Test Series: October, 2014

MOCK TEST PAPER – 2

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) X,Y and Z are partners sharing profits an losses in the ratio of 4:3:2 respectively. On 31st March, 2014, Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately, W is admitted for 3/10th shares in profits, 2/3rd of which was given by X and rest was taken by W from Z. Goodwill of the firm is valued at Rs. 2,16,000. W brings required amount of goodwill.

Give necessary Journal Entries to adjust goodwill on retirement of Y and admission of W when they do not want to raise goodwill in the books of accounts.

(b) HP is a leading distributor of petrol. A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month, following information is available:

Sales	Rs. 47,25,000
General overheads	Rs. 1,25,000
Inventory at beginning	1,00,000 litres @ 15 per litre

Purchases

June 1 - two lakh litres @ Rs. 14.25

June 30 - one lakh litres @ Rs. 15.15

Closing inventory - 1.30 lakh litres

Compute the following by the FIFO method as per AS 2:

(i) Value of Inventory on June, 30.

(ii) Amount of cost of goods sold for June.

(iii) Profit/Loss for the month of June.

(c) Ujju Enterprise furnishes you the following information for the period October to December, 2013. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

(i) Total sales amounted to Rs. 2,20,000 including sale of old motor car for Rs. 10,000 (book value Rs. 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to Rs. 40,000 and credit sales for the period. Debtors were allowed discount of Rs. 10,000.

(iii) Bills receivables drawn during the period totalled Rs. 20,000 of which one bill of Rs. 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.

(iv) A sum of Rs. 3,000 was written off as bad debts, Rs. 7,000 was realized against bad debts written off in earlier years and provision of Rs. 6,000 was made for doubtful debts.

(d) ABC Ltd. was making provision for non-moving inventory based on no issues for the last 12 months up to 31.3.2012.

The company wants to provide during the year ending 31.3.2013 based on technical evaluation:

Total value of inventory	Rs. 100 lakhs
Provision required based on 12 months issue	Rs. 3.5 lakhs
Provision required based on technical evaluation	Rs. 2.5 lakhs

Does this amount to change in Accounting Policy? Can the company change the method of provision? *(4 x 5 = 20 Marks)*

2. The books of account of Ruk Ruk Maan of Mumbai showed the following figures:

	31.3.2013 Rs.	31.3.2014 Rs.
Furniture & fixtures	2,60,000	2,34,000
Stock	2,45,000	3,20,000
Debtors	1,25,000	?
Cash in hand & bank	1,10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

An analysis of the cash book revealed the following:

	Rs.
Cash sales	16,20,000
Collection from debtors	10,58,000

Discount allowed to debtors	20,000
Cash purchases	6,15,000
Payment to creditors	9,73,000
Discount received from creditors	32,000
Payment for bills payable	4,30,000
Drawings for domestic expenses	1,20,000
Salaries paid	2,36,000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Ruk Ruk Maan maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2014 and Balance Sheet as on that date. *(16 Marks)*

3. Following is the summarized Balance Sheet of Max Ltd. as at March 31, 2013.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill	20,000
Equity shares of Rs. 100 each	15,00,000	Other fixed assets	15,00,000
9% Preference shares of Rs. 100 each	5,00,000	Trade receivables	6,51,000
General reserve	1,80,000	Inventory	3,93,000
Profit and loss account	-	Cash at bank	26,000
12% Debentures of Rs. 100 each	6,00,000	Own debentures	1,92,000
Trade payables	4,15,000	(Nominal value Rs. 2,00,000)	
		Profit and loss account	4,13,000
	31,95,000		31,95,000

On 1.4.2013, Max Ltd. adopted the following scheme of reconstruction:

(i) Each equity share shall be sub-divided into 10 equity shares of Rs. 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.

(ii) Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.

(iii) Own debentures of Rs. 80,000 were sold at Rs. 98 cum-interest and remaining own debentures were cancelled.

(iv) Debentureholders of Rs. 2,80,000 agreed to accept one machinery of book value of Rs. 3,00,000 in full settlement.

(v) Trade payables, trade receivables and inventory were valued at Rs. 3,50,000, Rs. 5,90,000 and Rs. 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.

(vi) The Company paid Rs. 15,000 as penalty to avoid capital commitments of Rs. 3,00,000.

You are required to give Journal entries for reconstruction in the books of Max Ltd.

(16 Marks)

4. (a) On 01-05-2012, Mr. Mishra purchased 800 equity shares of 10 each in Fillco Ltd. @ Rs. 50 each from a broker who charged 5%. He incurred 20 paisa per 100 as cost of shares transfer stamps. On 31-10-2012, bonus was declared in the ratio 1 : 4. The shares were quoted at Rs. 110 and Rs. 60 per share before and after the record date of bonus shares respectively. On 30-11-2012, Mr. Mishra sold the bonus shares to a broker who charged 5%. You are required to prepare Investment Account in the books of Mr. Mishra for the year ending 31-12-2012 and closing value of Investment shall be made at cost or market value whichever is lower.

(b) On the basis of the following informations, prepare Income and Expenditure Account for the year ended 31st March, 2014:

Receipts and Payments Account for the year ended 31st March, 2014

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & stationery	3,870
To Interest on 8% Government bonds	4,000	By Conveyance	10,600
To Bank interest	160	By Scooter purchased	50,000
		By 8% Government bonds	1,00,000
		By Cash in hand (closing)	840
		By Cash at bank (closing)	9,200
	5,04,010		5,04,010

(i) Salaries paid includes Rs. 6,000 paid in advance for April, 2014. Monthly salaries paid were Rs. 21,000.

(ii) Outstanding rent on 31st March, 2013 and 31st March, 2014 amounted to Rs. 5,500 and Rs. 6,000 respectively.

(iii) Stock of printing and stationery material on 31st March, 2013 was Rs. 340; it was Rs. 365 on 31st March, 2014.

(iv) Scooter was purchased on 1st October, 2013. Depreciation @ 20% per annum is to be provided on it.

(v) Investments were made on 1st April, 2013.

(vi) Subscriptions due but not received on 31st March, 2013 and 31st March, 2014 totalled Rs.14,000 and Rs.12,800 respectively. On 31st March, 2014, subscriptions amounting to Rs.700 had been received in advance for April, 2014. *(8 + 8 = 16 Marks)*

5. (a) A fire broke out in the godown of a business house on 8th July, 2014. Goods costing Rs. 2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at Rs. 1,97,000.

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31st March, 2014 was Rs. 15,72,000. Purchases for the period from 1st April, 2014 to 8th July, 2014 were Rs. 37,10,000 and sales during the same period amounted to Rs. 52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for Rs. 10,00,000 in respect of its entire stock. Assist the Accountant of the business house in computing the amount of claim of loss by fire.

(b) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2013. However, company could be incorporated only on 1st June, 2013. The business was continued on behalf of the company and the consideration of Rs. 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of Rs. 9,00,000 @ 10% per annum on 1st June, 2013 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2014 and presents you the following summarized profit and loss account:

	Rs.	*Rs.*
Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Directors' remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	1,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	

Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2013 to December, 2013 were 2½ times of the average sales, which further increased to 3½ times in January to March quarter, 2014. The company recruited additional work force to expand the business. The salaries from July, 2013 doubled. The company also acquired additional showroom at monthly rent of Rs. 10,000 from July, 2013.

You are required to prepare a statement showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with. *(8+8 =16 Marks)*

6. The following are the summarized Balance Sheets of Lotus Ltd. as on 31st March 2013 and 2014:

Liabilities	31-3-2013 Rs.	31-3-2014 Rs.
Equity share capital (Rs. 10 each)	10,00,000	12,50,000
Capital reserve		10,000
Profit and loss A/c	4,00,000	4,80,000
Long term loan from the bank	5,00,000	4,00,000
Sundry creditors	5,00,000	4,00,000
Provision for taxation	50,000	60,000
	24,50,000	26,00,000
Assets	**Rs.**	**Rs.**
Land and building	4,00,000	3,80,000
Machinery	7,50,000	9,20,000
Investment	1,00,000	50,000
Stock	3,00,000	2,80,000
Sundry debtors	4,00,000	4,20,000
Cash in hand	2,00,000	1,40,000
Cash at bank	3,00,000	4,10,000
	24,50,000	26,00,000

Additional information:

(1) Depreciation written off on land and building Rs. 20,000.

(2) The company sold some investment at a profit of Rs. 10,000, which was credited to Capital Reserve.

(3) Income-tax provided during the year Rs. 55,000.

(4) During the year, the company purchased a machinery for Rs. 2,25,000. They paid Rs. 1,25,000 in cash and issued 10,000 equity shares of Rs. 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March, 2014 as per AS 3 by using indirect method. *(16 Marks)*

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

(a) Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.

(i) Rs. 5,000 due on 5.3.2013

(ii) Rs. 7,000 due on 7.4.2013

(iii) Rs. 6,000 due on 17.7.2013

(iv) Rs. 8,000 due on 14.9.2013

(b) What are the advantages of outsourcing the accounting functions?

(c) Progressive Limited has not charged depreciation for the year ended on 31st March, 2014, in respect of a spare bus purchased during the financial year 2013-14 and kept ready by the company for use as a stand-by, on the ground that, it was not actually used during the year. State your views with reference to Accounting Standard 6 "Depreciation Accounting".

(d) During the current year 2013-14, X Limited made the following expenditure relating to its plant building:

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

What amount should be capitalized?

(e) A Ltd. has sold its building for Rs. 50 lakhs to B Ltd. and has also given the possession to B Ltd. The book value of the building is Rs. 30 lakhs. As on 31st March, 2014, the documentation and legal formalities are pending. The company has not recorded the sale and has shown the amount received as advance. Do you agree with this treatment? *(4 x 4 =16 Marks)*

Test Series : October, 2014

Mock Test Paper – 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

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

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

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

1. (a) Mr. X authorises Y to buy 500 bags of wheat for him. Y buys 500 bags of wheat and 200 bags of rice for a sum of Rs. 10,000. State the legal position of X, whether he is liable for the transaction of Y, in the given case as per the Indian Contract Act, 1872. *(5 Marks)*

   (b) Under what circumstances a company becomes subsidiary of another company under the provisions of the Companies Act, 2013? *(5 Marks)*

   (c) Explain the benefits of business ethics with respect to the following:

   (i) Ethics programs help to manage values associated with quality management, strategic planning and diversity management.

   (ii) Ethics programs help guarantee that personnel policies are legal. *(5 Marks)*

   (d) State the merits of the grapevine phenomenon? *(5 Marks)*

2. (a) (i) The management of X Ltd. entered into an agreement with their employees to pay them bonus based on production in lieu of Bonus based on profits, for the accounting year 2014. The employees further agreed to forego their right to receive minimum bonus and instead accept 25% of their salary/wage as bonus based on productivity. Is such an agreement valid? Examine in the light of the provisions of the Payment of Bonus Act, 1965. *(4 Marks)*

   (ii) Explain the manner in which the gratuity payable to employees in a seasonal as well as other establishments is calculated under the Payment of Gratuity Act, 1972. State also the maximum amount of gratuity payable under the Act.

   (4 Marks)

   (b) What is CSR? How adoption of CSR in business may minimise ecological damage.

   (4 Marks)

   (c) Why is the 'critical thinking' important part of success and wisdom. How one can develop the critical thinking in a right direction. *(4 Marks)*

3. (a) Give the answer of the following:

   (i) A draws a cheque in favour of M, a minor. M endorses the same in favour of X.

   The cheque is dishonoured by the bank on grounds of inadequate funds. Discuss the rights of X.

   (ii) A promissory note was made without mentioning any time for payment. The holder added the words "on demand" on the face of the instrument .Does this amount to material alteration?

   (iii) A draws a cheque for ₹ 100 and hands it over to B by way of gift. Is B a holder in due course?

   Explain the nature of his title, interest and right to receive the proceeds of the cheque.

   (iv) A cheque is drawn payable to "B or order". It is stolen and the thief forges B's endorsement and endorses it to C. The banker pays the cheque in due course. Can B recover the money from the banker. *(8 Marks)*

(b) 'Ethical behaviour is essential to working environment at the workplace', explain.

(4 Marks)

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

4. (a) A General Meeting to be held on 15th April, 2014 at 4.00 P.M. As per the notice the members who are unable to attend the meeting in person can appoint a proxy and the proxy forms duly filled should be sent so as to reach at least 48 hours before the meeting. Mr. A, a member of the company appoints Mr. P as his proxy and the proxy form dated 10.4.2014 was deposited by Mr. P with the company at its Registered Office on 11.04.2014. However, Mr. A changes his mind and on 12.04.2014 gives another proxy to Mr. Q and it was deposited on the same day with the company. Similarly another member Mr. B also gives to separate proxies to two individuals named Mr. R and Mr. S. In the case of Mr. R, the proxy dated 12.04.2014 was deposited with the company on the same day and the proxy form in favour of Mr. S was deposited on 14.04.2014. All the proxies viz., P, Q, R and S were present before the meeting.

In the light of the relevant provisions of the Companies Act, 2013 who would be the persons allowed to represent at proxies for members A and B respectively?

(8 Marks)

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

   (i) A nation should satisfy its social and economic requirements without damaging the interest of future generations.

   (ii) Depletion of Ozone layer will have adverse effect on human beings and not on vegetation. *(4 Marks)*

(c) Draft a 'Power of Attorney' of the Company authorising a Chartered Accountant to appear before the Registrar of Companies to do the needful for the purpose of incorporation of the company. *(4 Marks)*

5. (a) Briefly explain when the principal is liable for the acts of an agent and state under what circumstances an agent is personally liable. *(8 Marks)*

   (b) What is meant by 'Pre-Incorporation Contracts'? Can these contracts be enforced by the prospective company after its incorporation against the third parties with whom the promoters had entered into certain contracts? Explain in the light of the Companies Act, 1956. *(4 Marks)*

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

6. (a) "Moon Star Ltd" is authorised by its articles to accept the whole or any part of the amount of remaining unpaid calls from any member although no part of that amount has been called up. 'A', a shareholder of the Moon Star Ltd., deposits in advance the remaining amount due on his shares without any calls made by "Moon Star Ltd.".

   Referring to the provisions of the Companies Act, 1956, state the rights and liabilities of Mr. A, which will arise on the payment of calls made in advance.

   (8 Marks)

   (b) Draft a notice to the defaulter for making the payment of due amount. In case of failure to pay, initiation of legal action against him. *(4 Marks)*

   (c) State whether the following statements are correct or incorrect: *(4 Marks)*

      (i) The right of subrogation in a contract of guarantee is available to the surety.

      (ii) An acceptance by the promisee of a lesser fulfillment of the promise made is called as Rescission.

      (iii) As per the Companies Act, 2013, any document by which the offer or sale of shares or debentures to the public is made shall for all purpose be treated as prospectus issued by the company.

      (iv) Person whose name has been entered in the register of members are the shareholders of the company.

7. Answer any FOUR of the following: *(4 x 4=16 Marks)*

   (a) State the law with respect to protection of the amount standing to the credit of an employee in provident fund under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

   X, an employee in ABC Ltd died in an accident. Examine, to whom the amount standing in his account be payable under the provisions of the EPF & MP Act, 1952.

   (4 Marks)

   (b) What is E filing? List the advantages of E filing under MCA 21. *(4 Marks)*

(c) At a General meeting of a company, a matter was to be passed by a special resolution.

Out of 40 members present, 20 voted in favour of the resolution, 5 voted against it and 5 votes were found invalid. The remaining 10 members abstained from voting. The Chairman of the meeting declared the resolution as passed.

With reference to the provisions of the Companies Act, 2013, examine the validity of the Chairman's declaration. *(4 Marks)*

(d) What are the United Nations' guidelines themes on consumer protection? *(4 Marks)*

(e) The Board of Directors of Surya Limited agrees with X to hire his (X's) flat at Delhi on lease for ten years @ ₹ 20,000 per month for marketing office of the company. Being an legal officer of the surya limited, the board asks you to prepare the lease deed for the agreement. Draft a lease deed. *(4 Marks)*

Test Series: October, 2014

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART – I : COST ACCOUNTING

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

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

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours **Maximum Marks – 50**

1. Answer the followings:

(a) A, B and C are three industrial workers working in sports industry and are experts in making cricket pads. A, B and C are working in Mahi Sports, Virat Sports and Sikhar Sports companies respectively. Workers are paid under different incentive schemes. Company wise incentive schemes are as follows:

Company	Incentive scheme
Mahi Sports	Emerson's efficiency system
Virat Sports	Merrick differential piece rate system
Sikhar Sports	Taylor's differential piece work system

The relevant information for the industry is as under:

Standard working hours	8 hours a day
Standard output per hour (in units)	2
Daily wages rate	₹ 360
No. of working days in a week	6 days

Actual outputs for the week are as follows:

A	B	C
132 units	108 units	96 units

You are required to calculate effective wages rate and weekly earnings of all the three workers.

(b) Frontiers Ltd. has furnished the following standard cost data per unit of production:

Material 10 kg @ ₹ 10 per kg.

Labour 6 hours @ ₹ 5.50 per hour

Variable overhead 6 hours @ ₹ 10 per hour.

Fixed overhead ₹ 4,50,000 per month (Based on a normal volume of 30,000 labour hours.)

The actual cost data for the month of August 2014 are as follows:

Material used 50,000 kg at a cost of ₹ 5,25,000.
Labour paid ₹ 1,55,000 for 31,000 hours worked
Variable overheads ₹ 2,93,000
Fixed overheads ₹ 4,70,000
Actual production 4,800 units.

Calculate:

(i) Material Cost Variance.

(ii) Labour Cost Variance.

(iii) Fixed Overhead Cost Variance.

(iv) Variable Overhead Cost Variance. *(2 x 5 Marks = 10 Marks)*

2. Aditya Ltd. manufactures two products K_{596} and H_{852}. The sales director has anticipated to sale 8,000 units of Product K_{596} and 4,200 units of Product H_{852}. The Standard cost data for the products for next year are as follows:

	Product- K_{596} Per unit	**Product- H_{852} Per unit**
Direct materials:		
- Material X @ ₹ 15 per kg.	12 kg.	15 kg.
- Material Y@ ₹ 16 per kg.	15 kg.	6 kg.
- Material Z @ ₹ 5 per ltr.	8 ltr.	14 ltr.
Direct wages:		
- Unskilled @ ₹ 40 per hour	12 hour	10 hour
- Skilled @ ₹ 75 per hour	8 hour	5 hour

Budgeted stocks for next year are as follows:

	Product- K_{596} (Units)	**Product- H_{852} (Units)**
1st January, 2015	800	1,600
31st December, 2015	1,000	2,100

	Material-X (kg)	**Material-Y (kg)**	**Material-Z (ltr)**
1st January, 2015	25,000	30,000	14,000
31st December, 2015	30,000	18,000	7,500

Prepare the following budgets for next year:

(a) Production budget, in units;

(b) Material purchase budget, in quantity and in value;

(c) Direct labour budget, in hours and in value. *(8 Marks)*

3. Reddy Ltd. manufactures a single product and absorbs the production overheads at a pre-determined rate of ₹15 per machine hour.

At the end of financial year 2013-14, it has been found that actual production overheads incurred were ₹ 7,20,000. It included ₹ 15,000 on account of 'written off' obsolete stores and ₹ 12,000 being the wages paid for the strike period under an award.

The production and sales data for the year 2013-14 is as under:

Production:	
Finished goods	25,000 units
Work-in-progress (50% complete in all respects)	6,000 units
Sales:	
Finished goods	20,000 units

The actual machine hours worked during the period were 52,000. It has been found that one-third of the under/ over – absorption of production overheads was due to faulty production planning and the rest was attributable to normal increase/ decrease in costs.

You are required to:

(i) Calculate the amount of under/ over – absorption of production overheads during the year 2013-14; and

(ii) Show the accounting treatment of under/ over – absorption of production overheads. *(8 Marks)*

4. Honourable Ltd. produces a product which a quarterly demand of 30,000 units. Each unit of the product requires 1.5 kg. of raw material. The cost of placing one order for raw material is ₹ 1,000 and the inventory carrying cost per kg. per annum is ₹ 2. The lead time for procurement of raw material is 24 days and a safety stock of 8,000 kg. of raw materials is maintained by the company. The company has been able to negotiate the following discount structure with the raw material supplier.

Order quantity (kg.)	**Discount (₹)**
Upto 60,000	NIL
60,001 – 80,000	4,000
80,001 – 1,60,000	20,000
1,60,001 – 3,00,000	32,000
3,00,001 – 4,50,000	40,000

You are required to

(i) Calculate the re-order point taking 30 days in a month.

(ii) Prepare a statement showing the total cost of procurement and storage of raw material after considering the discount of the company elects to place one, two, four or six orders in the year.

(iii) State the number of orders which the company should place to minimise the costs after taking EOQ also into consideration. *(8 Marks)*

5. (a) What is inter-process profit? State its advantages and disadvantages.

   (b) Elaborate the practical application of Marginal costing. *(4 x 2 = 8 Marks)*

6. Commercial Ltd. manufactures one main product G_1 and two by-products R_1 and L_1. For the month of September 2014, following details are available:

   Total cost upto separation Point ₹ 4,28,000

	G_1	R_1	L_1
Cost after separation	-	₹ 38,000	₹ 26,000
No. of units produced	4,000	2,000	3,000
Selling price per unit	₹ 150	₹ 60	₹ 70
Estimated net profit as percentage to sales value	-	25%	30%
Estimated selling expenses as percentage to sales value	20%	10%	15%

There is no beginning or closing inventories.

Prepare statement showing:

(i) Allocation of joint cost; and

(ii) Product-wise and overall profitability of the Commercial Ltd. for September 2014. *(8 Marks)*

7. (a) What do you mean by time and motion study? Why is it so important to management?

   (b) Define explicit costs. How is it different from implicit costs? *(4 x 2 =8 Marks)*

Test Series: October, 2014

MOCK TEST - 2

INTERMEDIATE (IPC) – Group I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART – II : FINANCIAL MANAGEMENT

All questions are compulsory.

Working notes should form part of the answer.

Time Allowed – 1 ½ Hours **Maximum Marks – 50**

1. (a) Mr. Raman has asked for your advice regarding investment in a bond for Rs. 995 which will make one payment of Rs. 1,200 five years from today or invest in a local bank account. You are required to compute:

   (i) The internal rate of return on the bond's cash flows? What additional information do you need to make a choice?

   (ii) Your advice to Mr. Raman if the bank is paying 3.5% per year for five years (compounded annually).

   (iii) Will your advice change if the bank was paying 5% annually for five years? If the price of the bond was Rs. 900 and the bank pays 5% annually?

   (b) You are a pension manager and are considering investing in a preferred stock which pays Rs. 50,00,000 per year forever beginning one year from now. Another investment option is yielding 10% per year; you are required to compute the present value of this investment? What is the highest price you would be willing to pay for this investment? *(6 + 2 = 8 Marks)*

2. (a) Alpha Limited issued 10,000, 10% Debentures of Rs. 100 each on 1st April. The cost of issue was Rs. 25,000. The tax rate is 35%. You are required to determine the cost of debentures if they were issued (a) at par (b) at a premium of 10% and (c) at a discount of 10%.

   (b) You are provided with the following data relating to four firms:

Firm	A	B	C	D
EBIT in Rs.	2,00,000	3,00,000	5,00,000	6,00,000
Interest in Rs.	20,000	60,000	2,00,000	2,40,000
Equity Capitalization Rate	12%	16%	15%	18%

Assuming that there are no taxes and rate of debt is 10%, you are required to determine the value of each firm using the Net Income approach. Also determine the Overall Cost of Capital of each firm. *(6 + 6 = 12 Marks)*

3. (a) Balance Sheets of Beta Limited as on March 31, 2013 and March 31, 2014 are as under:

Liabilities	*31.3.2013 Rs.*	*31.3.2014 Rs.*	*Assets*	*31.3.2013 Rs.*	*31.3.2014 Rs.*
Equity Share Capital (Rs.10 face value per share)	10,00,000	12,00,000	Land & Building	6,00,000	7,00,000
General Reserve	3,50,000	2,00,000	Plant & Machinery	9,00,000	11,00,000
9% Preference Share Capital	3,00,000	5,00,000	Investments (Long-term)	2,50,000	2,50,000
Share Premium A/c	25,000	4,000	Stock	3,60,000	3,50,000
Profit & Loss A/c	2,00,000	3,00,000	Debtors	3,00,000	3,90,000
8% Debentures	3,00,000	1,00,000	Cash & Bank	1,00,000	95,000
Creditors	2,05,000	3,00,000	Prepaid Expenses	15,000	20,000
Bills Payable	45,000	81,000	Advance Tax Payment	80,000	1,05,000
Provision for Tax	70,000	1,00,000	Preliminary Expenses	40,000	35,000
Proposed Dividend	1,50,000	2,60,000			
	26,45,000	30,45,000		26,45,000	30,45,000

Additional information:

(i) Depreciation charged on building and plant and machinery during the year 2013-14 were Rs. 50,000 and Rs. 1,20,000 respectively.

(ii) During the year an old machine costing Rs. 1,50,000 was sold for Rs. 32,000. Its written down value was Rs. 40,000 on date of sale.

(iii) During the year, income tax for the year 2012-13 was assessed at Rs. 76,000. A cheque of Rs. 4,000 was received along with the assessment order towards refund of income tax paid in excess, by way of advance tax in earlier years.

(iv) Proposed dividend for 2012-13 was paid during the year 2013-14.

(v) 9% Preference shares of Rs. 3,00,000, which were due for redemption, were redeemed during the year 2013-14 at a premium of 5%, out of the proceeds of fresh issue of 9% Preference shares.

(vi) Bonus shares were issued to the existing equity shareholders at the rate of one share for every five shares held on 31.3.2013 out of general reserves.

(vii) Debentures were redeemed at the beginning of the year at a premium of 3%.

(viii) Interim dividend paid during the year 2013-14 was Rs. 50,000.

You are required to prepare:

(A) Schedule of Changes in Working Capital; and

(B) Fund Flow Statement for the year ended March 31, 2014.

(b) A proforma cost sheet of Theta Limited provides the following particulars:

	Amount per unit (Rs.)
Raw materials cost	100
Direct labour cost	37.50
Overheads cost	75
Total cost	212.50
Profit	37.50
Selling Price	250

Theta Limited keeps raw material in stock, on an average for one month; work-in-progress, on an average for one week; and finished goods in stock, on an average for two weeks.

The credit allowed by suppliers is three weeks and company allows four weeks credit to its debtors. The lag in payment of wages is one week and lag in payment of overhead expenses is two weeks.

It sells one-fifth of the output against cash and maintains cash-in-hand and at bank put together at Rs.37,500. You are required to prepare a statement showing estimate of Working Capital needed to finance an activity level of 1,30,000 units of production. Assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. Work-in-progress stock is 80% complete in all respects. For calculation purposes, consider 4 weeks as equivalent to a month.

(4+12+8= 24 Marks)

4. (a) How is Debt service coverage ratio calculated? What is its significance?

(b) Discuss conflict in profit versus wealth maximization objective. *(3 +3 = 6 Marks)*

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 4: TAXATION

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

1. (a) Mr. Mahendra (aged 38) owned 6 heavy goods vehicles as on 01.04.2013. He acquired 2 more heavy goods vehicles on 1.7.2013. He is solely engaged in the business of plying goods vehicles on hire since financial year 2008-09.

He did not opt for presumptive provision contained in section 44AE for the financial year 2012-13. His books were audited under section 44AB and the return of income was filed on 5.8.2013. He has unabsorbed depreciation of Rs. 70,000 and business loss of Rs. 1,00,000 for the financial year 2012-13.

Following further information is provided to you:

(i) Deposited Rs. 20,000 in Tax Saver Deposit with UCO Bank in the name of married son.

(ii) Paid medical insurance premium of Rs. 23,000 for his parents (both aged above 70) by means of bank demand draft.

(iii) Paid premium on life insurance policy of his married daughter Rs. 25,000. The policy was taken on 1.04.2012 and the minimum sum assured is Rs. 2,00,000.

(iv) Repaid principal of Rs. 40,000 and interest of Rs. 15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. Mahendra has opted for presumptive provision contained in section 44AE of the Income-tax Act, 1961, compute the total income of Mr. Mahendra for the assessment year 2014-15. *(10 Marks)*

(b) Amiro Bank Ltd. furnishes the following information relating to services provided and the gross amount received (excluding service tax):

Particulars	Amount (Rs.)
Interest on overdraft	5,00,000
Interest on loans with a collateral security	6,00,000
Interest on corporate deposits	10,00,000
Administrative charges (over and above interest) on loans, advances and deposits	6,00,000
Sale of foreign exchange to general public	15,00,000*
Service charges relating to issuance of Certificates of Deposit (CDs)	20,00,000

Compute the value of taxable service and the service tax liability of Euro Bank Ltd. considering the rate of service tax at 12% assuming that it is not eligible for small service providers' exemption under Notification No. 33/2012 – ST dated 20.06.2012. Service tax has been charged separately, wherever applicable.

*It represents the value of taxable service computed as per rule 2B of the Service Tax Valuation Rules. *(10 Marks)*

2. (a) During the previous year 2013-14, the following transactions occurred in respect of Mr. Arun.

   (i) Mr. Arun had a fixed deposit of Rs. 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2013 to 31-3-2014 to the savings bank account of Mr. Bhola, son of his brother, to help him in his education.

   (ii) Mr. Arun holds 75% share in a partnership firm. Mrs. Arun received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. Arun possesses no technical or professional qualification.

   (iii) Mr. Arun gifted a flat to Mrs. Arun on April 1, 2013. During the previous year, the flat generated a net income of Rs. 52,000 to Mrs. Arun.

   (iv) Mr. Arun gifted Rs. 2,00,000 to his minor son who invested the same in a business and he derived income of Rs. 20,000 from the investment.

   (v) Mr. Arun's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.

   During the year, Mr. Arun got a monthly pension of Rs. 10,000. He had no other income. Mrs. Arun received salary of Rs. 20,000 per month from a part time job.

   Discuss the tax implications of each transaction and compute the total income of Mr. Arun, Mrs. Arun and their minor child. *(8 Marks)*

   (b) From the following information provided by M/s AB Ltd., registered under VAT law of Mumbai as dealer in consumer goods, compute the amount of net VAT payable for the month of July 2014 and VAT credit to be transferred, if any:

Purchase of raw material (within the State)

Item	Amount (Rs.)	Rate of VAT
Goods 'X'	7,50,000	Exempt
Goods 'Y'	25,00,000	1%
Goods 'Z'	35,00,000	12.5%

Sales

Particulars of finished goods sold	State in which goods are sold	Value Rs.	VAT/CST Rate %
(i) Produced from goods 'X'	Mumbai	5,00,000	12.5% VAT
	Inter-state sales to Gujarat	6,00,000	2% CST
(ii) Produced from goods 'Y'	Mumbai	30,00,000	Exempt
(iii) Produced from goods 'Z'	Mumbai	40,00,000	4% VAT

Raw materials valued at Rs. 5 lakh of goods 'Z' have been transferred to the branch in Madhya Pradesh during the month. All figures of purchases and sales given above are exclusive of taxes.

Make assumptions where required and provide suitable explanations. *(8 Marks)*

3. (a) Smita, engaged in various types of activities, gives the following particulars of her income for the year ended 31.3.2014:

	Particulars	Rs.
(a)	Profit of business of consumer and house-hold products	50,000
(b)	Loss of business of readymade garments	10,000
(c)	Brought forward loss of catering business which was closed in Asst. Year 2013-14	15,000
(d)	Short-term loss on sale of securities and shares	15,000
(e)	Profit of speculative transactions entered into during the year	12,500
(f)	Loss of speculative transactions of Asst. Year 2009-10 not set off till Asst. Year 2013-14	15,000

Compute the total income of Smita for the A.Y. 2014-15. *(4 Marks)*

(b) State the applicability of TDS provisions and TDS amount in the following cases:

(i) Rent paid for hire of machinery by Bridgestone Ltd. to Mr. Raghav Rs. 2,10,000.

(ii) Fee paid to Dr. K.P Singh by Sharma (HUF) Rs. 35,000 for surgery performed to a member of the family. *(4 Marks)*

(c) Answer the following questions:

(i) Mr. X, an architect, rents a cab from Mr. Y, who is engaged in the business of renting of motor vehicles. Value of services provided by Mr. Y is Rs. 2,500. Mr. Y avails CENVAT credit on inputs, capital goods and input services. Who is liable to pay service tax in this case?

Will your answer be different if ABC Ltd., a manufacturing company, rents the cab from Mr. Y?

Also, compute the amount of service tax payable.

Note: Mr. X, Mr. Y and ABC Ltd. are located in Mumbai.

(ii) LMN Ltd. a manufacturing company, rents a cab from Mr. M, who is engaged in the business of renting of motor vehicles. Value of services provided by Mr. M is Rs. 2,500 and service tax payable thereon is Rs. 123.60. Who is liable to pay service tax in this case?

Note: LMN Ltd and Mr. M are located in New Delhi. *(8 Marks)*

4. (a) RK & Jain, a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items:

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

(2) Depreciation on plant and machinery under section 32 (computed) Rs. 1,50,000.

(3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest Rs. 5,00,000.

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 2014-15 as per section 40(b). *(4 Marks)*

(b) The following benefits have been granted by XYZ Ltd. to one of its employees Mr. Sharad:

(i) Housing loan @ 6% per annum. Amount outstanding on 1.4.2013 is Rs. 6,00,000. Mr. Sharad pays Rs. 12,000 per month towards principal, on 5th of each month.

(ii) Air-conditioners purchased 4 years back for Rs. 2,00,000 have been given to Mr. Sharad for Rs. 90,000.

Compute the chargeable perquisite in the hands of Mr. Sharad for the A.Y. 2014-15.

The lending rate of State Bank of India as on 1.4.2013 for housing loan may be taken as 10%. *(4 Marks)*

(c) PQR Manufacturers Ltd. imported some goods from Japan through a vessel. After the ship entered Indian port, the goods were unloaded and were lying with the custodian. The said goods were pilfered before the proper officer made an order for clearance for home consumption. Is PQR Manufacturers Ltd. liable to pay duty on such goods? Further, what would be the customs duty implication if such goods are restored to PQR Manufactures Ltd. *(4 Marks)*

(d) A contractor is providing service of construction of bridges. He purchased the following items in May, 2014–

Items	**Excise duty paid* [Rs.]**
Dumper	1,00,000
Refrigerator fitted in office	10,000
Diesel for use in dumper	20,000
Car for use of employees for coming to site and going back	40,000

*including education cesses

You are required to determine the amount of CENVAT credit the contractor can avail. *(4 Marks)*

5. (a) Check the taxability of the following gifts received by Mrs. Ragini during the previous year 2013-14 and compute the taxable income from gifts for Assessment Year 2014-15:

(i) On the occasion of her marriage on 14.8.2013, she has received Rs. 90,000 as gift out of which Rs. 70,000 are from relatives and balance from friends.

(ii) On 12.9.2013, she has received gift of Rs. 18,000 from cousin of her mother.

(iii) A cell phone worth Rs. 21,000 is gifted by her friend on 15.8.2013.

(iv) She gets a cash gift of Rs. 25,000 from the elder brother of her husband's grandfather on 25.10.2013.

(v) She has received a cash gift of Rs. 12,000 from her friend on 14.4.2013. *(5 Marks)*

(b) Mr. Rajan, an Indian citizen, left India on 22.09.2013 for the first time to work as an officer of a company in Germany.

Determine the residential status of Rajan for the assessment year 2014-15 and explain the conditions to be fulfilled for the same under the Income-tax Act, 1961.

(3 Marks)

(c) A particular service has been brought into service tax net with effect from 1.7.2014.

Mr. Naresh has provided this service on 20.6.2014 and issued the invoice on 2.07.2014, the payment for the same was received on 10.7.2014. Is service tax payable on the same. *(5 Marks)*

(d) A tour operator booked a package tour for a client. He billed the client for his services but did not charge any service tax though he is liable to pay service tax under the relevant provisions. It is the contention of the operator that since he has not collected any service tax from the client, he will not deposit the same with the Government. Do you think the contention of the tour operator is correct in law? Explain. *(3 Marks)*

6. (a) Mr. Yogesh submits the following information pertaining to the year ended 31st March, 2014:

(i) On 30.11.2013, when he attained the age of 60, his friends in India gave a flat at Surat as a gift, each contributing a sum of Rs. 20,000 in cash. The cost of the flat purchased using the various gifts was Rs. 3.40 lacs.

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

(iii) Mr. Yogesh sold the above flat on 30.1.2014 for Rs. 3.6 lacs. The Registrar's valuation for stamp duty purposes was Rs. 3.7 lacs. Neither Mr. Yogesh nor the buyer, questioned the value fixed by the Registrar.

(iv) He had purchased some equity shares in ABC Pvt. Ltd., on 5.2.2007 for Rs. 3.5 lacs. These shares were sold on 15.3.2014 for Rs. 2.8 lacs.

You are requested to calculate the total income of Mr. Yogesh for the assessment year 2014-15.

[Cost Inflation Index for F.Y. 2006-07: 519, 2013-14: 939] *(8 Marks)*

(b) MNO Pvt. Ltd. manufactures beauty soap with the brand name 'Sweet 16'. MNO Pvt. Ltd. has organized a concert to promote its brand. Ms. Namrita Kapoor, its brand ambassador, who is a leading film actress, has given a classical dance performance in the said concert. The proceeds of the concert will be donated to a charitable organization.

Explain whether Ms. Namrita Kapoor will be required to pay any service tax. *(4 Marks)*

(c) LMN & Co. is a consultancy firm based in New Delhi. It has two branch offices at Mumbai and Singapore. Services are provided by Mumbai branch to Head Office at New Delhi and by Head Office at New Delhi to Singapore branch. Explain which of the activities will constitute 'service' under service tax law. *(4 Marks)*

7. (a) All India Aviation Ltd. is running two industrial undertakings one in a SEZ (Unit A) and another in a normal area (Unit B). The brief summarized details for the year ended 31.3.2014 are as follows:

Particulars	Rs. (in lacs)	
	A	**B**
Domestic turnover	10	100
Export turnover	120	Nil
Gross profit	20	10
Less: Expenses and depreciation	7	6
Profits derived from the unit	13	4

The brought forward business loss pertaining to Unit B is Rs. 2 lacs. Briefly compute the business income of the assessee.

Assume F.Y. 2013-14 falls within the first 5 year period commencing from the year of manufacture or production of articles or things or provisions of services by the Unit A. *(4 Marks)*

(b) State whether filing of income-tax return is mandatory for the assessment year 2014-15 in respect of the following cases:

(i) Research association eligible for exemption under section 10(21) having total income of Rs. 2,10,000

(ii) Registered trade union eligible for exemption under section 10(24) having following incomes:

Income from house property (computed) Rs. 60,000

Income from other sources (computed) Rs. 40,000

(iii) A charitable trust registered under section 12AA, having total income of Rs. 2,10,000.

(iv) A Limited Liability Partnership (LLP) with business loss of Rs. 1,30,000.

(4 Marks)

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

(d) Alpha Engineers are manufacturers of specialty articles. Such articles are sold through retail shops.

MRP marked on the package	Rs. 2,000 per piece
Price at which Alpha Engineers sells articles to their wholesalers	Rs. 1,300 per piece
Price at which wholesalers sell the articles to retail shop owners	Rs. 1,500 per piece

Price at which articles are sold by retailers to final consumers	Rs. 1,900 (Rs. 100 offered as discount on printed retail sale price
Excise duty	12%
Education cess	2%
Secondary and Higher Education Cess	1%

Calculate excise duty payable on an article. Such articles are not covered under section 4A of Central Excise Act, 1944. *(4 Marks)*

MOCK TEST PAPER - 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Journal Entries

Date	*Particulars*	*L.F.*	*Dr. (Rs.)*	*Cr. (Rs.)*
31.3.14	X's capital A/c Dr.		39,000	
	Z's capital A/c Dr.		33,000	
	To Y's capital A/c (3/9 x Rs. 2,16,000)			72,000
	(Being Y's share of goodwill adjusted in the capital accounts of gaining partners in their gaining ratio 13:11 – Refer Working Note.)			
	Cash A/c Dr.		64,800	
	To W's capital A/c (3/10 x Rs. 2,16,000)			64,800
	(Being the amount of goodwill brought in by W)			
	W's capital A/c Dr.		64,800	
	To X's capital A/c			43,200
	To Z's capital A/c			21,600
	(Being the goodwill credited to sacrificing partners in their sacrificing ratio 2:1)			

Working Note:

Calculation of gaining ratio of X and Z

Gaining ratio = New ratio – Old ratio

For X = 5/8-4/9 = 13/72

Z = 3/8-2/9 = 11/72

Gaining ratio = 13:11

(b)

		Rs.
(i)	**Cost of closing inventory for 1,30,000 litres as on 30th June**	
	1,00,000 litres @ Rs.15.15	15,15,000
	30,000 litres @ Rs. 14.25	4,27,500
	Total	19,42,500
(ii)	**Calculation of cost of goods sold**	
	Opening inventories (1,00,000 litres @ Rs. 15)	15,00,000
	Purchases June-1 (2,00,000 litres @ Rs.14.25)	28,50,000
	June-30 (1,00,000 litres @ Rs.15.15)	15,15,000
		58,65,000
	Less: Closing inventories	(19,42,500)
	Cost of goods sold	39,22,500
(iii)	**Calculation of profit**	
	Sales (Given) (A)	47,25,000
	Cost of goods sold	39,22,500
	Add: General overheads	1,25,000
	Total cost (B)	40,47,500
	Profit (A-B)	6,77,500

(c) In the books of Ujju Enterprise

Debtors Ledger Adjustment Account in the General Ledger

2013			Rs.	*2013*			Rs.
Oct. 1	To	Balance b/d	40,000	Oct. 1 to Dec. 31	By	General Ledger Adj. A/c:	
Oct. 1 to Dec.31	To	General Ledger Adj. A/c:				Collection from debtors-bank [60% of (Rs.40,000 + Rs.1,35,000)]	1,05,000
		Sales (Refer W.N.)	1,35,000			Discount allowed	10,000
		Bills Receivables dishonoured	5,000			Bills receivables	20,000
						Bad debts (Rs.2,500 + Rs.3,000)	5,500
					By	Balance c/d	39,500
			1,80,000				1,80,000

Note: No entries are to be made:

(a) For Rs. 7,000 realised against bad debts written off in earlier years, and

(b) For provision of Rs. 6,000 made for doubtful debts.

Working Note:

Calculation of credit sales :

	Rs.
Total trade sales (2,20,000 – 10,000)	2,10,000
Less: Cash sales $\left(2,10,000 \times \frac{100}{(180+100)}\right)$	(75,000)
Credit sales	1,35,000

(d) The decision of making provision for non-moving inventories on the basis of technical evaluation does not amount to change in accounting policy. Accounting policy of a company may require that provision for non-moving inventories should be made. The method of estimating the amount of provision may be changed in case a more prudent estimate can be made.

In the given case, considering the total value of inventory, the change in the amount of required provision of non-moving inventory from Rs. 3.5 lakhs to Rs. 2.5 lakhs is also not material. The disclosure can be made for such change in the following lines by way of notes to the accounts in the annual accounts of ABC Ltd. for the year 2012-13:

"The company has provided for non-moving inventorys on the basis of technical evaluation unlike preceding years. Had the same method been followed as in the previous year, the profit for the year and the corresponding effect on the year end net assets would have been lower by Rs. 1 lakh."

2. In the books of Ruk Ruk Maan

Trading & Profit & Loss Account
for the year ended 31st March, 2014

Particulars	*Rs.*	*Particulars*	*Rs.*
To Opening stock	2,45,000	By Sales:	
To Purchases:		Cash	16,20,000
Cash	6,15,000	Credit (W.N.3)	11,00,000
Credit (W.N. 2)	15,00,000	By Closing stock	3,20,000
To Gross profit c/d	6,80,000		
	30,40,000		30,40,000

To	Salaries (W.N.5)	2,37,000	By	Gross profit b/d	6,80,000
To	Rent	1,32,000	By	Discount received	32,000
To	Sundry trade expenses	81,000			
To	Discount allowed	20,000			
To	Depreciation on furniture & fixtures	26,000			
To	Net profit	2,16,000			
		7,12,000			7,12,000

Balance Sheet
as at 31st March, 2014

Liabilities		*Rs.*	*Assets*	*Rs.*
Capital			Fixed assets	
Opening balance	5,16,000		Furniture & fixtures	2,34,000
Add: Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	(1,20,000)	6,12,000	Debtors (W.N.4)	1,47,000
Current liabilities & provisions:			Cash & Bank (W.N.6)	2,01,000
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. Bills Payable Account

		Rs.			*Rs.*
To	Cash/Bank	4,30,000	By	Balance b/d	70,000
To	Balance c/d	80,000	By	Trade creditors (Bal. fig.)	4,40,000
		5,10,000			5,10,000

2. Creditors Account

		Rs.			Rs.
To	Cash/Bank	9,73,000	By	Balance b/d	1,35,000
To	Bills payable A/c (W.N.1)	4,40,000	By	Credit purchases (Bal. fig.)	15,00,000
To	Discount received	32,000			
To	Balance c/d	1,90,000			
		16,35,000			16,35,000

3. **Calculation of credit sales**

				Rs.
Opening stock				2,45,000
Add:	Purchases			
	Cash purchases		6,15,000	
	Credit purchases		15,00,000	21,15,000
				23,60,000
Less:	Closing Stock			(3,20,000)
Cost of goods sold				20,40,000
Gross profit ratio on sales				25%
Total sales (Rs. 20,40,000 × $\frac{100}{75}$)				27,20,000
Less:	Cash sales			(16,20,000)
Credit sales				11,00,000

4. **Debtors Account**

		Rs.			Rs.
To	Balance b/d	1,25,000	By	Cash/Bank	10,58,000
To	Credit sales (W.N.3)	11,00,000	By	Discount allowed	20,000
			By	Balance c/d (Bal. fig.)	1,47,000
		12,25,000			12,25,000

5. **Salaries**

	Rs.
Salaries paid during the year	2,36,000
Add: Outstanding salaries as on 31.3.2014	20,000
	2,56,000
Less: Outstanding salaries as on 31.03.2015	19,000
	2,37,000

6. **Cash / Bank Account**

		Rs.			Rs.
To	Balance c/d	1,10,000	By	Cash purchases	6,15,000
To	Cash sales	16,20,000	By	Creditors	9,73,000

To	Debtors	10,58,000	By	Bills payable	4,30,000
			By	Drawings	1,20,000
			By	Salaries	2,36,000
			By	Rent	1,32,000
			By	Sundry trade expenses	81,000
			By	Balance b/d	2,01,000
		27,88,000			27,88,000

7. **Balance Sheet**

As at 31st March, 2013

	Rs.		Rs.
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding slaries	19,000	Debtors	1,25,000
Capital (Bal. Fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

3. **Journal Entries**

In the Books of Max Ltd.

Particulars		*Dr.*	*Cr.*
01.04.2013		*Amount* ₹	*Amount* ₹
Equity share capital (₹ 100) A/c	Dr.	15,00,000	
To Equity share capital (₹ 10) A/c			15,00,000
(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each by resolution in the general meeting dated…..)			
Equity share capital A/c	Dr.	7,50,000	
To Capital reduction A/c			7,50,000
(Being reduction of capital by 50% as per the scheme of reconstruction)			
Capital reduction A/c	Dr.	13,500	
To Bank A/c			13,500
(Being payment in cash of 10% of arrear of			

preference dividend)			
Bank A/c (800 debentures x ₹ 98)	Dr.	78,400	
To Own debentures A/c			76,800
To Capital reduction A/c			1,600
(Being profit on sale of own debentures transferred to capital reduction A/c)			
12% Debentures A/c	Dr.	1,20,000	
To Own debentures A/c			1,15,200
To Capital reduction A/c			4,800
(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
12% Debentures A/c	Dr.	2,80,000	
Capital reduction A/c	Dr.	20,000	
To Machinery A/c			3,00,000
(Being machinery taken up by debentureholders for ₹ 2,80,000)			
Trade payables A/c	Dr.	65,000	
Capital reduction A/c	Dr.	29,000	
To Trade receivables A/c			61,000
To Inventory A/c			33,000
(Being assets and liabilities revalued)			
Capital reduction A/c	Dr.	4,33,000	
To Goodwill A/c			20,000
To Profit and Loss A/c			4,13,000
(Being Goodwill and Profit & loss (Dr.) balance written off)			
Capital reduction A/c	Dr.	15,000	
To Bank A/c			15,000
(Being penalty paid for avoidance of capital commitments)			
Capital reduction A/c	Dr.	2,45,900	
To Capital reserve A/c			2,45,900
(Being the balance of capital reduction account transferred to capital reserve account)			

4. (a) In the books of Mr. Mishra

Investment Account for the year ended 31st Dec. 2012
(Scrip: Equity Shares of Fillco Ltd.)

Date	*Particulars*	*Nominal Value (Rs.)*	*Cost (Rs.)*	*Date*	*Particulars*	*Nominal Value (Rs.)*	*Cost (Rs.)*
1.5.12	To Bank A/c	8,000	42,080	30.11.12	By Bank A/c	2,000	11,400
31.10.12	To Bonus shares	2,000	–	31.12.12	By Balance c/d	8,000	33,664
31.12.12	To Profit & loss A/c	–	2,984				
		10,000	45,064			10,000	45,064

Working Notes:

(i) Cost of equity shares purchased on 1.5.2012 = 800 × Rs. 50 + 5% of Rs. 40,000 + .002 of Rs. 40,000 = Rs. 42,080.

(ii) Sale proceeds of equity shares sold on 30.11.2012 = 200 × Rs. 60 – 5% of Rs. 12,000 = Rs. 11,400

(iii) Profit on sale of bonus shares on 30.11.2012 = Sales proceeds – Average cost

Sales proceeds = Rs. 11,400

Average cost = Rs. $\frac{42,080}{10,000}$ x 2,000

= Rs. 8,416

Profit = Rs. 11,400 – Rs. 8,416 = Rs. 2,984

(iv) Valuation of equity shares on 31st Dec., 2012

Cost = (Rs. 42,080/10,000 x 8,000) = Rs. 33,664

Market Value = 800 × Rs. 60 = *Rs.* 48,000

Closing balance has been valued at Rs. 33,664 being lower than the market value

(b) Income and Expenditure Account for the year ended 31st March, 2014

Expenditure	*Rs.*	*Income*	*Rs.*
To Salaries (W.N.1)	2,52,000	By Subscription (W.N.6)	4,92,800
To Rent (W.N.2)	72,000	By Interest on 8% Government bonds (W.N.5)	8,000
To Printing and stationery (W.N.3)	3,845		

To Conveyance	10,600	By Bank interest	160
To Depreciation on Scooter (W.N.4)	5,000		
To Surplus i.e. excess of income over expenditure	1,57,515		
	5,00,960		5,00,960

Working Notes:

			Rs.
1.	Salaries paid		2,58,000
	Less: Salary paid in advance for April, 2014		(6,000)
	Salaries for the year		2,52,000
2.	Rent paid		71,500
	Add: Outstanding rent as on 31.3.2014		6,000
			77,500
	Less: Outstanding rent as on 31.3.2013		(5,500)
	Rent for the year 2013-2014		72,000
3.	Printing and stationery		3,870
	Add: Stock as on 31.3.2013		340
			4,210
	Less: Stock as on 31.3.2014		(365)
	Printing and stationery consumed during the year 2013-2014		3,845
4.	Depreciation on scooter = Rs. 50,000 $\times \frac{20}{100} \times \frac{6}{12} =$ Rs. 5,000		
5.	Interest on Government bonds received		4,000
	Add: Interest due but not received		4,000
	Interest income for the year 2013-2014		8,000
6.	Subscription received		4,94,700
	Add: Accrued subscription as on 31.3.2014		12,800
			5,07,500
	Less: Accrued subscription as on 31.3.2013	14,000	
	Unearned subscription for April, 2014	700	(14,700)
	Income for the year		4,92,800

5. (a)

Calculation of amount of claim	*Rs.*	*Rs.*
Value of stock as on 8th July, 2014 (Refer W.N.)		16,00,000
Less: Value of stock remaining unaffected by fire	2,03,000	

Agreed value of damaged goods	1,97,000	(4,00,000)
Loss of stock		12,00,000

Applying average clause:

$$\text{Amount of claim} = \frac{\text{Amount of policy}}{\text{Stock on the date of fire}} \times \text{Loss of stock}$$

$$= \frac{₹\,10,00,000}{₹\,16,00,000} \times 12,00,000$$

= Rs. 7,50,000

Working Note:

Memorandum Trading Account for the period from 1st April, 2014 to 8th July, 2014

	Rs.		*Rs.*
To Opening Stock	15,72,000	By Sales	52,60,000
To Purchases	37,10,000	By Closing Stock (Bal.Fig.)	16,00,000
To Gross Profit (30% of sales)	15,78,000		
	68,60,000		68,60,000

(b) Shreya (P) Limited

Statement of Profit and Loss
for 15 months ended 31st March, 2014

	Pre. inc. (5 months) (Rs.)	*Post inc. (10 months) (Rs.)*
Sales(W.N.1)	3,00,000	16,80,000
Less: Cost of sales	1,80,000	10,08,000
Discount to dealers	7,000	39,200
Directors' remuneration	-	60,000
Salaries (W.N.2)	18,750	71,250
Rent (W.N.3)	15,000	1,20,000
Interest (W.N.4)	30,000	75,000
Depreciation	10,000	20,000
Office expenses	35,000	70,000
Preliminary expenses	-	15,000

Sales promotion expenses	5,000	28,000
Net profit/(loss)	(750)	1,73,550

Treatment of pre-incorporation loss:

Pre-incorporation loss may, either be considered as a reduction from any capital reserve accruing in relation to the transaction or be treated as goodwill.

Working Notes:

1. Calculation of sales ratio:

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation)	= x X 5	=	5x
Sales (Post incorporation) from June to December, 2013	= 2½x X 7	=	17.5x
From January to March, 2014	= 3½x X 3	=	10.5x
Total Sales			28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x or 5 : 28

2. Calculation of ratio for salaries

Let the average salary be x

Pre-incorporation salary = x X 5 = 5x

Post incorporation salary

June, 2013	=		x
July, 2013 to March, 2014	= x X 9 X 2	=	18x
			19x

Ratio is 5 : 19

3. Calculation of Rent

	Rs.
Total rent	1,35,000
Less: Additional rent for 9 months @ Rs. 10,000 p.m.	(90,000)
Rent of old premises apportioned in time ratio	45,000

Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent		90,000
	15,000	1,20,000

4. **Calculation of interest**

Pre-incorporation period from January, 2013 to May, 2013

$\left(\frac{6,00,000 \times 12 \times 5}{100 \times 12}\right)$ = Rs. 30,000

Post incorporation period from June, 2013 to March, 2014

$\left(\frac{9,00,000 \times 10 \times 10}{100 \times 12}\right)$ = Rs. 75,000

Rs. 1,05,000

6. In the books of Lotus Ltd.

Cash Flow Statement for the year ending 31st March, 2014

		Rs.	*Rs.*
I	**Cash flow from Operating Activities**		
	Net Profit before tax for the year (W.N.1)	1,35,000	
	Add: Depreciation on machinery (W.N.2)	55,000	
	Depreciation on land & building	20,000	
	Operating profit before change in working capital	2,10,000	
	Add: Decrease in stock	20,000	
	Less: Increase in sundry debtors	(20,000)	
	Less: Decrease in sundry creditors	(1,00,000)	
	Cash generated from Operations	1,10,000	
	Less: Income tax paid (W.N.3)	(45,000)	
	Net cash generated from operating activities		65,000
II	**Cash flow from Investing Activities**		
	Purchase of machinery (2,25,000 – 1,00,000)	(1,25,000)	
	Sale of investment (W.N. 4)	60,000	
	Net cash used in investing activities		(65,000)
III	**Cash flow from Financing Activities**		
	Issue of equity shares (2,50,000-1,00,000)	1,50,000	
	Repayment of long term loan	(1,00,000)	
	Net cash generated from financing activities		50,000
	Net increase in cash and cash equivalents		50,000

	Cash and cash equivalents at the beginning of the year (2,00,000 + 3,00,000)		5,00,000
	Cash and cash equivalents at the end of the year (1,40,000+4,10,000)		5,50,000

Working Notes:

1. **Calculation of Net Profit before tax**

	Rs.
Increase in Profit & Loss (Cr.) balance	80,000
Add: Provision for taxation made during the year	55,000
	1,35,000

2. **Calculation of Depreciation charged during the year on Machinery account**

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Balance b/d	7,50,000	By Depreciation (Bal.fig.)	55,000
To Bank	1,25,000	By Balance c/d	9,20,000
To Equity share capital	1,00,000		
	9,75,000		9,75,000

3. **Calculation of tax paid during the year**

Provision for Taxation A/c

Particulars	*Amount (Rs.)*	*Particulars*	*Amount (Rs.)*
To Cash (Bal.fig.)	45,000	By Balance b/d	50,000
To Balance c/d	60,000	By Profit and Loss A/c	55,000
	1,05,000		1,05,000

4. **Calculation of sales value of investment sold**

Investment A/c

Particulars	*(Rs.)*	*Particulars*	*(Rs.)*
To Balance b/d	1,00,000	By Bank A/c (Bal.fig.)	60,000
To Capital reserve (Profit on sale of investments)	10,000	By Balance c/d	50,000
	1,10,000		1,10,000

7. **(a) Calculation of number of days from the base date**

Due date	*Amount (Rs.)*	*No. of days from 5.3.13*	*Product*
5.3.2013	5,000	0	0
7.4.2013	7,000	33	2,31,000
17.7.2013	6,000	134	8,04,000
14.9.2013	8,000	193	15,44,000
	26,000		25,79,000

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

$$= 5.3.2013 + \frac{25,79,000}{26,000} = 99 \text{ days}$$

The date of the cheque will be 99 days from the base date i.e.12.6.2013. So on 12th June, 2013, all bills will be settled by a single cheque payment.

(b) Following are the advantages of outsourcing the accounting functions:

(i) The organisation that outsources its accounting function is able to save time to concentrate on the core area of business activity.

(ii) The organisation is able to utilise the expertise of the third party in undertaking the accounting work.

(iii) Storage and maintenance of the data is in the hand of professional people.

(iv) The organisation is not bothered about people leaving the organisation in key accounting positions.

(v) The proposition is proving to be economically more sensible.

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

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

(d) As per para 12.1 of AS 10 'Accounting for Fixed Assets', expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book value, e.g., an increase in capacity.

Hence, in the given case, Repairs amounting Rs. 5 lakhs and Partial replacement of roof tiles should be charged to profit and loss statement. Rs. 10 lakhs incurred for substantial improvement to the electrical writing system which will increase efficiency should be capitalized.

(e) The economic reality and substance of the transaction is that the rights and beneficial interest in the property has been transferred although legal title has not been transferred. A Ltd. should record the sale and recognize the profit of Rs. 20 lakhs in its profit and loss account. The building should be eliminated from the balance sheet.

MOCK TEST PAPER – 2
INTERMEDIATE (IPC): GROUP – I
PAPER – 2 : BUSINESS LAWS, ETHICS AND COMMUNICATION
SUGGESTED ANSWERS/HINTS

1. (a) This problem deals with the principal's liability for the acts of the agent. As per the Indian Contract Act, 1872, an agent acting on behalf of the principal creates liability of the principal to third parties as it is the general rule of agency. An agent acting within the scope of his authority, binds the principal.

However, as per section 228 of the Indian Contract Act, 1872, where an agent does more than he is authorized to do, and what he does beyond the scope of his liability, cannot be separated from what is within it, there the principal is not bound to recognize the transaction. He is in such a case is entitled to repudiate the whole transaction.

Accordingly, in the given situation X may repudiate the whole transaction.

(b) Holding and Subsidiary Companies are relative terms. As per clause 2(46) of the Companies Act, 2013, company is a holding company of another only if the other is its subsidiary. Whereas clause 2(87) of the Companies Act, 2013, lays down the subsidiary company in relation to the other company(holding company).

Any of the circumstances illustrated below must exist to constitute the relationship of holding and subsidiary companies:

(a) When one company controls the composition of Board of Directors of the other companies.

(b) 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

(c) Where a company is subsidiary of another company which is subsidiary of still another company, provided that such class or classes of companies of holding companies shall not have layers of subsidiaries beyond such numbers as may be prescribed.

The Ministry vide General Circular No. 20 /2013 clarified that the shares held by a company or power exercisable by it in another company in a 'fiduciary capacity' shall not be counted for the purpose of determining the holding-subsidiary relationship in terms of the provision of section 2(87) of the Companies Act, 2013.

(c) (i) Ethics programs help to manage values associated with quality management, strategic planning and diversity management. Ethics programs help identifying preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning and diversity management. For *example,* Total Quality Management initiatives include high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback.

(ii) **Ethics programs help guarantee that personnel policies are legal:** A major objective of personnel policies is to ensure ethical treatment of employees , For *example,* in matters of hiring, evaluating, disciplining, firing, etc., an employer can be sued for breach of contract for failure to comply with any promise it made, so the gap between stated corporate culture and actual practice has significant legal, as well as ethical implications. Attention to ethics ensures highly ethical policies and procedures in the workplace. Ethics management programs are also useful in managing diversity. Diversity programs require recognizing and applying diverse values and perspectives which are the basis of a sound ethics management program. Most organisations feel that it is far better to incur the cost of mechanisms to ensure ethical practices than to incur costs of litigation later.

(d) Merits of the grapevine phenomenon

(i) **Speedy transmission:** The greatest merit of this phenomenon is that it transmits information very speedily. The very moment a worker comes to know that something is 'top secret' or 'confidential' he tries to look into it or have some idea of it and pass it on to others. Thus it spreads within minutes.

(ii) **Feedback value:** It is primarily through the grapevine that the managers or top bosses of an organisation get the feedback regarding their policies, decisions, memos etc. The feedback reaches them much faster through the informal channel than through the formal channel.

(iii) **Support to other channels:** The grapevine or informal channel functions as a supplementary or parallel channel of communication. The formal channels not only take more time but also impose certain constraints on the process of communication.

(iv) **Psychological satisfaction:** The grapevine gives immense psychological satisfaction to the workers and strengthens their solidarity. It draws them nearer to each other and thus keeps the organisation intact as a social entity.

2. (a) (i) Payment of bonus linked with productivity: No, such an agreement is null and void. The problem is based on Section 31A of the Payment of Bonus Act, 1965 which allows an agreement between employers and employees for payment of bonus linked with productivity. But such payment is subject to two restrictions:

(1) That such agreement whereby the employees relinquish their right to receive minimum bonus under Sec.10, shall be null and void.

(2) If the bonus payable under such agreement exceeds 20% of the salary/wages earned by the employees during the relevant accounting year, such employees are not entitled to the excess over 20% of the salary/wages.

Accordingly, in the given problem, the agreement to forego the right of receiving minimum bonus is null and void. The employees shall not be entitled to receive the excess over 20% of salary/wages in case of bonus payable linked with productivity.

(ii) **Computation of gratuity amount:** Section 4 of the Payment of Gratuity Act, 1972 stipulates the manner in which the amount of gratuity payable to an employee will be calculated.

In the case of establishments other than seasonal establishments, the employer shall pay the gratuity to an employee at the rate of 15 days wages based on the rate of wages last drawn by the employee concerned for every completed year of service or part thereof in excess of 6 months. In the case of piece rated employees, daily wages, shall be computed on the average of the total wages received by him for a period of 3 months immediately preceding the termination of his employment and for this purpose the wages paid for any overtime work shall not be taken into account.

In the case of a monthly rated employee 15 days wages shall be calculated by dividing the monthly rate of wages last drawn, by 26 and by multiplying the quotient by 15.

In the case of seasonal establishment the employees can be classified into 2 groups.

(1) Those who work throughout the year and

(2) Those who work only during the season.

The former are entitled to get the gratuity at the rate of 15 days wages for every completed year of service or part thereof in excess of 6 months. The latter are entitled to receive gratuity at the rate of 7 days for each season.

The amount of gratuity payable shall not exceed ₹ Ten lakhs.

(b) Corporate social responsibility is the commitment of businesses to behave ethically and to contribute to sustainable economic development by working with all relevant stakeholders to improve their lives in ways that are good for business, the sustainable development agenda, and society at large. Social responsibility becomes an integral part of the wealth creation process - which if managed properly should enhance the competitiveness of business and maximize the value of wealth creation to society. There is a growing body of data, quantitative and qualitative, that demonstrates many benefits of socially responsible corporate performance.

Adoption of CSR helps to minimize Ecological Damage

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

(c) Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide our decisions, actions and beliefs. By developing the skills of critical thinking and bringing rigour and discipline to the thinking processes, a person stands at a better chance of being "right" and likely to make good judgments, choices and decisions in all areas of the life. This kind of questioning is called Socratic questions based upon logic, originated by Greek Philosopher Socrates, founder of Critical Thinking. Thus, this forms an important part of "success" and "wisdom".

Developing Critical thinking: To develop critical thinking in a right direction, one must be motivated to develop the following attributes:

1. **Open-minded:** Readiness to accept and explore alternative approaches and ideas.
2. **Well informed:** Knowledge of the facts and what is happening on all fronts.
3. **Experimental:** Thinking through 'what if scenarios to create probable options and then test the theories to determine what will work and what will not be acceptable.
4. **Contextual:** Keeping in mind the appropriate context in the course of analyses. Apply factors of analysis that are relevant or appropriate.
5. **Reserved in making conclusion:** Knowledge of when, a conclusion is a 'fact' and when it is not only true conclusions support decisions.

3. (a) (i) As per Section 26, a minor may draw, endorse, deliver and negotiate the instrument so as to bind all parties except himself. Therefore, M is not liable. X can, thus, proceed against A.

(ii) As per the provision of the Negotiable Instruments Act, 1881 this is not a material alteration as a promissory note where no date of payment is specified will be treated as payable on demand. Hence adding the words "on demand" does not alter the business effect of the instrument.

(iii) B is a holder but not a holder in due course as he does not get the cheque for value and consideration. His title is good and bonafide. As a holder he is entitled to receive ₹ 100 from the bank on whom the cheque is drawn.

(iv) According to Section 85, the drawee banker is discharged when he pays a cheque payable to order when it is purported to be endorsed by or on behalf of the payee. Even though the endorsement of Mr. B is forged, the banker is protected and he is discharged. The true owner, B, cannot recover the money from the drawee bank.

(b) Every organization, whether a business or a government agency, is first and foremost a human society. In all these setups, ethical behaviour is essential to working environment. If an employer does not take steps to create a working environment where the employees have a clear, common understanding of what is right and wrong, and feel free to discuss and ask questions about ethical issues and report violations, some significant problems may arise namely:

(i) Increased risk of employees making unethical decisions.

(ii) Increased tendency of employees to report violations to outside regulatory authorities (whistle blowing) because they lack an adequate internal forum.

(iii) Inability to recruit and retain top people.

(iv) Diminished reputation in the industry and the community.

(v) Significant legal exposure and loss of competitive advantage in the market place.

Therefore ethical behaviour is essential to working environment at the workplace.

(c) Guidelines to handle communication ethics dilemmas:

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

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

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

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

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

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

4. (a) A Proxy is an instrument in writing executed by a shareholder authorizing another person to attend a meeting and to vote thereat on his behalf and in his absence. As per, the provisions of Section 105 of the Companies Act, 2013 every shareholder who is entitled to attend and vote has a statutory right to appoint another person as his proxy and the proxy need not be a member of the company. Further, any provision in the articles of association of the company requiring instrument of proxy to be lodged with the company more than 48 hours before a meeting shall have effect as if 48 hours had been specified therein. The members has a right to revoke the proxy's authority by voting himself before the proxy has voted but once the proxy has voted the member cannot retract his authority. Where two proxy instruments by the same shareholder are lodged in respect of the same votes before the expiry of the time for lodging, there the proxies, the second in time will be counted and where one is lodged before and the other after the expiry of the date fixed for lodging proxies, the former will be counted.

Thus in case of Member A, the proxy Q (and not Proxy P) will be permitted to vote on his behalf. However, in the case of Member B, the proxy R (and not Proxy S) will be permitted to vote as the proxy authorizing S to vote was deposited in less than 48 hours before the meeting.

(b) (i) Correct: An element of resource regeneration and positive approach to environment has to be incorporated in developmental programmes. Sustainable development is necessary because it meets the needs of the present without compromising the ability of future generations to meet their own needs.

(ii) Incorrect: Ozone depletion results in the increase of ultraviolet rays. Experts believe that this could cause several hundred thousands of new cases of skin cancer and could also lead to considerable destruction of 75% of the world's major crops that are sensitive to ultraviolet light.

(c) General Power of Attorney: Know we all subscribers of the Memorandum and Article of Association of the Proposed Company, do hereby appoint and constitute………son of………………(hereinafter called "chartered Accountant" who has subscribed his signature hereunder in token of identification) presently residing……as lawful Chartered Accountant in our name and on our behalf do it any one or all the following acts, namely

1. to give all particulars necessary for incorporation of company.
2. to give affidavit to the Registrar of Company for the purpose of incorporation.
3. to do needful acts necessary for incorporation of the company

4. he is authorized to include promissory notes letter of declaration and indemnity for the purpose of incorporation.
5. to receive documents on behalf of the members of the company.
6. to sign forms, documents and papers required for the purpose of incorporation of the company.

This power of attorney executed by company at - this day of - 2014.

Specimen signature of the Chartered Accountant above named

Signatures of the Subscribers of the Company

5. (a) Principal's liabilities for Agents acts

1. When the agent exceeds his authority principal is liable for such acts.
2. Principal is bound by notice given to agent in the course of business.
3. A principal is liable where he has by words or conduct induced a belief in the contracting party that the act of the agent was within the scope of his authority.
4. The principal is liable for misrepresentation or fraud of his agent acting within the scope of his actual or apparent authority during the course of the agency business.

Agent is personally liable

1. When the contract expressly provides for the personal liability of the agent.
2. When the agent signs a negotiable instrument in his own name without making it clear that he is signing as agent.
3. Where the agent acts for a principal, who cannot be sued on account of his being a foreign sovereign, ambassador, etc.,

(b) Pre-incorporation Contracts and its Enforcement: Pre-incorporation contracts are those contracts which are entered into, by the promoters on behalf of a prospective company, before it has come into existence e.g. with the proprietor of business to sell it to the prospective company. Since a company comes into existence from the date of its incorporation, it follows that any act purporting to be performed by it prior to that date is of no effect so far as the company is concerned. Hence the vendor cannot sue or be sued by the company thereof, after its incorporation.

After incorporation, the company may adopt the preliminary agreement. But this must be, by novation. However, in order to facilitate companies to adopt pre-incorporation contracts, special provisions are made in sections 15 and 19 of the

Specific Relief Act, 1963. Accordingly, pre-incorporation contracts can be enforced by the company, if the contract is for the purposes of the company, the contract is warranted by the terms of its incorporation is within the scope of the company's objects as given in the Memorandum of Association and the company has accepted the contract and has communicated such acceptance to the other party.

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

1. Ensuring that employees are aware of their legal and ethical responsibilities.

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

2. Providing a communication system between the management and employees so that anyone in the company can report fraud and mismanagement without the fear of being reprimanded.

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

3. Ensuring fair treatment to those who act as whistle blowers :

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

6. **(a)** Mr. A, a shareholder of the 'Moon Star Ltd'., deposited in advance the remaining amount due on his shares without any calls made by 'Moon Star Ltd'. 'Moon Star Ltd' was authorized to accept the unpaid calls by its articles. According to section 50 of the Companies Act, 2013, a company may, if so authorized by the articles, accept from any member the whole or a part of the amount remaining unpaid or any shares by him although and even if no part of that amount has been called up. The amount so received or accepted is described as payment in advance of calls. When a company receives payment in advance of calls, the rights and liabilities of the shareholder will be as follows:

(i) The shareholder is not entitled to voting rights in respect of the amount paid by him as per the provision 50(1) until that amount has been called up.[Section 50(2)].

(ii) The shareholder's liability to the company in respect of the call for which the amount is paid is distinguished.

(iii) The shareholder is entitled to claim interest on the amount of the call to the extent payable according to the articles of association. If there are no profits, it must be paid out of capital, because shareholder becomes the creditor of the company in respect of this amount.

(iv) The amount received in advance of calls is not refundable.

(v) In the event of winding up the shareholder ranks after the creditors, but must be paid his amount with interest, if any before the other shareholders are paid off.

(vi) The power to receive the payment in advance of calls must be exercised in the general interest and for the benefit of the company.

(b) Notice to the defaulter for making the payment of due amount

------------Company

------------Address

To,

-------------,

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

Subject: To clear the due payment

Dear Sir,

Despite the continuous request again and again to clear the due payment, you haven't taken note of our requests and failed to clear the account by making payment of due amount.

By ignoring our requests, you are deteriorating the credit record which you have maintained with our company in the past. Besides, you are incurring additional expense in the form of overdue interest and penal interest to yourself.

Please note if we don't hear from you with 15 days, we shall initiate legal action against you for recovery of the dues.

Thanking you.

Yours faithfully,

(Manager of the company)

(c) (i) Correct

(ii) Incorrect

(iii) Correct

(iv) Incorrect

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

Payable of amount after the death of the employee: The amount standing to the credit of the person at the time of his death is payable to his nominees under the scheme or the rules vest in nominees. And the amount shall be free from any debt or other liability incurred by the deceased or the nominee before the death of the member or of the exempted employee and shall also not be liable to attachment under any decree or order of any Court. (Section 10, EPF & MP Act, 1952).

(b) The term E-filing indicates the process of getting services electronically with a comprehensive on-line portal. The advantages are:

1. Instant registration of companies;
2. Simplified and more easy method of filing documents;
3. Total transparency;
4. Easier and better compliance of regulations;
5. Utmost customer care
6. Authentic and reliable filling of forms / returns through professionals;
7. Centralised database management;
8. Better service availability;
9. Filing of and inspection of documents anywhere and anytime.
10. Quick redressal of investor grievances
11. Supervisor and monitoring of compliance made easier.

(c) Under Section 114 of the Companies Act, 2013 for a valid special resolution, the following conditions need to be satisfied:

(i) The intention to propose the resolution, as a special resolution must have been specified in the notice calling the general meeting or other intimation given to the members;

(ii) The notice required under the Companies Act must have been duly given of the general meeting;

(iii) The votes cast in favour of the resolution (whether by show of hands or on poll or electronically) by members present in person or by proxy or by postal ballot, are not less than 3 times the number of votes, if any, cast against the resolution.

Thus, in terms of the requisite majority, votes cast in favour have to be compared with votes cast against the resolution. Abstentions or invalid, if any, are not to be taken into account. Accordingly, in the given problem, the votes cast in favour (20) being more than 3 times of the votes cast against (5), if other conditions of Section 114 are satisfied, the decision of the Chairman is in order.

(d) The UN Guidelines call upon governments to develop, strengthen and maintain a strong consumer policy, and provide for enhanced protection of consumers by enunciating various steps and measures around eight themes (UNCTAD, 2001). These eight themes are:

1. Physical safety
2. Economic interests
3. Standards
4. Essential goods and services
5. Redress
6. Education and information
7. Specific areas concerning health
8. Sustainable consumption

(e) This Lease is made on this the day of 1st of September 2014, between, X (details of X), residing at Delhi (hereinafter called the LESSOR); and Surya Limited, Delhi (hereinafter called the LESSEE). Whereas, the lessor is the absolute owner of the property (1500 Squares of house bearing No. 56, Vasant Kunj at Delhi) and Whereas, the Lesssee is desirous of taking on lease the mentioned property for a period of 10 years and, whereas, the Lessor is agreeable for the same.

Now therefore this deed witnessed that in pursuance of aforesaid agreement and in consideration of the rent hereinafter contained, the Lessor hereby demises by way of lease to Lessee the mentioned Property from today, on the following terms and conditions:

1. That the lessee has undertaken to pay the lessor a monthly rent of ₹ 20,000/- (Rupees twenty thousand only) for the mentioned Property on or before the 10 day of the following calendar month, and 10 months rent of ₹ 2.00 lac only deposit by the lessee on the date of execution of this lease; the receipt where of the lessor hereby acknowledges and agrees to repay the same without

interest at the time of vacating the Property, after deducting for damages, if any.

2. The lessee shall use the mentioned Property only for official purpose and shall not assign or sublease or use the Scheduled Premises for any unlawful purposes or alter the mentioned Property without the consent of the lessor in writing.

3. During the lease period, the lessee shall pay the electricity and water charges to the respective departments promptly and obviate disconnection at any time.

4. The lessee shall permit the lessor or his agents, to enter the mentioned Property at all reasonable times for the purpose of periodical inspection.

In witness whereof the parties hereto have their respective hands and seals to this Agreement on the 1st day of September, 2014 written above.

Signature of Lessor	Signature of Lessee
Witness	Witness

Test Series: October, 2014

MOCK TEST PAPER – 2

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART – I : COST ACCOUNTING

Suggested Answers/ Hints

1. (a) Calculation of effective wages rate and weekly earnings of the workers A, B and C

Workers	A	B	C
Standard Output	96 units (8 hrs. × 2 units × 6 days)	96 units (8 hrs. × 2 units × 6 days)	96 units (8 hrs. × 2 units × 6 days)
Actual Output	132 units	108 units	96 units
Efficiency (%)	$\frac{132 \text{units}}{96 \text{units}} \times 100 = 137.5$	$\frac{108 \text{units}}{96 \text{units}} \times 100 = 112.5$	$\frac{96 \text{units}}{96 \text{units}} \times 100 = 100$
Daily wages Rate	₹ 360	₹ 360	₹ 360
Incentive system	Emerson's Efficiency System	Merrick differential piece rate system	Taylor's differential piece work system
Rate of Bonus	57.5% of time rate (20% + 37.5%)	20% of ordinary piece rate	25% of ordinary piece rate
Effective Wage Rate	**₹ 70.875 per hour** $\left(\frac{₹\ 360}{8 \text{hours}} \times 157.5\%\right)$	**₹ 27 per piece** $\left(\frac{₹\ 360}{16 \text{units}} \times 120\%\right)$	**₹ 28.125 per piece** $\left(\frac{₹\ 360}{16 \text{units}} \times 125\%\right)$
Total weekly earnings	**₹ 3,402** (8 hours × 6 days × ₹ 70.875)	**₹ 2,916** (108 units × ₹ 27)	**₹ 2,700** (96 units × ₹ 28.125)

(b) Budgeted Production 30,000 hours ÷ 6 hours per unit = 5,000 units

Budgeted Fixed Overhead Rate = ₹ 4,50,000 ÷ 5,000 units = ₹ 90 per unit Or

= ₹ 4,50,000 ÷ 30,000 hours = ₹ 15 per hour.

(i) Material Cost Variance = (Std. Qty. × Std. Price) – (Actual Qty. × Actual Price)

= (4,800 units × 10 kg. × ₹10) - ₹ 5,25,000

= ₹ 4.80,000 – ₹ 5,25,000

= ₹ 45,000 (A)

(ii) Labour Cost Variance = (Std. Hours × Std. Rate) – (Actual Hours × Actual rate)

= (4,800 units × 6 hours × ₹ 5.50) – ₹1,55,000

= ₹ 1,58,400 – ₹ 1,55,000

= ₹ 3,400 (F)

(iii) Fixed Overhead Cost Variance = (Budgeted Rate × Actual Qty) – Actual Overhead

= (₹ 90 x 4,800 units) – ₹ 4,70,000

= ₹ 38,000 (A)

OR = (Budgeted Rate × Std. Hours) – Actual Overhead

= (₹ 15 x 4,800 units × 6 hours) – ₹ 4,70,000

= ₹ 38,000 (A)

(iv) Variable Overhead Cost Variance= (Std. Rate × Std. Hours) – Actual Overhead

= (4,800 units × 6 hours × ₹ 10) - ₹ 2,93,000

= ₹ 2,88,000 - ₹ 2,93,000

= ₹ 5,000 (A)

2. (a) Production Budget (in units)

	Product- K_{596} (units)	Product- H_{852} (units)
Expected sales	8,000	4,200
Add: Closing stock	1,000	2,100
Less: Opening stock	(800)	(1,600)
Units to be produced	8,200	4,700

(b) Material Purchase Budget

	Material-X (kg.)	Material-Y (kg.)	Material-Z (ltr.)
Materials required:			
- Product-K_{596}	98,400 (8,200 units × 12 kg.)	1,23,000 (8,200 units × 15 kg.)	65,600 (8,200 units × 8 ltr.)
- Product- H_{852}	70,500 (4,700 units × 15 kg.)	28,200 (4,700 units × 6 kg.)	65,800 (4,700 units × 14ltr.)
Total	1,68,900	1,51,200	1,31,400

Add: Closing stock	30,000	18,000	7,500
Less: Opening stock	(25,000)	(30,000)	(14,000)
Quantity to be purchased	1,73,900	1,39,200	1,24,900
Rate	₹15 per kg.	₹16 per kg.	₹5 per ltr.
Purchase cost	₹ 26,08,500	₹ 22,27,200	₹ 6,24,500

(c) Direct Labour Budget

	Unskilled (hours)	**Skilled (hours)**
For Product K_{596}	98,400 (8,200 units × 12 hours)	65,600 (8,200 units × 8 hours)
For Product H_{852}	47,000 (4,700 units × 10 hours)	23,500 (4,700 units × 5 hours)
Labour hours required	1,45,400	89,100
Rate	₹ 40 per hour	₹ 75 per hour
Wages to be paid	₹ 58,16,000	₹ 66,82,500

3. (i) Amount of under/ over absorption of production overheads during the year 2013-14

		(₹)
Total production overheads actually incurred during the year 2013-14		7,20,000
Less: 'Written off' obsolete stores	₹ 15,000	
Wages paid for strike period	₹ 12,000	(27,000)
Net production overheads actually incurred: (A)		6,93,000
Production overheads absorbed by 52,000 machines hours @ ₹15 per hour: (B)		7,80,000
Amount of over-absorption of production overheads: [(B)–(A)]		87,000

(ii) Accounting treatment of over absorption of production overheads: It is given in the statement of the question that 25,000 units were completely finished and 6,000 units were 50% complete, one third of the over-absorbed overheads were due to faulty production planning and the rest were attributable to normal increase/ decrease in costs.

		(₹)
1.	(33-1/3% of ₹87,000) i.e. ₹29,000 of over – absorbed overheads were due to faulty production planning. This being abnormal, should be credited to the Profit and Loss A/c	29,000
2	Balance (66-2/3% of ₹87,000) i.e. ₹58,000 of over – absorbed overheads should be distributed over work-in-progress, finished goods and cost of sales by using supplementary rate	58,000
	Total over-absorbed overheads	87,000

Apportionment of over-absorbed overhead of ₹58,000 over work-in-progress, finished goods and cost of sales.

	Equivalent Completed units	(₹)
Work-in-progress (3,000 units × ₹2.0714) (Refer to Working Note)	3,000	6,215
Finished goods (5,000 units × ₹2.0714)	5,000	10,357
Cost of sales (20,000 units × ₹2.0714)	20,000	41,428
	28,000	58,000

Accounting treatment:

	Dr. (₹)	Cr. (₹)
Overhead control A/c ………………………………… Dr.	87,000	
To Work-in-progress A/c		6,215
To Finished goods control A/c		10,357
To Cost of sales A/c		41428
To Cost Profit & Loss A/c		29,000

Working Note:

Supplementary overhead absorption rate $= \dfrac{₹58,000}{28,000 \text{ units}} =$ ₹2.0714per unit

4. Working notes

1. Annual demand (30,000 units per quarter × 4 quarters) = 1,20,000 units

2. Raw material required for 1,20,000 units (1,20,000 units × 1.5 kg.) = 1,80,000 kg.

3. EOQ $= \sqrt{\dfrac{2 \times 1,80,000 \text{ kgs.} \times ₹\ 1,000}{₹\ 2}} = 13,416$ kgs.(appx)

4.Total cost of procurement and storage when the order size is equal to EOQ or 13,416 kg.

No. of orders (1,80,000 kg. ÷ 13,416 kg.) = 13.42 times or 14 times

Ordering cost (14 orders × ₹1,000) = ₹ 14,000

Carrying cost (½ × 13,416 kg. × ₹ 2) = ₹ 13,416

Total cost = ₹ 27,416

(i) **Re-order point** = Safety stock + Lead time consumption

$$= 8{,}000 \text{ kg.} + \frac{1{,}80{,}000 \text{ kg.}}{360 \text{ days}} \times 24 \text{ days}$$

= 8,000 kg. + 12,000 kg. = 20,000 kg.

(ii) **Statement showing the total cost of procurement and storage of raw materials** (after considering the discount)

Order size	No. of orders	Total cost of procurement	Average stock	Total cost of storage of raw materials	Discount	Total cost
Kg.		(₹)	Kg.	(₹)	(₹)	(₹)
(1)	(2)	(3)=(2)×₹1,000	(4)=½×(1)	(5)=(4)×₹2	(6)	(7)=[(3)+(5)– (6)]
1,80,000	1	1,000	90,000	1,80,000	32,000	1,49,000
90,000	2	2,000	45,000	90,000	20,000	72,000
45,000	4	4,000	22,500	45,000	-	49,000
30,000	6	6,000	15,000	30,000	-	36,000

(iii) Number of orders which the company should place to minimize the costs after taking EOQ also into consideration is 14 orders. Total cost of procurement and storage in this case comes to ₹ 27,416 (please refer working note-4 above), which is minimum.

5. **(a)** In some process industries the output of one process is transferred to the next process not at cost but at market value or cost plus a percentage of profit. *The difference between cost and the transfer price is known as inter-process profits.*

The advantages and disadvantages of using inter-process profit, in the case of process type industries are as follows:

Advantages:

1. Comparison between the cost of output and its market price at the stage of completion is facilitated.
2. Each process is made to stand by itself as to the profitability.

Disadvantages:

1. The use of inter-process profits involves complication.

2. The system shows profits which are not realised because of stock not sold out

(b) 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.

6. (i) Statement showing allocation of Joint Cost

Particulars	R_1	L_1
No. of units Produced	2,000	3,000
Selling Price Per unit (₹)	60	70
Sales Value (₹)	1,20,000	2,10,000
Less: Estimated Profit (R_1 -25% & L_1 -30%)	(30,000)	(63,000)
Cost of Sales	90,000	1,47,000
Less: Estimated Selling Expenses (R_1 -10% & L_1 -15%)	(12,000)	(31,500)
Cost of Production	78,000	1,15,500
Less: Cost after separation	(38,000)	(26,000)
Joint Cost allocated	40,000	89,500

(ii) Statement of Profitability

Particulars	G_1 (₹)	R_1 (₹)	L_1 (₹)
Sales Value (A)	6,00,000 (4,000 × ₹150)	1,20,000	2,10,000
Less: - Joint Cost	2,98,500	40,000	89,500

	(4,28,000 -40,000 - 89,500)		
- Cost after separation	-	38,000	26,000
- Selling Expenses (G1- 20%, R1-10% & L1-15%)	1,20,000	12,000	31,500
(B)	4,18,500	90,000	1,47,000
Profit (A –B)	1,81,500	30,000	63,000
Overall Profit = ₹1,81,500 + ₹30,000 + ₹63,000 = ₹ 2,74,500			

7. **(a)** ***Time and motions study:*** It is the study of time taken and motions (movements) performed by workers while performing their jobs at the place of their work. Time and motion study has played a significant role in controlling and reducing labour cost.

Time Study is concerned with the determination of standard time required by a person of average ability to perform a job. Motion study, on the other hand, is concerned with determining the proper method of performing a job so that there are no wasteful movements, hiring the worker unnecessarily. However, both the studies are conducted simultaneously. Since materials, tools, equipment and general arrangement of work, all have vital bearing on the method and time required for its completion. Therefore, their study would be incomplete and would not yield its full benefit without a proper consideration of these factors.

Time and motion study is important to management because of the following features*:*

1. Improved methods, layout, and design of work ensure effective use of men, material and resources.
2. Unnecessary and wasteful methods are pin-pointed with a view to either improving them or eliminating them altogether. This leads to reduction in the work content of an operation, economy in human efforts and reduction of fatigue.
3. Highest possible level of efficiency is achieved in all respect.
4. Provides information for setting labour standards - a step towards labour cost control and cost reduction.
5. Useful for fixing wage rates and introducing effective incentive scheme.

(b) *Explicit costs:* These costs are also known as out of pocket costs. They refer 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.

MOCK TEST – 2
INTERMEDIATE (IPC) – GROUP – I
PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT
PART – II : FINANCIAL MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. **(a)** (i) **Computation of Internal Rate of Return**

$995 \times (1+i)^5 = 1,200.$

$$(1+i)^5 = \frac{1,200}{995}$$

Taking 5th root of both sides:

$(1+i) = 1.0382$

Internal rate of return i.e. $i = 0.0382 = 3.82\%$

In order to make a choice, you need to know what interest rate is being offered by the local bank.

(ii) **Advice**: If the bank is paying 3.5%, Mr. Raman should choose the bond because it is earning a higher rate of return i.e. 3.82%.

(iii) **Advice**: If the bank is paying 5% per year, Mr. Raman should deposit his money in the bank. He would earn a higher rate of return.

If the price of the bond was Rs. 900, its IRR would be as following:

$900 \times (1+i)^5 = 1,200.$

$$(1+i)^5 = \frac{1,200}{900}$$

Internal rate of return i.e. $i = 5.92\%$

Since the internal rate of return i.e. 5.92% is higher than the bank rate i.e. 5%; hence, Mr. Raman should choose to buy the bond.

(b) **Present Value of Investment**

$$PV = \frac{\text{Rs. } 50,00,000}{0.10} = \text{Rs. } 5,00,00,000$$

Highest price you would be willing to pay = Rs. 5,00,00,000.

2. (a)

Particulars	**Par**	**Premium**	**Discount**
Gross Proceeds	10,000×100 =10,00,000	10,000×110 =11,00,000	10,000×90 = 9,00,000
Less : Cost of Issue	25,000	25,000	25,000
Net Proceeds	**9,75,000**	**10,75,000**	**8,75,000**
Interest at 10%	1,00,000	1,00,000	1,00,000
Less : Tax at 35%	35,000	35,000	35,000
Net Outflow	**65,000**	**65,000**	**65,000**
Kd=Interest (after tax)/Net Proceeds	**6.67%**	**6.05%**	**7.43%**

(b)

Firm		**A**	**B**	**C**	**D**
	EBIT	2,00,000	3,00,000	5,00,000	6,00,000
Less:	Interest	20,000	60,000	2,00,000	2,40,000
	EBT = Net Income	**1,80,000**	**2,40,000**	**3,00,000**	**3,60,000**
K e	(given)	12%	16%	15%	18%
Value of Equity (E)=Net Income ÷Ke		15,00,000	15,00,000	20,00,000	20,00,000
Value of Debt (D)=Interest ÷ Kd of 10%		2,00,000	6,00,000	20,00,000	24,00,000
Value of Firm (V) = (E+D)		17,00,000	21,00,000	40,00,000	44,00,000
K_0	= WACC = EBIT÷V	**11.76%**	**14.29%**	**12.5%**	**13.64%**

3. (a) (A) Schedule of Changes in Working Capital

Particulars	*31.3.2013*	*31.3.2014*	*Effect on Working Capital*	
			Increase	*Decrease*
	Rs.	*Rs.*	*Rs.*	*Rs.*
Current Assets:				
Stock	3,60,000	3,50,000	-	10,000
Debtors	3,00,000	3,90,000	90,000	-
Cash and Bank	1,00,000	95,000	-	5,000
Prepaid Expenses	15,000	20,000	5,000	-
Total (A)	7,75,000	8,55,000		

Current Liabilities:				
Creditors	2,05,000	3,00,000	-	95,000
Bills Payable	45,000	81,000	-	36,000
Total (B)	2,50,000	3,81,000		
Net Working Capital (A-B)	5,25,000	4,74,000	-	
Net Decrease in Working Capital	-	51,000	51,000	-
	5,25,000	5,25,000	1,46,000	1,46,000

(B) Funds Flow Statement for the year ended 31st March, 2014

	Rs.
Sources of Fund	
Funds from Operation	7,49,000
Issue of 9% Preference Shares	5,00,000
Sales of Plant & Machinery	32,000
Refund of Income Tax	4,000
Financial Resources Provided (A)	12,85,000
Applications of Fund	
Purchase of Land and Building	1,50,000
Purchase of Plant and Machinery	3,60,000
Redemption of Debentures	2,06,000
Redemption of Preference Shares	3,15,000
Payment of Tax	1,05,000
Payment of Interim Dividend	50,000
Payment of Dividend (2012-13)	1,50,000
Financial Resources Applied (B)	13,36,000
Net Decrease in Working Capital (A - B)	51,000

Working Notes:

Estimation of Funds from Operation		*Rs.*
Profit and Loss A/c Balance on 31.3.2014		3,00,000
Add: Depreciation on Land and Building	50,000	
Depreciation on Plant and Machinery	1,20,000	
Loss on Sale of Plant and Machinery (40,000 – 32,000)	8,000	

Preliminary Expenses written off	(40,000 – 35,000)	5,000	
Transfer to General Reserve		50,000	
Proposed Dividend		2,60,000	
Provision for Taxation		1,06,000	
Interim Dividend paid		50,000	
			6,49,000
			9,49,000
Less: Profit and Loss A/c balance on 31.3.13			2,00,000
Funds from Operation			7,49,000

Plant & Machinery A/c

	Rs.		*Rs.*
To Balance b/d	9,00,000	By Depreciation	1,20,000
To Bank [Purchase (Bal. Fig.)]	3,60,000	By Bank (Sale)	32,000
		By P/L A/c (Loss on Sale)	8,000
		By Balance c/d	11,00,000
	12,60,000		12,60,000

Provision for Taxation A/c

	Rs.		*Rs.*
To Advance tax payment A/c	76,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By P/L A/c (additional provision for 2012-13)	6,000
		By P/L A/c (Provision for 13-14)	1,00,000
	1,76,000		1,76,000

Advance Tax Payment A/c

	Rs.		*Rs.*
To Balance b/d	80,000	By Provision for taxation A/c	76,000
To Bank (paid for 13-14)	1,05,000	By Bank (Refund of tax)	4,000
		By Balance c/d	1,05,000
	1,85000		1,85,000

8% Debentures A/c

	Rs.		Rs.
To Bank (2,00,000 x 103%) (redemption)	2,06,000	By Balance b/d	3,00,000
		By Premium on redemption	
To Balance c/d	1,00,000	of Debentures A/c	6,000
	3,06,000		3,06,000

9% Preference Share Capital A/c

	Rs.		Rs.
To Bank A/c (3,00,000 x 105%) (redemption)	3,15,000	By Balance b/d	3,00,000
		By Premium on redemption	
To Balance c/d	5,00,000	of Preference shares A/c	15,000
		By Bank (Issue)	5,00,000
	8,15,000		8,15,000

Securities Premium A/c

	Rs.		Rs.
To Premium on redemption of debentures A/c	6,000	By Balance b/d	25,000
To Premium on redemption of preference shares A/c	15,000		
To Balance c/d	4,000		
	25,000		25,000

General Reserve A/c

	Rs.		Rs.
To Bonus to Shareholders A/c	2,00,000	By Balance b/d	3,50,000
To Balance c/d	2,00,000	By P/L A/c (transfer) b/f	50,000
	4,00,000		4,00,000

Land and Building A/c

	Rs.		Rs.
To Balance b/d	6,00,000	By Depreciation	50,000
To Bank (Purchase) (Bal. Fig.)	1,50,000	By Balance c/d	7,00,000
	7,50,000		7,50,000

(b) **Activity level: 1,30,000 units**

Statement showing Estimate of Working Capital Needs

A.	Investment in Inventory:		
	Raw material inventory: 1 month		
	$\left(1,30,000 \times \frac{4}{52} \times ₹\ 100\right)^{*}$		10,00,000
	WIP Inventory : 1 week $\left(1,30,000 \times \frac{1}{52} \times 0.80 \times 212.50\right)$		4,25,000
	Finished goods inventory: 2 weeks		
	$\left(1,30,000 \times \frac{2}{52} \times 212.50\right)$		10,62,500
B.	Investment in Debtors: 4 weeks at cost		
	$\left(1,30,000 \times \frac{4}{5} \times \frac{4}{52} \times 212.50\right)$		17,00,000
C.	Cash balance		37,500
D.	Investment in Current Assets (A + B + C)		42,25,000
E.	Current Liabilities:		
	Creditors : 3 weeks		
	$\left(1,30,000 \times \frac{3}{52} \times 100\right)$	7,50,000	
	Deferred wages : 1 week		
	$\left(1,30,000 \times \frac{1}{52} \times 37.50\right)$	93,750	
	Deferred overheads : 2 weeks		
	$\left(1,30,000 \times \frac{2}{52} \times 75\right)$	3,75,000	12,18,750
	Net Working Capital Needs		30,06,250

4. (a) Calculation of Debt Service Coverage Ratio (DSCR) and its Significance

The debt service coverage ratio can be calculated as under:

$$\text{Debt Service Coverage Ratio} = \frac{\text{Earnings available for debt service}}{\text{Interest} + \text{Installments}}$$

Debt service coverage ratio indicates the capacity of a firm to service a particular level of debt. High credit rating firms target DSCR to be greater than 2 in its entire loan life. High DSCR facilitates the firm to borrow at the most competitive rates.

(b) Conflict in Profit versus Wealth Maximization Objective

The company may pursue profit maximisation goal but that may not result into creation of shareholder value. However, profit maximisation cannot be the sole objective of a company. It is at best a limited objective. If profit is given undue importance, a number of problems can arise like the term profit is vague, profit maximisation has to be attempted with a realisation of risks involved, it does not take into account the time pattern of returns and as an objective it is too narrow.

Whereas, on the other hand, wealth maximisation, as an objective, means that the company is using its resources in a good manner. If the share value is to stay high, the company has to reduce its costs and use the resources properly. If the company follows the goal of wealth maximisation, it means that the company will promote only those policies that will lead to an efficient allocation of resources.

Test Series: October, 2014

MOCK TEST – 2

INTERMEDIATE (IPC) – GROUP – I

PAPER – 4: TAXATION

SUGGESTED ANSWERS/HINTS

1. (a) Computation of total income of Mr. Mahendra for the A. Y. 2014-15

Particulars	Rs.	Rs.
Income from business of plying goods vehicle (Refer Note 1)		4,50,000
Less: Brought forward business loss of financial year 2012-13 (Refer Note 2 & 3)		1,00,000
Gross Total Income		**3,50,000**
Less: **Deduction under Chapter VI-A**		
Section 80C:-		
Life insurance premium paid for insurance of married daughter (Refer Note 5)	20,000	
Section 80D:-		
Medical insurance premium paid for insurance of parents (Refer Note 6)	20,000	
Section 80E:-		
Interest paid towards education loan taken for studies of his daughter (Refer Note 7)	15,000	55,000
Total Income		**2,95,000**

Working Notes:

(1) Computation of income from business of plying goods vehicles under section 44AE.

Particulars	Rs.
6 heavy goods vehicle held throughout the year (Rs. 5,000×6×12)	3,60,000
2 heavy goods vehicle – held for 9 months (Rs. 5,000×2×9)	90,000
Income under section 44AE	4,50,000

(2) As per section 44AE, any deduction allowable under the provisions of sections 30 to 38 shall be deemed to have been already allowed. Therefore, the unabsorbed depreciation of Rs. 70,000 shall not be allowed as a deduction since it is covered by section 32.

(3) Brought forward business loss of Rs. 1,00,000 shall be allowed as deduction, by virtue of section 72, as it is allowed to be carried forward for 8 assessment years following the assessment year to which it relates, since the return for A.Y. 2013-14 was filed before the due date specified under section 139(1).

(4) Fixed deposit in the name of married son does not qualify for deduction under section 80C.

(5) Premium paid for insurance on the life of any child of the individual, whether married or not, qualifies for deduction under section 80C. In respect of policies issued on or after 1.04.2012, only premium paid to the extent of 10% of "minimum capital sum assured" qualifies for deduction under section 80C. Therefore, out of the life insurance premium of Rs. 25,000 paid for insurance policy of married daughter, only Rs. 20,000 (being 10% of Rs. 2,00,000) is allowed as deduction under section 80C.

(6) Deduction is allowed under section 80D for payment made for medical insurance of parents. Medical insurance premium paid for insuring the health of a person who is a senior citizen i.e. of age 60 years or more, qualifies for deduction under section 80D, subject to a maximum of Rs. 20,000. Hence, deduction of Rs. 20,000 is provided to Mr. Mahendra, as his parents are senior citizens.

(7) It is only the payment of interest on education loan which qualifies for deduction under section 80E. Deduction under section 80E is allowed in respect of interest on loan taken for education of children of the individual even if they are not dependent. Principal repayment of the education loan is not eligible for deduction under section 80E.

(b) Computation of value of taxable service and service tax liability of Amiro Bank Ltd.

Particulars	**Amount (Rs.)**
Interest on overdraft (Note-1)	Nil
Interest on loans with a collateral security (Note-1)	Nil
Interest on corporate deposits (Note-1)	Nil
Administrative charges (over and above interest) on loans, advances and deposits (Note-2)	6,00,000
Sale of foreign exchange to general public (Note-3)	15,00,000
Service charges relating to issuance of CD (Note-4)	20,00,000
Value of taxable service	41,00,000
Service tax @ 12% [Rs. 41,00,000×12%]	4,92,000
Education cess @ 2% [Rs. 4,92,000×2%]	9,840

Secondary and higher education cess @ 1% [Rs. 4,92,000×1%]	4,920
Service tax liability	5,06,760

Notes:

1. Following services provided are included in the negative list so far as the consideration is represented by way of interest and hence are not taxable:-
   - Overdraft facility.
   - Loans with a collateral security.
   - Corporate deposits.
2. Administrative charges or amounts collected over and above the interest or discount amounts would not be part of the negative list and thus would represent taxable consideration.
3. Services by way of sale of foreign exchange between banks or by banks to authorized dealers of foreign exchange is included in the negative list. However, services provided by banks by way of sale of foreign exchange to general public is not so covered and hence taxable.
4. Since CDs are in the nature of promissory notes, transactions in CDs shall be considered as transaction in money. However, a related activity, for which a separate consideration is charged would not be treated as a transaction of money and would be taxable. Hence, service charges relating to issuance of CDs shall be chargeable to service tax.

2. (a) Computation of total income of Mr. Arun, Mrs. Arun and their minor son for the A.Y. 2014-15

Particulars	Mr. Arun (Rs.)		Mrs. Arun (Rs.)	Minor Son (Rs.)
Salary income (of Mrs. Arun)		-	2,40,000	-
Pension income (of Mr. Arun) (Rs. 10,000×12)		1,20,000		
Income from House Property ***[See Note (3) below)***		52,000	-	-
Income from other sources				
Interest on Mr. Arun's fixed deposit with Bank of India (Rs. 5,00,000×9%) ***[See Note (1) below]***	45,000		-	-
Commission received by Mrs. Arun from a partnership firm, in which Mr. Arun has substantial interest ***[See Note (2) below]***	25,000	70,000	-	-

Income before including income of minor son under section 64(1A)		**2,42,000**	**2,40,000**	**-**
Income of the minor son from the investment made in the business out of the amount gifted by Mr. Arun ***[See Note (4) below]***		18,500	-	-
Income of the minor son through a business activity involving application of his skill and talent ***[See Note (5) below]***		-	-	20,000
Total Income		**2,60,500**	**2,40,000**	**20,000**

Notes:

(1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of Rs. 45,000 transferred by Mr. Arun to Mr. Bhola shall be included in the total income of Mr. Arun.

(2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the commission income of Rs. 25,000 received by Mrs. Arun from the partnership firm has to be included in the total income of Mr. Arun, as Mrs. Arun does not possess any technical or professional qualification for earning such commission and Mr. Arun has substantial interest in the partnership firm as he holds 75% share in the firm.

(3) According to section 27(i), an individual who transfers any house property to his or her spouse otherwise than for adequate consideration or in connection with an agreement to live apart, shall be deemed to be the owner of the house property so transferred. Hence, Mr. Arun shall be deemed to be the owner of the flat gifted to Mrs. Arun and hence, the income arising from the same shall be computed in the hands of Mr. Arun.

Note:

(i) It has been assumed that the net income from the flat i.e., Rs. 52,000 given in the question is the net income computed under the head "Income from house property".

Note: Alternatively, the net income from the flat i.e., Rs. 52,000 given in the question may be taken as the net income before providing for deduction @ 30% under section 24(a) and accordingly, the solution can be worked out on this basis.

(ii) The provisions of section 56(2)(vii) would not be attracted in the hands of Mrs. Arun, since she has received immovable property without consideration from a relative i.e., her husband.

(4) As per section 64(1A), the income of the minor child is to be included in the total income of the parent whose total income (excluding the income of minor child to be so clubbed) is greater. Further, as per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of Rs. 1,500 per child.

Therefore, the income of Rs. 20,000 received by minor son from the investment made out of the sum gifted by Mr. Arun shall, after providing for exemption of Rs. 1,500 under section 10(32), be included in the income of Mr. Arun, since Mr. Arun's income of Rs. 2,42,000 (before including the income of the minor child) is greater than Mrs. Arun's income of Rs. 2,40,000. Therefore, Rs. 18,500 (i.e., Rs. 20,000 – Rs. 1,500) shall be included in Mr. Arun's income. It is assumed that this is the first year in which clubbing provisions are attracted.

Note – *The provisions of section 56(2)(vii) would not be attracted in the hands of the minor son, since he has received a sum of money exceeding Rs. 50,000 without consideration from a relative i.e., his father.*

(5) In case the income earned by the minor child is on account of any activity involving application of any skill or talent, then, such income of the minor child shall not be included in the income of the parent, but shall be taxable in the hands of the minor child.

Therefore, the income of Rs. 20,000 derived by Mr. Arun's minor son through a business activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

(b) Computation of Net VAT payable by M/s. AB Ltd. for the month of July, 2014

	Particulars	**Rs.**
(A)	**Output VAT payable**	
	(i) On sale of finished goods produced from Goods 'X'	62,500

	within Mumbai (Rs. 5,00,000 × 12.5%)	
	(ii) On sale of finished goods produced from Goods 'Z' within Mumbai (Rs. 40,00,000 × 4 %)	1,60,000
	Total (A)	2,22,500
(B)	**Input tax credit available**	
	(i) Goods 'X' (Exempt)	Nil
	(ii) Goods 'Y' (Note-2)	Nil
	(iii) Goods 'Z' transferred to branch (Rs. 5,00,000×10.5%) (Note-3)	52,500
	(iv) Remaining Goods 'Z' after transfer to the branch [Rs. (35,00,000- 5,00,000)×12.5%]	3,75,000
	Total (B)	4,27,500
	Net VAT payable = (A)-(B)	(2,05,000)
	CST payable (Rs. 6,00,000 × 2% = Rs. 12,000) on inter-state sale of goods produced from Goods 'X' adjusted (Note-4)	12,000
	Excess input tax credit carried forward to next month	**1,93,000**

Notes:

1. It is assumed that there is no opening and closing inventory. Hence, entire purchases of the raw materials have been used to manufacture the respective finished goods.
2. Goods utilized in the manufacture of exempted goods are not eligible for input tax credit. Hence, no input tax credit is available in respect of VAT paid on purchase of Goods 'Y' as they have been used to produce goods which are exempt from VAT.
3. In case of stock transfer, input tax paid in excess of 2% can be claimed as input tax credit.
4. Input tax credit can be used to set off the central sales tax payable on the inter-state sales.

3. (a) Computation of total income of Smita for the A.Y. 2014-15

Particulars	Rs.	Rs.
Profit of business of consumer and house-hold products	50,000	
Less: Loss of business of readymade garments for the year adjusted under section 70(1)	10,000	
	40,000	
Less: Brought forward loss of catering business closed in A.Y. 2013- 14 set off against business income for the		

current year as per section 72(1)	15,000	25,000
Profit of speculative transaction		12,500
Total Income		**37,500**

Notes:

1. Loss of speculative transaction of A.Y. 2009-10 is not allowed to be set off against the profit of speculative transaction of the A.Y.2014-15, since, as per the provisions of section 73(4), such loss can be carried forward for set-off for a maximum period of 4 years only i.e. up to A.Y.2013-14.
2. Short term capital loss of Rs. 15,000 on sale of securities and shares has to be carried forward as per section 74 since there is no income under the head Capital Gains for the A.Y.2014-15. The loss is to be carried forward for set off in future years against income chargeable under the head Capital Gains. Such loss can be carried forward for a maximum period of 8 assessment years.

(b) **(i)** Since the rent paid for hire of machinery by Bridgestone. Ltd. to Mr. Raghav exceeds Rs. 1,80,000, the provisions of section 194-I for deduction of tax at source are attracted.

The rate applicable for deduction of tax at source under section 194-I on rent paid for hire of plant and machinery is 2% assuming that Mr. Raghav had furnished his permanent account number to Bridgestone Ltd.

Therefore, the amount of tax to be deducted at source:

= Rs. 2,10,000 x 2% = Rs. 4200.

Note: In case Mr. Raghav does not furnish his permanent account number to Bridgestone Ltd., tax shall be deducted @ 20% on Rs. 2,10,000, by virtue of provisions of section 206AA.

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

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

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

(c) **(i)** In case of renting of motor vehicles, abatement of 60% from gross amount charged is available if CENVAT credit on inputs, capital goods and input services is not availed. Therefore, since in the given case, Mr. Y avails CENVAT credit on inputs, capital goods and input services, it cannot pay service tax on abated value.

In case of taxable services provided by way of renting of a motor vehicle designed to carry passengers on **non abated** value to any person who is not engaged in the similar line of business by any individual/HUF/partnership firm (whether registered or not) including association of persons, located in the taxable territory to a business entity registered as body corporate, located in the taxable territory, both service provider and service receiver are liable to pay service tax. 60% of tax is to be paid by service provider and 40% by service receiver.

Since in the given case, service by way of renting of motor vehicle is provided by an individual (Mr. Y) to another individual (Mr. X) and not to any body corporate, reverse charge provisions will not apply and entire service tax will be payable by service provider (Mr. Y). Thus, service tax of Rs. 309 (12.36% of Rs. 2,500) is liable to be paid by Mr. Y.

However, when motor vehicle is taken on rent by ABC Ltd. (a company), reverse charge provisions will apply and 60% of tax will be paid by Mr. Y (service provider) and 40% by ABC Ltd. (service receiver). Thus, Mr. Y will pay Rs. 185 and ABC Ltd. will pay Rs. 124.

(ii) In case of renting of motor vehicles, abatement of 60% is available from gross amount charged on fulfillment of certain conditions. In other words, effective rate of service tax in case of renting of motor vehicles provided on abated value is 4.944% [12.36% of 40]. Thus, in the given case, service tax is payable on abated value [(Rs. 123.60 / Rs. 2500) x 100 = 4.944%].

In case of taxable services provided by way of renting of a motor vehicle designed to carry passengers on **abated** value to any person who is not engaged in the similar line of business by any individual/HUF/partnership firm (whether registered or not) including association of persons, located in the taxable territory to a business entity registered as body corporate, located in the taxable territory, entire service tax is liable to be paid by service receiver.

Since in the given case, renting of motor vehicle service is provided to a company (LMN Ltd.), reverse charge provisions will apply and entire service tax will be payable by service receiver (LMN Ltd.). Thus, service tax of Rs. 123.60 (4.944% of Rs. 2,500) is liable to be paid by LMN Ltd.

4. (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	Rs.	Rs.
Net Profit (before deduction of depreciation, salary and interest)		7,00,000
Less: Depreciation under section 32	1,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (5,00,000 × 12%)	60,000	2,10,000
Book Profit		**4,90,000**

(ii) Salary actually paid to working partners = Rs. 20,000 × 2 × 12 = Rs. 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 Rs. 3,00,000 of book profit or in case of loss	Rs. 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. 2014-15 in this case would be:

Particulars	Rs.
On the first Rs. 3,00,000 of book profit [(Rs. 1,50,000 or 90% of Rs. 3,00,000) whichever is more]	2,70,000
On the balance of book profit [60% of (Rs. 4,90,000 - Rs. 3,00,000)]	1,14,000
Maximum allowable partners' salary	3,84,000

Hence, allowable working partners' salary for the A.Y. 2014-15 as per the provisions of section 40(b)(v) is Rs. 3,84,000.

(b) Perquisite value for housing loan

The value of the benefit to the assessee resulting from the provision of interest-free or concessional loan made available to the employee or any member of his household during the relevant previous year by the employer or any person on his behalf shall be determined as the sum equal to the interest computed at the rate charged per annum by the State Bank of India (SBI) as on the 1st day of the relevant previous year in respect of loans for the same purpose advanced by it. This rate should be applied on the maximum outstanding monthly balance and the resulting amount should be reduced by the interest, if any, actually paid by him.

"Maximum outstanding monthly balance" means the aggregate outstanding balance for loan as on the last day of each month.

The perquisite value for computation is 10% - 6% = 4%

Month	Maximum outstanding balance as on last date of month (Rs.)	Perquisite value at 4% for the month (Rs.)
April, 2013	5,88,000	1,960
May, 2013	5,76,000	1,920
June, 2013	5,64,000	1,880
July, 2013	5,52,000	1,840
August, 2013	5,40,000	1,800
September, 2013	5,28,000	1,760
October, 2013	5,16,000	1,720
November, 2013	5,04,000	1,680
December, 2013	4,92,000	1,640
January, 2014	4,80,000	1,600
February, 2014	4,68,000	1,560
March, 2014	4,56,000	1,520
	Total value of this perquisite	**20,880**

Perquisite Value of Air Conditioners

Particulars	Rs.
Original cost	2,00,000
Depreciation on SLM basis for 4 years @10% i.e. Rs. 2,00,000 x10% x 4	80,000
Written down value	**1,20,000**
Amount recovered from the employee	90,000
Perquisite value	**30,000**

Chargeable perquisite in the hands of Mr. Sharad for the assessment year 2014-15

Particulars	Rs.
Housing loan	20,880

Air Conditioner	30,000
Total	**50,880**

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

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

(d) Computation of CENVAT credit available:

Particulars	Amount (Rs.)
Dumper [Note-1] =50% of Rs.1,00,000	50,000
Refrigerator fitted in office [Note-2]	Nil
Diesel for use in dumper [Note-3]	Nil
Car for use of employees for coming to site and going back [Note-2]	Nil
CENVAT credit available to contractor	50,000

Notes:

1. As per the definition of the capital goods read along with rule 4 of the CENVAT Credit Rules, 2004, CENVAT credit of 50% of the duty paid on the dumpers is available in current financial year and balance 50% in the succeeding financial year.
2. The definition of capital goods excludes
   (i) the motor vehicles designed to carry passengers and
   (ii) office equipment.
   Hence, the CENVAT credit of the above goods is not available.
3. The definition of the inputs specifically excludes diesel oil. Hence, the CENVAT credit of the same is not available.

5. (a) Computation of taxable income of Mrs. Ragini from gifts for A.Y.2014-15

Sl. No.	Particulars	Taxable amount (Rs.)	Reason for taxability or otherwise of each gift
1.	Relatives and friends	Nil	Gifts received on the occasion of marriage are not taxable.

2.	Cousin of Mrs. Ragini's mother	18,000	Cousin of Mrs. Ragini's mother is not a relative. Hence, the cash gift is taxable.
3.	Friend	Nil	Cell phone is not included in the definition of property as per *Explanation* to section 56(2)(vii). Hence, it is not taxable.
4.	Elder brother of husband's grandfather	25,000	Brother of husband's grandfather is not a relative. Hence, the cash gift is taxable.
5.	Friend	12,000	Cash gift from friend is taxable.
Aggregate value of gifts		**55,000**	

Since the sum of money received by Mrs. Ragini without consideration during the previous year 2013-14 exceeds Rs. 50,000, the whole of the amount is chargeable to tax under section 56(2)(vii) of the Income-tax Act, 1961.

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

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

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

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2013-14, Mr. Rajan, an Indian citizen, was in India for 175 days only (i.e 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2014-15.

(c) As per rule 5 of the Point of Taxation Rules, where a service is taxed for the first time, then,—

(a) no tax shall be payable to the extent the invoice has been issued and the payment received against such invoice before such service became taxable;

(b) no tax shall be payable if the payment has been received before the service becomes taxable and invoice has been issued within 14 days of the date when the service is taxed for the first time.

The facts given in the question do not fall under any of the above two clauses. Hence, service tax is payable on the same.

(d) Section 68 of Finance Act, 1994 casts the liability to pay service tax upon the service provider. This liability is not contingent upon the service provider realizing or charging service tax at the prevailing rate. Statutory liability does not get extinguished if service provider fails to realize or charge service tax from service receiver.

Therefore, action taken by tour operator is not correct in law. He will have to deposit service tax even if he has not collected the same from his client.

6. (a) Computation of total income of Mr. Yogesh for A.Y. 2014-15

Particulars	Rs.	Rs.	Rs.
Capital Gains			
Short term capital gains (on sale of flat)			
(i) Sale consideration	3,60,000		
(ii) Stamp duty valuation	3,70,000		
Consideration for the purpose of capital gains as per section 50C (stamp duty value, since it is higher than sale consideration)		3,70,000	
Less: Cost of acquisition [As per section 49(4), cost to be taken into consideration for 56(2)(vii) will be the cost of acquisition]		3,40,000	30,000
Long term capital loss on sale of equity shares of ABC Pvt. Ltd			
Sale consideration		2,80,000	
Less: Indexed cost of acquisition(Rs. 3,50,000 × 939/519)		6,33,237	
Long term capital loss to be carried forward		**3,53,237**	
(See Note 1 below)			
Income from other sources:			
Gift from friends by way of immovable property on 30.11.2013 [See Note 3 below].			3,40,000
Gift received from a close friend (unrelated person) [See Note 2 below]			75,000
Total income			**4,45,000**

Notes:

1. In the given problem, shares have been held for more than 12 months and hence, constitute a long term capital asset. The loss arising from sale of such

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

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

3. Receipt of immovable property without consideration would attract the provisions of section 56(2)(vii).

(b) Services provided by a performing artist in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, excluding services provided by such artist as a brand ambassador are exempt from service tax vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012.*

Since Ms. Namrita Kapoor is the brand ambassador of 'Sweet 16' soap manufactured by MNO Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by MNO Pvt. Ltd. to promote its brand will not be eligible for the above-mentioned exemption and thus, be liable to service tax. The fact that the proceeds of the concert will be donated to a charitable organization will not have any bearing on the eligibility or otherwise to the above-mentioned exemption.

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

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

7. (a) Computation of business income of All India Aviation Ltd.

Particulars	**Rs. (in lacs)**
Total profit derived from Units A & B (Rs. 13 lacs + Rs. 4 lacs)	17
Less: Exemption under section 10AA [**See Working Note below**]	12
	5
Less: Brought forward business loss	2
	3

Working Note:

Computation of exemption under section 10AA in respect of Unit A located in a SEZ

Particulars	**Rs. (in lacs)**
Domestic turnover of Unit A	10
Export turnover of Unit A	120
Total turnover of Unit A	**130**
Profit derived from Unit A	13
Exemption under section 10AA	
Profit of Unit A x $\frac{\text{Export turnover of unit A}}{\text{Total turnover of Unit A}}$ = 13 x $\frac{120}{130}$ =	12

(b) (i) As per section 139(4C), a research association referred to in section 10(21) must file its return of income within the due date under section 139(1) if its total income, without giving effect to the provisions of section 10, exceeds the maximum amount which is not chargeable to income-tax.

Since the total income of the research association exceeds the basic exemption limit of Rs. 2,00,000, it has to file its return of income for the A.Y.2014-15.

(ii) As per section 139(4C), a registered trade union referred to in section 10(24) must file its return of income if the total income exceeds the basic exemption limit without giving effect to the provisions of section 10.

Since the total income of the trade union is less than the basic exemption limit of Rs. 2,00,000, it need not file its return of income for the A.Y. 2014-15.

(iii) As per section 139(4A), a charitable trust registered under section 12AA must file its return of income, if its total income computed as per the provisions of the Income-tax Act, 1961, without giving effect to the provisions of sections 11 and 12, exceeds the maximum amount which is not chargeable to income-tax.

Since the total income of the charitable trust exceeds Rs. 2,00,000, it has to file its return of income for the A.Y. 2014-15.

(iv) As per third proviso to section 139(1), every company or firm shall furnish on or before the due date the return in respect of its income or loss in every previous year. Since LLP is included in the definition of "firm" under the Income-tax Act, 1961, it has to file its return mandatorily, even though it has incurred a loss.

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

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

(d) Since the articles are not covered under section 4A of Central Excise Act, 1944 (RSP based valuation provisions), excise duty will be payable on the basis of assessable value under section 4 of Central Excise Act (transaction value). Thus, value for purpose of excise duty will be Rs. 1,300 i.e., the price at which the articles are sold to wholesalers.

Particulars	**Rs.**
Transaction value [price at which Alpha Engineers sells articles to their wholesalers]	1,300
Excise duty @ 12% [12% of Rs. 1,300]	156
Education cess @ 2% [2% of Rs. 156]	3.12
Secondary and Higher Education Cess @ 1% [1% of Rs. 156]	1.56
Total excise duty payable (rounded off)	**161**