not to carry on such business forever and anywhere in India.

(ii) Pihu has made an agreement with Shristhi, whereby there is a condition that they will not institute legal proceedings against each other without consent. ***(4 Marks)***

(c) How does socially responsible corporate performance benefit in:

(i) Increased Sales and Customer Loyalty

(ii) Increased Ability to Attract and Retain Employees. ***(4 Marks)***

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

3. (a) (i) Pawan, a major and Preet, a minor executed a promissory note in favour of Ramesh. Examine with reference to the provisions of the Negotiable Instruments Act, 1881, the validity of the promissory note and whether it is binding on Pawan and Preet. ***(4 Marks)***

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(ii) Amit issues a cheque for ₹ 25,000/- in favour of Bunty. Amit has sufficient amount in his account with the Bank. The cheque was not presented within reasonable time to the Bank for payment and the Bank, in the meantime, became bankrupt. Decide under the provisions of the Negotiable Instruments Act, 1881, whether Bunty can recover the money from Amit?

(4 Marks)

(b) Describe the factors which influence the ethical behaviour at work in an organization. ***(4 Marks)***

(c) What are the tips for improving inter-personal skills in a business organization? ***(4 Marks)***

4. (a) N Ltd. has a paid up share-capital of 80 crores. M Ltd. holds a total of 50 crores of N Ltd. Now, N Ltd. is making huge profits and wants to expand its business and is aiming at investing in M Ltd. N Ltd. has approached you to analyse whether as per the provisions of the Companies Act, 2013, they can hold $1/10^{th}$ of the share capital of M Ltd. ***(8 Marks)***

(b) "Water pollution is also a kind of resource depletion", explain. ***(4 Marks)***

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

5. (a) Infotech Ltd. was incorporated on 1.4.2016. No General Meeting of the company has been held till 30.4.2018. Discuss the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of the Company and the power of the Registrar to grant extension of time for the First Annual General Meeting. ***(4 Marks)***

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

(c) "What do you understand by "ethical communication"? What are its elements. ***(4 Marks)***

6. (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 $1/10^{th}$ 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) Describe the safeguards which may be created by finance and accounting profession and legislation to eliminate or reduce the threats to an acceptable level to ensure an ethical environment in an organization. ***(4 Marks)***

(c) Draft a circular for employees insisting on punctuality. ***(4 Marks)***

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

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

(b) After receiving 80% of the minimum subscription as stated in the prospectus, a company allotted 100 equity shares in favour of Akash. The company deposited the said amount in the bank but withdrew 50% of the amount, before finalisation of the allotment, for the purchase of certain assets.

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Akash refuses to accept the allotment of shares on the ground that the allotment is violative of the provisions of the Companies Act, 2013. Comment. ***(4 Marks)***

(c) Explain the provisions of the Companies Act, 2013 relating to the 'Service of Documents' on a company and the members of the company. ***(4 Marks)***

(d) Explain the concept of "Sexual harassment" in relation to work place. ***(4 Marks)***

(e) Draft a 'Power of Attorney' by an assesse, Mr. Tenzink authorizing a professional to appear before the Income Tax Authorities in respect of the pending taxation matter. ***(4 Marks)***

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MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION

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. X will not succeed. It was 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) Problem as asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in section 2(d) and on the principle 'privity of consideration'. Consideration is one of the essential elements to make a contract valid and it can flow from the promisee or any other person. In view of the clear language used in definition of 'consideration' in Section 2(d) "…. the promisee or any other person…..", it is not necessary that consideration should be furnished by the promisee only. A promise is enforceable if there is some consideration for it and it is quite immaterial whether it moves from the promisee or any other person. The leading authority in the decision of the *Chinnaya Vs. Ramayya (1882) 4 Mad 137*., held that the consideration can legitimately move from a third party and it is an accepted principle of law in India.

In the given problem, Aman Chauhan has entered into a contract with Anna, but Vijay has not given any consideration to Anna but the consideration did flow from Aman Chauhan to Anna and such consideration from third party is sufficient to the enforce the promise of Anna, the daughter, to pay an annuity to Vijay. Further, the deed of gift and the promise made by Anna to Vijay to pay the annuity were executed simultaneously and therefore they should be regarded as one transaction and there was sufficient consideration for it.

Thus, a stranger to the contract cannot enforce the contract but a stranger to the consideration may enforce it.

(c) **The Rights Approach (The Deontological Approach):** Some philosophers and ethicists suggest that the ethical action is the one that best protects and respects the moral rights of those affected. This approach starts from the belief that humans have a dignity based on their human nature per se or on their ability to choose freely what they do with their lives. On the basis of such dignity, they have a right to be treated as ends and not merely as means to other ends. The list of moral rights -including the rights to make one's own choices about what kind of life to lead, to be told the truth, not to be injured, to a degree of privacy, and so on-is widely debated; some now argue that non-humans have rights, too. Also, it is often said that rights imply duties-in particular, the duty to respect others' rights.

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

(i) **Growth in the size and multiple locations of organizations:** Most of the organizations are growing larger and larger in size. The people are working in the country and abroad, of these

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organizations. Keeping in touch, sending directions across and getting feedback is possible only when communication lines are kept working effectively.

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

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

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

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

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

2. (a) (i) As per the provisions contained in Section 32 (v) (c) of the Payment of Bonus Act, 1965, Jagdish is not entitled to any bonus as the said Act is not applicable to institutions (including hospitals, chambers of commerce and social welfare institutions) established not for purposes of profit.

(ii) Similarly the Payment of Bonus Act, 1965 is not applicable to the employees of an establishment which is engaged in an industry carried on by or under the authority of a department of the Central Government or the state government or a local authority under section 32 (iv) of the said Act.

(b) (i) According to Section 27 of the Indian Contract Act, 1872, any agreement through which a person is restrained from exercising a lawful profession, trade or business of any kind is to that extent void. However, a buyer can put such a condition on the seller of good will, not to carry on same business. However, the conditions must be reasonable regarding the duration and the place of the business.

Thus, in the given situation the agreement is void.

(ii) According to section 28 of the Indian Contract Act, 1872, an agreement in restraint of legal proceedings resulting in restriction of one's right to enforce legal rights is void. Similarly, any agreement which abridges the usual period for commencing the legal proceedings is also void. Further, these agreement are also void in view of section 23 of the Indian Contract Act,1872 as the object of the agreements are to defeat the provision of law.

Hence, such an agreement is void.

(c) (i) Increased Sales and Customer Loyalty

A number of studies have suggested a large and growing market for the products and services of companies perceived to be socially responsible. While businesses must satisfy customers' key buying criteria, such as price, quality, availability, safety and convenience.

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(ii) Increased Ability to Attract and Retain Employees

Companies perceived to have strong CSR commitments often find it easier to recruit and retain employees, resulting in a reduction in turnover and associated recruitment and training costs. Even in difficult labour markets, potential employees evaluate a company's CSR performance to determine whether it is the right "fit".

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

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

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

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

3. (a) (i) According to Section 26 of the Negotiable Instruments Act, 1881, every person competent to contract (according to the law to which he is subject to) has capacity to bind himself and be bound by making, drawing, accepting, endorsing delivering and negotiating an instrument. A party having such capacity may himself put his signature or authorize some other person to do so.

A minor may draw, endorse, deliver and negotiate an instrument so as to bind all the parties except himself. A minor may be a drawer where the instrument is drawn or endorsed by him. In that case he does not incur any liability himself although other parties to the instrument can be made liable and the holder can receive payment from any other party thereto.

Therefore, in the instant case, the promissory note is valid and it is binding on Pawan but not on Preet, a minor.

(ii) 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 Bunty. However, Bunty can sue against the bank for the amount of the cheque applying the above provisions.

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

1. Individual moral standards: One may have great control over personal ethics outside workplace.
2. The influence of managers and co-workers: The activities and examples set by co-workers along with rules and policies established by the firm are critical in gaining consistent ethical compliance in an organization.
3. The opportunity to engage in misconduct: If a company fails to provide good examples and direction for appropriate conduct; confusion and conflict will develop and result in the opportunity for unethical behavior.

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(c) Tips for improving interpersonal skills: Lines of communication must be open between people who rely on one another to get work done. Poor interpersonal communication skills, which include active listening, result in low productivity simply because one does not have the tools needed to influence, persuade and negotiate which are necessary for workplace success. To get this success the following tips are suggested:

(i) **Congruency in communication elements:** If the words used are incongruent with the other interpersonal communication dynamics interpersonal communication is adversely affected. Since communication is shared meaning, words must send the same message as the other interpersonal communication dynamics – body language, facial expression, posture, movement, tone of voice to help emphasize the truth, sincerity and reliability of the communication. A consistent message ensures effective communication.

(ii) **Listening effectively:** Effective or active listening is very important skill to enhance interpersonal communication. Listening helps to build strong personal relationships. The process of communication completes when the message as intended by the sender is understood by the receiver. Most of the persons assume that listening is natural trait, but practically very few of us listen properly. One needs to give the communicator of the message sufficient attention and make an effort to understand his view point.

4. (a) In terms of section 2 (87) of the Companies Act 2013 "subsidiary company" or "subsidiary", in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Since, M ltd. is holding more than one half (50 crores out of 80 crores) of the total share capital of N Ltd., it (M Ltd.) is holding of N Ltd.

Further, as per the provisions of section 19 of the Companies Act, 2013, No company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void:

Provided that nothing in this sub-section shall apply to a case—

(a) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or

(b) where the subsidiary company holds such shares as a trustee; or

(c) where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company

In the given question, N ltd. cannot acquire the shares of M Ltd. as the acquisition of shares does not fall within the ambit of any of the exceptions provided in section 19.

(b) Water pollution is also a kind of resource depletion because contamination of air, water or land diminishes their beneficial qualities. Oceanographers have found traces of plutonium, cesium and other radioactive materials in seawater that have apparently leaked from the sealed drums in which radioactive wastes are disposed. An increase in population and economic activity in urban area has also resulted in increased demands of water. The ground water is also shrinking because of the decreasing rainfall and wastage of water.

(c) When two or more persons meet together and talk/ discuss on any business or non business matter, it is known as negotiation. When same persons discuss specific proposals in order to come

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to a mutually accepted solutions; whether it is with an employer, family member or business partner. It can be said that negotiation is a common way of settling things in business.

Steps in the negotiation process

1. Preparing
2. Arguing
3. Signaling
4. Packaging
5. Bargaining
6. Closing and arguing.

5. (a) According to Section 96 of the Companies Act, 2013, every company shall be required to hold its first annual general meeting within a period of 9 months from the date of closing of its first financial year.

The first financial year of Infotech Ltd is for the period 1st April 2016 to 31st March 2017, the first annual general meeting (AGM) of the company should be held on or before 31st December, 2017.

The section further provides that the Registrar may, for any special reason, extend the time within which any annual general meeting, other than the first annual general meeting, shall be held, by a period not exceeding three months.

Thus, the first AGM of Infotech should have been held on or before 31st December, 2017. Further, the Registrar does not have the power to grant extension to time limit

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

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

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

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

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

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

(vi) the right to consumer education.

(c) According to the National communication Association, ethical communication is fundamental to responsible thinking, decision making and the development of relationship and communities within and across contexts, cultures, channels and media. Ethical communication enhances human worth and dignity by fostering, truthfulness, fairness, responsibility, personal integrity and respect for self and others'. While unethical communication threatens the quality of all communication and consequently the well-being of individuals and the society in which we live. In nutshell ethical communicators have a 'well developed sense of social responsibility'.

An ethical communication is one which:

- includes all relevant information
- is true in every sense and is not deceptive in any way.
- is accurate and sincere. Avoids language that manipulates, discriminates or exaggerates.

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- does not hide negative information behind an optimistic attitude.
- does not state opinions as facts.
- portrays graphic data fairly.

6. (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) Safeguards created by the profession, legislation or regulation are as follows:

i. Educational, training and experience requirements for entry into the profession.

ii. Continuing professional development requirements

iii. Corporate governance regulations

iv. Professional standards

v. Professional or regulatory monitoring and disciplinary procedures.

vi. External review by a legally empowered third party of the reports, returns, communications or information produced by concerned professionals.

(c)

EAC Electronics Ltd.

Civil Lines, Panipat.

Circular No: Date………..

To all employees

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

Cooperation of all employees is solicited.

Sd/-
Arav Sachdeva
Manager – H.R

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

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

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

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

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

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

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

(b) Allotment of Shares: The company has received 80% of the minimum subscription as stated in the prospectus. Hence, the allotment is in contravention of section 39(1) of the Companies Act, 2013 which prohibits a company from making any allotment of securities until it has received the amount of minimum subscription stated in the prospectus. Under section 39 (3), it is required to refund the money received (i.e. 80% of the minimum subscription) to the applicants. It has no other option available.

Therefore, in the present case Akash is within his rights refuses to accept the allotment of shares which has been illegally made by the company.

(c) Under section 20 of the Companies Act, 2013 a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed. However, in case where securities are held with a depository, the records of the beneficial ownership may be served by such depository on the company by means of electronic or other mode.

Under section 20 (2), save as provided in the Act or the rule thereunder for filing of documents with the registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed. However, a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

(d) Concept of Sexual harassment: Sexual harassment is a situation in which an employee is coerced into giving into another employee's sexual demands by the threat of losing some significant job benefit, such as a promotion, raise, or even the job. This kind of degrading coercion exerted on employees who are vulnerable and defenseless inflicts great psychological harm on the employee, violates the employee's most basic right to freedom and dignity and is an unjust misuse of the

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unequal power that an employer can exercise over the employee. Sexual harassment is prohibited, and an employer is held responsible for all sexual harassment engaged in by employees.

(e) Power of Attorney to appear before Income Tax Authorities

I, Tenzink S/o………., R/o…………and partner of the firm M/s……….with registered office at…………, do hereby appoint Mr…………., S/o………., R/o………as attorney of the firm above named and authorize him for the purpose hereinafter mentioned :

1. That the said attorney shall appoint an advocate of his choice and hand him over the judgement of the tribunal of Income Tax and instruct him to file the appeal against the order, for the Assessment Year …..

2. That the said attorney shall execute Vakalatnama to the Advocate appointed by him and shall sign all the related papers under the supervision of the advocate.

3. That specimen signature of the said attorney is given below of this deed.

4. The said attorney shall generally do all other lawful acts necessary for the conduct of the said case.

I hereby declare that the acts done by the said attorney in connection with the work given to him shall be deemed to have been done by me and shall be binding on the firm and its partners.

IN WITNESS WHEREOF I have signed this power of attorney in the presence of the following witnesses:

Signature

(Holder of Power of Attorney)

WITNESSES:

1………………………

2………………………

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Test Series: March 2018

MOCK TEST PAPER

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) 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.

You are asked to show process accounts and 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) Compute the material cost.

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

(c) What would be the amount of an investment of ₹ 50,000 after 3 years, if it is invested at an interest rate of 12% p.a. when compounding is done as under:

(i) Annually

(ii) Semi-annually

(iii) Quarterly

(d) From the following details of X Ltd., prepare the Income Statement for the year ended 31st December, 2017:

Financial Leverage	2
Interest	₹ 5,000

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Operating Leverage	3	
Variable cost as a percentage of sales	75%	
Income tax rate	30%	*(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. ***(8 Marks)***

(b) A bank is analysing the receivables of J Ltd. in order to identify acceptable collateral for a short-term loan. The company's credit policy is 2/10 net 30. The bank lends 80 percent on accounts where customers are not currently overdue and where the average payment period does not exceed 10 days past the net period. A schedule of J Ltd.'s receivables has been prepared. How much will the bank lend on pledge of receivables, if the bank uses a 10 per cent allowance for cash discount and returns?

Account no.	Amount (₹)	Days Outstanding in days	Average Payment Period historically
74	25,000	15	20
91	9,000	45	60
107	11,500	22	24
108	2,300	9	10
114	18,000	50	45
116	29,000	16	10
123	14,000	27	48
	1,08,800		

(8 Marks)

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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 find out the profits at respective levels. ***(8 Marks)***

(b) X Ltd. is considering selecting a machine out of two mutually exclusive machines. The company's cost of capital is 15 per cent and corporate tax rate is 30 per cent. Other information relating to both machines are as follows:

	Machine – I	**Machine – II**
Cost of Machine	₹ 30,00,000	₹ 40,00,000
Expected Life	10 years	10 years
Annual Income (Before Tax and Depreciation)	₹ 12,50,000	₹17,50,000

Depreciation is to be charged on straight line basis:

You are required to calculate:

(i) Discounted Pay Back Period

(ii) Net Present Value

(iii) Profitability Index

The present value factors of Re.1 @ 15% are as follows:

Year	1	2	3	4	5
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497

(8 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

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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

Draw the Stores Ledger Control Account, Work-in-Process Control Account, Overheads Control Account and Costing Profit and Loss Account. ***(8 Marks)***

(b) A Company earns a profit of ₹ 6,00,000 per annum after meeting its interest liability of ₹ 1,20,000 on 12% debentures. The tax rate is 50%. The number of equity shares of ₹ 10 each are 80,000 and the retained earnings amount to ₹ 18,00,000. The company proposes to take up an expansion scheme for which a sum of ₹ 8,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

Required:

(i) Compute the Earnings per Share (EPS), if:

- The additional funds were raised as debt
- The additional funds were raised by issue of equity shares.

(ii) Advise the company as to which source of finance is preferable. ***(8 Marks)***

5. (a) Discuss cost classification based on variability.

(b) Explain Single and Multiple Overhead Rates.

(c) Differentiate between Business risk and Financial risk.

(d) Explain the importance of trade credit and accruals as source of working capital. What is the cost of these sources? ***(4 × 4=16 Marks)***

6. (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;

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(ii) Labour yield variance;

(iii) Labour mix variance; and

(iv) Labour wage rate variance. ***(8 Marks)***

(b) X Ltd. has the following balances as on 1st April 20X7:

	(₹)
Plant and equipment	11,40,000
Depreciation on plant and equipment	3,99,000
Inventories and trade receivables	4,75,000
Cash and cash equivalent	66,500
Trade payables	1,14,000
Bills payable	76,000
Equity share capital (Share of ₹100 each)	5,70,000

The Company made the following estimates for financial year 20X7-X8:

(i) The company will pay a free of tax dividend of 10%, the rate of dividend distribution tax being 25%.

(ii) The company will acquire plant costing ₹ 1,90,000 after selling one machine for ₹ 38,000 costing ₹ 95,000 and on which depreciation provided amounted to ₹ 66,500.

(iii) Inventories and trade receivables, Trade payables and Bills payables at the end of financial year are expected to be ₹ 5,60,500, ₹ 1,48,200 and ₹ 98,800 respectively.

(iv) The profit would be ₹ 1,04,500 after depreciation of ₹ 1,14,000.

Prepare the projected cash flow statement and ascertain the bank balance of X Ltd. at the end of financial year 20X7-X8. ***(8 Marks)***

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

(a) Discuss the four different methods of costing alongwith their applicability to concerned industry?

(b) Define Explicit costs. How is it different from implicit costs?

(c) Elaborate the practical application of Marginal Costing.

(d) Discuss the dividend-price approach, and earnings price approach to estimate cost of equity capital.

(e) How Economic Batch Quantity is determined? ***(4 × 4 =16 Marks)***

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MOCK TEST PAPER – I

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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

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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 future value

Principal (P_0) = ₹ 50,000

Rate of interest (i) = 12% p.a.

Time period (n) = 3 years

Amount if compounding is done:

(i) Annually

Future Value = $P(1+i)^n$

= ₹ 50,000 $(1 + 0.12)^3$

= ₹ 50,000 × 1.405

= ₹ 70,250

(ii) Semi Annually

Future Value = ₹ 50,000 $\left(1+\frac{12}{100\times 2}\right)^{3\times 2}$

= ₹ 50,000 $(1 + 0.06)^6$

= ₹ 50,000 × 1.419

= ₹ 70,950

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(iii) Quarterly

$$\text{Future Value} = ₹\ 50,000 \left(1+\frac{12}{100\times 4}\right)^{3\times 4}$$

$$= ₹\ 50,000\ (1 + 0.03)^{12}$$

$$= ₹\ 50,000 \times 1.426$$

$$= ₹\ 71,300$$

(d) Workings:

(i) $$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}} \quad \text{Or,} \quad 2 = \frac{\text{EBIT}}{\text{EBIT} - ₹5,000}$$

Or, EBIT = ₹ 10,000

(ii) $$\text{Operating Leverage} = \frac{\text{Contribution}}{\text{EBIT}}$$

$$\text{Or,} \quad 3 = \frac{\text{Contribution}}{₹10,000}$$

Or, Contribution = ₹ 30,000

(iii) $$\text{Sales} = \frac{\text{Contribution}}{\text{P/V Ratio}} = \frac{₹30,000}{25\%} = ₹\ 1,20,000$$

(iv) Fixed Cost = Contribution – Fixed cost = EBIT

= ₹30,000 – Fixed cost = ₹10,000

Or, Fixed cost = ₹ 20,000

Income Statement for the year ended 31st December 2017

Particulars	Amount (₹)
Sales	1,20,000
Less: Variable Cost (75% of ₹1,20,000)	(90,000)
Contribution	30,000
Less: Fixed Cost (Contribution - EBIT)	(20,000)
Earnings Before Interest and Tax (EBIT)	10,000
Less: Interest	(5,000)
Earnings Before Tax (EBT)	5,000
Less: Income Tax @ 30%	(1,500)
Earnings After Tax (EAT or PAT)	3,500

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

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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

Ranking	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) Analysis of the receivables of J Ltd. by the bank in order to identify acceptable collateral for a short-term loan:

(i) The J Ltd.'s credit policy is 2/10 net 30.

The bank lends 80 per cent on accounts where customers are not currently overdue and where the average payment period does not exceed 10 days past the net period i.e. thirty days. From the schedule of receivables of J Ltd. Account No. 91 and Account No. 114 are currently overdue and for Account No. 123 the average payment period exceeds 40 days. Hence Account Nos. 91, 114 and 123 are eliminated. Therefore, the selected Accounts are Account Nos. 74, 107, 108 and 116.

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(ii) Statement showing the calculation of the amount which the bank will lend on a pledge of receivables if the bank uses a 10 per cent allowances for cash discount and returns

Account No.	Amount (₹)	90 per cent of amount (₹)	80% of amount (₹)
	(a)	(b) = 90% of (a)	(c) = 80% of (b)
74	25,000	22,500	18,000
107	11,500	10,350	8,280
108	2,300	2,070	1,656
116	29,000	26,100	20,880
	Total loan amount		48,816

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

	Per unit (₹)	50% Capacity	60% Capacity
		60,000 units	72,000 units
		Amount (₹)	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) Working Notes:

Depreciation on Machine – I $= \dfrac{30,00,000}{10} =$ ₹ 3,00,000

Depreciation on Machine – II $= \dfrac{40,00,000}{10} =$ ₹ 4,00,000

Particulars	Machine-I (₹)	Machine – II (₹)
Annual Income (before tax and depreciation)	12,50,000	17,50,000
Less: Depreciation	(3,00,000)	(4,00,000)

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Annual Income (before tax)	9,50,000	13,50,000
Less: Tax @ 30%	(2,85,000)	(4,05,000)
Annual Income (after tax)	6,65,000	9,45,000
Add: Depreciation	3,00,000	4,00,000
Annual Cash Inflows	9,65,000	13,45,000

	Machine – I				Machine - II		
Year	**PV of Re 1 @ 15%**	**Cash flow**	**PV**	**Cumulative PV**	**Cash flow**	**PV**	**Cumulative PV**
1	0.870	9,65,000	8,39,550	8,39,550	13,45,000	11,70,150	11,70,150
2	0.756	9,65,000	7,29,540	15,69,090	13,45,000	10,16,820	21,86,970
3	0.658	9,65,000	6,34,970	22,04,060	13,45,000	8,85,010	30,71,980
4	0.572	9,65,000	5,51,980	27,56,040	13,45,000	7,69,340	38,41,320
5	0.497	9,65,000	4,79,605	32,35,645	13,45,000	6,68,465	45,09,785

(i) Discounted Payback Period

Machine – I

Discounted Payback Period = $4 + \frac{(30,00,000 - 27,56,040)}{4,79,605}$

$= 4 + \frac{2,43,960}{4,79,605}$ = 4 + 0.5087 = 4.5087 years or 4 years 6.10 months

Machine – II

Discounted Payback Period = $4 + \frac{(40,00,000 - 38,41,320)}{6,68,465}$

$= 4 + \frac{1,58,680}{6,68,465}$ = 4 + 0.2374 = 4.2374 years or 4 years 2.85 months

(ii) Net Present Value (NPV)

Machine – I

NPV = 32,35,645 – 30,00,000 = ₹ 2,35,645

Machine – II

NPV = 45,09,785 – 40,00,000 = ₹ 5,09,785

(iii) Profitability Index

Machine – I

Profitability Index = $\frac{32,35,645}{30,00,000}$ = 1.08

Machine – II

Profitability Index = $\frac{45,09,785}{40,00,000}$ = 1.13

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Conclusion:

Method	Machine - I	Machine - II	Selection of Machine
Discounted Payback Period	4.51 years	4.24 years	II
Net Present Value	₹ .2,35,645	₹ 5,09,785	II
Profitability Index	1.08	1.13	II

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 A/c	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

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(b) Working Notes:

1. Capital employed before expansion plan:

	(₹)
Equity shares (₹10 × 80,000 shares)	8,00,000
Debentures {(₹1,20,000/12) × 100}	10,00,000
Retained earnings	18,00,000
Total capital employed	36,00,000

2. Earnings before the payment of interest and tax (EBIT):

	(₹)
Profit (EBT)	6,00,000
Add: Interest	1,20,000
EBIT	7,20,000

3. Return on Capital Employed (ROCE):

$$\text{ROCE} = \frac{\text{EBIT}}{\text{Capital employed}} \times 100 = \frac{\text{Rs.}7,20,000}{\text{Rs.}36,00,000} \times 100 = 20\%$$

4. Earnings before interest and tax (EBIT) after expansion scheme:

After expansion, capital employed = ₹36,00,000 + ₹8,00,000

= ₹44,00,000

Desired EBIT = 20% × ₹44,00,000 = ₹8,80,000

(i) Computation of Earnings Per Share (EPS) under the following options:

	Present situation	Expansion scheme Additional funds raised as	
		Debt	Equity
	(₹)	(₹)	(₹)
Earnings before Interest and Tax (EBIT)	7,20,000	8,80,000	8,80,000
Less: Interest - Old capital	(1,20,000)	(1,20,000)	(1,20,000)
- New capital	--	(96,000) (₹8,00,000 × 12%)	--
Earnings before Tax (EBT)	6,00,000	6,64,000	7,60,000
Less: Tax (50% of EBT)	(3,00,000)	(3,32,000)	(3,80,000)
PAT	3,00,000	3,32,000	3,80,000
No. of shares outstanding	80,000	80,000	1,60,000
Earnings per Share (EPS)	3.75 $\left(\frac{₹3,00,000}{80,000}\right)$	4.15 $\left(\frac{₹3,32,000}{80,000}\right)$	2.38 $\left(\frac{₹3,80,000}{1,60,000}\right)$

(ii) Advise to the Company: When the expansion scheme is financed by additional debt, the EPS is higher. Hence, the company should finance the expansion scheme by raising debt.

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5. (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 bills 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:

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) **Business Risk and Financial Risk**

Business risk refers to the risk associated with the firm's operations. It is an unavoidable risk because of the environment in which the firm has to operate and the business risk is represented by the variability of earnings before interest and tax (EBIT). The variability in turn is influenced by revenues and expenses. Revenues and expenses are affected by demand of firm's products, variations in prices and proportion of fixed cost in total cost.

Whereas, Financial risk refers to the additional risk placed on firm's shareholders as a result of debt use in financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly by equity. Financial risk can be measured by ratios such as firm's financial leverage multiplier, total debt to assets ratio etc.

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

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

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

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

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) $\times$ Standard Rate

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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) Projected Statement of Cash Flow for the year ended 31st March 20X8

	(₹)
Cash flow from Operating Activities	
Profit before taxation	1,04,500
Adjustments:	
Less: Profit on sale of machine {₹38,000 – (₹95,000 – ₹66,500)}	(9,500)
Add: Depreciation	1,14,000
Operating profit before working capital changes	2,09,000
Increase in Inventories & Trade receivable (₹5,60,500 – ₹4,75,000)	(85,500)
Increase in Trade payables (₹1,48,200 – ₹1,14,000)	34,200
Increase in Bills payable (₹98,800 – ₹76,000)	22,800
Cash generated from operations	1,80,500
Less: Income tax paid*	Nil
Net Cash from Operating activities (A)	1,80,500
Cash flow from Investing Activities	
Purchase of plant	(1,90,000)
Sale of machine	38,000
Net cash from Investing activities (B)	(1,52,000)
Cash Flow from Financing Activities	
Dividend paid	(57,000)

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Dividend distribution tax (Working note)	(19,000)
Net cash from Financing activities (C)	(76,000)
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	(47,500)
Cash and cash equivalent at the beginning of the year	66,500
Cash and cash equivalent at the end of the year	**19,000**

* No information is given on corporate tax.

Working note:

Dividend distribution tax is paid on the gross amount of dividend paid. The gross dividend is calculated as : $\frac{\text{Dividend Payable}}{(1\text{- tax rate})}$

Gross Amount of Dividend = $\frac{\text{Rs. }57{,}000}{(1-0.25)}$ = ₹76,000

Dividend Distribution Tax = ₹76,000 × 25% = ₹19,000

7. **(a)** 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.

(b) **Explicit costs:** These costs are also known as out of pocket costs. It refers to those costs which involves immediate payment of cash. Salaries, wages, postage and telegram, interest on loan etc. are some examples of explicit costs because they involve immediate cash payment. These payments are recorded in the books of account and can be easily measured.

Main points of difference: The following are the main points of difference between Explicit and Implicit costs.

(i) Implicit costs do not involve any immediate cash payment. As such they are also known as imputed costs or economic costs.

(ii) Implicit costs are not recorded in the books of account but yet, they are important for certain types of managerial decisions such as equipment replacement and relative profitability of two alternative courses of action.

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(c) Practical applications of Marginal costing:

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

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

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

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

(d) In dividend price approach, cost of equity capital is computed by dividing the expected dividend by market price per share. This ratio expresses the cost of equity capital in relation to what yield the company should pay to attract investors. It is computed as:

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

Where,

D_1 = Dividend per share in period 1

P_0 = Market price per share today

Whereas, on the other hand, the advocates of earnings price approach co-relate the earnings of the company with the market price of its share. Accordingly, the cost of ordinary share capital would be based upon the expected rate of earnings of a company. This approach is similar to dividend price approach, only it seeks to nullify the effect of changes in dividend policy.

(e) 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

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Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX

(50 MARKS)

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

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

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(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:

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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).

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(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)***

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MOCK TEST PAPER

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

SECTION B - INDIRECT TAXES (50 MARKS)

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

QUESTIONS

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

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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)***

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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)***

6. (a) Examine whether the following activities would amount to supply under section 7 of the CGST Act:

   (i) Sudhakar Charitable Trust, a trust that gets the eye treatment of underprivileged children done free of cost, donates clothes and toys to children living in slum area.

   (ii) Rooplekha Manufacturers have a factory in Delhi and a depot in Mumbai. Both these establishments are registered in respective States. Finished goods are sent from the factory in Delhi to the Mumbai depot without consideration so that the same can be sold.

   (iii) Daman is an interior decorator in Chennai. His brother who is settled in London is a well-known lawyer. Daman has taken legal advice from him free of cost with regard to his family dispute. ***(2 x 3 = 6 Marks)***

   (b) Ramaswamy, a registered supplier, is an interior decorator. His registered office is located in Gujarat and he is not engaged in making any inter-State supply of services. His aggregate turnover in the FY 2016-17 is ₹ 90 lakh. With reference to the provisions of the CGST Act, 2017, examine whether Ramaswamy can opt for the composition scheme in the FY 2017-18?

   Will your answer be different if Ramaswamy is engaged in supplying restaurant services and procures food items required for his restaurant from neighbouring State of Maharashtra?

   (4 Marks)

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Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

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

SECTION – A: INCOME TAX

SOLUTIONS

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	

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(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**

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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

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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.

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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

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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

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₹ 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.

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(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.

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

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

(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.

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

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

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	

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Ishita's salary (₹ 15,000 x 12) **[See Note 1]**	1,80,000	
	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 of 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.

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(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.

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MOCK TEST PAPER

INTERMEDIATE (IPC) COURSE

PAPER – 4: TAXATION

SECTION B - INDIRECT TAXES (50 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

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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.

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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.

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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:

- **Creation of unified national market:** 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.

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- **<u>Elimination of multiple taxes and double taxation</u>**: 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.

- **<u>Boost to 'Make in India' initiative</u>:** 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.

- **<u>Buoyancy to the Government Revenue:</u>** 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)

6. (a) (i) Section 7 of the CGST Act, *inter alia*, provides that supply must be made for a consideration except the activities specified in Schedule I and in course or furtherance of business. Since, both these elements are missing, donation of clothes and toys to children living in slum area would not amount to supply under section 7 of the CGST Act, 2017.

(ii) Schedule I of CGST Act, *inter alia*, stipulates that supply of goods between distinct persons as specified in section 25, is supply even without consideration provided it is made in the course or furtherance of business. Persons registered in two States is treated as distinct persons in respect of each such registration [Section 25 of the CGST Act, 2017]. In view of the same, factory and depot of Rooplekha Manufacturers are establishments of two distinct persons. Therefore, supply of goods from Delhi factory of Rooplekha Manufacturers to Mumbai Depot without consideration, but in course/furtherance of business, is supply under section 7 of the CGST Act, 2017.

(iii) Schedule I of CGST Act, *inter alia*, stipulates that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business. In the given case, Daman has received legal services from his brother free of cost in a personal matter and not in course or furtherance of business. Hence, services provided by Daman's brother to him would not be treated as supply under section 7 of the CGST Act.

(b) A registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore (₹ 75 lakh in Special Category States except Uttarakhand and Jammu and Kashmir), may opt to pay, in lieu of the tax payable by him, an amount calculated at the specified rates. However, if, *inter alia,* such registered person is engaged in the supply of services other than restaurant services, he shall not be eligible to opt for composition levy [Section 10 of the CGST Act].

In the given case, Ramaswamy, being a supplier of interior decorator's services (other than restaurant services) is not eligible to apply for composition scheme even though his aggregate turnover in the preceding FY 2016-17 does not exceed ₹ 1 crore. Therefore, he has to discharge his tax liability under regular provisions at the applicable rates.

However, if Ramaswamy is engaged in supplying restaurant services, he will be eligible for composition scheme in FY 2017-18. A registered person cannot opt for composition scheme if, *inter alia,* he is engaged in making any inter-State outward supplies of goods, but there is no restriction on procurement of goods inter-State.

Hence, in the given case, Ramaswamy is eligible for composition scheme as his turnover in the preceding FY 2016-17 does not exceed ₹ 1 crore even though he procures food items required for his restaurant from neighbouring State of Maharashtra.

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