Test Series: August, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

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

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

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

Working Notes should form part of the answer.

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

1. (a) ABC Ltd. Purchased machine on 1-4-2011 for Rs. 2,00,000. The company charged depreciation at 10% on reducing balance method upto 2013-14. From 2014-15, the company decided to change depreciation method on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. Compute the amount of depreciation to be charged to Profit and Loss Account for the year 2014-15.

(b) A contractor entered into a contract for building roads for Rs. 2 crores. After completing 60% of the contract he came to know that the cost of completing the contract would be Rs. 2.40 crores. The accountant transferred Rs. 0.24 crores i.e., 60% of total loss of Rs. 0.40 crores to Profit and Loss account in the current year. You are required to give your opinion in line with AS 7.

(c) Calculate the value of raw materials and closing stock based on the following information:

Raw material X	
Closing balance	500 units
	Rs. per unit
Cost price including excise duty	200
Excise duty (Cenvat credit is receivable on the excise duty paid)	10
Freight inward	20
Unloading charges	10
Replacement cost	150
Finished goods Y	

Closing Balance	1200 units
	Rs. per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was Rs. 2,00,000 on normal capacity of 20,000 units.

Calculate the value of the closing stock, when Net Realizable Value of the Finished Goods Y is Rs. 400.

(d) The Board of Directors decided on 31.3.2014 to increase the sale price of certain items retrospectively from 1st January, 2014. In view of this price revision with effect from 1st January 2014, the company has to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014. Accountant cannot make up his mind whether to include Rs. 15 lakhs in the sales for 2013-2014. Advise. *(4 x 5 = 20 Marks)*

2. (a) J Ltd. presents you the following information for the year ended 31st March, 2015:

		(Rs. in lacs)
(i)	Net profit before tax provision	36,000
(ii)	Dividend paid	10,202
(iii)	Income-tax paid	5,100
(iv)	Book value of assets sold	222
	Loss on sale of asset	48
(v)	Depreciation debited to P & L account	24,000
(vi)	Capital grant received - amortized to P & L A/c	10
(vii)	Book value of investment sold	33,318
	Profit on sale of investment	120
(viii)	Interest income from investment credited to P & L A/c	3,000
(ix)	Interest expenditure debited to P & L A/c	12,000
(x)	Interest actually paid (Financing activity)	13,042
(xi)	Increase in working capital [Excluding cash and bank balance]	67,290
(xii)	Purchase of fixed assets	22,092
(xiii)	Expenditure on construction work	41,688
(xiv)	Grant received for capital projects	18

(xv)	Long term borrowings from banks	55,866
(xvi)	Provision for Income-tax debited to P & L A/c	6,000
	Cash and bank balance on 1.4.2014	6,000
	Cash and bank balance on 31.3.2015	8,000

You are required to prepare a cash flow statement as per AS-3 (Revised).

(b) Futura Ltd. had the following items under the head "Reserves and Surplus" in the Balance Sheet as on 31st March, 2015:

	Amount Rs. in lakhs
Securities Premium Account	80
Capital Reserve	60
General Reserve	90

The company had an accumulated loss of Rs. 250 lakhs on the same date, which it has disclosed under the head "Statement of Profit and Loss" as asset in its Balance Sheet. Comment on accuracy of this treatment in line with Schedule III to the Companies Act, 2013. *(12 + 4 = 16 Marks)*

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

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

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

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

(v) Calls unpaid.

(vi) Intangible Assets under development.

(vii) Money received against share warrant.

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

Balance Sheet (Extract) as on 31st March, 2015

Liabilities	Rs.
Authorised capital:	
15,000, 14% preference shares of Rs. 100	15,00,000
1,50,000 Equity shares of Rs. 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of Rs. 100 each fully paid	15,00,000

1,20,000 Equity shares of Rs. 100 each, Rs. 80 paid-up	96,00,000
Capital reserves (Rs. 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

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

(c) Sneha Ltd. was incorporated on 1st July, 2013 to acquire a running business of Atul Sons with effect from 1st April, 2013. During the year 2013-14, the total sales were Rs. 24,00,000 of which Rs. 4,80,000 were for the first six months. The Gross profit of the company Rs. 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees Rs. 30,000

(ii) Bad debts Rs. 7,200

(iii) Advertising Rs. 24,000

(iv) Salaries and General Expenses Rs. 1,28,000

(v) Preliminary Expenses written off Rs. 10,000

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014. *(6 + 5 + 5 = 16 Marks)*

4. Following is the summarized Balance Sheet of M Ltd. as at 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
15,000, 10% Preference shares of Rs. 100 each	15,00,000	Land & Buildings Plant & Machinery	15,00,000 10,00,000
35,000 Equity shares of Rs. 100 each	35,00,000	Inventory	6,00,000
Securities Premium account	1,00,000	Trade receivables	15,00,000
7% Debentures of Rs. 100 each	5,00,000	Cash at bank	1,00,000
Trade payables	12,50,000	Profit & Loss A/c	23,00,000
Loan from Director	1,50,000		
	70,00,000		70,00,000

No dividend on Preference shares has been paid for the last 5 years.

The following scheme of reorganization was duly approved by the Tribunal:

(i) Each Equity share to be reduced to Rs. 25.

(ii) Each existing Preference share to be reduced to Rs. 75 and then exchanged for 1 new 13% Preference share of Rs. 50 each and 1 Equity share of Rs. 25 each.

(iii) Preference shareholders have forgone their right for dividend for four years. One year's dividend at the old rate is however, payable to them in fully paid equity shares of Rs. 25.

(iv) The Debentureholders be given the option to either accept 90% of their claims in cash or to convert their claims in full into new 13% Preference shares of Rs. 50 each issued at par. One half (in value) of the debentureholders accepted Preference shares for their claims. The rest were paid cash.

(v) Contingent liability of Rs. 1,50,000 is payable, which has been created by wrong action of one Director. He has agreed to compensate this loss out of the loan given by the Director to the company.

(vi) 40,000 new Equity shares of Rs. 25 each are to be issued at par, payable in full on application. Shares were fully taken up.

(vii) Decrease the value of Plant and Machinery, Inventory and Trade receivables by Rs. 4,00,000, Rs. 1,00,000 and Rs. 1,50,000 respectively. Increase the value of Land and Buildings to Rs. 18,00,000.

(viii) The total expenses incurred by the company in connection with the scheme excluding underwriting commission amounted to Rs. 15,000.

Pass necessary Journal Entries to record the above transactions. *(16 Marks)*

5. (a) The following is the Income and Expenditure Account of Gama Club for the year ended 31st March, 2015:

Income and Expenditure Account for the year ended 31st March, 2015

	Rs.		*Rs.*
To Salaries	19,500	By Subscription	68,000
To Rent	4,500	By Donation	5,000
To Printing	750		
To Insurance	500		
To Audit Fees	750		
To Games & Sports	3,500		
To Subscriptions written off	350		
To Miscellaneous Expenses	14,500		
To Loss on sale of furniture	2,500		
To Depreciation:			

Sports Equipment	6,000		
Furniture	3,100		
To Excess of income over expenditure	17,050		
	73,000		73,000

Additional information:

	31-3-2014	31-3-2015
	Rs.	Rs.
Subscriptions in arrears	2,600	3,700
Advance Subscriptions	1,000	1,500
Outstanding expenses:		
Rent	500	800
Salaries	1,200	350
Audit Fee	500	750
Sports Equipment less depreciation	25,000	24,000
Furniture less depreciation	30,000	27,900
Prepaid Insurance	-	150

Book value of furniture sold is Rs. 7,000. Entrance fees capitalized Rs. 4,000. On 1st April, 2014 there was no cash in hand but Bank Overdraft was for Rs. 15,000. On 31st March, 2015. Cash in hand amounted to Rs. 850 and the rest was Bank balance.

Prepare the Receipts and Payments Account of the Club for the year ended 31st March, 2015.

(b) A large size business entity decided to outsource the accounting functions. It invited proposals from vendors through open tender and received three proposals. How will you select the vendor? *(12 + 4 = 16 Marks)*

6. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2011. Initially both of them contributed Rs. 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2015 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2011.

   It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31st March	2012	2013	2014	2015
	Rs.	Rs.	Rs.	Rs.
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2015. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2015 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2015

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

(i) Profit and Loss Adjustment account;

(ii) Capital accounts of the partners; and

(iii) Balance Sheet of the firm after the admission of Chaplin. *(16 Marks)*

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

(a) A company was classified as Non-SMC in 2013-14. In 2014-15 it has been classified as SMC. The management desires to avail the exemption or relaxations available for SMCs in 2014-15. However, the accountant of the company does not agree with the same. Comment.

(b) X Limited sold goods worth Rs. 13 Lakhs to Mr. Y. Mr. Y asked for a Trade Discount amounting to Rs. 1,06,000 and the same was agreed to by X Limited. Such discount was allowed in the ordinary course of business. The sale was effected and goods were dispatched. On receipt of goods, Mr. Y has found that goods worth Rs. 1,34,000 are defective. Mr. Y returned defective goods to X Limited and made payment amount to Rs. 10,60,000. The Accountant of X Limited booked the sale for Rs. 10,60,000.

Discuss the contention of the Accountant with reference to relevant Accounting Standard.

(c) XYZ Ltd. constructed a fixed asset and incurred the following expenses on its construction:

	Rs.
Materials	10,00,000
Direct Labour	3,00,000
(1/6th of the total labour time was chargeable to the construction)	
Direct Expenses	2,00,000
Office & Administrative Expenses	7,50,000
(5% is specifically attributable to construction)	
Depreciation on assets used for the construction of this asset	10,000

Calculate the cost of the fixed asset.

(d) Following items appear in the Trial Balance of Saral Ltd. (a listed Company) as on 31st March, 2015:

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

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 2 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books of Saral Ltd.

(e) Mehnaaz accepted the following bills drawn by Shehnaaz:

On 8th March, 2014, Rs. 4,000 for 4 months.

On 16th March, 2014, Rs. 5,000 for 3 months.

On 7th April, 2014, Rs. 6,000 for 5 months.

On 17th May, 2014, Rs. 5,000 for 3 months.

He wants to pay all the bills on a single day. Find out the average due date.

(4 x 4 = 16 Marks)

Test Series: August, 2016

MOCK TEST PAPER - 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 1: ACCOUNTING

SUGGESTED ANSWERS/HINTS

1. (a) Depreciation charged by the company on reducing Balance method (from 2011-12) to 2013-14

Year	*Cost/WDV at the beginning of the year*	*Depreciation*		*WDV at the end of the year*
2011-12	2,00,000	2,00,000 x 10%	20,000	1,80,000
2012-13	1,80,000	1,80,000 x 10%	18,000	1,62,000
2013-14	1,62,000	1,62,000 x 10%	16,200	1,45,800

Depreciation charged on Straight Line Method (from 2011-12 to 2013-14)

$$= \frac{\text{Cost price of the machine - scrap value}}{\text{Useful life of machine}}$$

$$= \frac{₹\,2,00,000 - ₹\,50,000}{10} = 15,000$$

Book Value of machine at the end of 2013-14 by Straight Line Method (SLM)

= Rs. 2,00,000 – [15,000 + 15,000 + 15,000] = Rs.1,55,000

Depreciation to be charged in 2014-15

Particulars	*Rs.*
Book value of the machine as per Reducing Balance Method as on 2013-14	1,45,800
Less: Book value of the machine as per Straight Line Method as on 2013-14	(1,55,000)
Difference of Depreciation	(9,200)
Add: Depreciation for the year 2014-15 as per Straight Line Method	15,000
Depreciation charged to Profit and Loss Account in the year 2014-15	5,800

(b) As per AS 7, when it is probable that total contract costs will exceed total contract revenue, the expected loss should be recognized as an expense immediately irrespective of the stage of completion.

In the given case the revenue that can be recognized for the contract i.e. Rs. 2 crore and the expected expense on the contract is Rs. 2.4 cores. 60% of the contract has been completed. Therefore as per AS 7 whole amount of expected loss i.e. Rs. 0.40 crores should be recognized as an expense immediately irrespective of the stage of completion of the contract. Therefore the action of accountant of transferring only Rs. 0.24 crores to the profit & loss a/c is wrong. He must transfer whole Rs. 0.40 crore to profit & loss a/c as an expense.

(c) Working Notes:

Raw Material X	Rs.
Cost Price	200
Less: Cenvat Credit	(10)
	190
Add: Freight Inward	20
Unloading charges	10
Cost	220
Finished goods Y	**Rs.**
Materials consumed	220
Direct Labour	60
Direct overhead	40
Fixed overheads (Rs. 2,00,000/20,000 units)	10
Cost	330

If Net Realisable Value of the Finished Goods Y is Rs. 400

NRV is greater than the cost of Finished Goods Y i.e. Rs. 330

Hence, Raw Material and Finished Goods are to be valued at cost

Value of Closing Stock:

	Qty	Rate	Amount (Rs.)
Raw Material X	500	220	1,10,000
Finished Goods Y	1,200	330	3,96,000
Total Cost of Closing Stock			5,06,000

(d) Price revision was effected during the current accounting period 2013-2014. As a result, the company stands to receive Rs. 15 lakhs from its customers in respect of sales made from 1st January, 2014 to 31st March, 2014. If the company is able to assess the ultimate collection with reasonable certainty, then additional revenue arising out of the said price revision may be recognised in 2013-2014 vide para 10 of AS 9.

2. (a) Cash Flow Statement as per AS 3

Cash flows from operating activities:		**Rs. in lacs**
Net profit before tax provision		36,000
Add: Non cash expenditures:		
Depreciation	24,000	
Loss on sale of assets	48	
Interest expenditure (non operating activity)	12,000	36,048
		72,048
Less: Non cash income		
Amortisation of capital grant received	(10)	
Profit on sale of investments (non operating income)	(120)	
Interest income from investments (non operating income)	(3,000)	3,130
Operating profit		68,918
Less: Increase in working capital		(67,290)
Cash from operations		1,628
Less: Income tax paid		(5,100)
Net cash generated from operating activities		(3,472)
Cash flows from investing activities:		
Sale of assets (222 – 48)	174	
Sale of investments (33,318+120)	33,438	
Interest income from investments	3,000	
Purchase of fixed assets	(22,092)	
Expenditure on construction work	(41,688)	
Net cash used in investing activities		(27,168)
Cash flows from financing activities:		
Grants for capital projects	18	
Long term borrowings	55,866	
Interest paid	(13,042)	
Dividend paid	(10,202)	
Net cash from financing activities		32,640
Net increase in cash		2,000
Add: Cash and bank balance as on 1.4.2014		6,000
Cash and bank balance as on 31.3.2015		8,000

(b) Note 6 (B) given under Part I of Schedule III to the Companies Act, 2013 provides that debit balance of Statement of Profit and Loss (after all allocations and appropriations) shall be shown as a negative figure under the head 'Surplus'. Similarly, the balance of 'Reserves and Surplus', after adjusting negative balance of surplus, shall be shown under the head 'Reserves and Surplus' even if the resulting figure is in the negative. In this case, the debit balance of profit and loss i.e. Rs. 250 lakhs exceeds the total of all the reserves i.e. Rs. 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by Rs. 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

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

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

(vi) Fixed Assets

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

(b) Computation of effective capital:

		Rs.
Paid-up share capital-		
15,000, 14% Preference shares		15,00,000
1,20,000 Equity shares		96,00,000
Capital reserves (excluding revaluation reserve)		45,000
Securities premium		50,000
15% Debentures		65,00,000
Public Deposits		3,70,000
	(A)	1,80,65,000
Investments		75,00,000
Profit and Loss account (Dr. balance)		15,25,000
	(B)	90,25,000
Effective capital	(A–B)	90,40,000

(c) Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2014

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	3,90,800	Sales	39,080	3,51,720
Less: Directors' fee	30,000	Post		30,000
Bad debts	7,200	Sales	720	6,480
Advertising	24,000	Sales	2,400	21,600
Salaries & general expenses	1,28,000	Time	32,000	96,000
Preliminary expenses	10,000	Post		10,000
Net Profit	1,91,600			1,87,640
Pre-incorporation profit transfer to Capital Reserve			3,960	

Working Notes:

1. **Sales ratio**

Particulars	Rs.
Sales for period up to 30.06.2013 (4,80,000 × 3/6)	2,40,000
Sales for period from 01.07.2013 to 31.03.2014 (24,00,000 – 2,40,000)	21,60,000

Thus, Sales Ratio = 1 : 9

2. **Time ratio**

1st April, 2013 to 30 June, 2013: 1st July, 2013 to 31st March, 2014

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. In the books of M Ltd.

Journal Entries

	Particulars	*Dr. Amount (Rs.)*	*Cr. Amount (Rs.)*
1.	Equity Share Capital (Rs. 100) A/c Dr.	35,00,000	

	To Equity Share Capital (Rs. 25) A/c			8,75,000
	To Capital Reduction A/c			26,25,000
	(Being Equity shares of Rs. 100 each reduced to Rs. 25 each and balance transferred to Capital Reduction A/c)			
2.	10% Preference Share Capital (Rs. 100) A/c	Dr.	15,00,000	
	To 10% Preference Share Capital (Rs. 75) A/c			11,25,000
	To Capital Reduction A/c			3,75,000
	(Being Preference shares of Rs. 100 each reduced to Rs. 75 each and balance transferred to Capital Reduction A/c. Total Pref Shares = 15,000)			
3.	10% Preference Share Capital (Rs. 75) A/c	Dr.	11,25,000	
	To 13% Preference Share Capital (Rs. 50) A/c			7,50,000
	To Equity Share Capital A/c (Rs. 25)			3,75,000
	(Being one new 13% Preference share of Rs. 50 each and one equity share of Rs. 25 each issued against 10% Preference Share of Rs. 75 each. Total Pref Shares = 15,000)			
4.	Capital Reduction A/c	Dr.	1,50,000	
	To Preference share dividend payable A/c			1,50,000
	(Being arrear of Preference share dividend payable for one year)			
5.	Preference share dividend payable A/c	Dr.	1,50,000	
	To Equity Share Capital A/c			1,50,000
	(Being Equity Shares of Rs. 25 each issued for arrears of Preference Share dividend)			
6.	7% Debentures A/c	Dr.	5,00,000	
	To Debenture holders A/c			5,00,000
	(Being balance of 7% Debentures transferred to Debenture holders A/c)			
7.	Debenture holders A/c	Dr.	5,00,000	
	To 13% Preference Share Capital A/c			2,50,000
	To Bank A/c			2,25,000
	To Capital Reduction A/c			25,000
	(Being 50% of Debenture holders opted to take 13%			

	Preference shares at par and remaining took 90% cash payment for their claims)			
8.	Loan from Director A/c	Dr.	1,50,000	
	To Provision for Contingent Liability A/c			1,50,000
	(Being provision for contingent liability of Rs. 1,50,000 as it is payable and the same is adjusted against Loan from director A/c)			
9.	Bank A/c	Dr.	10,00,000	
	To Equity Share Application & Allotment A/c			10,00,000
	(Being application money received on 40,000 Equity shares @ Rs. 25 each)			
10.	Equity Share Application & Allotment A/c	Dr.	10,00,000	
	To Equity Share Capital A/c			10,00,000
	(Being application money transferred to capital A/c, on allotment)			
11.	Land & Buildings A/c	Dr.	3,00,000	
	To Capital Reduction A/c			3,00,000
	(Being value of Land & Buildings appreciated)			
12.	Expenses on Reconstruction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being payment of expenses on reconstruction)			
13.	Capital Reduction A/c	Dr.	31,75,000	
	To Plant & Machinery A/c			4,00,000
	To Inventory A/c			1,00,000
	To Trade receivables A/c			1,50,000
	To Profit & Loss A/c			23,00,000
	To Expenses on Reconstruction A/c			15,000
	To Capital Reserve A/c (bal fig)			2,10,000
	(Being various losses written off and balance of Capital Reduction A/c transferred to Capital Reserve A/c)			

5. (a) **Receipts and Payments Account**

For the year ended 31-3-2015

To Subscription A/c (W.N.1)	67,050	By Balance b/d		
To Donation A/c	5,000	(Bank overdraft)		15,000
To Entrance Fees A/c	4,000	By Salary	19,500	
To Furniture A/c (Sale of furniture) (7,000 – 2,500)	4,500	*Add:* Outstanding of last year *Less:* Outstanding of this year	1,200 (350)	20,350
		By Rent	4,500	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(800)	4,200
		By Printing		750
		By Insurance	500	
		Add: Prepaid in this year	150	650
		By Audit Fees	750	
		Add: Outstanding of last year	500	
		Less: Outstanding of this year	(750)	500
		By Games & Sports		3,500
		By Miscellaneous Expenses		14,500
		By Sports Equipment		
		(Purchased) (W.N. 2)		5,000
		By Furniture (Purchased)(W.N.3)		8,000
		By Balance c/d		
		Cash		850
		Bank (bal. fig.)		7,250
	80,550			80,550

Working Notes:

1. Calculation of subscription received during the year 2014-2015

	Rs.	Rs.
Subscription as per Income & Expenditure A/c		68,000
Less: Arrears of 2014-2015	3,700	
Advance in 2013-2014	1,000	(4,700)
		63,300
Add: Arrears of 2013-2014	2,600	

Advance for 2015-2016	1,500	4,100
		67,400
Less: Written off during 2014-2015		(350)
		67,050

2. Calculation of Sports Equipment purchased during 2014-2015

Sports Equipment A/c

	Rs.		Rs.
To Balance b/d	25,000	By Income & Expenditure A/c	6,000
To Receipts & Payments A/c	5,000	(Depreciation)	
(Purchases) (bal. fig.)		By Balance c/d	24,000
	30,000		30,000

3. Calculation of Furniture purchased during 2014-2015

Furniture A/c

	Rs.		Rs.
To Balance b/d	30,000	By Receipts & Payments A/c	4,500
To Receipts & Payments A/c	8,000	By Income & Expenditure A/c	2,500
(Purchases)(Bal.fig.)		(Loss on sale)	
		By Income & Expenditure A/c	
		(Depreciation)	3,100
		By Balance c/d	27,900
	38,000		38,000

(b) The proposals will be evaluated and vendor will be selected considering the following criteria:

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

6. (i) Profit and Loss Adjustment Account*

	Rs.		Rs.
To Expenses not provided for (years 2012-2015)	1,10,000	By Income not considered (for years 2012-2015)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	22,000
	1,10,000		1,10,000

(ii) Partners' Capital Accounts

	Laurel Rs.	Hardy Rs.	Chaplin Rs.		Laurel Rs.	Hardy Rs.	Chaplin Rs.
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	1,29,500	1,89,500	63,800	By Cash	-	-	63,800
	2,11,500	2,11,500	63,800		2,11,500	2,11,500	63,800
				By Balance b/d	1,29,500	1,89,500	63,800

(iii) Balance Sheet of LH & Co.
as on 1.4.2015
(After admission of Chaplin)

Liabilities	*Rs.*	*Assets*	*Rs.*
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	1,10,000	Cash at bank	5,000
	7,19,800		7,19,800

* It is assumed that expenses and incomes not taken into account in earlier years were fully ignored.

Working Notes:

1. Computation of Profit and Loss distributed among partners

				Rs.
Profit for the year ended	31.3.2012			1,40,000
	31.3.2013			2,60,000
	31.3.2014			3,20,000
	31.3.2015			3,60,000
Total Profit				10,80,000
		Laurel	*Hardy*	Total
		Rs.	*Rs.*	*Rs.*
Profit shared in old ratio i.e. 5:4		6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1		5,40,000	5,40,000	10,80,000
Excess share		60,000		
Deficit share			(60,000)	

Laurel to be debited by Rs. 60,000 and Hardy to be credited by Rs. 60,000.

2. Capital brought in by Chaplin

	Rs.
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	1,89,500
Combined Capital	3,19,000
20% of the combined capital brought in by Chaplin (20% of Rs. 3,19,000)	63,800

7. (a) As per Rule 5 of the Companies (Accounting Standards) Rules, 2006, an existing company, which was previously not an SMC and subsequently becomes an SMC, shall not be qualified for exemption or relaxation in respect of accounting standards available to an SMC until the company remains an SMC for two consecutive accounting periods. Therefore, the management of the company cannot avail the exemptions available with the SMCs for the year ended 31st March, 2015.

(b) As per AS 9, "Revenue Recognition" is the inflow of cash, receivable or other consideration arising in the course of ordinary activities of an enterprise from the sale of Goods. However, the above is subject to trade discount and volume rebates received in the course of carrying on business which shall be deducted in ascertaining revenue since they represent a reduction of cost. Revenue is also subject to certain risks like damages on transfer of goods to the buyers' end.

In the given case, trade discount is to be deducted from Rs. 13,00,000 and gross sale shall be recognized at (Rs. 13,00,000 - Rs. 1,06,000) = Rs. 11,94,000 and goods returned Rs. 1,34,000 are to be recorded in the form of sales return.

Thus the contention of the Accountant to book sale of Rs. 10,60,000 is not correct.

(c) **Calculation of cost of fixed asset**

	Rs.
Materials	10,00,000
Direct labour (1/6th of Rs. 3,00,000)	50,000
Direct expenses	2,00,000
Office and administrative expenses (5% Rs. 7,50,000)	37,500
Depreciation on assets	10,000
Total Cost of fixed asset	12,97,500

(d) **Journal Entries**

		Rs.	Rs.
Capital Redemption Reserve A/c	Dr.	30,000	
Securities Premium A/c	Dr.	40,000	
Capital Reserve (Realized in cash)	Dr	40,000	
General Reserve A/c	Dr.	1,05,000	
P & L A/c	Dr.	10,000	
To Bonus to Shareholders			2,25,000
(Being issue of bonus shares by utilization of various Reserves, as per resolution dated ....)			
Bonus to Shareholders A/c	Dr.	2,25,000	
To Equity Share Capital			2,25,000
(Being capitalization of Profit)			

(e) **Calculation of number of days from base date**

Transaction date	Due date	Amount Rs.	No. of days from Base date (Base date 19.6.2014)	Product
8.3.2014	11.7.2014	4,000	22	88,000
16.3.2014	19.6.2014	5,000	0	0

7.4.2014	10.9.2014	6,000	83	4,98,000
17.5.2014	20.8.2014	5,000	62	3,10,000
		20,000		8,96,000

Average due date $= \text{Base date} + \dfrac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2014 + Rs. 8,96,000 / Rs. 20,000

= 19.6.2014 + 45 days approximately = 3.8.2014

Test Series: August, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

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

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

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

1. (a) The annual general meeting for 2012-2013 and 2013-14 were convened on 7-10-2015 belatedly and with great difficulty. The notice of the meeting was published in a newspaper of Kolkata on 12-9-2015. The shareholders received the notice 22-9-2015 which was shown to have been posted on 16-9-2015. The notice was dated 9-9-2015. D sought an injunction that the resolutions passed at the meetings are not given effect to, on the ground that the notice was received by him on 22-9-2015. D held only seven shares of Rs.10 in the company and was a resident of Kolkata where the meeting was to be held.

   State whether the shortness of the notice invalidated the meeting? *(5 Marks)*

   (b) Ramesh, aged 16 years, was studying in an engineering college. On 1st March, 2014 he took a loan of Rs. 1 lakh from Suresh for the payment of his college fee and agreed to pay by 30th May, 2015. Ramesh possesses assets worth Rs. 10 lakhs. On due date Ramesh fails to pay back the loan to Suresh. Suresh now wants to recover the loan from Ramesh out of his assets. Whether Suresh would succeed? Decide, referring to the provisions of the Indian Contract Act, 1872. *(5 Marks)*

   (c) "To maintain social contract between society and business, the trusteeship relations are essential". Describe the role of business ethics in this reference. *(5 Marks)*

   (d) What are the advantages of formal communication? *(5 Marks)*

2. (a) Who is an 'Employee' and 'Employer' under the Payment of Bonus Act,1965? *(8 Marks)*

   (b) State the "Common Corporate Social responsibility" (CSR) policies for business organizations. *(4 Marks)*

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

   (4 Marks)

3. (a) A cheque payable to bearer is crossed generally and marked "not negotiable". The cheque is lost or stolen and comes into possession of B who takes it in good faith and gives value for it. B deposits the cheque into his own bank and his banker presents it and obtains payment for his customer from the bank upon which it is drawn. The true owner of the cheque claims refund of the amount of the cheque from B. Analyse the given situation with respect to the liabilities of B. Also state the

liabilities of paying and collecting banks. *(8 Marks)*

(b) Explain the various socio-psychological factors responsible for developing negative attitude by an individual at workplace. *(4 Marks)*

(c) "Once the process of consensus building has begun, mediators try to assist the parties in their efforts to generate a creative resolution of differences". State in brief the process which should be followed by mediators to resolve the differences between the parties. *(4 Marks)*

4. (a) (i) DJA Company Ltd. has only 50 preference shareholders. A meeting of the preference shareholders was called by the company for amending the terms of these shares. Mr. A, was the only preference shareholder who attended the meeting. He, however, held proxies from all other shareholders. He took the Chair, conducted the meeting and passed a resolution for amending the terms of the issue of these shares. Referring to the provisions of the Companies Act, 2013, examine the validity of the meeting and the resolution passed thereat.

(4 Marks)

(ii) S, a shareholder, gives a notice for inspecting proxies, five days before the meeting is scheduled and approaches the company two days before the scheduled meeting for inspecting the same. What is the legal position relating to his actions? *(4 Marks)*

(b) Discuss different environmental phenomena of ethical concern? *(4 Marks)*

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

5. (a) In a General Meeting of Parminder Limited, the Chairman directed to exclude certain matters detrimental to the interest of the company from the minutes. N, a shareholder contended that the minutes of the meeting must contain fair and correct summary of the proceedings thereat. Decide, whether the contention of N is maintainable under the provisions of the Companies Act, 2013? *(4 Marks)*

(b) "Moonstar 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 Moonstar Ltd., deposits in advance the remaining amount due on his shares without any calls made by "Moonstar Ltd.".

Referring to the provisions of the Companies Act, 2013, state the rights and liabilities of Mr. A, which will arise on the payment of calls made in advance.

(8 Marks)

(c) Explain Affidavit and its model format. *(4 Marks)*

6. (a) What are the provisions of the Companies Act, 2013 relating to the appointment of 'Debenture Trustee' by a company? Whether the following can be appointed as 'Debenture Trustee':

   (i) A shareholder who has no beneficial interest.

   (ii) A creditor whom the company owes Rs.499 only.

   (iii) A person who has given a guarantee for repayment of amount of debentures issued by the company. *(8 Marks)*

   (b) Which parameters are applicable in relation to Competition Law in India? *(4 Marks)*

   (c) Draft a notice for calling the Board of Directors meeting of MN Limited where Mr. RS is co-opted as an Additional Director and also to consider buy-back of company's equity shares to an extent of 10% of issued share capital. *(4 Marks)*

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

   (a) X, an employee in ABC Ltd (covered by the Employees' Provident Funds and Miscellaneous Provisions Act,1952) died in an accident. State to whom the amount standing in his account to be payable under the provisions of the Act. *(4 Marks)*

   (b) ABC Limited realised on 2nd May, 2014 that particulars of charge created on 12th March, 2014 in favour of a Bank were not filed with the Register of Companies for Registration, what procedure should the Company follow to get the charge registered with the Registrar of Companies? Would the procedure be different if the charge was created on 12th February, 2014 instead of 12th March, 2014? Explain with reference to the relevant provisions of the Companies Act, 2013. *(4 Marks)*

   (c) A Company wants to provide financial assistance to its employees to enable them to subscribe for fully paid shares of the company. Does it amount to purchase of its own shares. If, in the instant case, the company itself purchasing to redeem its preference shares, does it amount to acquisition of its own shares? *(4 Marks)*

   (d) Explain the key elements involved in the innovation frame work of an organisation.

   (4 Marks)

   (e) The Board of Directors of RSP Limited agrees with X to hire his (X's) flat at NOIDA on lease for ten years @ Rs. 20,000 per month for marketing office of the company. You are a senior executive of the Board and the board asks you to prepare the lease deed for the agreement. Draft a lease deed. *(4 Marks)*

Test Series: August, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2 : BUSINESS LAWS,ETHICS AND COMMUNICATION

SUGGESTED ANSWERS/HINTS

1. (a) Section 101 (4) of the Companies Act, 2013 makes it abundantly that it is not a condition precedent to the holding of the annual general meeting of a company that a clear 21 days notice must be given to each and every member of the company. The accidental omission to give notice to any member or non-receipt of notice by any member shall not invalidate the proceedings at the meeting.

In the present case therefore, the contention of D cannot be upheld. He cannot hijack the proceedings of the entire meeting for an accidental delay in receipt of notice by him.

(b) According to Section 11 of the Indian Contract Act, 1872, a person who is of the age of majority to the law to which he is subject is competent to enter into any contract. A person who has completed the age of 18 years is a major and otherwise he will be treated as minor. Thus, Ramesh who is a minor is incompetent to contract and any agreement with him is void [Mohori Bibi Vs Dharmodas Ghose 1903, 30 Cal, 539 (PC)]. Section 68 of the Indian Contract Act, 1872 however, prescribes the liability of a minor for the supply of the things which are the necessaries of life to him. It says that though minor is not personally liable to pay the price of necessaries supplied to him or money lent for the purpose, the supplier or lender will be entitled to claim the money/price of goods or services which are necessaries suited to his condition of life provided that the minor has a property. The liability of minor is only to the extent of the minor's property. This type of contract is called a Quasi-contract and the right of the supplier/lender is based on the principle of equity. Thus, according to the above provision, Suresh will be entitled to recover the amount of loan given to Ramesh for payment of the college fees from the property of the minor.

(c) **Businesses as trustees:** A business man has to act only as a trustee of the society for whatever he has gained from the society. Everything finally belongs to the society. Society bestows upon business the authority to own and use land and natural resources. In return the society has the right to expect that productive organizations will enhance the general interests of consumers, employees and community.

Business ethics is required to implement the laws of land, customs, expectations of community, principles of morality, etc. The products and services of an organization affect its employees, the community and society as a whole. Business ethics also subserve the management discipline. Business houses may also use their financial and public influence to address social problems like poverty, crime, equal rights, environmental problems, public health and education. Society at large has also come to realize that since businessmen are making profits by using the country's resources, they owe it to the country to work for its development. Sound workplace ethics ensure that a company's employees are highly motivated and identify themselves with their employer. Following ethical business practices safeguard a company from getting entangled with law enforcement agencies. A reputation for highly ethical behaviour also ensures increased sales and customer loyalty. Certain eco-friendly practices also reduce operation costs. Thus, society derives benefits as well as business prospers when businesses are ethically driven.

(d) Advantages of Formal Communication:

(i) The formal channels account for most of the effectiveness of communication. As has been said earlier, great care has to be taken in sending across any letter or report through the 'proper' formal channel.

(ii) Formal channels cover an ever – widening distance as organizations grow. Through them, it is easier to reach out to the branches of an organisation spread far and wide.

(iii) The formal channels, because of their tendency to filter information, keep the higher level managers from getting bogged down.

(iv) Formal channels of communication consolidate the organisation and satisfy the people in managerial position.

2. (a) Employee [Section 2(13)]: It means any person (other than an apprentice) employed on a salary or wage not exceeding Rs. 21,000/- per month in any industry, to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work for hire or reward, whether the terms of employment be express or implied. From the above definition it is clear that an employee under the Act can be at managerial level, clerical level or workmen level. The criterion is the salary or wage limit of Rs. 21,000 per month. Employees who draw more than Rs. 21,000 per month do not fall within the definition of employee under this Act and hence are not eligible for bonus.

Employer [Section 2(14)]: The expression 'employer' under the Payment of Bonus Act,1965 includes:

(i) **in relation to an establishment which is a factory**, the owner or occupier of the factory, including the agent of such owner or occupier, the legal representative of a deceased owner or occupier, and where a person has been named as a manager of the factory under Section 7 of the Factories Act, 1948 the person so named; and

(ii) **in relation to any other establishment,** the person, who, or the authority which, has the ultimate control over the affairs of the establishment and where the said affairs are entrusted to a manager or managing director or managing agent, such manager or managing director or managing agent.

From the above definition it may be understood that the employer does not necessarily mean the owner but the person who is under the control of affairs of the establishment. In case of a factory, the occupier will be the employer in case he is different from the owner. In case there is no occupier of a factory, the owner shall be the employer.

(b) Common Policies under CSR are as under:

- Commitment to diversity in hiring employees and barring discrimination;
- Adoption of internal controls reform;
- Management teams that view employees as assets rather than costs;
- High performance workplaces that integrate the views of line employees into decision-making processes;
- Adoption of operating policies that exceed compliance with social and environmental laws;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and
- Taking responsibility for conditions under which goods are produced directly or by contract employees domestically or abroad.

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

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

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

3. (a) The cheque in the given case was crossed generally and marked 'Not Negotiable'. Thereafter, the cheque was lost or stolen and came into the possession of B, who takes it in good faith and gives value for it. Section 130 of the Negotiable Instruments Act, 1881 provides that a person taking a cheque crossed generally or specially, bearing in either case the words 'not negotiable', shall not have, and shall not be capable of giving a better title to the cheque than that which the person from whom he took it had. In view of these provisions, B, even though he was a holder in due course, did not acquire any title to the cheque as against its true owner. The addition of the words 'not negotiable' entirely takes away the main feature of negotiability, which is, that a holder with a defective title can give a good title to a subsequent holder in due course. B did not obtain any better title than his immediate transferor, who had either stolen or found the cheque and was not the true owner of the cheque. Therefore, as regards the true owner, B was in no better position than the transferor. B is also liable to repay the amount of the cheque to the true owner. He can, however, proceed against the person from whom he took the cheque.

In the given case, both the collecting banker and the paying bankers would be exonerated. Since the collecting banker, in good faith and without negligence, had received payment for B, who was its customer of the cheque which was crossed generally, the banker would not be liable, in case the title proved to be defective, to the true owner by reason only of having received the payment of the cheque for his customer (Section 131). Since the paying banker on whom the crossed cheque was drawn, had paid the same in due course, the banker would also not be liable to the true owner. (Section 128).

(b) Socio-Psychological Factors Responsible for Developing Negative Attitude by an Individual at Work Place:

An ethical issue is an identifiable problem, situation or opportunity that requires a person to choose from several actions which could be evaluated as right or wrong. Values reflect enduring beliefs that one holds that influences attitude, action and the choices one make. As individuals, our values are shaped by our personal beliefs. Values developed in childhood and youth are constantly tested and on-the-job decisions reflect the employee's understanding of ethical responsibility. Various socio-psychological factors that could be responsible why individuals could develop negative attitudes or lose personal motivation are:

(i) Negative work or life experiences.

(ii) Employees failing to respect each others unique personalities.

(iii) Overly aggressive financial or business targets.

(iv) Pressures to perform and take quick decisions.

(c) Process which should be followed by mediators to resolve the differences between the parties - Efforts which help to generate a creative resolution are:

(i) Problem – solving orientation – it is important to be constructive and maintain a problem solving orientation, even in the face of strong differences and personal antagonism. It is in every participant's best interest to behave in a fashion, they would like others to follow. Concerns or disagreement should be expressed in an unconditionally constructive manner.

(ii) Engage in active listening – Participants in every consensus building process should be encouraged (indeed, instructed, if necessary) to engage in what is known as active listening.

(iii) Disagree without being disagreeable – Participants in every consensus building process should be instructed to 'disagree without being disagreeable'.

(iv) Strive for the greatest degree of transparency possible – To the greatest extent possible, consensus building process should be transparent. That is, the group's mandate, its agenda and ground rules, the list of participants and the groups or interests they are representing, the proposals they are considering, the decision rules they have adopted, their finances and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group's recommendations.

(v) Strive to invent options for mutual gain – The goals of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created be divided in ways that take account of all relevant considerations. The key to creating value is to invent options for mutual gain.

4. (a) (i) Under section 103 (1) unless the articles of the company provide for a larger number, in case of a public company, five members personally present shall be the quorum for a meeting of the company, if the number of members as on the date of meeting is not more than one thousand.

The case given in the question corresponds to the decision. This question was decided in *Sharp Vs., Dawes* wherein it was held that "The word meeting prima facie means coming together of more than one person." In this given case, only one shareholder was present and it was held that the meeting was not validly held.

Further in *East Vs. Bennet Brothers Ltd. (1911)* it has been held that in case of a meeting of a particular class of members if all the shares of that particular class are held by one person, then that one person shall form the quorum.

In the given case therefore, the applicable quorum will be 5 members and since all the shares are not held by one person but there are 50 members, no quorum is therefore present. The meeting and the resolution passed there shall not be valid.

(ii) Under section 105 (8) of the Companies Act, 2013 every member entitled to vote at a meeting of the company, or on any resolution to be moved thereat, shall be entitled during the period beginning twenty-four hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the company, provided not less than three days' notice in writing of the intention so to inspect is given to the company.

In the given case, S has given proper notice.

However, such inspection can be undertaken only during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting. So S can undertake the inspection only during the above mentioned period and not two days prior to the meeting.

(b) Different environmental phenomena of ethical concern: An ecological system is an interrelated and interdependent set of organisms and environments, such as a lake, in which the fish depend on small aquatic organisms, which in turn live off decaying plant and fish waste products. Since the various parts of an ecological system are interrelated, the activities of one of its parts will affect all the other parts. Business firms (and all other social institutions) are parts of a larger ecological system. Business firms depend on the natural environment for their energy, material resources, and waste disposal, and that environment in turn is affected by the commercial activities of business firms.

The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal. It is the issues of exploitive human nature and attitudes that should be addressed in a rational way. Problems like Global warming, Ozone depletion and disposal of hazardous wastes that concern the entire world. They require International cooperation and have to be tackled at the global level.

Few decades ago, the corporate world, the industry or others engaged in the use of natural resources or environmental services were mainly concerned with good business in economic sense. There is now a growing concern for Social responsibility and ethical norms in all spheres of human activities; be it public behaviour, business or environment and there are ethical concerns to look after not only the interest of stakeholders but also that of community; as the regulatory / mandatory requirements have also become more stringent. This translates into providing safety for the workers at workplace, concern for their health, reducing pollution and incorporating environmental values in governance.

(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.

5. (a) Under Section 118 (5) of the Companies Act, 2013 there shall not be included in the Minutes of a meeting, any matter which, in the opinion of the Chairman of the meeting:

(i) is or could reasonably be regarded as defamatory of any person;

(ii) is irrelevant or immaterial to the proceeding; or

(iii) is detrimental to the interests of the company;

Further under section 118 (6) the chairman shall exercise absolute discretion in regard to the inclusion or non-inclusion of any matter in the Minutes on the grounds specified in sub-section (5) above.

Hence, in view of the above, the contention of N, a shareholder of Parminder Limited is not valid because the Chairman has absolute discretion on the inclusion or exclusion of any matter in the minutes for aforesaid reasons.

(b) Section 50 (1) of the Companies Act, 2013 states that a company may, if so authorised by its articles, accept from any member, the whole or a part of the amount remaining unpaid on any shares held by him, even if no part of that amount has been called up. Hence, the Companies Act recognizes the right of a company to receive calls in advance provided it is authorized by its Articles to do so.

In the given case Mr. A, a shareholder of the 'Moonstar Ltd'., has deposited in advance the remaining amount due on his shares without any calls made by 'Moonstar Ltd'. 'Moonstar Ltd' was authorized to accept the unpaid calls by its articles. Hence, there is no irregularity in the transaction.

However, section 50 (2) further provides that a member of the company limited by shares shall not be entitled to any voting rights in respect of the amount paid by him under sub-section (1) until that amount has been called up. Hence, Mr. A will not derive any additional voting rights by virtue of such advance calls paid by him.

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 moneys so paid by him until the same is 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.

(c) Affidavit: An affidavit is a written statement used mainly to support certain applications and in some circumstances as evidence in court proceedings. A person who makes the affidavit is called the Deponent and must swear or affirm that the contents are true before a person who has the authority to administer oaths in respects of the particular kind of affidavit. The model form of affidavit is given below:

I..................................son of…........................aged…....................years, residing at ………..,hereby declare an oath as follows: ".. ....Sworn on this the day of ……………………..

Date:………………….. Signature

Place:…………………

6. (a) Appointment of Debenture Trustee: Under section 71 (5) of the Companies Act, 2013, no company shall issue a prospectus or make an offer or invitation to the public or to its members exceeding five hundred for the subscription of its debentures, unless the company has, before such issue or offer, appointed one or more debenture trustees and the conditions governing the appointment of such trustees shall be such as may be prescribed.

The rules framed under the Companies Act for the issue of secured debentures provide that before the appointment of debenture trustee or trustees, a written consent shall be obtained from such debenture trustee or trustees proposed to be appointed and a statement to that effect shall appear in the letter of offer issued for inviting the subscription of the debentures.

Further according to the rules, no person shall be appointed as a debenture trustee, if he-

(i) Beneficially holds shares in the company;

(ii) Is a promoter, director or key managerial personnel or any other officer or an employee of the company or its holding, subsidiary or associate company;

(iii) Is beneficially entitled to moneys which are to be paid by the company otherwise than as remuneration payable to the debenture trustee;

(iv) Is indebted to the company, or its subsidiary or its holding or associate company or a subsidiary of such holding company;

(v) Has furnished any guarantee in respect of the principal debts secured by the debentures or interest thereon;

(vi) Has any pecuniary relationship with the company amounting to two per cent. or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed, whichever is lower, during the two immediately preceding financial years or during the current financial year;

(vii) is a relative of any promoter or any person who is in the employment of the company as a director or key managerial personnel;

Thus based on the above provisions answers to the given questions are:

(i) A shareholder who has no beneficial interest, can be appointed as a debenture trustee.

(ii) A creditor whom company owes Rs.499 cannot be so appointed. The amount owed is immaterial.

(iii) A person who has given guarantee for repayment of principal and interest thereon in respect of debentures also cannot be appointed as a debenture trustee.

(b) Parameter under Competition Law in India:

(i) Prohibition of certain agreements, which are considered to be anti-competitive in nature. Such agreements namely tie in arrangements, exclusive dealings (supply and distribution), refusal to deal and resale price maintenance shall be presumed as anti-competitive if they cause or likely to cause an appreciable adverse effect on competition within India.

(ii) Abuse of dominant position by imposing unfair or discriminatory conditions or limiting and restricting production of goods or services or indulging in practices resulting in denial of market excess or through in any other mode are prohibited.

Regulation of combinations which cause or likely to cause an appreciable adverse affect on competition within the relevant market in India is also considered to be void.

(c) **Notice: Meeting of Board of Directors:**

Notice

Notice is hereby given that meeting of the Board of Directors of the company will be held at the registered office on…….at……a.m./p.m. to transact the following:

Agenda

1. Confirmation of the minutes of the previous Board Meeting held on……….to………
2. Discussion of the progress in business.
3. Co-option of Mr. RS as an Additional Director of the company.
4. Buy back of 10% of the equity shares of the company.
5. Any other matter with the permission of the chair.

Place:……………………. By Order of the Board of Directors

Date:……………………..

7. **(a)** 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 appointed under the Presidency Town Insolvency Act,1909, nor any receiver appointed under the Provincial Insolvency Act,1920, 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.

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 under this Act.

Further, 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.

(b) The prescribed particulars of the charge together with the instrument, if any by which the charge is created or evidenced, or a copy thereof shall be filed with the Registrar within 30 days after the date of the creation of charge. [Section 77 (1)]. In this case particulars of charge have not been filed within the prescribed period of 30 days.

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

There will be no change in the situation if the charge was created on 12th February, 2014.

(c) Yes, the financial assistance to its employees by the company to enable them to subscribe for the shares of the company will amount to the company purchasing its own shares. However, section 67 (3) permits a company to the give loans to its employees other than its directors or key managerial personnel, for an amount not exceeding their salary or wages for a period of six months with a view to enabling them to purchase or subscribe for fully paid-up shares in the company or its holding company to be held by them by way of beneficial ownership.

Section 68 of the Companies Act, 2013 however, allows a company to buy back its own shares under certain circumstances and subject to fulfilment of prescribed conditions.

Purchasing in order to redemption of its preference shares, does amount to acquisition or purchase of its own shares. But this is allowed in terms of section 68 of the Companies Act, 2013 subject to the fulfilment of prescribed conditions, and upto specified limits and only after following the prescribed procedure.

(d) The **key elements in the innovation framework** are:

(i) Accessibility: The major organizational challenge is to make everyone, particularly the workers as active participants in the work process. The innovative enterprise ensures everyone is accessible to each other at all levels within the organization.

(ii) Recognize and reward innovation: One of the more radical steps an organization or manager can take is to make innovation a requirement of the job.

(iii) Develop company programs that encourage innovation: Some companies allow their employees to take sabbaticals to work in a new environment or teach in a college. By placing employees in different environments, they can meet new people, come across new ideas and hopefully generate their own novel approaches.

(iv) Foster informal communication: The paperwork involved in proposing or even pursuing a project can be a major roadblock to innovation. Employees often feel stifled when asked to fully justify ideas; they may be working on a hunch.

(v) Information: The right kind of information is called in no information. This type of information is critical to the vitality of the enterprises. In no information consists of the plans, vision, goals and all the new ideas affecting the enterprises. The innovative enterprise is looking forward continuously changing and adapting to the needs of the customer.

(vi) Framework: The innovative enterprise must constantly adapt, create and innovate. Information and communication are the wind that sails the innovative enterprise towards its destination. Information and communication pose difficult challenges for most businesses. The difficulty lies in balancing the flow of information between providing too much or too little information.

(e) Lease Deed: This Lease is made on this the day of 01 March 2015, between, X s/o Y, aged about 45 years, residing at Noida (hereinafter called the LESSOR); which expression shall, whenever the context so requires or admits mean and include his heirs, executors, Administrators and permitted assignees of the one part;

And RSP Limited, Noida and herein after called the LESSEE Whereas, the lessor is the absolute owner of the property Noida (more fully described in the schedule hereunder and hereinafter referred to as 'Schedule Property') and Whereas, the Lesssee is desirous of taking on lease the Schedule 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 who Lessee the Schedule Property for a period of from today, on the following terms and conditions:

1. That the lessee has undertaken to pay the lessor a monthly rent of Rs. 20,000/- (Rupees twenty thousand only) for the Scheduled Property on or before the 10 day of the following calendar month, and 10 months rent of Rs. 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 Scheduled Property, after deducting for damages, if any.

2. The lease shall commence from the 1st April 2015 and shall be in force for a period of 10 years.

3. The lessee shall use the Scheduled Property only for official purpose and shall not assign or sublease or use the Scheduled Premises for any unlawful purposes or alter the Scheduled Property without the consent of the lessor in writing.
4. During the lease period, the lessee shall pay the electricity and water charges to the respective departments promptly and obviate disconnection at any time.
5. The lessee shall permit the Iessor or his agents, to enter the Scheduled Property at all reasonable times for the purpose of periodical inspection.

Schedule:

1500 Squares of house bearing No. 56 at Noida measuring East to West 50 meter North to South 30 meter and bounded on: East by: Road, West by: Road, North by: Plot No. 55, South by: Plot No. 57.

In witness whereof the parties hereto have their respective hands and seals to this Agreement on the day, month, year first written above.

Witness

1. LESSOR
2. LESSEE

Test Series: August, 2016

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

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

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

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

Working notes should form part of the answer.

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

1. Answer the following:

(a) Apex construction Ltd. has undertaken a contract to build a commercial building at an estimated price of Rs.135 lakhs, expecting a profit of Rs. 28 lakhs from this contract.

The data for the year ended 31.03.2016 are as under:

	(Rs. '000)
Materials issued to site	6,500
Direct wages paid	3,820
Machine hired	780
Site administration cost	570
Materials returned from site	90
Other direct expenses	850
Work certified	12,000
Payment received up to 31.03.2016	9,600

A crane was purchased specifically for this contract at Rs.18,00,000 and at the end of 31.03.2016, it was valued at Rs. 13,00,000. The cost of materials at site at the end of the year was estimated at Rs.14,00,000. Wages of Rs. 98,000 is still to be paid.

Required

Prepare the Contract Account and Cost of the contact for the year ended 31st March, 2016.

(b) Assuming a man-day of 8 hours, you are required to calculate the labour cost per man-day. The following data has been provided.

(i)	Basic Salary	Rs. 80 per day
(ii)	Dearness Allowance	80 paise per every point over 100 cost of living index for working class. Current cost of living index is 785 points.
(iii)	Leave Salary	10% of (i) and (ii)
(iv)	Employer's contribution to Provident Fund	10% of (i), (ii) and (iii)
(v)	Employer's contribution to State Insurance	2.5% of (i), (ii) and (iii)
(vi)	Expenditure on amenities to labour	Rs. 30 per head per mensem
(vii)	Number of working days in a month	25 days of 8 hours each

(c) Company P and Q are identical in all respects including risk factors except for debt/equity, company P having issued 10% debentures of Rs. 18 lakhs while company Q is unlevered. Both the companies earn 20% before interest and taxes on their total assets of Rs. 30 lakhs.

Assuming a tax rate of 50% and capitalization rate of 15% from an all-equity company. Compute the value of companies P and Q using (i) Net Income Approach and (ii) Net Operating Income Approach.

(d) Mr. X wish to get her daughter admitted into a medical college after 15 years from now. He will be required total Rs. 25,00,000 to get admission into the college. For this he has identified a fund, which pays interest @ 9% p.a. In this regard he wanted to know the amount to be invested in each of the following situations:

(i) If he decides to make annual payment into the fund at the end of each year;

(ii) If he decides to invest a lump sum in the fund at the end of the year;

(iii) If he decides to make annual payment into the fund at the beginning of each year.

(FVIF/ CVF $_{(15,\ 0.09)}$ = 3.642, FVIFA/ CVFA $_{(15,\ 0.09)}$ = 29.361, PVIF/ PVF$_{(15,\ 0.09)}$ = 0.275 and PVIFA/ PVFA $_{(15,\ 0.09)}$ = 8.061). *(4 × 5 = 20 Marks)*

2. (a) R Ltd has set standards for producing a product called 'X', which are as follows:

Direct Materials

3 units of A @ Rs. 3.50 per unit Rs.10.50

6 units of B @ Rs. 5.00 per unit Rs. 30.00

4 units of C @ Rs. 4.25 per unit Rs.17.00

Direct Labours

	Skilled Workers	Semi-Skilled workers	Un-skilled workers
Standard no. of workers	26	10	8
Standard wage rate per hour (Rs.)	5	4	2

The actual data are as follows:

During the 45 hours working week, the gang produced 1,900 standard labour hours of work.

Company has produced 6,000 units of the product during the last week and the materials and labours are as follows:

17,200 units of A @ Rs. 4.00 per unit

36,500 units of B @ Rs. 4.50 per unit

23,800 units of C @ Rs. 4.30 per unit

	Skilled Workers	Semi-Skilled workers	Un-skilled workers
Actual no. of workers	24	12	6
Actual wage rate per hour (Rs.)	6	4.25	3.25

You are required to calculate:

(i) Material Price Variance

(ii) Material Usage Variance

(iii) Labour Rate Variance

(iv) Labour Mix Variance

(v) Labour Yield Variance. *(8 Marks)*

(b) A proforma cost sheet of a company provides the following particulars:

	Amount per unit (Rs.)
Raw materials cost	100.00
Direct labour cost	37.50
Overheads cost	75.00
Total cost	212.50
Profit	37.50
Selling Price	250.00

The company keeps raw material in stock, on an average for four weeks; 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.

The company 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. *(8 Marks)*

3. (a) Outlook Ltd. produces and sells a single product. Sales budget for calendar year 2016 by quarters is as under:

Quarter	**I**	**II**	**III**	**IV**
No of units to be sold	12,000	15,000	16,500	18,000

The year is expected to open with an inventory of 4,000 units of finished products and close with an inventory of 6,500 units.

Production is customarily scheduled to provide for two-thirds of the current quarter's sales demand plus one-third of the following quarter's demand. Thus production anticipates sales volume by about one month.

The standard cost details for one unit of the product is as follows:

Direct materials 10 kgs @ 50 paise per kg.

Direct labour 1 hour 30 minutes @ Rs. 4 per hour

Variable overheads 1 hour 30 minutes @ Re. 1 per hour

Fixed overheads @ Rs. 2 per hour based on budgeted production volume of 90,000 direct labour hours for the year.

(i) Prepare a Production budget for 2016, by quarters, showing the number of units to be produced and the total costs of direct material, direct labour, variable overhead and fixed overheads.

(ii) If the budgeted selling price per unit is Rs. 17, what would be the budgeted profit (using marginal costing method) for the year as a whole?

(iii) In which quarter of the year, is the company expected to break-even. *(8 Marks)*

(b) Sankya Limited wishes to raise additional finance of Rs. 20 lakhs for meeting its investment plans. The company has Rs. 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details:

Debt equity ratio 25 : 75.

Cost of debt at the rate of 10 percent (before tax) upto Rs. 2,00,000 and 13% (before tax) beyond that.

Earnings per share, Rs. 12.

Dividend payout 50% of earnings.

Expected growth rate in dividend 10%.

Current market price per share, Rs.60.

Company's tax rate is 30% and shareholder's personal tax rate is 20%.

You are required to:

(i) Calculate the post tax average cost of additional debt.

(ii) Calculate the cost of retained earnings and cost of equity.

(iii) Calculate the overall weighted average (after tax) cost of additional finance.

(8 Marks)

4. (a) Surface Transport has a fleet of three trucks of 12 tonnes capacity each plying in different direction for transportation of customers' goods. The trucks run loaded with goods and return empty. The distance travelled, number of trips made and the load carried per day by each truck are as under:

Truck No.	One way distance km.	No. of trips per day	Load carried per trip/day tones
1	36	4	9
2	28	5	12
3	40	3	10

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

Year	Total distance travelled	Maintenance cost (Rs.)
1	1,20,200	58,080
2	1,80,600	82,240

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

Diesel:	Rs. 38 per litre. Each liter gives 4 km per litre of diesel on an average

Drivers' Salary:	Rs. 9,000 per month per truck
License and taxes:	Rs. 7,000 p.a. per truck
Insurance:	Rs. 36,000 p.a. for all the three vehicles.
Purchase price per truck:	Rs. 15,00,000. Life 10 years. Scrap value at the end of life is Rs. 1,50,000
Oil and lubricants:	Rs. 30 per 100 km run
General overhead:	Rs. 1,08,000 p.a.

The vehicles operate 22 days per month on an average.

Required:

(i) Prepare an annual cost statement covering the fleet of three vehicles.

(ii) Calculate the cost per km. run.

(iii) Determine the freight rate per tonne km. to yield a profit of 15% on freight.

(8 Marks)

(b) ABC Ltd. has supplied the following information at the beginning and at the end of the year 2015-16:

	1.4.2015 (Rs.)	31.3.2016 (Rs.)
Plant less depreciation	95,000	2,13,000
Investment (long term)	1,98,000	4,35,000
Debentures	3,75,000	1,05,000
Equity share capital	6,00,000	6,00,000
Reserves & Surplus	3,57,000	6,15,000

Although ABC Ltd. could not provide complete Balance Sheet and Profit & Loss Account, it supplied the following further information:

(1) An interim dividend of Rs. 54,000 has been paid during the year 2015-16.

(2) The net income includes Rs. 20,000 on account of profit on sale of plant. There has been an increase of Rs. 1,40,000 in the gross value of plant after a plant having gross value of Rs. 43,500, whose written down value was Rs. 28,500, was disposed off during the year.

From the information given above, you are required to prepare a Funds Flow Statement. *(8 Marks)*

5. (a) Discuss the accounting treatment of Idle time and overtime wages.

(b) Discuss cost classification based on controllability.

(c) Differentiate between Financial Management and Financial Accounting.

(d) Discuss the advantages of raising funds by issue of equity shares.

(4 × 4 =16 Marks)

6. (a) Aditya Ltd. and Arnav Ltd. are engaged in producing identical products in the domestic market. Budgeted income statement for the year 2016-17 of the both companies is as follows:

	Aditya Ltd. (Rs.)	**Arnav Ltd. (Rs.)**
Sales	8,00,000	10,00,000
Less: Variable Cost	6,00,000	5,00,000
Contribution	2,00,000	5,00,000
Less: Fixed Cost	1,00,000	4,00,000
Budgeted Profit	1,00,000	1,00,000

You are required to calculate:

(i) Break-even point for each company

(ii) Sales at which each company will earn a profit of Rs. 1,20,000

(iii) Sales at which both company will have same profits

(iv) Which company will be in advantageous position when there will be heavy demand for the products. *(8 Marks)*

(b) Theta Limited is considering investing in a project. The expected original investment in the project will be Rs. 2,00,000, the life of project will be 5 year with no salvage value. The expected net cash inflows after depreciation but before tax during the life of the project will be as following:

Year	**1**	**2**	**3**	**4**	**5**
Rs.	85,000	1,00,000	80,000	80,000	40,000

The project will be depreciated at the rate of 20% on original cost. The company is subjected to 30% tax rate.

Required:

(i) Calculate pay- back period and average rate of return (ARR)

(ii) Calculate net present value and net present value index, if cost of capital is 10%.

(iii) Calculate internal rate of return.

Note: The P.V. factors are:

Year	P.V. at 10%	P.V. at 37%	P.V. at 38%	P.V. at 40%
1	0.909	0.730	0.725	0.714
2	0.826	0.533	0.525	0.510
3	0.751	0.389	0.381	0.364
4	0.683	0.284	0.276	0.260
5	0.621	0.207	0.200	0.186

(8 Marks)

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

(a) Describe briefly, how joint costs upto the point of separation apportioned amongst the joint products under Net Realisable value method.

(b) Describe job Costing and Batch Costing giving example of industries where these are used?

(c) Discuss the liquidity vs. profitability issue in management of working capital.

(d) What is Virtual Banking? State its advantages.

(e) (i) Explain Retention money in Contract costing.

(ii) Write short notes on Packing Credit *(4 × 4 =16 Marks)*

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

SUGGESTED ANSWERS/HINTS

1. **(a)** Dr. Cr.

Particulars	**Amount (in '000)**	**Particulars**	**Amount (in '000)**
To Materials issued to site	6,500	By Materials returned to store	90
To Direct wages 3,820		By Materials at site	1,400
Add: Outstanding 98	3,918	By Cost of contract	11,628
To Machine hire charges	780		
To Site Administration exp.	570		
To Other direct expenses	850		
To Depreciation on crane	500		
	13,118		13,118
To Cost of contract	11,628	By Work certified	12,000
To Notional Profit	372		
	12,000		12,000

(b) **Statement of Labour Cost (per man-day of 8 hours)**

Particulars	**(Rs.)**
(a) Basic Salary	80.00
(b) Dearness Allowance @ 80 paise per every point over 100 cost of living index for a month of 25 days $\frac{(785-100)\times 0.80}{100} \times \frac{1}{25}$	21.92
	101.92
(c) Leave Salary –10% of (a) and (b) $\frac{101.92\times 10}{100}$	10.19
	112.11
(d) Employer's contribution to Provident Fund 10% of (a), (b) and (c) $\frac{112.11\times 10}{100}$	11.21

(e) Employer's contribution to State Insurance 2.5% of (a), (b) and (c) $\frac{112.11 \times 2.5}{100}$	2.80
(f) Amenities to labour @ Rs. 30 per head per month of 25 working days $\frac{\text{Rs.}30}{25\text{days}}$	1.20
Total	127.32

(c) (i) Valuation under Net Income Approach

Particulars	P Amount (Rs.)	Q Amount (Rs.)
Earnings before Interest & Tax (EBIT) (20% of Rs. 30,00,000)	6,00,000	6,00,000
Less: Interest (10% of Rs. 18,00,000)	(1,80,000)	---
Earnings before Tax (EBT)	4,20,000	6,00,000
Less: Tax @ 50%	(2,10,000)	(3,00,000)
Earnings after Tax (EAT) (available to equity holders)	2,10,000	3,00,000
Value of equity (capitalized @ 15%)	14,00,000 (2,10,000 × 100/15)	20,00,000 (3,00,000 × 100/15)
Add: Total Value of debt	18,00,000	Nil
Total Value of Company	32,00,000	20,00,000

(ii) Valuation of Companies under Net Operating Income Approach

Particulars	P Amount (Rs.)	Q Amount (Rs.)
Capitalisation of earnings at 15% $\left(\frac{\text{Rs.}6,00,000(1-0.5)}{0.15}\right)$	20,00,000	20,00,000
Less: Value of debt {18,00,000 (1 – 0.5)}	9,00,000	Nil
Value of equity	11,00,000	20,00,000
Add: Total Value of debt	18,00,000	Nil
Total Value of Company	29,00,000	20,00,000

(d) (i) To get Rs.25,00,000 after 15 years from now, Mr. X needs to deposit an amount at the end of each year, which gets accumulated @9% p.a. for 15 years to become an amount to Rs.25,00,000. This can be calculated as follows:

Future Value = Annual Payment × (FVIFA $_{n,\, i}$) or Annual Payment × $\left(\frac{(1+i)^n - 1}{i}\right)$

Future Value = Rs.25,00,000

Interest (i) = 9% p.a.

Period (n) = 15 years

Rs. 25,00,000 = A (FVIFA $_{15,\, 0.09}$)

Or, A $= \frac{\text{Rs.25,00,000}}{29.361}$ = Rs.85,146.96 p.a.

(ii) To get Rs.25,00,000 after 15 years from now, Mr. X needs to deposit <u>a lump sum payment</u> to the fund which gets accumulated @9% p.a. for 15 years to become an amount to Rs.25,00,000. This can be calculated as follows:

Future Value = Amount × (FVIF$_{15,\, 0.09}$) or Amount × $(1+ 0.09)^{15}$

Or, Amount $= \frac{\text{Rs.25,00,000}}{3.642}$ = Rs. 6,86,436.02

(iii) To get Rs. 25,00,000 after 15 years from now, Mr. X needs to deposit <u>an amount at the beginning of each year</u> which gets accumulated @9% p.a. for 15 years to become an amount to Rs.25,00,000. This can be calculated as follows:

Future Value = Annual Payment × (FVIFA $_{n,\, i}$) × (1+i)

Rs. 25,00,000 = A (FVIFA $_{15,\, 0.09}$) × 1.09

Rs. 25,00,000 = A (29.361 × 1.09)

Or, A $= \frac{\text{Rs.25,00,000}}{32.003}$ = Rs. 78,117.68 p.a.

2. **(a)** (i) Material Price Variance = Actual quantity (Std. Price – Actual Price)

A = 17,200 (3.50 – 4.00) = 8,600 (A)

B = 36,500 (5.00 – 4.50) = 18,250 (F)

C = 23,800 (4.25 – 4.30) = 1,190 (A) <u>8,460 (F)</u>

(ii) Material Usage Variance = Std. Price (Std. quantity for actual production – Actual quantity)

A = 3.50 (6,000 × 3 – 17,200) = 2,800 (F)

B = 5.00 (6,000 × 6 – 36,500) = 2,500 (A)

C = 4.25 (6,000 × 4 – 23,800) = 850 (F) 1,150 (F)

(iii) Labour Rate Variance = Actual hour paid (Std. rate – Actual rate)

Skilled labour = 24 × 45 (5.00 – 6.00) = 1,080 (A)

Semi-skilled labour = 12 × 45 (4.00 - 4.25) = 135 (A)

Un-skilled labour = 6 × 45 (2.00 - 3.25) = 337.50 (A) 1,552.50 (A)

(iv) Labour Mix Variance = Std. rate (Revised Std. hours – Actual hours)

Skilled labour = 5.00 (1,170 – 1,080) = 450 (F)

Semi-skilled labour = 4.00 (450 – 540) = 360 (A)

Un-skilled labour = 2.00 (360 – 270) = 180 (F) 270 (F)

(v) Labour Yield Variance = Std. rate per hour (Actual output – Std. output for actual hours)

= 8,370/1,980 (1,900 – 1,980) = 338 (A)

Working notes: (1)

Category of workers	Revised Standard			Actual		
	Hrs. *	**Rate (Rs.)**	**Amount (Rs.)**	**Hrs. ***	**Rate (Rs.)**	**Amount (Rs.)**
Skilled	1,170	5.00	5,850.00	1,080	6.00	6,480.00
Semi-skilled	450	4.00	1,800.00	540	4.25	2,295.00
Un-skilled	360	2.00	720.00	270	3.25	877.50
	1,980		8,370.00	1,890		9,652.50

*Hrs. = No. of workers × 45 hours.

(2) Calculation of Standard hrs. for actual output:

Skilled $= \frac{1,900}{1,980} \times 1,170 = 1,122.73 \text{ hrs}$

Semi-skilled $= \frac{1,900}{1,980} \times 450 = 431.82 \text{ hrs}$

Un-skilled $= \frac{1,900}{1,980} \times 360 = 345.45 \text{ hrs}$

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

Statement showing Estimate of Working Capital Needs

A.	Investment in Inventory: Raw material inventory: 4 weeks $\left(1,30,000 \times \frac{4}{52} \times \text{Rs.}100\right)$		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

3. (a) Production budget for the year 2016 by quarters

(i) Units to be produced in each quarter

	Quarters				Total
	I	II	III	IV	
Sales demand (units)	12,000	15,000	16,500	18,000	61,500
Opening stock	4,000	5,000	5,500	6,000	20,500
2/3 of current quarter's sales demand	8,000	10,000	11,000	12,000	41,000
1/3 of the following quarter demand	5,000	5,500	6,000	6,500*	23,000
Total production	13,000	15,500	17,000	18,500	64,000
Closing stock	5,000	5,500	6,000	6,500	23,000

*Balancing figure

Statement showing direct material, variable overhead and fixed overhead

	Quarters				Total
	I	II	III	IV	
Units to be produced	13,000	15,500	17,000	18,500	64,000
Direct Material @ Rs. 5 Per unit (Refer to Note 1)	65,000	77,500	85,000	92,500	3,20,000
Direct Labour @ Rs.6 per Unit (Refer to Note 2)	78,000	93,000	1,02,000	1,11,000	3,84,000
Variable overhead @ Rs. 1.50 per unit (Refer to Note 3)	19,500	23,250	25,500	27,750	96,000
Fixed Overhead (Refer to Note 4)	45,000	45,000	45,000	45,000	1,80,000
Total Cost	2,07,500	2,38,750	2,57,500	2,76,250	9,80,000

(ii) Budgeted profit for the whole year

	(Rs.)
Sales (61,500 units @ Rs. 17 per unit)	10,45,500
Less: Total variable cost per unit (61.500 unit @ Rs. 12.50 per unit)	7,68,705

	2,76,750
Less: Fixed cost	1,80,000
Budgeted profit for the whole year	96,750

(iii) BES × P/V ratio = Fixed cost

Or BES × (Rs. 17-12.50)/17 = Rs. 1,80,000

or Break-even sales (volume) = 6,80,000.

BE Sales in units = Rs. 6,80,000 ÷ 17 or 40,000 units.

The total sales by the end of third quarter will be 43,500 units, i.e., 12,000 + 15,000 + 16,500, therefore, the company will break-even in the later part of the third quarter.

Working Notes:

1. Direct material cost = 10 kg. @ Rs. 0.50 per kg. = Rs. 5.00 per unit.
2. Direct labour per unit = 1 hr. 30 minutes @ Rs. 4 per hour = Rs. 6 per unit.
3. Variable overhead per unit = 1 hr. 30 minutes @ Re. 1 per hour = Rs. 1.50 unit
4. Fixed Overhead

Budgeted production volume is 90,000 direct labour hours for the year @ Rs. 2 per hour i.e. Rs. 1,80,000 for the year. This fixed overhead is spread over the four quarters equally.

(b)

Pattern of raising capital	=	0.25 × 20,00,000
Debt	=	5,00,000
Equity	=	15,00,000

Equity fund (Rs. 15,00,000)

Retained earning	=	Rs. 4,00,000
Equity (additional)	=	Rs. 11,00,000
Total	=	Rs. 15,00,000

Debt fund (Rs. 5,00,000)

10% debt	=	Rs. 2,00,000
13% debt	=	Rs. 3,00,000
Total	=	Rs. 5,00,000

(i) K_d = Total Interest (1 – t) / Rs. 5,00,000

= [20,000 + 39,000] (1 – 0.3)/ 5,00,000 or (41,300 / 5,00,000) × 100 = 8.26%

(ii) $K_e = \frac{EPS \times Pay\ out\ ratio\ (1+g)}{P0} + g = \frac{Rs.12 \times 0.5(1+0.1)}{Rs.60} + 0.1$

$= 0.11+0.10 = 21\%$

$K_s = K_e\ (1 - tp) = 21(1 - 0.2) = 16.8\%$

(iii) **Weighted average cost of capital (K_o)**

	Amount	**Proportion of total capital**	**After tax cost**	**WACC (%)**
Equity Capital	11,00,000	0.55	21.00%	11.550
Retained earning	4,00,000	0.20	16.80%	3.360
Debt	5,00,000	0.25	8.26%	2.065
Total	20,00,000	1.00		16.975

4. (a) Working Notes:

(1) Calculation Total Tonne-kms per annum

Tonne-kms = (One way Distance × No. of trips × Load per trip × No. of days p.m × No. of months)

Truck 1 (36 × 4 × 9 × 22 × 12)	3,42,144
Truck 2 (28 × 5 × 12 × 22 × 12)	4,43,520
Truck 3 (40 × 3 × 10 × 22 × 12)	3,16,800
Total Tonne-kms p.a.	11,02,464

(2) Calculation of Total Distance Covered

Run Km. = Two way Distance × No. of trips × No. of days p.m. × No. of months

	(Run – Kms.)
Truck 1 (72 × 4 × 22 × 12)	76,032
Truck 2 (56 × 5 × 22 × 12)	73,920
Truck 3 (80 × 3 × 22 × 12)	63,360
Total Distance Covered	2,13,312

(3) Calculation Variable and Fixed Components of Maintenance Cost

Variable cost per km.

= Change in cost/Change in km.

= (82,240 – 58,080)/(1,80,600 – 1,20,200)

= Rs. 0.40 per km.

Fixed cost = Total cost – (No. of km × Variable cost per km.)

= Rs. 82,240 - (1,80,600 × Rs. 0.40)

= Rs. 10,000

(a) Annual Cost Statement of Three Vehicles

		(Rs.)
Fixed Costs:		
1.	Drivers' salary (3 × 9,000 × 12)	3,24,000
2.	License and Taxes	21,000
3.	Insurance	36,000
4.	General Overhead	1,08,000
	(i)	4,89,000
Semi – variable cost:		
1.	Maintenance	
	Variable (2,13,312 × 0.40)	85,324.80
	Fixed	10,000
	(ii)	95,324.80
Variable Cost:		
1.	Diesel (2,13,312 × 38/4)	20,26,464
2.	Oil and lubricants (2,13,312 × 30/100)	63,993.60
3.	Depreciation (13,50,000 / 10) × 3	4,05,000
	(iii)	24,95,457.60
	Annual cost (i) + (ii) + (iii)	30,79,782.40

(b) Cost per km run = Total annual cost/Total run km

= Rs. 30,79,782.40 / 2,13,312

= Rs. 14.44

(c) Freight Rate Per Tonne – km.

	(Rs.)
Total annual cost	30,79,782.40
Add: 15% profit on freight	5,43,491.00
Total freight	36,23,273.40

Freight per tonne-km = Rs. 36,23,273.40/11,02,464km.

= Rs. 3.29

(b) Fund from Operation

Particulars	(Rs.)
Closing value of reserves & surplus	6,15,000
Less: Opening value of reserves & surplus	(3,57,000)
Profit after depreciation	2,58,000
Add: Depreciation (refer the working note)	37,000
Profit before depreciation	2,95,000
Less: Profit on sale of plant	(20,000)
	2,75,000
Add: Interim dividend	54,000
Fund from Operation	3,29,000

Fund flow statement for the year ended 31st March 2016

Particulars	(Rs.)
Sources of Fund	
Fund from Operation	3,29,000
Decrease in working capital (Balancing Figure)	3,67,000
Sale of plant	48,500
	7,44,500
Application of Fund	
Long-term Investment (Rs.4,35,000 – Rs.1,98,000)	2,37,000
Purchase of Plant (refer the working note)	1,83,500
Repayment of Debentures (Rs.3,75,000 – Rs.1,05,000)	2,70,000
Payment of interim dividend	54,000
	7,44,500

Working Note:

Plant A/c

Particulars	(Rs.)	Particulars	(Rs.)
To Balance b/d	95,000	By Bank A/c (Sale)	48,500
To P&L A/c (Profit on sale)	20,000	By Prov. for Depreciation (Balancing figure)	37,000
To Bank A/c (new purchase)	1,83,500	By Balance c/d	2,13,000

(Rs.1,40,000 + Rs.43,500)			
	2,98,500		2,98,500

5. (a) **Accounting treatment of idle time wages & overtime wages in cost accounts:** Normal idle time is treated as a part of the cost of production. Thus, in the case of direct workers, an allowance for normal idle time is built into the labour cost rates. In the case of indirect workers, normal idle time is spread over all the products or jobs through the process of absorption of factory overheads.

Under Cost Accounting, the overtime premium is treated as follows:

- If overtime is resorted to at the desire of the customer, then the overtime premium may be charged to the job directly.
- If overtime is required to cope with general production program or for meeting urgent orders, the overtime premium should be treated as overhead cost of particular department or cost center which works overtime.
- Overtime worked on account of abnormal conditions should be charged to costing Profit & Loss Account.
- If overtime is worked in a department due to the fault of another department the overtime premium should be charged to the latter department.

(b) **Cost classification based on controllability**

(i) **Controllable Costs -** Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre. For example, direct costs comprising direct labour, direct material, direct expenses and some of the overheads are generally controllable by the shop level management.

(ii) **Uncontrollable Costs -** Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs. For example, expenditure incurred by, say, the tool room is controllable by the foreman in-charge of that section but the share of the tool-room expenditure which is apportioned to a machine shop is not to be controlled by the machine shop foreman.

(c) **Differentiation between Financial Management and Financial Accounting**: Though financial management and financial accounting are closely related, still they differ in the treatment of funds and also with regards to decision - making.

Treatment of Funds: In accounting, the measurement of funds is based on the accrual principle. The accrual based accounting data do not reflect fully the financial conditions of the organisation. An organisation which has earned profit (sales less expenses) may said to be profitable in the accounting sense but it may not be able to meet its current obligations due to shortage of liquidity as a result of say, uncollectible receivables. Whereas, the treatment of funds, in financial management is based on cash flows. The revenues are recognised only when cash is actually received (i.e. cash inflow) and expenses are recognised on actual payment (i.e. cash outflow). Thus, cash flow based returns help financial managers to avoid insolvency and achieve desired financial goals.

Decision-making: The chief focus of an accountant is to collect data and present the data while the financial manager's primary responsibility relates to financial planning, controlling and decision-making. Thus, in a way it can be stated that financial management begins where financial accounting ends.

(d) Advantages of Raising Funds by Issue of Equity Shares

(i) It is a permanent source of finance. Since such shares are not redeemable, the company has no liability for cash outflows associated with its redemption.

(ii) Equity capital increases the company's financial base and thus helps further the borrowing powers of the company.

(iii) The company is not obliged legally to pay dividends. Hence in times of uncertainties or when the company is not performing well, dividend payments can be reduced or even suspended.

(iv) The company can make further issue of share capital by making a right issue.

6. (a) Basic Information:

	Aditya Ltd.	**Arnav Ltd.**
Sales (Rs.)	8,00,000	10,00,000
Contribution	2,00,000	5,00,000
P.V. Ratio $\left(\frac{\text{Contribution}}{\text{Sales}} \times 100\right)$	25%	50%
Fixed Cost (Rs.)	1,00,000	4,00,000
Profit (Rs.)	1,00,000	1,00,000

(i) Break-Even Point: $= \frac{\text{Fixed Cost}}{\text{P.V.Ratio}}$

Aditya Ltd. $= \frac{\text{Rs.}1,00,000}{25\%} = \text{Rs. } 4,00,000$

Arnav Ltd. $= \frac{\text{Rs.}4,00,000}{50\%} = \text{Rs. } 8,00,000$

(ii) Sales value to earn a profit of Rs. 1,20,000

Sales $= \frac{\text{Fixed Cost} + \text{Profit}}{\text{P.V.Ratio}}$

Aditya Ltd. $= \frac{\text{Rs.}1,00,000 + \text{Rs.}1,20,000}{25\%}$ = Rs. 8,80,000

Arnav Ltd. $= \frac{\text{Rs.}4,00,000 + \text{Rs.}1,20,000}{50\%}$ = Rs. 10,40,000

(iii) Sales value at which both company will earn same profit

Let S = Sales value and P = Profit

Sales – Variable cost = Fixed cost + Profit

or, Contribution = Fixed cost + Profit

Aditya Ltd.:

25% S = Rs.1,00,000 + P

or, 0.25S = 1,00,000 + P ……………………………………(i)

Arnav Ltd.

50% S = Rs.4,00,000 + P

or, 0.50S = 4,00,000 + P ………………………… ………(ii)

By solving these equations, we will get the value of 'S' and 'P'

0.25S = 1,00,000 + P

0.50S = 4,00,000 + P

\- \- \-

\- 0.25S = -3,00,000

or, S = 12,00,000

Putting the value of 'S' in equation no. (i) we will get the value of 'P'

0.25 × 12,00,000 = 1,00,000 + P

or, P = 2,00,000

Therefore, at Sale value of Rs. 12,00,000 both company will earn same profit of Rs. 2,00,000.

(iv) If there will be a heavy demand of products then Arnav Ltd. will be in advantageous position as its P.V. Ratio is higher and any additional unit sold will contribute more towards fixed cost and profit.

(b)

Year	1	2	3	4	5
	Rs.	**Rs.**	**Rs.**	**Rs.**	**Rs.**
Profit before tax (PBT)	85,000	1,00,000	80,000	80,000	40,000
Tax (30%)	(25,500)	(30,000)	(24,000)	(24,000)	(12,000)
PAT	59,500	70,000	56,000	56,000	28,000
Add: Depreciation	40,000	40,000	40,000	40,000	40,000
Net cash inflow	99,500	1,10,000	96,000	96,000	68,000

(i) Calculation of pay- back period

$$1 \text{ year} + \frac{(\text{Rs.}2{,}00{,}000 - \text{Rs.}99{,}500)}{\text{Rs.}1{,}10{,}000} = 1.91 \text{ years or 1 year 11 months}$$

(ii) Calculation of Average rate of return (ARR)

$$\frac{\text{Average PAT}}{\text{Average Investment}}$$

$$= \frac{(59{,}500 + 70{,}000 + 56{,}000 + 56{,}000 + 28{,}000)/5}{2{,}00{,}000/2} \times 100 = \frac{53{,}900}{1{,}00{,}000} \times 100 = 53.9\%$$

(iii) Calculation of net present Value 10%

Net cash inflow	99,500	1,10,000	96,000	96,000	68,000
PV factor @10%	0.909	0.826	0.751	0.683	0.621
Present value	90,445.5	90,860.0	72,096.0	65,568.0	42,228.0

Net present value = Present value of cash inflow – Present value of cash outflow

= (90,445.5 + 90,860 + 72,096 + 65,568 + 42,228) - Rs. 2,00,000 = Rs. 1,61,197.50

Net present value index = Rs. 1,61,197.50 / Rs. 2,00,000 = 0.81

(iv) Calculation of IRR

Present value factor-Initial investment / Average annual cash inflow

2,00,000 / 93,900 = 2.13

It lies in between 38 % and 40%

Net Cash Inflows	99,500	1,10,000	96,000	96,000	68,000	
Present Value Factor @ 38%	0.725	0.525	0.381	0.276	0.200	
Present value	72,138	57,750	36,576	26,496	13,600	2,06,560
Present Value Factor @ 40%	0.714	0.510	0.364	0.260	0.186	
Present value	71,043	56,100	34,944	24,960	12,648	1,99,695

IRR is calculated by Interpolation:

IRR = LDR + (P1 – Q) / P1 – P2 (SDR – LDR)

= 38 + (2,06,560 – 2,00,000) / (2,06,560 – 1,99,695) × (40 – 38)

= 39.91%

7. (a) Net Realisable Value Method: Here joint costs is apportioned on the basis of net realisable value of the joint products,

Net Realisable Value = Sale value of joint products (at finished stage)

(-) estimated profit margin

(-) selling & distribution expenses, if any

(-) post split off cost

(b) *Job Costing:* It is a method of costing which is used when the work is undertaken as per the customer's special requirement. When an inquiry is received from the customer, costs expected to be incurred on the job are estimated and on the basis of this estimate, a price is quoted to the customer. Actual cost of materials, labour and overheads are accumulated and on the completion of job, these actual costs are compared with the quoted price and thus the profit or loss on it is determined.

Job costing is applicable in printing press, hardware, ship-building, heavy machinery, foundry, general engineering works, machine tools, interior decoration, repairs and other similar work.

Batch Costing: It is a variant of job costing. Under batch costing, a lot of similar units which comprises the batch may be used as a unit for ascertaining cost. In the case of batch costing separate cost sheets are maintained for each batch of products by assigning a batch number. Cost per unit in a batch is ascertained by dividing the total cost of a batch by the number of units produced in that batch.

Such a method of costing is used in the case of pharmaceutical or drug industries, readymade garment industries, industries, manufacturing electronic parts of T.V. radio sets etc.

(c) Liquidity versus Profitability issue in Management of Working Capital

Working capital management entails the control and monitoring of all components of working capital i.e. cash, marketable securities, debtors, creditors etc. Finance manager has to pay particular attention to the levels of current assets and their financing. To decide the level of financing of current assets, the risk return trade off must be taken into account. The level of current assets can be measured by creating a relationship between current assets and fixed assets. A firm may follow a conservative, aggressive or moderate policy.

A conservative policy means lower return and risk while an aggressive policy produces higher return and risk. The two important aims of the working capital management are profitability and solvency. A liquid firm has less risk of insolvency i.e. it will hardly experience a cash shortage or a stock out situation. However, there is a cost associated with maintaining a sound liquidity position. So, to have a higher profitability the firm may have to sacrifice solvency and maintain a relatively low level of current assets.

(d) Virtual Banking and its advantages

Virtual banking refers to the provision of banking and related services through the use of information technology without direct recourse to the bank by the customer.

The advantages of virtual banking services are as follows:

- Lower cost of handling a transaction.
- The increased speed of response to customer requirements.
- The lower cost of operating branch network along with reduced staff costs leads to cost efficiency.

Virtual banking allows the possibility of improved and a range of services being made available to the customer rapidly, accurately and at his convenience.

(e) (i) Retention Money in Contract Costing: A contractor does not receive the full payment of the work certified by the surveyor. Contractee retains some amount to be paid after some time, when it is ensured that there is no default in the work done by the contractor. If any deficiency or defect is noticed, it is to be rectified by the contractor before the release of the retention money. Thus, the retention money provides a safeguard against the default risk in the contracts.

(ii) Packing credit is an advance made available by banks to an exporter. Any exporter, having at hand a firm export order placed with him by his foreign buyer on an irrevocable letter of credit opened in his favour, can approach a bank for availing of packing credit. An advance so taken by an exporter is required to be liquidated within 180 days from the date of its commencement by negotiation of export bills or receipt of export proceeds in an approved manner. Thus Packing Credit is essentially a short-term advance.

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 4: TAXATION

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

1. (a) Dr. Chetan Bhagat is running a clinic. Compute his total income for the A.Y. 2016-17. His Income and Expenditure account for the year ending 31st March, 2016 is given below:

Expenditure	Rs.	Income	Rs.
To Staff Salary	4,30,000	By Fees Receipts	12,63,600
To Consumables	10,750	By Dividend from Indian Companies	15,000
To Medicine consumed	3,69,800	By Winning from Lotteries (Net of TDS of Rs.12,000)	28,000
To Depreciation	91,000	By Income-tax refund	2,750
To Administrative Expenses	1,51,000		
To Donation to Prime Minister's National Relief Fund	5,000		
To Excess of Income over expenditure	2,51,800		
Total	**13,09,350**	**Total**	**13,09,350**

Other Information:

(i) Medicines consumed include medicine of (cost) Rs. 25,000 used for his family.

(ii) Fees Receipts include Rs. 20,000 honorarium for valuing medical examination answer books.

(iii) He received Rs. 8,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.

(iv) He has sold land in August, 2015 for Rs. 12,00,000 (valuation as per stamp valuation authority Rs. 14,00,000). The land was acquired by him in May, 1999 for Rs. 4,00,000.

(v) He has paid premium of Rs. 45,000 for another LIC Policy on his life which was taken on 1.04.2013 (sum assured Rs. 5,00,000).

(vi) He has paid Rs. 4,000 for purchase of lottery tickets, which has not been debited to Income and Expenditure account.

(vii) Depreciation in respect of all assets has been ascertained at Rs. 50,000 as per Income-tax Rules, 1962.

(viii) He deposited Rs. 1,50,000 in PPF.

(ix) Donation to Prime Minister National Relief Fund has been made by way of an crossed cheque.

Cost Inflation Index: F.Y. 1999-00 – 389; F.Y. 2015-16 – 1081. *(10 Marks)*

(b) Compute the service tax liability of Mr. P, an air travel agent, for the quarter ended September 30, 2015 using the following details:-

Particulars	Rs.
Basic air fare collected for domestic booking of tickets	50,00,000
Basic air fare collected for international booking of tickets	80,00,000
Commission received from the airlines on the sale of domestic and international tickets	5,00,000

In the above case, would the service tax liability of Mr. P be reduced if he opts for the special provision for payment of service tax as provided under rule 6 of the Service Tax Rules, 1994 instead of paying service tax at normal rates ?

Note: Mr. P is not eligible for the small service providers' exemption under *Notification No. 33/2012 ST dated 20.06.2012* and service tax has been charged separately. *(10 Marks)*

2. (a) Mr. Maheshwari transferred a vacant site on 28.10.2015 for Rs. 100 lakhs. The site was acquired for Rs. 9,99,300 on 30.6.2000. He invested Rs. 50 lakhs in eligible bonds issued by Rural Electrification Corporation Ltd. (RECL) on 20.3.2016. Again, he invested Rs. 20 lakhs in eligible bonds issued by National Highways Authority of India (NHAI) on 16.4.2016.

Compute the chargeable capital gain in the hands of Mr. Maheshwari for the A.Y. 2016-17.

Financial year	Cost Inflation Index
2000-01	406
2015-16	1081

(4 Marks)

(b) Decide the following transactions in the context of Income-tax Act, 1961:

(i) Mr. Sumit transferred 500 shares of Hindustan Uniliver Ltd. to M/s. Sumit Co. (P) Ltd. on 10.10.2015 for Rs.3,00,000 when the market price was Rs.5,00,000.The indexed cost of acquisition of shares for Mr. Sumit was computed at Rs.4,45,000.The transfer was not subjected to securities transaction tax.

Determine the income chargeable to tax in the hands of Mr. Sumit and M/s. Sumit Co. (P) Ltd. because of the above said transaction.

(ii) Mr. C is employed in a company with taxable salary income of Rs. 5,00,000. He received a cash gift of Rs. 1,00,000 from Streebal Charitable Trust (registered under section 12AA) in December 2015 for meeting his medical expenses.

Is the cash gift so received from the trust chargeable to tax in the hands of Mr. C? *(4 Marks)*

(c) Mr. Shyam, a first stage dealer of a machine in the State of Maharashtra, furnishes the following data:

S.No.	Particulars	Rs.
(i)	Total inter-State sales during current financial year (CST not shown separately)	93,87,000
(ii)	Above sales include:	
	Dharmada	11,00,000
	Freight (Rs. 1,20,000 is not shown separately in invoices)	3,20,000
	Cost of corrugated boxes specially designed for packing of the machinery	65,000
	Installation and commissioning charges shown separately	52,000

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

(d) Determine the amount of CENVAT credit available with Khatu Manufacturing Ltd. in respect of the following items procured by them in the month of March, 2016:

S.No.	**Item**	**Excise duty paid (Rs.)**
(i)	Raw materials used in the factory of Khatu Manufacturing Ltd.	72,000
(ii)	Goods used in the guest house primarily for the temporary stay of the newly recruited employee.	50,000

(iii)	Inputs used for making structures for support of capital goods	1,40,000
(iv)	Capital goods used as parts and components in the manufacture of final product	40,000

(4 Marks)

3. (a) Mr. Ved Prakash, working with Destiny Ltd., submits the following particulars of investments and payments made by him during the previous year 2015-16:

- Contributed Rs.2,10,000, being 15% of his salary, to the NPS of the Central Government. A matching contribution was made by Destiny Ltd.
- Payment of life insurance premium of Rs. 25,000 on the policy taken on 31.3.2012 to insure his life (Sum assured – Rs. 1,00,000).
- Paid mediclaim premium of Rs. 22,000 to insure his health and Rs. 26,000 to insure the health of his father, aged 65 years, not dependent on him.
- He spent Rs. 5,000 for the preventive health-check up of his wife and Rs. 5,000 for the preventive check up of his father.
- He has incurred an expenditure of Rs. 50,000 for the medical treatment of his mother (aged 62 years), being a person with severe disability.
- Deposit of Rs. 50,000 in a five year term deposit with bank.
- Deposit of Rs. 1,60,000 in public provident fund

(i) Compute the deduction available to Mr. Ved Prakash under Chapter VI-A for A.Y.2016-17.

(ii) Would your answer be different, if Mr. Ved Prakash contributed Rs. 1,40,000 (being, 10% of his salary) towards NPS of the Central Government ? *(8 Marks)*

(b) Smart Kitchen is a leading manufacturer of pressure cookers. Legal Metrology Act, 2009 requires declaration of retail sale price on the package of pressure cookers and pressure cookers are also notified under section 4A of Central Excise Act, 1944 [Retail Sale Price (RSP) based valuation] with notified rate of abatement of 25%.

Calculate excise duty payable on 50 pieces cleared during September, 2015 using the following information furnished by Smart Kitchen assuming the rate of excise duty as 12.5%.

No. of pieces sold	Particulars
10	RSPs printed on the package of pressure cooker are Rs. 4,500 and Rs. 3,800.
20	RSP printed on the package of 15 pieces sold in Delhi is Rs. 3,000 per piece

	RSP printed on the package of 5 pieces sold in Haryana is Rs. 2,800 per piece
20	RSP printed on the date of removal of package from factory is Rs. 3500 per unit. However, after removal from factory RSP is increased to Rs. 4,100 per piece

Would the provisions of section 4A of Central Excise Act, 1944 apply had the goods not been notified by Central Government and manufacturer voluntarily affixed RSP on the products? *(8 Marks)*

4. (a) The following are the particulars of income of Mr. Sameer and his two minor childern:

Particulars	**Rs.**
Income from Salary	3,50,000
Minor daughter has earned the following income:	
From a TV show	50,000
From interest on FD with a bank (deposited by Mr. Sameer from his income)	5,000
Minor son has earned the following income:	
From the sale of a own painting	10,000
From interest on FD with a bank (deposited by Mr. Sameer from his income)	1,000

Compute the gross total income of Mr. Sameer. *(4 Marks)*

(b) Ms. Suman, a non-resident, residing in US since 1990, came back to India on 19-02-2014 for permanent settlement in India. Explain the residential status of Ms. Suman for the Assessment Year 2016-17 in accordance with the various provisions of Income-tax Act, 1961. *(4 Marks)*

(c) Shiv and Co., a manufacturer of product 'X', sold its goods to a distributor at Rs. 11,250. The distributor sold the goods to wholesaler for Rs. 13,500. The wholesaler sold the goods to a retailer for Rs. 16,875. The retailer sold the goods to consumer at Rs. 22,500. All the sales were inclusive of VAT @ 12.5%.

Compute total VAT payable under the subtraction method. *(4 Marks)*

(d) Mr. Somnath, a service provider, has collected a sum of Rs. 15,000 as service tax from a client mistakenly, even though no service tax was chargeable on the service rendered by him. Mr. Somnath has not refunded such amount to the client. Should the amount so collected be remitted to the credit of the Central Government? Explain. *(4 Marks)*

5. (a) Mr. Mahesh is a Finance Executive at Fedex Ltd. The Income details are as follows:

Basic salary	Rs. 30,000 per month
Dearness allowance	30% of basic salary
Transport allowance (for commuting between place of residence and office)	Rs. 1,800 per month
Motor car running and maintenance charges fully paid by employer	Rs. 40,000

(The motor car is owned and driven by employee Mahesh. The engine cubic capacity is below 1.60 litres. The motor car is used for both official and personal purpose by the employee)

Expenditure on accommodation in hotels while touring on official duties met by the employer.	Rs. 30,000
Lunch provided by the employer during office hours.	
Cost to the employer	Rs. 12,000
Computer (cost Rs. 50,000) kept by the employer in the residence of Mahesh from 1.10.2015	
Interest on saving bank account	Rs.12,000
Mahesh made the following payments:	
Tuition fees for 2 children studying post-graduation courses at Madras University	Rs. 1,60,000
Medical insurance premium : Paid by cash	Rs. 5,000
Paid by cheque	Rs. 22,000
Expenditure on preventive health checkup (incurred in cash)	Rs.7,000

From the above, compute his total income for the Assessment Year 2016-17. *(8 Marks)*

(b) Examine whether central excise duty is leviable in the following situations:-

(i) Balaji Builders have constructed an office building for M/s ABC & Co.

(ii) Pawan Maintenance Services Ltd. provided maintenance services for refrigerators and air-conditioners. *(5 Marks)*

(c) Mahadev Association, an unincorporated body of individuals, provided warehousing services to Mr. Ganesh for Rs. 7,50,000. Mahadev Association is of the view that since it is not a natural person, warehousing service provided by it will not be a 'service' in terms of section 65B(44) of the Finance Act, 1994.

Examine whether the view taken by Mahadev Association is valid in law. *(3 Marks)*

6. (a) Ms. Neeraj has two flats in Kerala, both of which are self-occupied. The particulars of these are given below:

	(Value in Rs.)	
Particulars	**Flat at Munnar**	**Flat at Cochin**
Municipal Valuation per annum	1,20,000	1,15,000
Fair Rent per annum	1,40,000	1,60,000
Standard rent per annum	1,20,000	1,70,000
Date of completion of construction	1-01-2009	21-05-2003
Municipal taxes payable during the year (paid for Flat at Cochin only)	8%	12%
Interest on money borrowed for repair of property during current year	-	52,000

Compute income from house property in the hands of Ms. Neeraj for the Assessment Year 2016-17. Also, suggest which flat should be opted by Ms. Neeraj to be assessed as self-occupied so that her tax liability is minimum. *(8 Marks)*

(b) Vidya Coaching Classes Ltd. is a coaching centre. During the year ended 31.3.2016, it has collected a sum of Rs. 10.2 lakh as service tax, out of which Rs. 70,000 was paid by utilizing the CENVAT credit and balance was paid in cash on the respective due dates. The details pertaining to the month of July, 2016 are as under:

Particulars	**Rs.**
Free coaching rendered to a batch of 100 students (Value of similar services is Rs. 50,000)	
Coaching fees collected from students for the classes to be held in August, 2016	14,50,000
Advance received on 31.07.2016 from Laxmi College for teaching their students. However, due to some unavoidable reasons, no coaching was conducted and the advance money was returned on 12.08.2016.	3,42,000

Determine the service tax liability for the month of July, 2016.

Note: Service tax has not been charged separately. *(5 Marks)*

(c) Vishnu Ltd. imports certain goods from Germany. Since the goods have been imported from outside India and not manufactured in India, excise duty is not leviable on such goods. However, excise duty is charged indirectly by the Government on such imported goods. Do you agree? *(3 Marks)*

7. (a) Mr. Ravi submits his return of income on 12-09-2016 for A.Y 2016-17 consisting of income under the head salaries, "Income from house property" and bank interest. On 21-01-2017, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant assessment year. Discuss. *(4 Marks)*

(b) What are the provisions relating to tax deduction at source in respect of:

(i) Mr. Mohan sold his house to Mr. Sohan on 01-02-2016 for Rs. 60 lacs?

(ii) PQR and Co. Ltd. paid Rs. 19,000 to one of its Directors as sitting fees on 13-01-2016. *(4 Marks)*

(c) Shambhu Industries Ltd. (SIL) is an Indian Company. It has received taxable services from a UK based company-Charles Ltd. on 01.06.2015. Charles Ltd. raised on SIL an invoice of £ 45,000 on 27.06.2015. SIL debited its books of accounts on 07.07.2015 and made the payment on 25.08.2015.

Assuming that Charles Ltd. and SIL are associated enterprises, determine the point of taxation using aforesaid details. *(4 Marks)*

(d) ABC Pvt. Ltd. manufactures beauty soap with the brand name 'Fresh'. ABC Pvt. Ltd. has organized a concert to promote its brand. Ms. Shipra 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. Shipra Kapoor will be required to pay any service tax. *(4 Marks)*

Test Series: August, 2016

MOCK TEST PAPER– 1

INTERMEDIATE (IPC) – GROUP – I

PAPER – 4: TAXATION

SUGGESTED ANSWERS/HINTS

1. (a) **Computation of total income and tax liability of Dr. Chetan Bhagat for the A.Y.2016-17**

Particulars	Rs.
Income from salary (Working Note – 1)	96,000
Income from business (Working Note – 2)	2,57,050
Long-term capital gains (Working Note – 3)	2,88,432
Income from other sources (Working Note – 4)	60,000
Gross Total Income	**7,01,482**
Less: Deduction under Chapter VI-A (Working Note – 5)	1,55,000
Total Income	**5,46,482**
Rounded off	**5,46,480**

Working Notes:

1. **Computation of salary income**

Particulars	Rs.
Gross Salary (Rs.8,000×12)	96,000
Less: Deduction under section 16	Nil
Net Salary	**96,000**

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

Particulars	Rs.	Rs.
Net Income as per Income and Expenditure Account		2,51,800
Add: Expenses disallowed:		
Depreciation (Rs.91,000 –Rs.50,000)	41,000	
Cost of medicine for self-use	25,000	
Donation to Prime Minister's National Relief Fund	5,000	71,000
		3,22,800

Less: Dividend from Indian companies	15,000	
Income-tax refund	2,750	
Winning from Lotteries	28,000	
Honorarium for valuing answer books	20,000	65,750
		2,57,050

3. **Computation of Capital Gains**

Particulars	Rs.	Rs.
Sale consideration	12,00,000	
Valuation as per Stamp Valuation Authority	14,00,000	
(Value to be taken is the higher of actual sale consideration or valuation adopted for stamp duty purposes as per section 50C)		
Consideration for the purpose of capital gain		**14,00,000**
Less: Cost of acquisition = Rs.4,00,000x 1081/389		11,11,568
Long term capital gain		**2,88,432**

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

Particulars	Rs.	Rs.
Dividend from Indian Companies [Exempt u/s 10(34)]		-
Honorarium for valuing answer books		20,000
Winning from Lotteries (Net)	28,000	
Add: TDS	12,000	40,000
Income from other sources		**60,000**

Note: As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

5. **Computation of deduction under Chapter VI-A**

Particulars	Rs.
U/s 80C Life Insurance Premium (whole amount is allowed as deduction since it is within the limit of 10% of sum assured)	45,000
PPF	1,50,000
	1,95,000
Restricted to	1,50,000

U/s 80G Donation to Prime Minister's National Relief Fund [See Note below]	5,000
Total deduction under Chapter VI-A	**1,55,000**

Note –The donation made to the Prime Minister's National Relief Fund qualifies for 100% deduction under section 80G.

(b) As per rule 6 of the Service Tax (Determination of Value) Rules, 2006, only the commission received by the air travel agent from the airlines is included in the value of taxable service. The air fare collected by the air travel agent in respect of the service provided by him does not form part of the value of taxable service. Accordingly, the service tax liability of Mr. P would be computed as under:

Particulars	**Rs.**
Basic air fare collected for domestic booking of tickets	Nil
Basic air fare collected for international booking of tickets	Nil
Commission received from the airlines on the sale of domestic and international tickets	5,00,000
Value of taxable service	5,00,000
Service tax @ 14%	**70,000**
Add: Swachh Bharat Cess (SBC) @ 0.5% (Rs.5,00,000 x 0.5%)	2,500
Total Service tax payable	**72,500**

However, if Mr. P opts for the special provision for payment of service tax as provided under rule 6 of the Service Tax Rules, 1994, service tax liability would be computed as under:

Particulars	**Rs.**
0.7% of the basic air fare collected for domestic booking of tickets [Rs.50,00,000 × 0.7%]	35,000
1.4% of the basic air fare collected for international booking of tickets [Rs.80,00,000× 1.4%]	1,12,000
Service tax	**1,47,000**
Add: Swachh Bharat Cess (SBC) @ 0.5% (Rs.1,47,000 x $\frac{0.5}{14}$)	5,250
Total Service tax payable	**1,52,250**

Therefore, as can be seen from the above two computations of service tax, the service tax liability of Mr. P would not be reduced in the aforesaid option.

2. (a) Computation of chargeable capital gain of Mr. Maheshwari for the A.Y.2016-17

Particulars	Rs.
Sale consideration	1,00,00,000
Less: Indexed cost of acquisition (Rs.9,99,300 × 1081/406)	26,60,698
	73,39,302
Less: Deduction under section 54EC (See Note 3 below)	50,00,000
Long term capital gain	**23,39,302**

Note:

(1) Since the site was held for more than 36 months prior to the date of transfer, it is a long-term capital asset and the capital gain arising upon its transfer is long-term capital gain.

(2) In order to claim exemption under section 54EC, Mr. Maheshwari has to invest in specified bonds of RECL or NHAI within a period of 6 months from the date of transfer of the asset.

(3) As per second proviso to section 54EC(1), out of capital gains arising from transfer of one or more capital assets in a financial year, the investment eligible for exemption, cannot exceed Rs.50 lakhs, whether such investment is made in the same financial year or in the subsequent financial year or in both the years.

In this case, Mr. Maheshwari has invested Rs. 50 lakhs in RECL bonds in the F.Y.2015-16 and Rs. 20 lakhs in NHAI bonds in the F.Y.2016-17, both within six months from the date of transfer. However, he would be eligible for exemption of only Rs. 50 lakhs for investment made in such bonds.

(b) (i) Transfer of shares without consideration or for inadequate consideration would attract the provisions of section 56(2)(viia), if the recipient is a firm or a company. The purpose of this provision is to prevent the practice of transferring unlisted shares at prices much below the fair market value.

The provisions of section 56(2)(viia) would, however, not be attracted in the case of, *inter alia*, transfer of shares of a company in which public are substantially interested. In this case, the shares of Hindustan Uniliver Ltd. are transferred. Since Hindustan Uniliver Ltd. is a company in which public are substantially interested, the provisions of section 56(2)(viia) would not be attracted in the hands of M/s. Sumit Co. (P) Ltd.

The indexed cost of acquisition (Rs. 4,45,000) less the actual sale consideration (Rs. 3,00,000) would result in a long term capital loss of Rs. 1,45,000 in the hands of Mr. Sumit, which is eligible for set off against any other long term capital gain.

(ii) The provisions of section 56(2)(vii) would not apply to any sum of money or any property received from any trust or institution registered under section 12AA. Therefore, the cash gift of Rs.1 lakh received from Streebal Charitable Trust, being a trust registered under section 12AA, for meeting medical expenses would not be chargeable to tax under section 56(2)(vii) in the hands of Mr. C.

(c) Computation of Mr. Shyam's CST payable

Particulars	Rs.	Rs.
Total inter-State sales		93,87,000
Less: Freight shown separately in the invoices [Note-2]	2,00,000	
Installation and commissioning charges shown separately [Note-3]	52,000	2,52,000
Turnover including CST		91,35,000
CST payable = $91{,}35{,}000 \times \frac{2}{102}$ (B) [Note-4]		1,79,118

Notes:

1. Dharmada and cost of packing material are includible while calculating turnover.
2. Freight charges of Rs.1,20,000 are not deductible while calculating the turnover as they are not shown separately in invoices. Remaining amount of freight, shown separately in the invoices, is deductible.
3. Installation and commissioning charges are deductible while calculating the turnover since shown separately in the invoices.
4. The CST on transactions covered by valid 'C' Form is 2% or the sales tax rate within the State, whichever is lower. Since, in this case, the State sales-tax rate is higher than 2%, the rate of CST is taken as 2%.

(d) Computation of CENVAT credit available with Khatu Manufacturing Ltd.

Particulars	Rs.
Raw materials used in the factory of Khatu Manufacturing Ltd.	72,000
Goods used in the guest house primarily for the temporary stay of the newly recruited employees. [Note 1]	Nil
Inputs used for making structures for support of capital goods [Note 1]	Nil
Capital goods used as parts and components in the manufacture of final product [Note 2]	40,000
Total CENVAT credit available	**1,12,000**

Notes:

1. As per the definition of inputs, there is specific exclusion with regard to the following:-
   (i) goods used in a guest house when the same are used primarily for personal use or consumption of any employee.
   (ii) goods used for making of structures for support of capital goods.

   Thus, CENVAT credit cannot be claimed in respect of the above goods.
2. Though definition of inputs specifically excludes capital goods, capital goods used as parts or components in the manufacture of a final product are included therein. Thus, CENVAT credit will be available on the same.

3. (a) (i) Deduction available to Mr. Ved Prakash under Chapter VI-A for A.Y.2016-17

Section	Particulars	Rs.	Rs.
80C	Deposit in public provident fundRs.1,60,000 (deduction restricted to Rs.1,50,000)	1,50,000	
	Life insurance premium paid Rs.25,000 (deduction restricted to Rs.20,000, being 20% of Rs.1,00,000, which is the sum assured, since the policy was taken before 01.04.2012)	20,000	
	Five year term deposit with bank	50,000	
		2,20,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, Rs.1,60,000 [Rs.2,10,000 – Rs.50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [Rs.2,10,000 x 10/15] **[See Note 1]**		1,40,000
			2,90,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), Rs.2,90,000, but restricted to		1,50,000
80CCD(1B)	Rs.50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000
80CCD(2)	Employer contribution to NPS, restricted to 10% of salary **[See Note 2]**		1,40,000
80D	(i) (a) Medical insurance premium for self	22,000	
	(b) Preventive health check up Rs.5,000 for wife restricted to Rs.3,000 (Rs.25,000 - Rs.22,000, since maximum allowable deduction		

	is Rs.25,000)	3,000 **25,000**	
	(ii) (a) Health Insurance premium for his father	26,000	
	(b) Preventive health check up Rs.5,000 restricted to Rs.2,000 (Rs.5,000 - Rs.3,000), since maximum allowable deduction in respect of preventive health check up under section 80D is Rs.5,000[1].		
	Whole of the amount of Rs.28,000 allowed as deduction, since maximum allowable deduction is Rs.30,000, where the parent is a senior citizen.	2,000 **28,000**	
	Total of (i) and (ii)		**53,000**
80DD	Deduction of Rs.1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is Rs.50,000		1,25,000
	Deduction under Chapter VI-A		**5,18,000**

Notes:

(1) The deduction under section 80CCD(1B) would not be subject to overall limit of Rs.1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Ved Prakash to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of Rs.1,60,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e.Rs.1,40,000.

(2) The entire employer's contribution to notified pension scheme has to be first included under the head "Salaries" while computing gross total income and thereafter, deduction under section 80CCD(2) would be allowed, subject to a maximum of 10% of salary. Deduction under section 80CCD(2) is also not subject to the overall limit of Rs.1,50,000 under section 80CCE

(ii) If the contribution towards NPS is Rs.1,40,000, here again, it is beneficial for Mr. Ved Prakash to first claim deduction of Rs.50,000 under section

[1] In the alternative, preventive health check-up of Rs.4,000 of his father can be claimed, in which case, expenses on preventive health check-up of wife can be claimed only to the extent of Rs.1,000. In such case also, the total deduction under section 80D would be Rs.53,000 (Rs.23,000 + Rs.30,000)

80CCD(1B) and the balance of Rs.90,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of Rs.1,50,000 under section 80CCE. In any case, the aggregate deduction of Rs.2,40,000 [i.e., Rs.1,50,000 under section 80C and Rs.90,000 under section 80CCD(1)] cannot exceed the overall limit of Rs.1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., Rs.5,18,000.

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

Particulars	**Rs.**	**Rs.**
RSP of 10 pieces (10 × Rs.4,500) (Note-1)	45,000	
Less: Abatement @ 25%	11,250	
Assessable value (A)		33,750
RSP of 15 pieces sold in Delhi (15 × Rs.3,000) (Note-2)	45,000	
Less: Abatement @ 25%	11,250	
Assessable value (B)		33,750
RSP of 5 pieces sold in Haryana (5 × Rs.2,800) (Note 2)	14,000	
Less: Abatement @ 25%	3,500	
Assessable value (C)		10,500
RSP of 20 pieces (20 × Rs.4,100) (Note-3)	82,000	
Less: Abatement @ 25%	20,500	
Assessable value (D)		61,500
Total assessable value (A) +(B)+(C)+(D)		1,39,500
Excise duty @ 12.5% [12.5% of Rs.1,39,500]		17,437.50
Total excise duty payable (rounded off)		**17,438**

Notes:

1. Where more than one RSP is declared on the package of excisable goods, the maximum of such price will be deemed to be the RSP.
2. If different RSPs on different packages are declared for different areas, each such RSP is deemed to be the RSP.
3. If RSP on the package is increased after removal from factory, increased RSP would be deemed to be the RSP.

All goods on which RSP has been declared will not be covered under the provisions of section 4A. Only when the declaration of RSP on the goods is mandatory under the Legal Metrology Act, 2009 or under any other law and such goods have been notified by the Central Government for the purpose of section 4A, then the goods be valued under section 4A. Thus, provisions of section 4A of Central Excise Act, 1944 would not apply if the goods had not been notified by Central Government and manufacturer voluntarily affixed RSP on the products.

4. (a) Computation of Gross Total Income of Mr. Sameer

Particulars	Rs.	Rs.
Income from Salary		3,50,000
Income from other sources:		
Minor Daughter's income		
Income from T.V. show (See Note below)		Nil
Interest income from FD with a Bank	5,000	
Less : Exempt under section 10(32)	1,500	3,500
Minor son's income		
Income from sale of self made painting (See Note below)		Nil
Interest income from FD with a Bank	1,000	
Less : Exempt under section 10(32)	1,000	Nil
Gross Total Income		**3,53,500**

Note: The income derived by the minor from manual work or from any activity involving exercise of his skill, talent or specialised knowledge or experience will not be included in the income of his parent. Hence, in the given case Rs.50,000 being the income of the minor daughter from TV show and Rs.10,000 being the income of minor son from sale of own painting, shall not be clubbed in the hands of Mr. Sameer.

(b) Determination of residential status of Ms. Suman for the A.Y. 2016-17

Ms. Suman is a resident since she has stayed in India for 365 days during the P.Y. 2015-16. Therefore she satisfies the condition of stay in India for a period of 182 days or more in the relevant previous year as per the requirement under section 6(1).

As per section 6(6), an individual is said to be "not ordinarily resident" in India in any previous year, if he has:

(a) been a non-resident in India in nine out of ten previous years preceding the relevant previous year; or

(b) during the seven previous years immediately preceding the relevant previous year, been in India for a period of, or periods amount in all to, 729 days or less.

Ms. Suman must, therefore, satisfy either of the conditions to qualify as a not-ordinarily resident.

Ms. Suman was a non-resident in India up to A.Y.2014-15.

She was resident in India only for P.Y. 2014-15 (A.Y.2015-16) out of the ten previous years preceding P.Y. 2015-16 (A.Y.2016-17).

This implies that she has been a non-resident in India in nine out of ten previous years preceding P.Y. 2015-16 (A.Y. 2016-17).

Further, she was in India only for a period of 406 days [i.e., 10 days in February, 2014 + 31 days in March 2014 + 365 days during the P.Y.2014-15] in the seven previous years preceding P.Y. 2015-16 (A.Y.2016-17).

Therefore, since Ms. Suman satisfies both the conditions for "not-ordinarily resident", her residential status for A.Y.2016-17 would be "Resident but not ordinarily resident"

(c) Computation of VAT payable by Shiv & Co. under subtraction method

Particulars	Value added (Rs.)	VAT (Rs.)
Sale by manufacturer to distributor	11,250	$\left[11,250 \times \frac{12.5}{112.5}\right]$ = 1,250
Sale by distributor to wholesaler	13,500 - 11,250 = 2,250	$\left[2,250 \times \frac{12.5}{112.5}\right]$ = 250
Sale by wholesaler to retailer	16,875 - 13,500 = 3,375	$\left[3,375 \times \frac{12.5}{112.5}\right]$ = 375
Sale by retailer to consumer	22,500 - 16,875 = 5,625	$\left[5,625 \times \frac{12.5}{112.5}\right]$ = 625
Total VAT payable		**2,500**

(d) Section 73A of the Finance Act, 1994 casts an obligation on every person who has collected any amount, which is not required to be collected, from any other person, in any manner as representing service tax, to forthwith remit the same to the credit of the Central Government.

Hence, Mr. Somnath has to remit the amount collected mistakenly as service tax to the credit of the Central Government.

5. (a) Computation of taxable income of Mr. Mahesh for the A.Y. 2016-17

Particulars	Rs.	Rs.
<u>Income from salary</u>		
Basic salary (Rs.30,000 x 12)		3,60,000

Dearness allowance @ 30%		1,08,000
Transport allowance (Rs.1800 x 12)	21,600	
Less: Exemption under section 10(14) (read with Rule 2BB@ Rs.1,600 p.m.)	19,200	2,400
Motor car maintenance borne by employer [Rs.40,000-Rs.21,600 (i.e., Rs.1,800 $\times$ 12)]		18,400
Expenditure on accommodation while on official duty not a perquisite and hence not chargeable to tax		Nil
Value of lunch provided during working hours (not chargeable to tax as per Rule 3(7)(iii)-free food provided by the employer during working hours is not treated as perquisite provided that the value thereof does not exceed fifty rupees per meal)		Nil
Computer provided in the residence of employee by the employer – not chargeable to tax [Rule 3(7)(vii)]		Nil
Income from other sources		
Interest on saving bank account		12,000
Gross Salary		**5,00,800**
Less: Deduction under Chapter VI-A		
Under section 80C		
Tuition fees paid for two children Rs.1,60,000		
Restricted to		1,50,000
Under section 80D		
Medical insurance premium otherwise than by way of cash would only be allowed as deduction. Hence, only premium paid by cheque would be deductible	22,000	
Expenditure on Preventive health checkup restricted to Rs.5,000 (payment made in cash would also qualify for deduction)	5,000	
	27,000	
Restricted to overall limit of		25,000
Under section 80TTA		
Interest on saving bank account Rs.12,000, subject to a limit of Rs.10,000		10,000
Total income		**3,15,800**

(b) **(i)** **No.** Excise duty is leviable only when manufacture results in goods that are excisable. For being called goods, items ought to be movable and marketable. Since office building is marketable but not movable, it is not 'goods' but an immovable property. Hence, excise duty is not leviable on construction of office building.

(ii) **No**. Excise duty is leviable on manufacture of excisable goods. However, activity of maintenance of refrigerators and air conditioners is not 'manufacture' as it does not result into emergence of a new article having different name, character or use. Thus, since the activity is not 'manufacture', excise duty is not leviable on the same.

(c) The view taken by Mahadev Association is not valid in law. As per section 65B(44) of the Finance Act, 1994, service means, *inter alia*, any activity for consideration carried out by a person for another. The term 'person' is not restricted to a natural person. The definition of person under section 65B(37), includes, *inter alia*, body of individuals, whether incorporated or not.

Thus, Mahadev Association is a person as it is a body of individuals and services provided by it would come under purview of definition of 'service' under section 65B(44) of the Finance Act, 1994.

6. **(a)** In this case, Neeraj has more than one house property for self-occupation. As per section 23(4), Neeraj can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of one of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the expected rent would be the gross annual value. Neeraj should, therefore, consider the most beneficial option while deciding which flat should be treated by her as self-occupied.

OPTION 1 [Flat at Munnar – Self-occupied and Flat at Cochin – Deemed to be let out]

If Flat at Munnar is opted to be self-occupied, Neeraj's income from house property for A.Y.2016-17 would be –

Particulars	Amount in Rs.
Flat at Munnar (Self-occupied) [Annual value is Nil]	Nil
Flat at Cochin(Deemed to be let-out) ***[See Working Note below]***	50,340
Income from house property	**50,340**

OPTION 2 [Flat at Munnar – Deemed to be let out and Flat at Cochin – Self-occupied]

If Flat at Cochin is opted to be self-occupied, Neeraj's income from house property for A.Y.2016-17 would be –

Particulars	Amount in Rs.
Flat at Munnar (Deemed to be let-out) ***[See Working Note below]***	84,000
Flat at Cochin (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of Rs.30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to Rs.30,000, irrespective of the date of borrowal].	(30,000)
Income from house property	**54,000**

Since Option 1 is more beneficial, Neeraj should opt to treat Flat at Munnar as Self-occupied and Flat at Cochin as Deemed to be let out, in which case, her income from house property would be Rs.50,340 for the A.Y. 2016-17.

Working Note:

Computation of income from Flats at Munnar & Cochin assuming that both are deemed to be let out

Particulars	Amount in Rupees	
	Flat at Munnar	Flat at Cochin
Gross Annual Value (GAV)		
Expected Rent is the GAV of house property		
Expected Rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,20,000	1,60,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	13,800
Net Annual Value (NAV)	**1,20,000**	**1,46,200**
Less: **Deductions under section 24**		
(a) 30% of NAV	36,000	43,860
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	52,000
Income from deemed to be let-out house property	**84,000**	**50,340**

(b) Computation of service tax liability of Vidya Coaching Classes Ltd. for the month of July, 2016

Particulars	Rs.
Free coaching rendered (Note-1)	Nil
Coaching fees collected from students (Note 2)	14,50,000
Advance received from Laxmi college (Note 2 & 3)	3,42,000
Value of taxable services including service tax	17,92,000
Service tax liability $\left(\frac{17,92,000 \times 14.5}{114.5}\right)$ **(rounded off) (including Swachh Bharat Cess)**	**2,26,934**

Notes:

1. Service is an activity carried out *inter alia* for a consideration. Therefore, since no consideration is involved in case of free services, service tax is not payable thereon.

2. Since, services agreed to be provided are also chargeable to service tax, advance received will also be liable to service tax.

   Advance received is taxable at the time when such advance is received [Rule 3 of the Point of Taxation Rules, 2011].

3. Advance received from Laxmi college for teaching their students will also be chargeable to service tax. It is immaterial that no coaching was conducted and the money was returned on 12.08.2016.

   Service tax of Rs.43,310 [Rs.3,42,000 x $\frac{14.5}{114.5}$] (including Swachh Bharat Cess) included in the amount so refunded would be adjusted against service tax liability of subsequent periods.

4. Since the service tax collected in preceding financial year is Rs.10.2 lakh, the aggregate value of taxable services must have exceeded Rs.10 lakh in said FY. Thus, Vidya Coaching Classes Ltd. is not eligible for SSP exemption in the current financial year.

(c) Though excise duty cannot be charged on imported goods, an additional duty of customs also known as countervailing duty (CVD) which is equal to excise duty on similar goods manufactured in India is payable on the imported goods. CVD is payable on assessable value plus basic customs duty. Thus, indirectly, excise duty is levied on imported goods.

7. **(a)** Since Mr. Ravi has income only under the heads "Salaries", "Income from house property" and "Income from other sources", he does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961 or any other law in force. Therefore, the due date of filing return for A.Y.2016-17 under section 139(1), in his case, is 31st July, 2016. Since Mr. Ravi had submitted his return only on 12.9.2016, the said return is a belated return under section 139(4).

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

(b) **(i)** Section 194-IA requires every person, being a transferee, responsible for paying any sum as consideration for transfer of any immovable property (other than agricultural land), to deduct tax @ 1% of such sum, at the time of credit of such sum to the account of the resident transferor or at the time of payment of such sum to a resident transferor, whichever is earlier.

Such tax is required to be deducted at source where the consideration for transfer of immovable property is Rs.50 lakhs or more.

In this case, since the consideration for transfer of house exceeds Rs.50 lakhs, Mr. Sohan is liable to deduct tax at source@1% under section 194-IA on the consideration of Rs.60 lakhs payable for transfer of house to Mr. Mohan.

(ii) Section 194J provides for deduction of tax at source @10% from any sum paid by way of any remuneration or fees or commission, by whatever name called, to a resident director, which is not in the nature of salary on which tax is deductible under section 192. The threshold limit of Rs.30,000 upto which the provisions of tax deduction at source are not attracted in respect of every other payment covered under section 194J is, however, not applicable in respect of sum paid to a director.

Therefore, tax @ 10% has to be deducted at source under section 194J in respect of the sum of Rs.19,000 paid by PQR Ltd. to its director.

(c) In case of "associated enterprises", where the person providing the service is located outside India, the point of taxation shall be:-

(a) the date of debit in the books of account of the person receiving the service

or

(b) date of making the payment

whichever is earlier.

Hence, in the given case, the point of taxation shall be earlier of the following two dates:-

(a) the date of debit in the books of account of SIL i.e. 07.07.2015

or

(b) date of making the payment i.e. 25.08.2015

Thus, the point of taxation is 07.07.2015.

(d) Services by an artist by way of a performance in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre are exempt from service tax vide Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*, if the consideration charged for such performance is not more than Rs.1,50,000. However, such exemption is not available in respect of service provided by such artist as a brand ambassador.

Since Ms. Shipra Kapoor is the brand ambassador of 'Fresh' soap manufactured by ABC Pvt. Ltd., the services rendered by her by way of a classical dance performance in the concert organized by ABC 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.