PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2015 EXAMINATION

A. <u>Applicable for May, 2015 examination</u>

Revision in the Criteria for classifying Level II Non-Corporate Entities

Due to recent changes in the enhancement of tax audit limit, the Council of the ICAI has recently decided to change the 1st criteria of Level II Non-Corporate Entities i.e. determination of SME on turnover basis from ₹ 40 lakhs to ₹ 1 Crore vide announcement "Revision in the Criteria for classifying Level II Non-Corporate Entities" issued by ICAI on 7th March, 2013. This revision is applicable with effect from the accounting year commencing on or after April 1, 2012.

Companies Act, 2013

The relevant Sections of the Companies Act, 2013 notified up to 30th September 2014 will be applicable for May, 2015 Examination.

B. Not applicable for May, 2015 examination

Ind ASs issued by the Ministry of Corporate Affairs

The MCA has hosted on its website 35 converged Indian Accounting Standards (Ind AS) without announcing the applicability date. These are the standards which are being converged by eliminating the differences of the Indian Accounting Standards vis-à-vis IFRS. **These Ind ASs are not applicable for the students appearing in May, 2015 Examination.**

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (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	₹
Authorised capital:	
15,000, 14% preference shares of ₹ 100	15,00,000
1,50,000 Equity shares of ₹ 100 each	1,50,00,000
	1,65,00,000
Issued and subscribed capital:	
15,000, 14% preference shares of ₹ 100 each fully paid	15,00,000
1,20,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	96,00,000
Capital reserves (₹ 1,50,000 is revaluation reserve)	1,95,000
Securities premium	50,000
15% Debentures	65,00,000
Unsecured loans: Public deposits repayable after one year	3,70,000
Investment in shares, debentures, etc.	75,00,000
Profit and Loss account (debit balance)	15,25,000

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

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

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

The company had an accumulated loss of ₹ 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.

Cash Flow Statement

2. PQ Ltd. gives you the following summarized balance sheets. You are required to prepare Cash Flow Statement by using indirect method as per AS 3 for the year ended 31.03.2014:

Balance Sheet as on

Liabilities	*31st March 2013*	*31st March 2014*	*Assets*	*31st March 2013*	*31st March 2014*
	₹	₹		₹	₹
Capital	50,00,000	50,00,000	Plant & Machinery	27,30,000	40,70,000
Retained Earnings	26,50,000	36,90,000	Less: Depreciation	6,10,000	7,90,000
Debentures	–	9,00,000		21,20,000	32,80,000
Current Liabilities					
Trade Payables	8,80,000	8,20,000	Trade Receivables	23,90,000	28,30,000
Bank Loan	1,50,000	3,00,000	Less: Provision	1,50,000	1,90,000
Liability for expenses	3,30,000	2,70,000		22,40,000	26,40,000
Dividend payable	1,50,000	3,00,000	Cash	27,00,000	33,20,000
			Inventories	20,10,000	19,20,000
			Prepaid Expenses	90,000	1,20,000
	91,60,000	1,12,80,000		91,60,000	1,12,80,000

Additional Information:

(i) Net profit for the year ended 31st March, 2014, after charging depreciation ₹ 1,80,000 is ₹ 22,40,000.

(ii) Trade Receivables of ₹ 2,30,000 were determined to be worthless and were written off against the provisions for doubtful debts account during the year.

(iii) PQ Ltd. declared dividend of ₹ 12,00,000 for the year 2013-2014.

Profit/Loss prior to Incorporation

3. 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 ₹ 24,00,000 of which ₹ 4,80,000 were for the first six months. The Gross profit of the company ₹ 3,90,800. The expenses debited to the Profit & Loss Account included:

(i) Director's fees ₹ 30,000

(ii) Bad debts ₹ 7,200

(iii) Advertising ₹ 24,000

(iv) Salaries and General Expenses ₹ 1,28,000

(v) Preliminary Expenses written off ₹ 10,000

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2014.

Accounting for Bonus Issue

4. 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 ₹100 each	4,50,000
Capital Reserve (including ₹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.

Internal Reconstruction of a Company

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

Liabilities	₹	*Assets*	₹
15,000, 10% Preference shares of ₹ 100 each	15,00,000	Land & Buildings Plant & Machinery	15,00,000 10,00,000
35,000 Equity shares of ₹ 100 each	35,00,000	Inventory	6,00,000
Securities Premium account	1,00,000	Trade receivables	15,00,000
7% Debentures of ₹ 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 ₹ 25.

(ii) Each existing Preference share to be reduced to ₹ 75 and then exchanged for 1 new 13% Preference share of ₹ 50 each and 1 Equity share of ₹ 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 ₹ 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 ₹ 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 ₹ 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 ₹ 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 ₹ 4,00,000, ₹ 1,00,000 and ₹ 1,50,000 respectively. Increase the value of Land and Buildings to ₹ 18,00,000.

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

Pass necessary Journal Entries to record the above transactions.

Amalgamation of Companies

6. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:

P Limited
Balance Sheet as at 31.03.2014

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserves & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8 % Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	54,000
Total	3,34,000
II. Assets	
1. Non-current Assets	
(a) Fixed Assets	
Building at cost less Depreciation	1,00,000

Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at bank	30,000
Total	3,34,000

Q Limited
Balance Sheet as at 31.03.2014

Particulars	*Amount (₹)*
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserves & Surplus	
General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities	
Trade Payables	1,40,000
Total	5,45,000
II. Assets	
1. Non-current assets	
(a) Fixed Assets	
Building at cost less depreciation	1,90,000
Plant & Machinery at cost less depreciation	80,000
Furniture & Fixture at cost less depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at bank	58,000
Total	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

(i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.

(ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.

(iii) The Trade receivables of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the trade payables are to be paid out of the proceeds thereof.

(iv) The debentures of P Ltd. are to be discharged by issue of 8% 11,000 debentures of PQ Ltd. at a premium of 10%.

You are required to:

(i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.

(ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation.

Average Due Date

7. Mehnaaz accepted the following bills drawn by Shehnaaz:

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

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

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

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

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

Account Current

8. The following are the transactions that took place between Rohan & Sunil during the half year ended 30th June, 2014:

		₹
I	Balance due to Rohan by Sunil on 1 January, 2014	3,010
ii	Goods sold by Rohan to Sunil on 7 January, 2014	4,430
iii	Goods purchased by Rohan from Sunil on 16 February, 2014	6,480
iv	Goods returned by Rohan to Sunil on 18 February, 2014 (out of the purchases of 16 February, 2014)	560
v	Goods sold by Sunil to Rohan on 24th March, 2014	3,560
vi	Bill accepted by Rohan at 3 months on 22nd April, 2014	1,500
	Cash paid by Rohan to Sunil on 29th April, 2014	2,500
vii	Goods sold by Rohan to Sunil on 17th May, 2014	2,710
viii	Goods sold by Sunil to Rohan on 22nd June, 2014	2,280

Draw up an account current to be rendered by Sunil to Rohan charging interest @ 10% per annum.

Hire Purchase Transactions

9. Globus Ltd. acquired a delivery van on hire purchase on 01.04.2014 from Ganesh Enterprises. The terms were as follows:

Particulars	Amount (₹)
Hire Purchase Price	1,80,000
Down Payment	30,000
1st installment payable after 1 year	50,000
2nd installment after 2 years	50,000
3rd installment after 3 years	30,000
4th installment after 4 years	20,000

Cash price of van ₹ 1,50,000 and depreciation is charged at 10% WDV.

You are required to calculate Total Interest and Interest included in each installment

Self Balancing Ledgers

10. Prepare the General Ledger Adjustment Account as will appear in the Debtors' Ledger from the information given below:

	Dr.	*Cr.*
	₹	₹
Balances on 1.4.2013		
Debtors' Ledger	94,400	480
Transactions for the year ended 31.3.2014:		
Credit sales	2,24,000	
Received from debtors (in full settlement of ₹ 1,18,000)	1,16,400	
Returns from debtors	5,200	
Bills accepted by customers	40,200	
Bills receivables dishonoured	3,000	
Bills receivable discounted	10,000	
Bills receivable endorsed to creditors	8,000	
Endorsed bills dishonoured	2,000	
Bad debts written off	5,000	
Balance on 31.3.2014		
Debtors' ledger	760	

Financial Statements of Not for Profit Orgnisations

11. (a) Elite Club (not registered under the Companies Act, 2013) has 200 members with an annual subscription of ₹ 3,600 payable by every member. An analysis of subscriptions received by the club during the accounting year ended on 31st March, 2015 revealed the following:

	₹
For the year 2013-14	25,200
For the year 2014-15	6,98,400
For the year 2015-16	7,200
	7,30,800

On 31st March, 2015 it was noted that a sum of ₹ 3,600 was still in arrears for the year ended 31st March, 2014. Calculate the amount of subscriptions that will appear on the credit side of the Club's Income and Expenditure Account for the year ended 31st March, 2015. Also show how items relating to subscriptions will appear in the Balance Sheet dated 31st March, 2015.

(b) 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

	₹		₹
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*
	₹	₹
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 ₹ 7,000. Entrance fees capitalized ₹ 4,000. On 1st April, 2014 there was no cash in hand but Bank Overdraft was for ₹ 15,000. On 31st March, 2015. Cash in hand amounted to ₹ 850 and the rest was Bank balance.

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

Investment Accounts

12. A Pvt. Ltd. follows the calendar year for accounting purposes. The company purchased 5,000 nos. of 13.5% Convertible Debentures of Face Value of ₹ 100 each of P Ltd. on 1st May 2014 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st March & 30th September respectively. On August 1st 2014 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2014 the company sold 2,000 Debentures @ ₹ 103 each. On 31st December, 2014 the company received 10,000 equity shares of ₹ 10 each in P Ltd. on conversion of 20% of its holdings. The market value of the debentures and equity shares as at the close of the year were ₹ 106 and ₹ 9 respectively. Prepare the Debenture Investment Account & Equity Shares Investment Account in the books of A Pvt. Ltd. for the year 2014 on Average Cost Basis.

Accounts from Incomplete Records

13. From the following information in respect of Mr. X, prepare Trading and Profit and Loss Account for the year ended 31st March, 2015 and a Balance Sheet as at that date:

		31-03-2014	31-03-2015
		₹	₹
(1)	Liabilities and Assets:		
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	9,500
(2)	Receipts and Payments during 2014-2015:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000
	Proceeds of Bills receivable discounted at 2%		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2014		20,000
	4% Government securities purchased at 96% on 1-10-2014		1,92,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of one third on the sale proceeds.		
(4)	Goods costing ₹ 18,000, were issued as samples to distributors.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. Of these, Bills amounting to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		
(7)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance of 9,500 on 31st March, 2015 (as shown above), is after taking the same into account.		

Insurance Claims for loss of Profit and Loss of Stock

14. (a) The premises of X Ltd. caught fire on 22nd January, 2015 and the stock was damaged. The value of goods salvaged was negligible. The firm made up accounts to 31st March each year. On 31st March, 2014 the stock at cost was ₹13,27,200 as against ₹ 9,62,200 on 31st March 2013.

Purchases from 1st April, 2014 to the date of fire were ₹ 34,82,700 as against ₹ 45,25,000 for the full year 2013-2014 and the corresponding sales figures were ₹ 49,17,000 and ₹ 52,00,000 respectively.

You are given the following further information:

(i) In July, 2014, goods costing ₹ 1,00,000 were given away for advertising purposes, no entries being made in the books.

(ii) The rate of gross profit is constant.

X Ltd. had taken an insurance policy of ₹ 5,50,000 which was subject to the average clause. From the above information, you are required to make an estimate of the stock in hand on the date of fire and compute the amount of the claim to be lodged to the insurance company.

(b) A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

	₹
Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of ₹ 30,000.

Issues in Partnership Accounts

15. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2011. Initially both of them contributed ₹ 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*
	₹	₹	₹	₹
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	₹	*Assets*	₹
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. A large size hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

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

Raw material X	
Closing balance	500 units
	₹ 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
	₹ per unit
Material consumed	220
Direct labour	60
Direct overhead	40

Total Fixed overhead for the year was ₹ 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 ₹ 400.

18. (a) On 01.04.2010 a machine was acquired at ₹ 4,00,000. The machine was expected to have a useful life of 10 years. The residual value was estimated at 10% of the original cost. At the beginning of the 4^{th} year, an attachment was made to the machine at a cost of ₹ 1,80,000 to enhance its capacity. The attachment was expected to have a useful life of 10 years and zero terminal value. During the same time the original machine was revalued upwards by ₹ 90,000 and remaining useful life was reassessed at 9 years and residual value was reassessed at NIL.

Find depreciation for the year 2013 – 14, if

(i) attachment retains its separate identity.

(ii) attachment becomes integral part of the machine.

(b) Mr. A purchased a machine on 01.04.2009 for ₹ 1,00,000. On 01.07.2010 he purchased another machine for ₹ 1,50,000. On 01.10.2011, he purchased the third machine for ₹ 2,00,000 and on 31.12.2012 he sold the second machine for ₹ 1,25,000. On 31.03.2014 he decided to change the method of charging depreciation from Straight Line Method @ 10% p.a. to Written Down Value Method @ 15%. Show Machine Account from 1.4.2009 to 31.3.2014.

19. (a) On 1^{st} December, 2014, "Sampath" Construction Company Limited undertook a

contract to construct a building for ₹ 108 lakhs. On 31st March, 2015 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

What is the provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2015 based on AS 7 "Accounting for Construction Contracts."

(b) 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 ₹ 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 ₹ 15 lakhs in the sales for 2013-2014. Advise.

20. (a) On March 01, 2014, X Ltd. purchased ₹ 5 lakhs worth of land for a factory site. Company demolished an old building on the property and sold the material for ₹ 10,000. Company incurred additional cost and realized salvaged proceeds during the March 2014 as follows:

Legal fees for purchase contract and recording ownership	₹ 25,000
Title guarantee insurance	₹ 10,000
Cost for demolition of building	₹ 50,000

Compute the balance to be shown in the land account in balance sheet on March 31, 2014.

(b) X Ltd. on 1-1-2015 had made an investment of ₹ 600 lakhs in the equity shares of Y Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2015 became ₹ 200 lakhs as Y Ltd. lost a case of copyright. How will you recognize the reduction in financial statements for the year ended on 31-3-2015.

SUGGESTED ANSWERS / HINTS

1. (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:

		₹
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) 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. ₹ 250 lakhs exceeds the total of all the reserves i.e. ₹ 230 lakhs. Therefore, balance of 'Reserves and Surplus' after adjusting debit balance of profit and loss is negative by ₹ 20 lakhs, which should be disclosed on the face of the balance sheet. Thus the treatment done by the company is incorrect.

2. Cash flow Statement of PQ Ltd. for the year ended 31.3.2014

Cash flows from Operating activities	₹	₹
Net Profit	22,40,000	
*Add :*Adjustment for Depreciation (₹7,90,000 – ₹6,10,000)	1,80,000	
Operating profit before working capital changes	24,20,000	
Add: Decrease in Inventories (₹20,10,000 – ₹19,20,000)	90,000	
Increase in provision for doubtful debts (₹ 4,20,000 – ₹1,50,000)	2,70,000	
	27,80,000	
Less: Increase in Current Assets:		

Trade receivables (₹ 30,60,000 – ₹23,90,000)	6,70,000		
Prepaid expenses (₹ 1,20,000 – ₹90,000)	30,000		
Decrease in current liabilities:			
Trade payable (₹ 8,80,000 – ₹ 8,20,000)	60,000		
Expenses outstanding (₹ 3,30,000 – ₹2,70,000)	60,000	8,20,000	
Net cash from operating activities			19,60,000
Cash flows from Investing activities			
Purchase of Plant & Equipment (₹ 40,70,000 – ₹ 27,30,000)		13,40,000	
Net cash used in investing activities			(13,40,000)
Cash flows from Financing Activities			
Bank loan raised (₹ 3,00,000 – ₹ 1,50,000)		1,50,000	
Issue of debentures		9,00,000	
Payment of Dividend (₹ 12,00,000 – ₹ 1,50,000)		(10,50,000)	
Net cash used in financing activities			NIL
Net increase in cash during the year			6,20,000
Add: Cash and cash equivalents as on 1.4.2013			27,00,000
Cash and cash equivalents as on 31.3.2014			33,20,000

Note: Bad debts amounting ₹ 2,30,000 were written off against provision for doubtful debts account during the year. In the above solution, Bad debts have been added back in the balances of provision for doubtful debts and debtors as on 31.3.2014. Alternatively, the adjustment of writing off bad debts may be ignored and the solution can be given on the basis of figures of debtors and provision for doubtful debts as appearing in the balance sheet on 31.3.2014.

3. 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	₹
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. Journal Entries

		₹	₹
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)			

5. In the books of M Ltd.

Journal Entries

	Particulars		*Dr. Amount (₹)*	*Cr. Amount (₹)*
1.	Equity Share Capital (₹ 100) A/c	Dr.	35,00,000	
	To Equity Share Capital (₹ 25) A/c			8,75,000
	To Capital Reduction A/c			26,25,000
	(Being Equity shares of ₹ 100 each reduced to ₹ 25 each and balance transferred to Capital Reduction A/c)			
2.	10% Preference Share Capital (₹ 100) A/c	Dr.	15,00,000	
	To 10% Preference Share Capital (₹ 75) A/c			11,25,000
	To Capital Reduction A/c			3,75,000
	(Being Preference shares of ₹ 100 each reduced to ₹ 75 each and balance transferred to Capital Reduction A/c. Total Pref Shares = 15,000)			
3.	10% Preference Share Capital (₹ 75) A/c	Dr.	11,25,000	
	To 13% Preference Share Capital (₹ 50) A/c			7,50,000
	To Equity Share Capital A/c (₹ 25)			3,75,000
	(Being one new 13% Preference share of ₹ 50 each and one equity share of ₹ 25 each issued against 10% Preference Share of ₹ 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 ₹ 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 provison for contingent liability of ₹ 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 @ ₹ 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)			

6. **Calculation of Purchase Consideration**

	P Ltd. (₹)	*Q Ltd.* (₹)
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000
Less :Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited

Balance Sheet as at 1st April, 2014

Particulars	*Note No.*	*Amount (₹)*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000
II. Assets		
(1) Non-current assets		
Fixed Assets		

Tangible	4	4,30,000
Intangible	5	2,00,000
(2) Current Assets		
a) Inventories		1,85,000
b) Trade Receivables		1,42,000
c) Cash at Bank		58,000
Total		10,15,000

Notes to Accounts:

			₹
1	**Share Capital**		
	Authorized		
	1,00,000 shares of ₹ 10 each		10,00,000
	Issued, Subscribed and Paid up		
	75,400 shares of ₹ 10 each		7,54,000
	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)		
2	**Reserve & Surplus**		
	Securities Premium Account		11,000
3	**Long term borrowings**		
	8 % Debentures		1,10,000
4	**Tangible Fixed Assets**		
	Building		
	P Ltd.	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000
	Furniture & Fixture		
	Q Ltd.		35,000
			4,30,000
5	**Intangible Asset**		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	1,50,000	2,00,000

Working Note:

Computation of Securities Premium

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

7. Calculation of number of days from base date

Transaction date	*Due date*	*Amount ₹*	*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 $= \text{Base date} + \frac{\text{Total of Product}}{\text{Total of Amount}}$

= 19.6.2014 + ₹ 8,96,000 / ₹ 20,000

= 19.6.2014 + 45 days approximately = 3.8.2014

8. In the books of Sunil

Rohan in Account Current with Sunil

as on 30th June, 2014

Date 2014	Particulars	Amount ₹	Days	Interest ₹	Date 2014	Particulars	Amount ₹	Days	Interest ₹
Feb. 16	To Sales	6,480.00	134	237.90	Jan. 1	By Balance b/d	3,010.00	181	149.26
Mar. 24	To Sales	3,560.00	98	95.58	Jan. 7	By Purchases	4,430.00	174	211.18
June 22	To Sales	2,280.00	8	5.00	Feb 18	By Returns inward	560.00	132	20.25
June 30	To Balance of interest			107.08	Apr. 22	By B/R (maturing on 25 July, 2014)	1,500.00	(25)	(10.27)*
June 30	To Balance c/d	2,497.08			Apr. 29	By Cash	2,500.00	62	42.47
					May 17	By Purchases	2,710.00	44	32.67
					June 30	By Interest	107.08		
		14,817.08		445.56			14,817.08		445.56
					July 1	By Balance b/d	2,497.08		

* Interest on amount of Bill receivable maturing on 25th July, 2014 is a red ink interest.

Credit for the B/R is given on the date when it is received, but the amount will be received only on its maturity. Hence, the interest for the period for which the bill is to run after accounting period is shown as negative figure.

9. Calculation of total Interest and Interest included in each installment

Hire Purchase Price (HPP) = Down Payment + instalments

= 30,000 + 50,000 + 50,000 + 30,000 + 20,000 = 1,80,000

Total Interest = 1,80,000 – 1,50,000 = 30,000

Calculation of Ratio of HPP in beginning of each year

Year	*Outstanding HPP at beginning*	*Installment Paid*	*Outstanding balance at end*
1	1,50,000	50,000	1,00,000
2	1,00,000	50,000	50,000
3	50,000	30,000	20,000
4	20,000	20,000	-

Ratio of outstanding HPP at beginning for each year = 15:10:5: 2

Total Interest is of ₹ 30,000

I st Year	$= 30,000 \times \frac{15}{32} = 14,062$
II nd year	$= 30,000 \times \frac{10}{32} = 9,375$
III rd year	$= 30,000 \times \frac{5}{32} = 4,688$ (rounded off)
IV th year	$= 30,000 \times \frac{2}{32} = 1,875$

10. **General Ledger Adjustment Account in Debtors' Ledger**

			₹				₹
1.4.2013	To Balance b/d		480	1.4.2013	By Balance b/d		94,400
1-4-2013 to 31-3-2014	To Debtor's ledger adjustment account:			1-4-2013 to 31-3-2014	By Debtors ledger adjustment account:		
	Bank	1,16,400			Sales	2,24,000	
	Discount	1,600			Bills receivable dishonoured	3,000	
	Returns	5,200			Endorsed bills receivable dishonoured	2,000	2,29,000
	Bills receivable	40,200					
	Bad debts Written off	5,000	1,68,400				
31.3.2014	To Balance c/d (balancing figure)		1,55,280	31.3.2014	By Balance c/d		760
			3,24,160				3,24,160

11. (a) Income and Expenditure Account

for the year ended 31st March, 2015 (An Extract)

		Income	₹
		Subscriptions (₹ 3,600 x 200 members)	7,20,000

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

Liabilities	₹	*Assets*		₹
Subscription received in advance	7,200	Subscription in arrear:		
		For 2013-14	3,600	
		For 2014-15	21,600	25,200

Working Note:

Subscription due for 2014-15 (₹ 3,600 x 200)	₹ 7,20,000
Subscription received for 2014-15	₹ 6,98,400
Subscription in arrear for 2014-15	21,600

(b) 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

	₹	₹
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

	₹		₹
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

	₹		₹
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

12. Books of A Pvt. Ltd.

Investment in 13.5% Convertible Debentures in Pergot Ltd. Account

(Interest payable 31st March & 30th September)

Date	*Particulars*	*Nominal*	*Interest*	*Amount*	*Date*	*Particulars*	*Nominal*	*Interest*	*Amount*
		₹	₹	₹			₹	₹	₹
2014					2014				
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank (6 months Int)		50,625	
Aug.1	To Bank	2,50,000	11,250	2,45,000	Oct.1	By Bank	2,00,000		2,06,000
Oct.1	To P&L A/c			2,167					
Dec.31	To P&L A/c		52,313		Dec.31	By Equity share	1,10,000		1,12,108
					Dec.31	By Bank (See note1)		3,713	
					Dec.31	By Balance c/d	4,40,000	14,850	4,48,434
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

Note 1: ₹ 3,713 received on 31.12.2014 represents interest on the debentures converted till date of conversion.

Note 2: Cost being lower than Market Value the debentures are carried forward at Cost.

Investment in Equity shares in P Ltd. Account

Date	*Particulars*	*Nominal*	*Amount*	*Date*	*Particulars*	*Nominal*	*Amount*
		₹	₹			₹	₹
2014				2014			
Dec 31	To 13.5% Deb.	1,00,000	1,12,108	Dec.31	By P&L A/c		22,108
				Dec.31	By Bal. c/d	1,00,000	90,000
		1,00,000	1,12,108			1,00,000	1,12,108

Note 1: Cost being higher than Market Value the shares are carried forward at Market Value.

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2014 for the month of April 2014, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625

2. Interest received on 30th Sept. 2014

   On ₹ 5,00,000 = 5,00,000 x 13.5% x ½ = 33,750

   On ₹ 2,50,000 = 2,50,000 x 13.5% x ½ = 16,875

   Total ₹ 50,625

3. Interest paid on ₹ 2,50,000 purchased on Aug. 1st 2014 for April 2014 to July 2014 as part of purchase price:

   2,50,000 x 13.5% x 4/12 = ₹ 11,250

4. Loss on Sale of Debentures

   Cost of acquisition

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 2,00,000/₹ 7,50,000 = 2,03,833

   Less: Sale Price (2000 x 103) = 2,06,000

   Profit on sale = ₹ 2,167

5. Interest on 1,100 Debentures (being those converted) for 3 months i.e. Oct-Dec. 2014

   1,10,000 x 13.5% x 3/12 = ₹ 3,713

6. Cost of Debentures converted to Equity Shares

   (₹ 5,19,375 + ₹ 2,45,000) x 1,10,000/7,50,000= ₹ 1,12,108

7. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 4,40,000/₹ 7,50,000 = ₹ 4,48,434

8. Interest on Closing Debentures for period Oct.-Dec. 2014 carried forward (accrued interest)

   ₹ 4,40,000 x 13.5% x 3/12 = ₹ 14,850

13. Trading and Profit and Loss Account of Mr. X

for the year ended 31st March, 2015

	Particulars	₹		*Particulars*	₹
To	Opening stock	1,60,000	By	Sales (W.N. 11)	13,71,000
To	Purchases (W.N.5) 9,12,000		By	Closing stock	1,40,000
	Less: Advertisement (18,000)	8,94,000			
To	Gross profit c/d	4,57,000			
		15,11,000			15,11,000
To	Expenses (W.N.7)	3,44,000	By	Gross profit b/d	4,57,000
To	Discount allowed (W.N.9)	32,500	By	Discount received (W.N.10)	16,000

To	Advertisement	18,000	By	Interest on Govt. Securities (W.N.8)	4,000
To	Depreciation on furniture (W.N.1)	13,000	By	Miscellaneous income	10,000
To	Net profit	79,500			
		4,87,000			4,87,000

Balance Sheet of Mr. X as on 31st March, 2015

Liabilities		₹	*Assets*	₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		4% Government Securities	1,92,000
			Accrued interest on Govt.	
Add: Profit during the year	79,500		securities (W.N.8)	4,000
	6,27,500		Debtors (W.N.3)	2,99,000
Less: Drawings	(1,40,000)	4,87,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	9,500
		8,23,500		8,23,500

Working Notes:

1. Furniture account

		₹			₹
To	Balance b/d	1,20,000	By	Depreciation (bal.fig.)	13,000
To	Bank	20,000	By	Balance c/d	1,27,000
		1,40,000			1,40,000

2. Cash and Bank account

		₹			₹
To	Balance b/d		By	Creditors	7,84,000
	Cash	4,000	By	Drawings	1,40,000
	Bank	20,000	By	Furniture	20,000
To	Debtors	11,70,000	By	4% Govt. securities	1,92,000
To	Bill Receivable	1,22,500	By	Expenses	3,50,000
To	Miscellaneous income	10,000	By	Balance c/d	

To Additional Capital (bal.fig.)	1,72,000	Cash	3,000
		Bank	9,500
	14,98,500		14,98,500

3. **Debtors account**

	₹		₹
To Balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.11)	13,71,000	By Bills Receivable	2,00,000
		By Balance c/d (bal.fig.)	2,99,000
	16,99,000		16,99,000

4. **Bills Receivable account**

	₹		₹
To Debtors	2,00,000	By Bank	1,22,500
		By Discount	2,500
		By Creditors	40,000
		By Balance c/d (bal. fig.)	35,000
	2,00,000		2,00,000

5. **Creditors account**

	₹		₹
To Bank	7,84,000	By Balance b/d	2,20,000
To Discount	16,000	By Debtors (Bills receivable dishonoured)	8,000
To Bills receivable	40,000	By Purchases (bal.fig.)	9,12,000
To Balance c/d	3,00,000		
	11,40,000		11,40,000

6. **Balance Sheet as on 1st April, 2014**

Liabilities	₹	*Assets*	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000

		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. Expenses incurred during the year

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2015	36,000	
Prepaid expenses as on 31.3.2014	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2014	40,000	
Prepaid expenses as on 31.3.2015	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. Interest on Government securities

$$\left(\frac{1,92,000}{96\%} \times 4\% \times \frac{6}{12}\right) = ₹\ 4,000$$

Interest on Government securities receivables for 6 months = ₹ 4,000.

9. Discount allowed

		₹
Discount to Debtors	$\left(\frac{11,70,000}{97.5\%} \times 2.5\%\right)$	30,000
Discount on Bills Receivable	$\left(\frac{1,22,500}{98\%} \times 2\%\right)$	2,500
		32,500

10. Discount received

		₹
Discount to Creditors	$\left(\frac{7,84,000}{98\%} \times 2\%\right)$	16,000

11. Credit sales

Cost of Goods sold = Opening stock + Net purchases – Closing stock

= ₹ 1,60,000 + ₹ (9,12,000 – 18,000) – ₹ 1,40,000 = ₹ 9,14,000

Sales price = ₹ 9,14,000 x $\frac{3}{2}$ = ₹ 13,71,000

14. (a) Memorandum Trading Account from 1st April, 2014 to 22nd January, 2015

		₹		₹
To Opening Stock		13,27,200	By Sales	49,17,000
To Purchases	34,82,700		By Stock on 22nd January,	
Less : Cost of goods used for advertising	(1,00,000)	33,82,700	2015- Balancing figure	7,76,300
To Gross Profit				
20% of sales (Working Note)		9,83,400		
		56,93,300		56,93,300

Stock in hand on date of fire = ₹ 7,76,300.

Computation of claim for loss of stock

	₹
Stock on the date of fire i.e. on 22nd January, 2015	7,76,300
As the value of goods salvaged was negligible, therefore Loss of stock	7,76,300

Since policy amount is less than claim amount, claim will be restricted to policy amount only. Therefore, claim of ₹ 5,50,000 should be lodged by X Ltd. to the insurance company

Working Note:

Trading Account for the year ended on 31st March, 2014

	₹		₹
To Opening Stock	9,62, 200	By Sales	52,00,000
To Purchases	45,25,000	By Closing Stock	13,27,200
To Gross Profit	10,40,000		
	65,27,200		65,27,200

Rate of gross profit to sales = 10,40,000 /52,00,000 x 100 = 20%.

(b) Calculation of Gross Profit

$$\text{Gross Profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100$$

$$= \frac{45,000 + 90,000}{4,50,000} \times 100 = 30\%$$

Calculation of policy amount to cover loss of profit

	₹
Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500
Gross profit on increased turnover (5,62,500 x 30%)	1,68,750
Add: Additional standing charges	30,000
Policy Amount	1,98,750

Therefore, the trader should go in for a loss of profit policy of ₹ 1,98,750.

15. (i) Profit and Loss Adjustment Account*

	₹		₹
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 ₹	*Hardy* ₹	Chaplin ₹		*Laurel* ₹	*Hardy* ₹	*Chaplin* ₹
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

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

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

Liabilities	₹	*Assets*	₹
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

Working Notes:

1. **Computation of Profit and Loss distributed among partners**

			₹
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
	₹	₹	₹
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 ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2. **Capital brought in by Chaplin**

	₹
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 ₹ 3,19,000)	63,800

16. 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.

17. (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) Working Notes:

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

If Net Realisable Value of the Finished Goods Y is ₹ 400

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

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

Value of Closing Stock:

	Qty	*Rate*	*Amount (₹)*
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

18. (a) Depreciation of Original Machine

		₹
Original cost of Machine as on 01.04.2010		4,00,000
Less: Residual Value 10%		(40,000)
Depreciable Value		3,60,000
Useful life	10 Years	
Depreciation per year		36,000
Depreciation for 3 Years		1,08,000
Written down value at the beginning of 4th year (as on 01.04.2013) (4,00,000 – 1,08,000)		2,92,000
Add: Revaluation		90,000
Total Book Value after revaluation		3,82,000
Reassessed remaining useful life	9 Years	
Depreciation per year from 2013-14		42,444

Depreciation of Attachment

		₹
Original cost of Attachment as on 01.04.2013		1,80,000
Useful life	10 Years	
Depreciation per year from 2013-14		18,000

Depreciation for the year 2013-14

(i) **If Attachment retains its separate identity:**

Depreciation of Original Machine	₹ 42,444
Depreciation of Attachment	₹ 18,000
Total Depreciation for 2013-14	₹ 60,444

(ii) **If Attachment becomes integral part of the Machine:**

Total value of Machine as on 01.04.2013

Original Machine at revalued cost (W.N.1)	₹ 3,82,000
Cost of attachment	₹ 1,80,000
	₹ 5,62,000
Useful life	9 Years
Depreciation for 2013-14	₹ 62,444

Note:

Since, upward revaluation of the machine and reassessment of remaining useful life had been made at the beginning of the 4th year, it is implied that depreciation for the 3rd year has been charged on the basis of old calculation & remaining useful life of 9 years is to be calculated from the beginning of the 4th year onwards.

(b) **Machine Account**

Date	*Particulars*	₹	*Date*	*Particulars*	₹
01.04.2009	To Bank	1,00,000	31.03.2010	By Depreciation	10,000
				By Balance c/d	90,000
		1,00,000			1,00,000
01.04.2010	To Balance b/d	90,000	31.03.2011	By Depreciation	21,250
01.07.2010	To Bank	1,50,000		By Balance c/d	2,18,750
		2,40,000			2,40,000
01.04.2011	To Balance b/d	2,18,750	31.03.2012	By Depreciation	35,000
01.10.2011	To Bank	2,00,000		By Balance c/d	3,83,750
		4,18,750			4,18,750
01.04.2012	To Balance b/d	383,750	31.12.2012	By Bank	125,000
31.12.2012	To Profit on Sale	12,500	31.03.2013	By Depreciation	41,250
				By Balance c/d	2,30,000
		3,96,250			3,96,250
01.04.2013	To Balance b/d	2,30,000	31.03.2014	By Profit & Loss A/c.	33,300
				By Depreciation (1,96,700 x 15%)	29,505
				By Balance c/d	1,67,195
		2,30,000			2,30,000
01.04.2014	To Balance b/d	1,67,195			

Working Note 1: Depreciation charged under old method:

Particulars	₹	₹
Purchase of first machine	1,00,000	
Depreciation for 4 years (1,00,000 x 10% x 4)		40,000
Purchase of third machine	2,00,000	
Depreciation for 1.5 years (2,00,000 x 10% x 1.5)		30,000
Total Depreciation charged		70,000

Working Note 2: Depreciation to be charged under new method:

Year	*Opening WDV* ₹	*Purchases* ₹	*Balance* ₹	*Depreciation* ₹	*Closing WDV* ₹
2009-10	---	1,00,000	1,00,000	15,000	85,000
2010-11	85,000	---	85,000	12,750	72,250
2011-12	72,250	2,00,000	2,72,250	40,838	2,31,412
2012-13	2,31,412	---	2,31,412	34,712	1,96,700
		Total Depreciation		1,03,300	

19. (a) Calculation of foreseeable loss for the year ended 31st March, 2015 (as per AS 7 "Construction Contracts")

	(₹ in lakhs)
Cost incurred till 31st March, 2015	83.99
Prudent estimate of additional cost for completion	36.01
Total cost of construction	120.00
Less: Contract price	(108.00)
Foreseeable loss	12.00

According to para 35 of AS 7 (Revised 2002) "Construction Contracts", when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2015.

(b) Price revision was effected during the current accounting period 2013-2014. As a result, the company stands to receive ₹ 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.

20. (a) **Calculation of the cost for Purchase of Land**

		(₹ in lakhs)
Cost of Land		5,00,000
Legal Fees		25,000
Title Insurance		10,000
Cost of Demolition	50,000	
Less: Salvage value of Material	(10,000)	40,000
Cost of the Asset		5,75,000

(b) X limited invested ₹ 600 lakhs in the equity shares of Y Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by X Limited only for 3 months (from 1.1.2015 to 31.3.2015), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2015 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be included in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long term investment, the carrying amount is reduced to recognise the decline.

Here, Y Limited lost a case of copyright which drastically reduced the realisable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long term investment by ₹ 200 lakhs and shown the investments at ₹ 100 lakhs, considering the downfall in the value of shares as decline other than temporary. The reduction of ₹ 200 lakhs[*] in the carrying value of long term investment will be included in the profit and loss account.

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[*] *If one assumes that the decline in the value of long term investment is temporary and Y Limited will overcome this downfall in short period by filing a case against this decision of government, with strong arguments. In such a case, long term investment will be shown at cost.*

PAPER – 2: BUSINESS LAWS, ETHICS & COMMUNICATION

QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act, 1872

1. (a) A railway company refuses to deliver up certain goods to the consignee, except on the payment of an illegal charge for carriage. The consignee pays the sum charged in order to obtain the goods. Decide the legal position of the consignee as per the Indian Contract Act, 1872.

   (b) Mr. Anand contracts with Mr. Birendra that, if he (Anand) practices as a surgeon within Calcutta, he will pay Birendra ₹ 5000. Later, Anand starts practising as a surgeon in Calcutta. Discuss the right available to Birendra with reference to the provisions of the Indian Contract Act, 1872.

2. (a) Aditya holds a lease from Birla which is terminable on three months' notice. C, an unauthorized person gives notice of termination to Aditya. Examine with reference to the provisions of the Indian Contract Act, 1872, whether Aditya is bound by termination of Lease.

   (b) A owns a shop in Serampore, living himself in Calcutta, and visiting the shop occasionally. The shop is managed by B, and he is in the habit of ordering goods from C in the name of A for the purposes of the shop, and of paying for them out of A's funds with A's knowledge. Discuss in the light of the provisions of the Indian Contract Act, 1872, whether B is authorised to conduct the business in the name of A.

The Negotiable Instruments Act, 1881

3. Mr. Wise obtains from Mr. Decent, a cheque crossed 'Not Negotiable' frauduently. He later transfers the cheque to Mr. T, who gets the cheque encashed from Bank, which is not the Drawee Bank. Mr. Decent comes to know about the fraudulent act of Mr. Wise, he sues Bank for the recovery of money. Examine with reference to the relevant provisions of the Negotiable Instruments Act, 1881, whether Mr. Decent will be successful in his claim. Would your answer be still the same in case Mr, Wise does not transfer the cheque and gets the cheque encashed from Bank himself?

4. Bal Bharti executed a promissory note in favour of Kulbhushan for ₹ 1 crore. The said amount was payable three days after sight. Kulbhushan, on maturity, presented the promissory note on 1st January, 2015 to Bal Bharti. Bal Bharti made the payments on 4th January, 2015. Kulbhushan wants to recover interest for one day from Bal Bharti. Advise Bal Bharti, in the light of provisions of the Negotiable Instruments Act, 1881, whether he is liable to pay the interest for one day?

The Payment of Bonus Act, 1965

5. X, a temporary employee drawing a salary of ₹ 3,500 per month, in an establishment to which the Payment of Bonus Act, 1965 applies was prevented by the employers from working in the establishment for two months during the financial year 2014-2015, pending certain inquiry. Since there were no adverse findings 'X' was re-instated in service, later, when the bonus was to be paid to other employees, the employers refuse to pay bonus to 'X', even though he has worked for the remaining ten months in the year. Referring to the provisions of the Payment of Bonus Act, 1965 examine the validity of employer's refusal to pay bonus to 'X'.

6. X, an employee of company, retired on 31st March, 2014 and died after few months. The heir of X, applied within the prescribed time to the company for payment of due bonus of X. The company refused to pay the bonus. Examine the validity of the company's refusal and also state the procedure to recover the bonus under the provisions of the Payment of Bonus Act, 1965.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

7. The Employees' Deposit Linked Insurance Scheme, under Section 6C of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 has been amended by the Central Government. State the relevant amendments made in the Scheme by Employees' Deposit Linked Insurance (Amendment) Scheme, 2014.

8. Is the amount standing to the credit of a member of the Provident Fund attachable in the execution of decree or order of the Court? Examine the law, on this point, laid down in the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

The Payment of Gratuity Act, 1972

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

10. What is the law relating to recovery of amount of gratuity under the payment of Gratuity Act, 1972 in case the said amount is not paid by the employer?

The Companies Act, 2013

11. Can a non-profit organization be registered as a company under the Companies Act, 2013? If so, what procedure does it have to adopt?

12. The Articles of a Public Company clearly stated that Mr. A will be the solicitor of the company. The company in its general meeting of the shareholders resolved unanimously to appoint B in place of A as the solicitor of the company by altering the articles of association. Examine, whether the company can do so? State the reasons clearly.

13. A company issued a prospectus. All the statements contained therein were literally true. It also stated that the company had paid dividends for a number of years, but did not

disclose the fact that the dividends were not paid out of trading profits, but out of capital profits. An allottee of shares wants to avoid the contract on the ground that the prospectus was false in material particulars. Decide.

14. Mr. John held certain partly paid up shares of Ltd. company. The company asked him to pay the final call money on the shares. Due to some unavoidable circumstances he was unable to pay the amount of call money to the company. At a general meeting of the shareholders, the chairman disallowed him to cast his vote on the ground that the articles do not permit a shareholder to vote if he has not paid the calls on the shares held by him. John contested the decision of the Chairman. Referring to the provisions of the Companies Act, 2013 decide whether the contention of John is valid.

15. M. H. Company Limited served a notice of general meeting upon its shareholders. The notice stated that the issue of sweat equity shares would be considered at such meeting. Mr. 'A', a shareholder of the M. H. Company Limited complains that the issue of sweat equity shares was not specified fully in the notice. Is the notice issued by M. H. Company Limited regarding issue of sweat equity shares valid according to the provisions of the Companies Act, 2013? Explain in detail.

PART – B: ETHICS

16. What are the advantages of adopting the business ethics?

17. “CSR can mean different things to different people”, explain.

18. Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers. Discuss.

19. (i) Explain the lines that ‘Business firms are parts of a larger ecological system’.

    (ii) State the themes given by the UN Guidelines which call upon governments to develop, strengthen and maintain a strong consumer policy, and enhanced protection of consumers by enunciating various steps and measures.

20. State the professional obligations that a finance and accounting professional as an employee has to comply with. What pressure they face in the case of potential conflicts?

PART – C: COMMUNICATION

21. State the various forms of the formal communication along with their potential benefits in any organisation.

22. “The group as a whole always rules. The odd man out is always at a disadvantage”. Explaining this, give the characteristics of the group personality?

23. “A key element in any communication activity is the values of the organization”, explain.

24. Draft a general agreement of partnership deed.

25. Write a letter to bank requesting to provide statements of salary accounts of three months i.e. from 1st January 2014 to 31st March, 2014.

SUGGESTED ANSWERS/HINTS

1. (a) The given instance shall be regulated by section 72 of the Indian Contract Act, 1872 which deals with the liability of person to whom money is paid or thing delivered by mistake or under coercion. According to the given provisions , a person to whom money has been paid, or anything delivered, by mistake or under coercion, there such person must repay or return the money or thing delivered by mistake or under coercion, to the person it belongs.

The facts given here states that railway company refuses to deliver up certain goods to the consignee, except on the payment of an illegal charge for carriage. Consignee was under coercion for taking of the delivery of the goods only on the payment of an illegal charge for carriage. The consignee pays the sum charged in order to obtain the goods.

Accordingly, consignee was entitled to recover so much of the charge as was illegally excessive.

(b) According to section 74 of the Indian contract Act, 1872, "where a contract has been broken, if a sum is named in the contract as the amount to be paid in case of such breach, or if the contract contains any other stipulation by way of penalty, the party complaining of the breach, can claim whether or not actual damages or loss is proved to have been caused thereby, from the other party, a reasonable compensation not exceeding the amount so named, or as the case may be the penalty stipulated for.

In the given case, Mr. Anand contracts with Mr. Birendra that, if he practices as a surgeon within Calcutta, he will pay Birendra ₹ 5000. Anand starts practising as a surgeon in Calcutta. According to the provisions , party complaining of the breach, can claim whether or not actual damages or loss is proved to have been caused thereby, from the other party, a reasonable compensation not exceeding the amount so named in the contract.

Accordingly, Birendra is entitled to such compensation, not exceeding ₹ 5,000 as the courts considers reasonable.

2. (a) The given problem is based on section 200 of the Indian Contract Act, 1872 which deals with the provisions related to the ratification of unauthorized act cannot injure third person. Provisions says that an act done by one person on behalf of another, without such other person's authority, which if done with authority, would have the effect of subjecting a third person to damages, or of terminating any right or interest of a third person cannot, by ratification, be made to have such effect.

According to the given situation, Aditya holds a lease from Birla which is terminable on three months' notice. C, an unauthorized person gives notice of termination of lease to Aditya.

Accordingly the notice given by C (unathorised person) if, ratified, would terminate Aditya's right or interest in the lease property. So such an unathorised act of C, cannot be ratified by Birla, so as to binding on Aditya.

(b) According to the section 187 of the Indian Contract Act, 1872, an authority is said to be express when it is given by words spoken or written. An authority is said to be implied when it is to be inferred from the circumstances of the case and things spoken or written, or the ordinary course of dealing, may be accounted circumstances of the case.

In the given instance, the shop of A was managed by B and the conduct of business as to the ordering of goods from C and transaction related to that was made from the A's fund and with A's knowledge. This reflects according to the above provision that B has an implied authority from A to order goods from C in the name of A for the purposes of the shop.

3. According to Section 130 of the Negotiable Instruments Act, 1881 a person taking cheque crossed generally or specially bearing in either case the words 'Not Negotiable' shall not have or shall not be able to give a better title to the cheque than the title the person from whom he took it, had. In consequence, if the title of the transferor is defective, the title of the transferee would be vitiated by the defect.

Thus based on the above provisions, it can be concluded that if the holder has a good title, he can still transfer it with a good title, but if the transferor has a defective title, the transferee is affected by such defects, and he cannot claim the right of a holder in due course by proving that he purchased the instrument in good faith and for value.

In the given case as Mr. Wise had obtained the cheque fraudulently from Mr. Decent, so he had no title to it and is not capable of giving better title to the cheque or money to the Bank; and as such the bank would be liable for the amount of the cheque for encashment. (*Great Western Railway Co. v. London and Country Banking Co.)*

In case, where Mr, Wise does not transfer the cheque and gets the cheque encashed from Bank himself. The answer would not change and shall remain the same for the reasons given above.

Thus Mr. Decent in both the cases shall be successful in his claim from the bank.

4. **Claim of Interest:** Section 24 of the Negotiable Instruments Act, 1881 states that where a bill or note is payable after date or after sight or after happening of a specified event, the time of payment is determined by excluding the day from which the time begins to run.

Therefore, in the given case, Bal Bharti will succeed in objecting to Kulbhushan's claim. As Bal Bharti paid rightly "three days after sight" which was 4^{th} January. Since the bill was presented on 1^{st} January, Bal Bharti was required to pay only on the 4^{th} and not on 3^{rd} January, 2015 as contended by Bal Bharti.

5. **Entitlement for bonus under the Payment of Bonus Act, 1965**: Every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year provided he has worked in that establishment for not less than 30 working days in the year and he draws a salary less than ₹ 10,000 per month. *[Section 2(13) read with Section 8].*

   In the given case, X has worked in the establishment for 10 months and draws a salary of Rs 3,500/-, hence his entitlement to bonus is established. However, the point here is, whether he is entitled to receive bonus for the period of 2 months during which he was suspended pending certain inquiry against him. Subsequently, he was exonerated from the charges and was taken back on work.

   Section 14 of the Payment of Bonus Act, 1965 lays down the days in a year when an employee is deemed to have worked in the establishment even though he did not actually attend the place of work. Under the said section, an employee is deemed to have worked also on the following days during the accounting year:

   (a) He has been laid off under an agreement or as permitted by standing orders under the Industrial Employment (Standing Orders) Act, 1946, or under the Industrial Disputes Act, 1947 or under any other law applicable to the establishment;

   (b) he has been on leave with salary or wage;

   (c) he has been absent due to temporary disablement caused by accident arising out of and in the course of his employment; and

   (d) the employee has been on maternity leave with salary or wage,

   In the given case, X was suspended pending an inquiry; hence he did not attend office for 2 months. These 2 months shall be treated as days worked as it can be reasonably assumed that his suspension was under the Industrial Disputes Act, 1947.

   Hence, X will be entitled to receive bonus for the full year (2014-2015) and his employer is wrong to deny him bonus.

6. In the given case, the key point to be evaluated is whether X was eligible for bonus for the accounting year ending 31st March 2014. If we presume that it was so, then his legal heir is eligible to claim the bonus.

   Under section 19 of the Payment of Bonus Act, 1965 the employer is bound to pay in cash the bonus payable to an employee within eight months from the close of the accounting year, which in this case should be 30th November 2014.

   The company's refusal is illegal under the Act.

   The remedy available to the heir of X lies in section 21 of the Payment of Bonus Act,1965 under which an employee, his assigns or his heirs, can make an application for the recovery of the amount to the Appropriate Government within one year from the date on which the bonus becomes due. If the appropriate government or the prescribed authority is satisfied that any money is so due, it shall issue a certificate for that amount to the Collector who shall proceed to recover the same in the same manner as an arrear of land revenue.

7. Amendments have been made to the Employees' Deposit Linked Insurance Scheme from time to time, in order to ensure increasing support to millions of workmen covered under the Employees' Provident Funds and Miscellaneous Provisions Act, 1952.

The latest amendment has been introduced vide Notification dated 29th August 2014 issued by the Ministry of Labour and Employment, Government of India. This amendment has made a huge change which incorporates the following benefits:

(a) The statutory wage ceiling under the EDLI scheme has been increased from INR 6,500 to INR 15,000 per month.

(b) The insurance benefit under the EDLI scheme has been increased by 20% in addition to the existing admissible benefits.

Prior to this path breaking amendment the "The Central Government amended the Employees' Deposit Linked Insurance Scheme, 1976 by the introduction of the Employees' Deposit Linked Insurance (Amendment) Scheme, 2010, further followed by the Employees' Deposit Linked Insurance (Amendment) Scheme, 2011 which made further amendments in the benefits provided to the employees under the EDLI Scheme.

8. **Attachment of Provident Fund**: According to Section 10 of E.P.F. & M.P. 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 the exempted employee, and neither the official assignee appointed under the Presidency Towns Insolvency Act nor any receiver appointed under the Provincial Insolvency Act shall be entitled to or have any claim on, any such amount.

The amounts standing to the credit of aforesaid categories of persons at the time of their death and payable to their nominees under the scheme or the rules, and the amount shall be free from any debt or other liability incurred by the deceased or the nominee before the death of the member or of the exempted employee and shall also not be liable to attachment under any decree or order of any court.

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

(i) **Non- Seasonal Establishments -** The employer shall pay the gratuity to an employee at the rate of 15 days wages based on the rate of wages last drawn by the employee concerned for every completed year of service or part thereof in excess of 6 months.

In the case of piece rated employees, daily wages- It shall be computed on the average of the total wages received by him for a period of 3 months immediately preceding the termination of his employment and for this purpose the wages paid for any overtime work shall not be taken into account.

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

(ii) Seasonal Establishments - In the case of seasonal establishment the employees can be classified into 2 groups.

(a) Those who work throughout the year and

(b) Those who work only during the season.

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

Under section 4(3) of the Payment of Gratuity Act, 1972, the amount of gratuity payable to an employee shall not exceed ₹ Ten lakhs.

10. Law relating to recovery of gratuity under the Payment of Gratuity Act, 1972:

(i) **Issue of certificate to the collector by the controlling authority** - As per the provision given under section 8 of the Payment of Gratuity Act 1972, if the gratuity payable under the Act is not paid by the employer within the prescribed time, to the person entitled thereto, there the Controlling Authority shall, on an application received from the aggrieved person, issue a certificate for that amount to the Collector to recover the same along with the compound interest at such rate as prescribed by the Central Government, as land revenue arrears and pay to the persons entitled thereto.

(ii) **Reasonable notice of hearing** - Before issuing the certificate for such recovery the Controlling Authority shall give the employer a reasonable opportunity of showing cause against the issue of such certificate.

(iii) **Amount of interest -** The amount of interest payable under this section shall not exceed the amount of gratuity payable under this Act in no case.

11. Registration of a non-profit organization as a company: According to section 8(1) of the Companies Act 2013, the Central Government may allow person or an association of persons to be registered as a Company under the Companies Act if it has been set up for promoting commerce, arts, science, sports, education, research, social welfare religion, charity protection of environment or any such other useful object and intends to apply its profits or other income in promotion of its objects. However, such company has to prohibit payment of any dividend to its members.

Procedure: (i) **Permission from Central Government-**An association of persons intending to carry any or all or some of the activities as mentioned above, has to apply to the Central Government seeking its permission for being set up as a company under the Act.

(ii) **Issue of licence-** The Central Government if satisfied on the above may by the issue of a licence in such manner as may be prescribed and on such conditions as it may deem fit, allow such association to be registered as a limited company under section 8(1) without the addition of word "Limited" or words "Private Limited" as the case may be, to its name.

(iii) **Application filed with registrar after issue of licence-** After the issue of the licence by the Central Government, an application must be made to the Registrar in the prescribe form after which the Registrar will register the association of persons as a company under section 8(1).

(iv) **Privileges and obligations of a limited company-** Under section 8(2) a company registered under section 8(1) as above, shall enjoy all the privileges and be subject to all the obligations of a limited company.

(v) **Revocation of licence-**This licence issued by the Central Government is revocable, and on revocation the Registrar shall put the words 'Limited' or 'Private Limited' against the company's name in the Register. But before such revocation, the Central Government must give the company a written notice of its intention to revoke the licence and provide an opportunity to it to be represented and heard in the matter.

12. According to Section 10(1) of the Companies Act, 2013, the memorandum and articles shall, when registered, bind the company and the members thereof to the same extent as if they respectively had been signed by the company and by each member and contained covenants on its and his part to observe all the provisions of the memorandum and articles.

Further, under Section 14 (1) subject to the provisions of this Act and to the conditions contained in the Memorandum, a company may, by a special resolution, alter its Articles.

Moreover, under section 14(2) the company will be required to file within fifteen days the altered Articles with the Registrar along with necessary documents, such as the copy of the special resolution etc, and in such manner as may be prescribed. On receipt of all documents the Registrar shall register the same.

Section 14 (3) further provides that any alterations in the Articles on registered will be valid as if they were in the original Articles.

In the present case, the company has altered the Articles by a unanimous resolution of the members passed at a general meeting. Hence, the alteration is valid and after registration of the altered Articles, the appointment of B will stand and A will be terminated.

13. The Companies Act, 2013 vide sections 34 and 35 lay down the criminal and civil liabilities of the guilty parties in case of mis-statements and misleading inclusions and omissions in a prospectus. Further, section 36 lays down the punishment for fraudulently inducing persons to invest moneys.

However, the present case before us is not in respect of liability for a possible mis-statement but on the right of the allottee to avoid the contract of purchasing the shares from the company. In order to decide this, key factor to determine, is if any material mis representation or concealment of a material fact has taken place and is such misrepresentation is fraudulent.

The non disclosure of the fact that dividends were paid out of capital profits is a concealment of material fact as a company is normally required to distribute dividend only from trading or revenue profits and under exceptional circumstances can do so out of capital profits. Hence, a material misrepresentation has been made.

The question here is a direct issue arising from the consequence of misrepresentation on the contract and is governed by the Indian Contract Act, 1872.

Section 19 of the Indian Contract Act, 1872 states that when consent to an agreement is caused by coercion, fraud or misrepresentation, the agreement is a contract voidable at the option of the party whose consent was so caused.

Hence, in the given case the allottee can avoid the contract of allotment of shares. (*Rex V. Lord Kylsant*).

14. Section 106 (1) of the Companies Act, 2013 states that the articles of a company may provide that no member shall exercise any voting right in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid, or in regard to which the company has exercised any right of lien.

In the present case the articles of the company do not permit a shareholder to vote if he has not paid the calls on the shares held by him. Therefore, the chairman at the meeting is well within its right to refuse him the right to vote at the meeting and Mr. John's contention is not valid.

15. Under section 102 (2) (b) in the case of any meeting other than an AGM, all business transacted thereat shall be deemed to be special business.

Further under section 102 (1) a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting:

(a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of every director and the manager, if any or every other key managerial personnel and relatives of such persons; and

(b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the member is valid since the complete details about the issue of sweat equity should be sent with the notice. The notice is, therefore, not a valid notice under Section 102 of the Companies Act, 2013.

16. There are many advantages of adopting business ethics:

1. *Improved society:* Adoption of business ethics may lead to improved society as businesses place high value on ethics, fairness and equal rights resulting in framing of anti-trust laws, establishment of Government agencies and recognition of labour unions.

2. *Easier Change management:* During times of change, there is often no clear moral compass to guide leaders through complex conflicts about what is right or wrong. Continuing attention to ethics in the workplace sensitizes leaders and staff for maintaining consistency in their actions.

3. *Strong teamwork and greater productivity:* Ongoing attention to values in the workplace builds openness, integrity and community, all critical ingredients of strong teams in the workplace resulting in strong motivation and better performance.

4. *Enhanced employee growth:* Attention to ethics in the workplace helps employees face the reality, both good and bad in the organization and gain the confidence of dealing with complex work situations.

5. *Ethics programs help guarantee that personnel policies are legal:* A major objective of personnel policies is to ensure ethical treatment of employees .Attention to ethics ensures highly ethical policies and procedures in the workplace. Ethics management programs are also useful in managing diversity.

6. *Ethics programs help to avoid criminal acts "of omission" and can lower fines.* Ethics programs help to detect ethical issues and violations early, so that they can be reported or addressed.

7. *Ethics programs help to manage values associated with quality management, strategic planning and diversity management.* Ethics programs help identifying preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours with preferred values, and then training all personnel about the policies and procedures. For *example,* Total Quality Management initiatives include high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback.

8. *Ethics helps to promote a strong public image:* An organization that pays attention to its ethics can portray a strong and positive image to the public. People see such organizations as valuing people more than profit and striving to operate with the integrity and honor.

Thus managing ethical values in businesses besides optimizing profit generation in the long term, legitimizes managerial actions, strengthens the coherence and balance of the organization's culture, improves trust in relationships between individuals and groups, supports greater consistency in standards and qualities of products, and cultivates greater sensitivity to the impact of the enterprise's values and messages. Finally and most essentially, proper attention to business ethics is the right thing to do.

17. Corporate Social Responsibilities (CSR) is an integrated combination of policies, programs, education, and practices which extend throughout a corporation's operations and into the communities in which they operate, about how companies voluntarily manage the business processes to produce an overall positive impact on society. CSR can mean different things to different people:

- for an employee it can mean fair wages, no discrimination, acceptable working conditions etc.
- for a shareholder it can mean making responsible and transparent decisions regarding the use of capital.
- for suppliers it can mean receiving payment on time.
- for customers it can mean delivery on time, etc.
- for local communities and authorities it can mean taking measures to protect the environment from pollution.
- for non-governmental organisations and pressure groups it can mean disclosing business practices and performance on issues ranging from energy conservation and global warming to human rights and animal rights, from protection of the rainforests and endangered species to child and forced labour, etc.

For a company, however, it can simply be seen as responding to the needs and concerns of people who can influence the success of the company and/or whom the company can impact through its business activities, processes and products.

18. Mainly ethical issues can be categorized in the framework of their relation with business associates, conflicts of interest, fairness and honesty, and communications.

Fairness and honesty are at the heart of business ethics and relate to the general values of decision makers. At a minimum, businesspersons are expected to follow all applicable laws and regulations. But beyond obeying the law, they are expected not to harm customers, employees, clients, or competitors knowingly through deception, misrepresentation, coercion, or discrimination.

One aspect of fairness and honesty is related to **disclosure of potential harm caused by product use**. For *example*, Mitsubishi Motors, a Japanese automaker, faced criminal charges and negative publicity after executives admitted that the company had systematically covered up customer complaints about tens of thousands of defective automobiles over a 20-year period in order to avoid expensive and embarrassing product recalls.

Another aspect of fairness relates to **competition**. Although numerous laws have been passed to foster competition and make monopolistic practices illegal, companies sometimes gain control over markets by using questionable practices that harm competition. Rivals of Microsoft, for *example,* accused the software giant of using unfair and monopolistic practices to maintain market dominance with its Internet Explorer browser.

19. **(i)** The problem of pollution and other environmental issues can best be framed in terms of our duty to recognize and preserve the ecological systems within which we live. 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 on 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.

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

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

20. **For a finance and accounting professional working as an employee:** A finance and accounting professional has a professional obligation to comply with certain fundamental principles. There may be times, however, when their responsibilities to an employing organization and the professional obligations to comply with the fundamental principles are in conflict.

Following are the professional obligations-

(i) A finance and accounting professional should support the legitimate and ethical objectives established by the employer and the rules and procedures drawn up in support of those objectives.

(ii) Nevertheless, where compliance with the fundamental principles is threatened, a finance and accounting professional must consider a response to the circumstances.

(iii) As a consequence of responsibilities to an employing organization, a finance and accounting professional may be under pressure to act or behave in ways that could directly or indirectly threaten compliance with the fundamental principles. Such pressure may be explicit or implicit; it may come from a supervisor, manager, director or another individual within the employing organization.

A finance and accounting professional may face pressure to:

(i) Act contrary to law or regulation.

(ii) Act contrary to technical or professional standards.

(iii) Facilitate unethical or illegal earnings management strategies.

(iv) Lie to, or otherwise intentionally mislead (including misleading by remaining silent) others, in particular:

- The auditors of the employing organization; or
- Regulators.

(v) Issue, or otherwise be associated with, a financial or non-financial report that materially misrepresents the facts, including statements in connection with, for *example:*

The financial statements; Tax compliance; Legal compliance; or Reports required by securities regulators.

21. Various forms of formal communication- Formal Communication in the working environment can be in any of the following forms-

(i) Downward communication - A communication from superior to subordinate

(ii) Upward Communication - A communication from subordinate to superior

(iii) Horizontal/Lateral communication - A communication between co-worker with different areas of responsibility

Potential Benefits - (i) Downward communication may lead to prevention or correction of employee errors, greater job satisfaction and improved morale.

(ii) Upward communication may preclude new problems and provide solution of old ones and increased acceptance of management decisions.

(iii) Horizontal/Lateral communication may increase co-operation among employees with different duties and enhancing the greater understanding of the organization's mission.

22. Characterstics of group personality- Given below are the characteristics of group personality.

(a) Spirit of Conformity: Individual members soon come to realize that in order to gain recognition, admiration and respect from others they have to achieve a spirit of conformity. Our beliefs, opinions, and actions are influenced more by group opinion than by an individual's opinion, even if it is an expert's opinion.

(b) Respect for group values: Any working group is likely to maintain certain values and ideals which make it different from others. In order to deal effectively with a group, we must understand its values, which will guide us in foreseeing its programmes and actions.

(c) Resistance to change: The group may bring about its own changes, whether by dictation of its leader or by consensus. The degree to which a group resists change serves as an important index of its personality. It helps us in dealing with it efficiently.

(d) Group prejudice: Just as hardly any individual is free from prejudice, groups have their own clearly evident prejudices. It is a different matter that the individual members may not admit their prejudiced attitude to other's race, religion, nationality etc. But the fact is that the individual's prejudices get further intensified while coming in contact with other members of the group holding similar prejudices.

(e) Collective power: Groups are always more powerful than individuals, how so ever influential the individual may be. That is why individuals may find it difficult to speak out their minds in groups. All of us are in need of people who adopt a friendly attitude towards us, not really those who are out to challenge us in a group.

Thus, the group as a whole always rules. The odd man out is always at a disadvantage.

23. A key element in any communication activity is the values of the organization. Values are the principles and ideas that people or organizations strongly believe in and consider important. When people are in doubt about decisions, they frequently rely on deep-seated values to help them make the right choice. In organizations, reliance on shared values makes setting goals easier in the face of the competing ideas, desires, and objectives of individual employees.

One can get a good idea about the values of an organization by examining its vision and mission statement. These statements are short descriptions of the purpose of organizations and the directions they try to take to achieve success. Many organizations post their vision and mission statements in several places so that employees know what the organization values.

24. PARTNERSHIP DEED

This AGREEMENT OF PARTNERSHIP is made in .... city on .... day of January, 2015 between................. (hereinafter called the FIRST PARTY) and .... (hereinafter called the SECOND PARTY) on the terms and conditions set forth herein;

The parties aforementioned mutually agree:

1. That the name of the partnership shall be ………………
2. The partnership shall commence on the ………day of January, 2015 for the purpose of carrying on the business of …..............and shall continue for …….......…years unless determined earlier by notice in writing by any party delivered to the other parties.
3. The capital of the partnership shall be ₹ ………… which shall be contributed in equal shares by the parties.
5. The share of the parties in profits and losses shall be equal.
6. Proper and regular account of the affairs and transactions of the partnership shall be maintained and kept at the principal place of business of the partnership.
7. Six monthly balance-sheet and profits and loss account shall be prepared under the supervision of all the parties and shall be signed by each party, who shall be bound thereby except for error discovered and rectified within three months thereof.
7. No partner shall carry on any other business which may be allied or similar to the business of the partnership.
8. Death of a partner shall not operate as dissolution of the partnership.
9. Any dispute arising out of his partnership shall be referred for adjudication to the arbitration of the President of the Bar Association at or his nominee whose decision shall be final and binding on all parties and their legal representatives.

In witness whereof the parties of aforementioned have signed this deed of partnership.

WITNESS	Signature
1. ………………	First Party ……………………………
2. ………………	Second Party ………………………..

25. Letter to bank requesting to provide statements of salary accounts for the three months (from 1st of January, 2014 to 31st of March, 2014)

To,

The Manager,

Axis Bank,

Delhi

Reg: Statement of Salary A/C no ……… from 1st of January, 2014 to 31st of March, 2014

Dear Sir,

As you aware that I, have been maintaining a salary account with your esteemed organization for the last ten years and also all our family deposits are with this branch.

I, am in need of statement of my salary accounts of the above mentioned period.

I, hereby request you to provide the statement at an earliest.

Thanking you.

Yours faithfully,

(Mr. X)

(Customer)

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART I: COST ACCOUNTING

QUESTIONS

Material

1. Aditya Ltd. produces a product 'Exe' using a raw material Dee. To produce one unit of Exe, 2 kg of Dee is required. As per the sales forecast conducted by the company, it will able to sale 10,000 units of Exe in the coming year. The following is the information regarding the raw material Dee:

   (i) The Re-order quantity is 200 kg. less than the Economic Order Quantity (EOQ).

   (ii) Maximum consumption per day is 20 kg. more than the average consumption per day.

   (iii) There is an opening stock of 1,000 kg.

   (iv) Time required to get the raw materials from the suppliers is 4 to 8 days.

   (v) The purchase price is ₹125 per kg.

   There is an opening stock of 900 units of the finished product Exe.

   The rate of interest charged by bank on Cash Credit facility is 13.76%.

   To place an order company has to incur ₹ 720 on paper and documentation work.

   From the above information find out the followings in relation to raw material Dee:

   (a) Re-order Quantity

   (b) Maximum Stock level

   (c) Minimum Stock level

   (d) Calculate the impact on the profitability of the company by not ordering the EOQ.

   [Take 364 days for a year]

Labour

2. Corrs Consultancy Ltd. is engaged in BPO industry. One of its trainee executives in the Personnel department has calculated labour turnover rate 24.92% for the last year using Flux method.

   Following is the some data provided by the Personnel department for the last year:

Employees	At the beginning	Joined	Left	At the end
Data Processors	540	1,080	60	1,560
Payroll Processors	?	20	60	40
Supervisors	?	60	---	?

Voice Agents	?	20	20	?
Assistant Managers	?	20	---	30
Senior Voice Agents	4	---	---	12
Senior Data Processors	8	---	---	34
Team Leaders	?	---	---	?
Employees transferred from the Subsidiary Company				
Senior Voice Agents	---	8	---	---
Senior Data Processors	---	26	---	---
Employees transferred to the Subsidiary Company				
Team Leaders	---	---	60	---
Assistant Managers	---	---	10	---

At the beginning of the year there were total 772 employees on the payroll of the company. The opening strength of the Supervisors, Voice Agents and Assistant Managers were in the ratio of 3 : 3 : 2.

The company has decided to abandon the post of Team Leaders and consequently all the Team Leaders were transferred to the subsidiary company.

The company and its subsidiary are maintaining separate set of books of account and separate Personnel Department.

You are required to calculate:

(a) Labour Turnover rate using Replacement method and Separation method.

(b) Verify the Labour turnover rate calculated under Flux method by the trainee executive of the Corrs Consultancy Ltd.

Overheads

3. The Union Ltd. has the following account balances and distribution of direct charges on 31st March, 2014.

	Total	Production Depts.		Service Depts.	
		Machine Shop	Packing	General Plant	Stores
Allocated Overheads:	(₹)	(₹)	(₹)	(₹)	(₹)
Indirect labour	29,000	8,000	6,000	4,000	11,000
Maintenance Material	9,900	3,400	1,600	2,100	2,800
Misc. supplies	5,900	1,500	2,900	900	600
Supervisor's salary	16,000	--	--	16,000	--
Cost & payroll salary	80,000	--	--	80,000	--

Overheads to be apportioned:	
Power	78,000
Rent	72,000
Fuel and Heat	60,000
Insurance	12,000
Taxes	8,400
Depreciation	1,20,000

The following data were compiled by means of the factory survey made in the previous year:

	Floor Space	Radiator Section	No. of employees	Investment	H.P. hours
Machine Shop	2,000 Sq. ft.	45	20	8,00,000	3,500
Packing	800 Sq. ft.	90	12	2,40,000	500
General Plant	400 Sq. ft.	30	4	80,000	-
Stores & maintenance	1,600 Sq. ft.	60	8	1,60,000	1,000

Expenses charged to the stores departments are to be distributed to the other departments by the following percentages:

Machine shop 50%; Packing 20%; General Plant 30%;

General Plant overheads is distributed on the basis of number of employees.

(a) Prepare an overhead distribution statement with supporting schedules to show computations and basis of distribution.

(b) Determine the service department distribution by simultaneous equation method.

Non-integrated Accounting

4. The financial books of a company reveal the following data for the year ended 31st March, 2014:

	(₹)
Opening Stock:	
Finished goods 875 units	76,525
Work-in-process	33,000
01.04.2013 to 31.3.2014	
Raw materials consumed	7,84,000
Direct Labour	4,65,000

Factory overheads	2,65,000
Goodwill written off	95,000
Administration overheads	3,15,000
Interest paid	72,000
Bad Debts	21,000
Selling and Distribution Overheads	65,000
Interest received	18,500
Rent received	72,000
Sales 14,500 units	20,80,000
Closing Stock: Finished goods 375 units	43,250
Work-in-process	48,200

The cost records provide as under:

Factory overheads are absorbed at 60% of direct wages.

Administration overheads are recovered at 20% of factory cost.

Selling and distribution overheads are charged at ₹ 5 per unit sold.

Opening Stock of finished goods is valued at ₹ 105 per unit.

The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

Required:

(i) Prepare statements for the year ended 31st March, 2014 show

- the profit as per financial records
- the profit as per costing records.

(ii) Present a statement reconciling the profit as per costing records with the profit as per Financial Records.

Contract Costing

5. Dream house (P) Ltd. is engaged in building two residential housing projects in the city. Particulars related to two housing projects are as below:

	HP-1 (₹)	HP-2 (₹)
Work in Progress on 1st April 2013	7,80,000	2,80,000
Materials Purchased	6,20,000	8,10,000
Land purchased near to the site to open an office	-	12,00,000
Brokerage and registration fee paid on the above purchase	-	60,000

Wages paid	85,000	62,000
Wages outstanding as on 31st March, 2014	12,000	8,400
Donation paid to local clubs	5,000	2,500
Plant hire charges paid for three years effecting from 1st April 2013	72,000	57,000
Value of materials at site as on 31st March, 2014	47,000	52,000
Contract price of the projects	48,00,000	36,00,000
Value of work certified	20,50,000	16,10,000
Work not certified	1,90,000	1,40,000

A concrete mixture machine was bought on 1st April 2013 for ₹ 8,20,000 and used for 180 days in HP-1 and for 100 days in HP-2. Depreciation is provided @ 15% p.a.(this machine can be used for any other projects)

As per the contract agreement contractee shall retain 20% of work certified as retention money.

Prepare contract account for the two housing projects showing the profit or loss on each project for the year ended 31st March, 2014.

Process Costing

6. The following data are available in respect of Process-I for October 2014:

(1) Opening stock of work in process: 600 units at a total cost of ₹ 4,200.

(2) Degree of completion of opening work in process:

Material	100%
Labour	60%
Overheads	60%

(3) Input of materials at a total cost of ₹ 55,200 for 9,200 units.

(4) Direct wages incurred ₹ 18,600

(5) Overheads ₹ 8,630.

(6) Units scrapped 200 units. The stage of completion of these units was:

Materials	100%
Labour	80%
Overheads	80%

(7) Closing work in process; 700 units. The stage of completion of these units was:

Material	100%

Labour	70%
Overheads	70%

(8) 8,900 units were completed and transferred to the next process.

(9) Normal loss is 4% of the total input (opening stock plus units put in)

(10) Scrap value is ₹ 6 per unit.

You are required to:

(a) Compute equivalent production,

(b) Calculate the cost per equivalent unit for each element.

(c) Calculate the cost of abnormal loss (or gain), closing work in process and the units transferred to the next process using the FIFO method.

Standard Costing

7. ABC Ltd. had prepared the following estimation for the month of April:

	Quantity	Rate (₹)	Amount (₹)
Material-A	800 kg.	45.00	36,000
Material-B	600 kg.	30.00	18,000
Skilled labour	1,000 hours	37.50	37,500
Unskilled labour	800 hours	22.00	17,600

Normal loss was expected to be 10% of total input materials and an idle labour time of 5% of expected labour hours was also estimated.

At the end of the month the following information has been collected from the cost accounting department:

The company has produced 1,480 kg. finished product by using the followings:

	Quantity	Rate (₹)	Amount (₹)
Material-A	900 kg.	43.00	38,700
Material-B	650 kg.	32.50	21,125
Skilled labour	1,200 hours	35.50	42,600
Unskilled labour	860 hours	23.00	19,780

You are required to calculate:

(a) Material Cost Variance;

(b) Material Price Variance;

(c) Material Mix Variance;

(d) Material Yield Variance;

(e) Labour Cost Variance;

(f) Labour Efficiency Variance and

(g) Labour Yield Variance.

Marginal Costing

8. Arnav Ltd. manufacture and sales its product R-9. The following figures have been collected from cost records of last year for the product R-9:

Elements of Cost	Variable Cost portion	Fixed Cost
Direct Material	30% of Cost of Goods Sold	--
Direct Labour	15% of Cost of Goods Sold	--
Factory Overhead	10% of Cost of Goods Sold	₹ 2,30,000
General & Administration Overhead	2% of Cost of Goods Sold	₹ 71,000
Selling & Distribution Overhead	4% of Cost of Sales	₹ 68,000

Last Year 5,000 units were sold at ₹185 per unit. From the given data find the followings:

(a) Break-even Sales (in rupees)

(b) Profit earned during last year

(c) Margin of safety (in %)

(d) Profit if the sales were 10% less than the actual sales.

Budget and Budgetary Control

9. S Ltd. has prepared budget for the coming year for its two products A and B.

	Product A (₹)	Product B (₹)
Production & Sales unit	6,000 units	9,000 units
Raw material cost per unit	60.00	42.00
Direct labour cost per unit	30.00	18.00
Variable overhead per unit	12.00	6.00
Fixed overhead per unit	8.00	4.00
Selling price per unit	120.00	78.00

After some marketing efforts, the sales quantity of the Product A & B can be increased by 1,500 units and 500 units respectively but for this purpose the variable overhead and fixed overhead will be increased by 10% and 5% respectively for the both products.

You are required to prepare flexible budget for both the products:

(a) Before marketing efforts

(b) After marketing efforts.

Miscellaneous

10. (a) A Ltd. is engaged in production of sugar. While producing sugar molasses is also produced. Molasses is identified as by-product of sugar. Suggest the treatment of molasses in the cost accounts of A Ltd.

(b) Z Ltd. Produces product ZZ in batches, management of the Z Ltd. wants to know the number of batches of product ZZ to be produced where the cost incurred on batch setup and carrying cost of production is at optimum level.

(c) Steel Heart Pvt. Ltd. Manufactures TMT bars from MS Ingots and MS Billets. After production of TMT bars, sorting is carried out to find any defects or units that do not match with standard specification. The products which do not match with the standard product specification are treated as scrap. You are required to state the treatment of the products which do not match with the product specifications in Cost Accounts.

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

SUGGESTED HINTS/ANSWERS

1. **Working Notes:**

(i) **Computation of Annual consumption & Annual Demand for raw material 'Dee':**

Sales forecast of the product 'Exe'	10,000 units
Less: Opening stock of 'Exe'	900 units
Fresh units of 'Exe' to be produced	9,100 units
Raw material required to produce 9,100 units of 'Exe' (9,100 units × 2 kg.)	18,200 kg.
Less: Opening Stock of 'Dee'	1,000 kg.
Annual demand for raw material 'Dee'	17,200 kg.

(ii) **Computation of Economic Order Quantity (EOQ):**

$$EOQ = \sqrt{\frac{2 \times \text{Annual demand of 'Dee'} \times \text{Ordering cost}}{\text{Carrying cost per unit per annum}}}$$

$$= \sqrt{\frac{2 \times 17{,}200\text{kg.} \times ₹720}{₹125 \times 13.76\%}} = \sqrt{\frac{2 \times 17{,}200\text{kg.} \times ₹720}{₹17.2}} = 1{,}200 \text{ kg.}$$

(iii) **Re- Order level:**

= (Maximum consumption per day × Maximum lead time)

$$= \left\{\left(\frac{\text{Annual Consumption of 'Dee'}}{364\text{ days}} + 20\text{ kg.}\right) \times 8 \text{ days}\right\}$$

$$= \left\{\left(\frac{18{,}200\text{ kg.}}{364\text{ days}} + 20\text{ kg.}\right) \times 8 \text{ days}\right\} = 560 \text{ kg.}$$

(iv) **Minimum consumption per day of raw material 'Dee':**

Average Consumption per day = 50 Kg.

Hence, Maximum Consumption per day = 50 kg. + 20 kg. = 70 kg.

So Minimum consumption per day will be

$$\text{Average Consumption} = \frac{\text{Min. consumption} + \text{Max. consumption}}{2}$$

$$\text{Or, } 50 \text{ kg.} = \frac{\text{Min. consumption} + 70 \text{ kg.}}{2}$$

Or, Min. consumption = 100 kg – 70 kg. = 30 kg.

(a) Re-order Quantity :

EOQ – 200 kg. = 1,200 kg. – 200 kg. = 1,000 kg.

(b) Maximum Stock level:

= Re-order level + Re-order Quantity – (Min. consumption per day × Min. lead time)

= 560 kg. + 1,000 kg. – (30 kg. × 4 days)

= 1,560 kg. – 120 kg. = 1,440 kg.

(c) Minimum Stock level:

= Re-order level – (Average consumption per day × Average lead time)

= 560 kg. – (50 kg. × 6 days) = 260 kg.

(d) Impact on the profitability of the company by not ordering the EOQ.

		When purchasing the ROQ	When purchasing the EOQ
I	Order quantity	1,000 kg.	1,200 kg.
II	No. of orders a year	$\frac{17{,}200\text{ kg.}}{1{,}000\text{ kg.}} = 17.2$ or 18 orders	$\frac{17{,}200\text{ kg.}}{1{,}200\text{ kg.}} = 14.33$ or 15 orders
III	Ordering Cost	18 orders × ₹ 720 = ₹12,960	15 orders × ₹ 720 = ₹10,800

IV	Average Inventory	$\frac{1{,}000\text{kg.}}{2} = 500\text{kg.}$	$\frac{1{,}200\text{kg.}}{2} = 600\text{kg.}$
V	Carrying Cost	500 kg. × ₹ 17.2 = ₹ 8,600	600 kg. × ₹ 17.2 = ₹ 10,320
VI	Total Cost	₹ 21,560	₹ 21,120

Extra Cost incurred due to not ordering EOQ = ₹ 21,560 - ₹ 21,120 = ₹440

2. Working Notes:

(i) Calculation of no. of employees at the beginning and end of the year

	At the Beginning of the year	At the end of the year
Data Processors	540	1,560
Payroll Processors [Left- 60 + Closing- 40 – Joined- 20]	80	40
Supervisors*	30	90
Voice Agents*	30	30
Assistant Managers*	20	30
Senior Voice Agents	4	12
Senior Data Processors	8	34
Team Leaders	60	0
Total	**772**	**1,796**

(*) **At the beginning of the year:**

Strength of Supervisors, Voice Agents and Asst. Managers =

[772 – {540 + 80 + 4 + 8 + 60} employees] or [772 – 692 = 80 employees]

[{Supervisors- $80 \times \frac{3}{8}$ = 30, Voice Agents- $80 \times \frac{3}{8}$ = 30 & Asst. Managers- $80 \times \frac{2}{8}$ = 20} employees]

At the end of the year:

[Supervisor-(Opening- 30 + 60 Joining) = 90; Voice Agents- (Opening- 30 + 20 Joined – 20 Left) = 30]

(ii) No. of Employees Separated, Replaced and newly recruited during the year

Particulars	Separations	New Recruitment	Replacement	Total Joining
Data Processors	60	1,020	60	1,080
Payroll Processors	60	--	20	20

Supervisors	--	60	--	60
Voice Agents	20	--	20	20
Assistant Managers	10	10	10	20
Sr. Voice Agents	--	8	--	8
Sr. Data Processors	--	26	--	26
Team Leaders	60	--	--	--
Total	**210**	**1,124**	**110**	**1,234**

(Since, Corrs Consultancy Ltd. and its subsidiary are maintaining separate Personnel Department, so transfer-in and transfer-out are treated as recruitment and separation respectively.)

(a) Calculation of Labour Turnover:

Replacement Method $= \dfrac{\text{No. of employees replaced during the year}}{\text{Average no. of employees on roll}} \times 100$

$$= \frac{110}{(772+1,796)/2} \times 100 = \frac{110}{1,284} \times 100 = 8.57\%$$

Separation Method $= \dfrac{\text{No. of employees separated during the year}}{\text{Average no. of employees on roll}} \times 100$

$$= \frac{210}{1,284} \times 100 = 16.36\%$$

(b) Labour Turnover under Flux Method:

$$= \frac{\text{No. of employees (Joined + Separated) during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{\text{No. of employees (Replaced + New recruited + Separated) during the year}}{\text{Average no. of employees on roll}} \times 100$$

$$= \frac{1,234+210}{1,284} \times 100 = 112.46\%$$

Labour Turnover calculated by the executive trainee of the Personnel department is incorrect as it has not taken the No. of new recruitment while calculating the labour turnover under Flux method.

3. (a) Overhead Distribution Statement

	Production Departments		Service Departments	
	Machine Shops	Packing	General Plant	Stores
Allocated Overheads:	(₹)	(₹)	(₹)	(₹)
Indirect labour	8,000	6,000	4,000	11,000
Maintenance Material	3,400	1,600	2,100	2,800
Misc. supplies	1,500	2,900	900	600
Supervisor's salary	--	--	16,000	--
Cost & payroll salary	--	--	80,000	--
Total allocated overheads	12,900	10,500	1,03,000	14,400
Add: Apportioned Overheads (As per Schedule below)	1,84,350	70,125	22,775	73,150
	1,97,250	80,625	1,25,775	87,550

Schedule of Apportionment of Overheads

Item of Cost	Basis	Production Departments		Service Departments	
		Machine Shops (₹)	Packing (₹)	General Plant (₹)	Stores (₹)
Power	HP hours (7 : 1 : - : 2)	54,600	7,800	--	15,600
Rent	Floor space (5 : 2 : 1 : 4)	30,000	12,000	6,000	24,000
Fuel & Heat	Radiator sec. (3 : 6 : 2 : 4)	12,000	24,000	8,000	16,000
Insurance	Investment (10 : 3 : 1 : 2)	7,500	2,250	750	1,500
Taxes	Investment (10 : 3 : 1 : 2)	5,250	1,575	525	1,050
Depreciation	Investment (10 : 3 : 1 : 2)	75,000	22,500	7,500	15,000
		1,84,350	70,125	22,775	73,150

(b) Re-distribution of Overheads of Service Departments to Production Departments:

Let, the total overheads of General Plant = 'a' and the total overheads of Stores = 'b'

a = 1,25,775 + 0.3b ....(i)

b = 87,550 + 0.2a ....(ii)

Putting the value of 'b' in equation no. (i)

a = 1,25,775 + 0.3 (87,550 + 0.2a)

Or a = 1,25,775 + 26,265 + 0.06a

Or 0.94a = 1,52,040 Or a = 1,61,745 (appx.)

Putting the value of a = 1,61,745 in equation no. (ii) to get the value of 'b'

b = 87,550 + 0.2 × 1,61,745 = 1,19,899

Secondary Distribution Summary

Particulars	Total (₹)	Machine Shops (₹)	Packing (₹)
Allocated and Apportioned overheads as per Primary distribution	2,77,875	1,97,250.00	80,625.00
-General Plant	1,61,745	80,872.50 $(1,61,745 \times \frac{5}{10})$	48,523.50 $(1,61,745 \times \frac{3}{10})$
-Stores	1,19,899	59,949.50 (1,19,899 × 50%)	23,979.80 (1,19,899 × 20%)
		3,38,072.00	1,53,128.30

4. (i) Statement of Profit as per financial records

(for the year ended March 31, 2014)

	(₹)		(₹)
To Opening stock:		By Sales	20,80,000
Finished Goods	76,525	By Closing stock:	
Work-in-process	33,000	Finished Goods	43,250
To Raw materials consumed	7,84,000	Work-in-Process	48,200
To Direct labour	4,65,000	By Rent received	72,000
To Factory overheads	2,65,000	By Interest received	18,500

To Goodwill written off	95,000		
To Administration overheads	3,15,000		
To Selling & distribution overheads	65,000		
To Interest paid	72,000		
To Bad debts	21,000		
To Profit	70,425		
	22,61,950		22,61,950

Statement of Profit as per costing records

(for the year ended March 31,2014)

	(₹)	(₹)
Sales revenue (14,500 units) (A)		20,80,000
Cost of Sales:		
Opening stock (875 units x ₹ 105)	91,875	
Add: Cost of production of 14,000 units (Refer to Working Note 1& 2)	18,15,360	
Less: Closing stock $\left(\frac{₹18,15,360 \times 375 \text{ units}}{14,000 \text{ units}}\right)$	(48,626)	
Production cost of goods sold (14,500 units)	18,58,609	
Selling & distribution overheads (14,500 units x ₹ 5)	72,500	
Cost of sales: (B)	19,31,109	19,31,109
Profit: {(A) – (B)}		1,48,891

(ii) Statement of Reconciliation

(Reconciling the profit as per costing records with the profit as per financial records)

	(₹)	(₹)
Profit as per Cost Accounts		1,48,891
Add: Factory overheads over absorbed (₹ 2,79,000 – ₹ 2,65,000)	14,000	
S & D overheads over absorbed (₹ 72,500 – ₹ 65,000)	7,500	
Opening stock overvalued (₹ 91,875 – ₹ 76,525)	15,350	

Interest received	18,500	
Rent received	72,000	1,27,350
		2,76,241
Less: Administration overheads under recovery (₹ 3,15000 – ₹ 3,02,560)	12,440	
Closing stock overvalued (₹ 48,626 – ₹ 43,250)	5,376	
Goodwill written off	95,000	
Interest paid	72,000	
Bad debts	21,000	2,05,816
Profit as per financial accounts		70,425

Working Notes:

1. Number of units produced

	Units
Sales	14,500
Add: Closing stock	375
Total	14,875
Less: Opening stock	875
Number of units produced	14,000

2. Cost Sheet

	(₹)	(₹)
Raw materials consumed		7,84,000
Direct labour		4,65,000
Prime cost		12,49,000
Factory overheads (60% of direct wages)		2,79,000
Factory cost		15,28,000
Add: Opening work-in-process		33,000
Less: Closing work-in-process		(48,200)
Factory cost of goods produced		15,12,800
Administration overheads (20% of factory cost)		3,02,560
Cost of production of 14,000 units		18,15,360

Cost of production per unit: $= \dfrac{\text{Total Cost of Production}}{\text{No. of units produced}} = \dfrac{₹\ 18,15,360}{14,000 \text{ units}} = ₹129.67$

5. Dr. **Contract Account for the year ended 31st March, 2014** Cr.

Particulars	HP-1 (₹)	HP-2 (₹)	Particulars	HP-1 (₹)	HP-2 (₹)
To Balance b/d: W-I-P	7,80,000	2,80,000	By Closing material at site	47,000	52,000
To Material purchased	6,20,000	8,10,000	By W-I-P:		
To Wages: (₹85,000+₹12,000) (₹62,000+₹8,400)	97,000	70,400	Value of work certified Cost of work not certified	20,50,000 1,90,000	16,10,000 1,40,000
To Donation to local club*	5,000	2,500			
To Plant hire charges: (₹72,000x1/3) (₹57,000x1/3)	24,000	19,000			
To Depreciation on concrete mixture**: (₹8,20,000x15%x180/365) (₹8,20,000x15%x100/365)	60,658	33,699			
To Notional profit (balance c/d)	7,00,342	5,86,401			
	22,87,000	18,02,000		22,87,000	18,02,000
To Costing P & L A/c (WN-2)	1,86,758	1,56,374	By Notional profit (balance b/d)	7,00,342	5,86,401
To Costing P& L Reserve A/c.	5,13,584	4,30,027			
	7,00,342	5,86,401		7,00,342	5,86,401

* Assuming donation paid to local club was exclusively for the above projects, hence included in the contract account.

** Depreciation on concrete mixture machine is charged on the basis of number of days used for the projects, as it is clearly mentioned in the question that this machine can be used for other projects also.

Working Notes:

1 Computation of Stage of completion of the projects:

$$\frac{\text{Value of work certified}}{\text{Value of contract}} \times 100$$

$$HP - 1 = \frac{₹\ 20,50,000}{₹\ 48,00,000} \times 100 = 42.71\%$$

$$HP-2 = \frac{₹\ 16,10,000}{₹\ 36,00,000} \times 100 = 44.72\%$$

2 Computation of profit to be recognized in the Costing profit & loss A/c.

$$\frac{1}{3} \times \text{ Notional profit } \times \frac{\text{Cash Received}}{\text{Value of work certified}}$$

$$HP-1 \quad = \frac{1}{3} \times ₹\ 7,00,342 \times 80\% = ₹1,86,758$$

$$HP-2 \quad = \frac{1}{3} \times ₹\ 5,86,401 \times 80\% = ₹1,56,374$$

(Land purchased and brokerage and registration fee paid for this purpose cannot be charged to contract account, hence not included in the contract account)

6. **(a)** Statement of Equivalent Production (FIFO Method)

Input		Output		Equivalent Production					
				Materials		Labour		Overheads	
Details	**Units**	**Details**	**Units**	**%**	**Units**	**%**	**Units**	**%**	**Units**
Opening Stock	600	Finished goods transferred to next process:- from opening stock	600	-	-	40	240	40	240
		- From fresh materials	8,300	100	8,300	100	8,300	100	8,300
		Closing W-I-P	700	100	700	70	490	70	490
Fresh inputs	9,200	Normal loss	392	-	-	-	-	-	-
			9,992		9,000		9,030		9,030
		Less: Abnormal Gain	(192)	100	(192)	100	(192)	100	(192)
	9,800		9,800		8,808		8,838		8,838

(b) Statement of Cost per equivalent units

Elements	(₹)	**Cost** (₹)	**Equivalent units**	**Cost per equivalent Unit** (₹)
Material Cost	55,200			
Less: Scrap realisation 392 units @ ₹ 6/- p.u.	2,352	52,848	8,808	6.00
Labour cost		18,600	8,838	2.10

Overheads		8,630	8,838	0.98
Total Cost		80,078		9.08

(c) Cost of Abnormal Gain – 192 Units

	(₹)	(₹)
Material cost of 192 units @ ₹ 6.00/- p.u.	1,152.00	
Labour cost of 192 units @ ₹ 2.10/- p.u.	403.20	
Overheads of 192 units @ ₹ 0.98/- p.u.	188.16	1,743.36

Cost of closing WIP – 700 Units

Material cost of 700 equivalent units @ ₹ 6.00/- p.u.	4,200.00	
Labour cost of 490 equivalent units @ ₹2.10/- p.u.	1,029.00	
Overheads of 490 equivalent @ ₹ 0.98/- p.u.	480.20	5709.20

Cost of 8,900 units transferred to next process			(₹)
(i)	Cost of opening W-I-P Stock b/f – 600 units		4,200.00
(ii)	Cost incurred on opening W-I-P stock		
	Material cost	—	
	Labour cost 240 equivalent units @ ₹ 2.10 p.u.	504.00	
	Overheads 240 equivalent units @ ₹ 0.98/- p.u.	235.20	739.20
(iii)	Cost of 8,300 completed units		
	8,300 units @ ₹9.08 p.u.		75,364.00
	Total cost [(i) + (ii) + (iii))]		80,303.20

7. Material Variances:

Material	SQ (WN-1)	SP (₹)	SQ × SP (₹)	RSQ (WN-2)	RSQ × SP (₹)	AQ	AQ × SP (₹)	AP (₹)	AQ × AP (₹)
A	940 kg.	45.00	42,300	886 kg.	39,870	900 kg.	40,500	43.00	38,700
B	705 kg.	30.00	21,150	664 kg.	19,920	650 kg.	19,500	32.50	21,125
	1645 kg		63,450	1550 kg	59,790	1550 kg	60,000		59,825

WN-1: Standard Quantity (SQ):

Material A- $\left(\frac{800\text{kg.}}{0.9 \times 1,400\text{kg.}} \times 1,480\text{kg.}\right)$ = 939.68 or 940 kg.

Material B- $\left(\dfrac{600\,\text{kg.}}{0.9 \times 1{,}400\,\text{kg.}} \times 1{,}480\,\text{kg.}\right)$ = 704.76 or 705 kg.

WN- 2: Revised Standard Quantity (RSQ):

Material A- $\left(\dfrac{800\,\text{kg.}}{1{,}400\,\text{kg.}} \times 1{,}550\,\text{kg.}\right)$ = 885.71 or 886 kg.

Material B- $\left(\dfrac{600\,\text{kg.}}{1{,}400\,\text{kg.}} \times 1{,}550\,\text{kg.}\right)$ = 664.28 or 664 kg.

(a) Material Cost Variance (A + B) = {(SQ × SP) – (AQ × AP)}
= {63,450 – 59,825} = 3,625 (F)

(b) Material Price Variance (A + B) = {(AQ × SP) – (AQ × AP)
= {60,000 – 59,825} = 175 (F)

(c) Material Mix Variance (A + B) = {(RSQ × SP) – (AQ × SP)}
= {59,790 – 60,000} = 210 (A)

(d) Material Yield Variance (A + B) = {(SQ × SP) – (RSQ × SP)}
= {63,450 – 59,790} = 3,660 (F)

Labour Variances:

Labour	SH (WN-3)	SR (₹)	SH × SR (₹)	RSH (WN-4)	RSH × SR (₹)	AH	AH × SR (₹)	AR (₹)	AH × AR (₹)
Skilled	1,116 hrs	37.50	41,850	1144	42,900	1,200	45,000	35.50	42,600
Unskilled	893 hrs	22.00	19,646	916	20,152	860	18,920	23.00	19,780
	2,009 hrs		61,496	2,060	63,052	2,060	63,920		62,380

WN- 3: Standard Hours (SH):

Skilled labour- $\left(\dfrac{0.95 \times 1{,}000\,\text{hr.}}{0.90 \times 1{,}400\,\text{kg.}} \times 1{,}480\,\text{kg.}\right)$ =1,115.87 or 1,116 hrs.

Unskilled labour- $\left(\dfrac{0.95 \times 800\,\text{hr.}}{0.90 \times 1{,}400\,\text{kg.}} \times 1{,}480\,\text{kg.}\right)$ = 892.69 or 893 hrs.

WN- 4: Revised Standard Hours (RSH):

Skilled labour- $\left(\dfrac{1{,}000\,\text{hr.}}{1{,}800\,\text{hr.}} \times 2{,}060\,\text{hr.}\right)$ = 1,144.44 or 1,144 hrs.

Unskilled labour- $\left(\frac{800\,\text{hr.}}{1{,}800\,\text{hr.}} \times 2{,}060\,\text{hr.}\right)$ = 915.56 or 916 hrs.

(e) Labour Cost Variance (Skilled + Unskilled) = {(SH × SR) – (AH × AR)}
= {61,496 – 62,380} = 884 (A)

(f) Labour Efficiency Variance (Skilled + Unskilled) = {(SH × SR) – (AH × SR)}
= {61,496 – 63,920} = 2,424 (A)

(g) Labour Yield Variance (Skilled + Unskilled) = {(SH × SR) – (RSH × SR)}
= {61,496 – 63,052} = 1,556 (A)

8. Working Notes:

(i) Calculation of Cost of Goods Sold (COGS):

COGS = {(DM- 0.3 COGS) + (DL- 0.15 COGS) + (FOH- 0.10 COGS + ₹ 2,30,000) + (G&AOH- 0.02 COGS + ₹ 71,000)}

Or COGS = 0.57 COGS + ₹ 3,01,000

Or COGS = $\frac{₹\,3{,}01{,}000}{0.43}$ = ₹ 7,00,000

(ii) Calculation of Cost of Sales (COS):

COS = COGS + (S&DOH- 0.04 COS + ₹ 68,000)

Or COS = ₹ 7,00,000 + (0.04 COS + ₹ 68,000)

Or COS = $\frac{₹\,7{,}68{,}000}{0.96}$ = ₹ 8,00,000

(iii) Calculation of Variable Costs:

Direct Material-	(0.3 × ₹ 7,00,000)	₹ 2,10,000
Direct Labour-	(0.15 × ₹ 7,00,000)	₹ 1,05,000
Factory Overhead-	(0.10 × ₹ 7,00,000)	₹ 70,000
General & Administration OH-	(0.02 × ₹ 7,00,000)	₹ 14,000
Selling & Distribution OH	(0.04 × ₹ 8,00,000)	₹ 32,000
		₹ 4,31,000

(iv) Calculation of total Fixed Costs:

Factory Overhead-	₹ 2,30,000
General & Administration OH-	₹ 71,000
Selling & Distribution OH	₹ 68,000
	₹ 3,69,000

(v) Calculation of P/V Ratio:

$$\text{P/V Ratio} = \frac{\text{Contribution}}{\text{Sales}}\times 100 = \frac{\text{Sales} - \text{Variable Costs}}{\text{Sales}}\times 100$$

$$= \frac{(₹185\times 5{,}000\,\text{units}) - ₹4{,}31{,}000}{₹185\times 5{,}000\,\text{units}}\times 100 = 53.41\%$$

(a) Break-Even Sales $= \dfrac{\text{Fixed Costs}}{\text{P / V Ratio}} = \dfrac{₹3{,}69{,}000}{53.41\%} = ₹\ 6{,}90{,}882$

(b) Profit earned during the last year

= (Sales – Total Variable Costs) – Total Fixed Costs

= (₹ 9,25,000 - ₹ 4,31,000) - ₹ 3,69,000

= ₹ 1,25,000

(c) Margin of Safety (%) $= \dfrac{\text{Sales} - \text{Breakeven sales}}{\text{Sales}}\times 100$

$$= \frac{₹9{,}25{,}000 - ₹6{,}90{,}882}{₹9{,}25{,}000}\times 100 = 25.31\%$$

(d) Profit if the sales were 10% less than the actual sales:

Profit = 90% (₹ 9,25,000 - ₹ 4,31,000) - ₹ 3,69,000

= ₹ 4,44,600 - ₹ 3,69,000 = ₹ 75,600

9. (a) Flexible Budget before marketing efforts:

	Product A (₹) 6,000 units		**Product B (₹) 9,000 units**	
	Per unit	**Total**	**Per unit**	**Total**
Sales	120.00	7,20,000	78.00	7,02,000
Raw material cost	60.00	3,60,000	42.00	3,78,000
Direct labour cost per unit	30.00	1,80,000	18.00	1,62,000
Variable overhead per unit	12.00	72,000	6.00	54,000
Fixed overhead per unit	8.00	48,000	4.00	36,000
Total cost	110.00	6,60,000	70.00	6,30,000
Profit	10.00	60,000	8.00	72,000

(b) Flexible Budget after marketing efforts:

	Product A (₹) 7,500 units		Product B (₹) 9,500 units	
	Per unit	**Total**	**Per unit**	**Total**
Sales	120.00	9,00,000	78.00	7,41,000
Raw material cost	60.00	4,50,000	42.00	3,99,000
Direct labour cost per unit	30.00	2,25,000	18.00	1,71,000
Variable overhead per unit	13.20	99,000	6.60	62,700
Fixed overhead per unit	6.72	50,400	3.98	37,800
Total cost	109.92	8,24,400	70.58	6,70,500
Profit	10.08	75,600	7.42	70,500

10. (a) Molasses is a by product of sugar and treatment of by-product in cost accounting is as follows.

(i) When these are of small total value, the amount realized from their sale may be dealt as follows:

- Sales value of the by-product may be credited to Costing Profit and Loss Account and no credit be given in Cost Accounting. The credit to Costing Profit and Loss Account is treated here either as a miscellaneous income or as additional sales revenue.
- The sale proceeds of the by-product may be treated as deduction from the total costs. The sales proceeds should be deducted either from production cost or cost of sales.

(ii) When they require further processing: In this case, the net realisable value of the by-product at the split-off point may be arrived at by subtracting the further processing cost from realisable value of by-product. If the value is small, it may be treated as discussed in (i) above.

(b) Economic batch quantity in Batch Costing*:* In batch costing the most important problem is the determination of 'Economic Batch Quantity'. The determination of economic batch quantity involves two types of costs viz, (i) set up cost and (ii) carrying cost. With the increase in the batch size, there is an increase in the carrying cost but the set up cost per unit of product is reduced. This situation is reversed when the batch size is reduced. Thus there is one particular batch size for which both set up and carrying costs are minimum. This size of a batch is known as economic or optimum batch quantity.

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

$$E.B.Q = \sqrt{\frac{2DS}{C}}$$

Where, D= Annual demand for the product

S = Setting up cost per batch

C = Carrying cost per unit of production per annum

(c) Scrap has been defined as the incidental residue from certain types of manufacture, usually of small amount and low value, recoverable without further processing.

Scrap may be treated in cost accounts in the following ways:-

(i) **When the scrap value is negligible:** It may be excluded from costs. In other words, the cost of scrap is borne by good units and income from scrap is treated as other income.

(ii) **When the scrap value is not identifiable to a particular process or job:** The sales value of scrap net of selling and distribution cost, is deducted from overhead to reduce the overhead rate. A variation of this method is to deduct the net realisable value from material cost.

(iii) **When scrap is identifiable with a particular job or process and its value is significant:** The scrap account should be charged with full cost. The credit is given to the job or process concerned. The profit or loss in the scrap account, on realisation, will be transferred to the Costing Profit and Loss Account.

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

Following are the advantages of cost plus contract:

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

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

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

PART II: FINANCIAL MANAGEMENT

QUESTIONS

1. Answer the following, supporting the same with reasoning/working notes:
   (a) Alpha Limited has borrowed ₹ 1,000 to be repaid in equal installments at the end of each of the next 3 years. The interest rate is 15 per cent. You are required to prepare an amortisation schedule for Alpha Limited.
   (b) Beta Limited is into manufacturing. It has an expected usage of 50,000 units of certain product during the next year. The cost of processing an order is ₹ 20 and the carrying cost per unit is ₹ 0.50 for one year. Lead time on an order is five days and the company will keep a reserve supply of two days' usage. You are required to calculate:
      (i) The economic order quantity and
      (ii) The re-order point. (Assume 360 days in a year).
   (c) If a company finds that its cost of capital has changed does this affect the profitability of the company?
   (d) Is it worth offering discounts to debtors to encourage prompt payment?
   (e) Suggest ways in which companies can exercise control over their levels of working capital.

Management of Working Capital

2. Gamma Limited sells goods at a uniform rate of gross profit of 20 percent on sales including depreciation as part of cost of production. Its annual figures are as under:

	(₹)
Sales (At 2 months' credit)	24,00,000
Materials Consumed (Suppliers credit 2 months)	6,00,000
Wages Paid (Monthly at the beginning of the subsequent month)	4,80,000
Manufacturing Expenses (Cash expenses are paid – one month in arrear)	6,00,000
Administration Expenses (Cash expenses are paid – one month in arrear)	1,50,000
Sales Promotion Expenses (Paid quarterly in advance)	75,000

Gamma Limited keeps one month stock each of raw materials and finished goods. A minimum cash balance of ₹ 80,000 is always kept. The company wants to adopt a 10 percent safety margin in the maintenance of working capital. The company has no work-in-progress.

Find out the requirements of working capital of Gamma Limited on cash cost basis.

Investment Decisions

3. Mahalaxmi Limited is required to choose between two machines M1 and M2. The two machines are designed differently, but have identical capacity and do exactly the same job. Machine M1 costs ₹ 1,50,000 and will last for 3 years. It costs ₹ 40,000 per year to run. Machine M2 is an 'economy' model costing only ₹ 1,00,000, but will last only for 2 years, and costs ₹ 60,000 per year to run. These are real cash flows. The costs are forecasted in rupees of constant purchasing power. Ignore tax. Opportunity cost of capital is 10 per cent. Which machine should Mahalaxmi Limited buy?

Financing Decisions

4. Sohna Limited's sales, variable costs and fixed cost amount to ₹ 75,00,000, ₹ 42,00,000 and ₹ 6,00,000 respectively. It has borrowed ₹ 45,00,000 at 9 per cent and its equity capital totals ₹ 55,00,000.

   (a) What is Sohna Limited's ROI?

   (b) Does it have favourable financial leverage?

   (c) If Sohna Limited belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?

   (d) What are the operating, financial and combined leverages of Sohna Limited?

   (e) If the sales drops to ₹ 50,00,000, what will the new EBIT be?

Financing Decisions

5. Meta Limited wishes to raise additional finance of ₹ 10 lakhs for meeting its investment plans. It has ₹ 2,10,000 in the form of retained earnings available for investment purposes. Further details are as following:

(1)	Debt / Equity mix	30%/70%
(2)	Cost of Debt	
	Upto ₹ 1,80,000	10% (before tax)
	Beyond ₹ 1,80,000	16% (before tax)
(3)	Earnings per Share	₹ 4
(4)	Dividend Pay out	50% of Earnings
(5)	Expected Growth Rate in Dividend	10%
(6)	Current Market Price per share	₹ 44
(7)	Tax Rate	50%

You are required:

(a) To determine the pattern for raising the additional finance.

(b) To determine the post-tax average cost of additional debt.

(c) To determine the cost of retained earnings and cost of equity, and

(d) Compute the overall weighted average after tax cost of additional finance.

Financial Analysis and Planning

6. You are required to prepare Cash flow statement using direct method for Luna Limited for the year ending 31st March, 2014 from the following information:

(a) Sales for the year amounted to ₹ 135 crores out of which 60 percent was cash sales.

(b) Purchases for the year amounted to ₹ 55 crores out of which credit purchase was 80 percent.

(c) Administrative and selling expenses amounted to ₹ 18 crores and salary paid amounted to ₹ 22 crores.

(d) Luna Limited redeemed debentures of ₹ 20 crores at a premium of 10 percent. Debenture holders were issued equity shares of ₹ 15 crores towards redemption and the balance was paid in cash. Debenture interest paid during the year was ₹1.5 crores.

(e) Dividend paid during the year amounted to ₹ 10 crores. Dividend distribution tax @ 17% was also paid.

(f) Investment costing ₹ 12 crores were sold at a profit of ₹ 2.4 crores.

(g) ₹ 8 crores was paid towards income tax during the year.

(h) A new plant costing ₹ 21 crores was purchased in part exchange of an old plant. The book value of the old plant was ₹ 12 crores but the vendor took over the old plant at a value of ₹ 10 crores only. The balance was paid in cash to the vendor.

(i) The following balances are also provided for your consideration:

	1.4.2013	*31.3.2014*
Debtors	45	50
Creditors	21	23
Bank	6	-

Investment Decisions

7. Elite Limited is considering three projects A, B and C. The cash flows associated with the projects are given below:

Cash flows associated with the Three Projects (₹)					
Project	C_0	C_1	C_2	C_3	C_4
A	(5,000)	1,000	1,000	3,000	0

B	(1,000)	0	1,000	2,000	3,000
C	(5,000)	1,000	1,000	3,000	5,000

You are required to:

(a) Calculate the Payback period of each of the three projects.

(b) If the cut-off period is two years, then which projects should be accepted?

(c) Projects with positive NPVs if the opportunity cost of capital is 10 percent.

(d) "Payback gives too much weight to cash flows that occur after the cut-off date". Is it true or false?

(e) "If a firm used a single cut-off period for all projects, it is likely to accept too many short-lived projects." Is it true or false?

Financial Analysis and Planning

8. Shree Limited has furnished the following ratios and information relating to the year ended 31st March, 2014.

Sales	₹ 60,00,000
Return on Net worth	25%
Rate of Income tax	50%
Share Capital to Reserves	7:3
Current Ratio	2
Net Profit to Sales	6.25%
Inventory Turnover (based on cost of goods sold)	12
Cost of Goods Sold	₹ 18,00,000
Interest on Debentures	₹ 60,000
Sundry Debtors	₹ 2,00,000
Sundry Creditors	₹ 2,00,000

You are required to:

(a) Calculate the operating expenses for the year ended 31st March, 2014.

(b) Prepare a draft balance sheet as on 31st March in the following format:

Draft Balance Sheet as on 31st March, 2014

Liabilities	₹	*Assets*	₹
Share Capital		Fixed Assets	
Reserve and Surplus		Current Assets	
15% Debentures		Stock	

Sundry Creditors		Debtors Cash	

Management of Working Capital

9. The following are the financial statements of Noah Limited.

Noah Limited
Balance Sheets

			(₹)
	31st March 2014		*31st March 2013*
Assets			
Cash	3,49,600		4,83,600
Trade Investments	1,60,000		4,20,000
Debtors	3,05,400		3,08,600
Stock	2,35,200		1,84,600
Prepaid Expenses	7,600		9,200
Investment in A Ltd.	3,00,000		-
Land	14,400		14,400
Buildings, Net of Depreciation	24,07,200		7,13,600
Machinery, Net of Depreciation	4,43,400		4,28,200
Total Assets	42,22,800		25,62,200
Liabilities			
Creditors	1,15,200		1,08,400
Bank Overdraft	30,000		25,000
Accrued Expenses	17,400		18,400
Income-Tax Payable	1,93,000		67,400
Current Instalment due on Long-Term Loans	40,000		-
Long-Term Loans	1,60,000		2,00,000
Debentures, Net of Discount	9,60,000		-
Share Capital, ₹ 10 par value	6,70,000		6,00,000
Share Premium	13,40,000		9,50,000
Reserves and Surplus	6,97,200		4,93,000
Total Liabilities	42,22,800		25,62,200

Noah Limited
Income Statement
for the year ended 31st March, 2014

	(₹)
Sales	16,92,400
Cost of goods sold and operating expenses including depreciation on buildings of ₹ 26,400 and depreciation on machinery of ₹ 45,600	11,91,200
Operating Profit	5,01,200
Gain on Sale of Trade Investments	25,600
Gain on Sale of Machinery	7,400
Profit before Taxes	5,34,200
Income Taxes	2,09,400
Net Profit	3,24,800

Additional Information:

(i) Machinery with a net book value of ₹ 36,600 was sold during the year.

(ii) The shares of A Ltd. were acquired upon a payment of ₹ 1,20,000 in cash and the issuance of 3,000 shares of Noah limited. The share of Noah Limited was selling for ₹ 60 a share at that time.

(iii) A new building was purchased at a cost of ₹ 17,20,000.

(iv) Debentures having a face value of ₹ 100 each were issued in January 2014, at 96.

(v) The cost of trade investments sold was ₹ 2,60,000.

(vi) The company issued 4,000 shares for ₹ 2,80,000.

(vii) Cash dividends of ₹ 1.80 a share were paid on 67,000 outstanding shares.

You are required to prepare a statement of changes in financial position on working capital basis as well as cash basis of Noah limited for the year ended 31st March, 2014.

10. Answer the following:

(a) Write a short note on "Inter-relationship between Investment, Financing and Dividend Decisions".

(b) Differentiate between Business risk and Financial risk.

(c) Differentiate between Inflation Bonds and Floating Rate Bonds.

SUGGESTED ANSWERS / HINTS

1. (a) Preparation of Amortisation Schedule

Amount of Equal Instalment (A)

$$A = \frac{P_n}{PVIFA_{i,n}} = \frac{₹\,1{,}000}{2.2832} = ₹\,437.98$$

Amortisation Schedule

Year	*Payment*	*Interest**	*Repayment of Principal*	*Balance Outstanding*
	₹	₹	₹	₹
1	437.98	150.00	287.98	712.02
2	437.98	106.80	331.18	380.84
3	437.98	57.13	380.85	

*= Loan balance at the beginning of the year × interest rate,

e.g., year 1 = (₹ 1,000 × 0.15) = ₹ 150.

(b) (i) Computation of Economic Order Quantity (EOQ)

The economic order quantity is:

$$EOQ = \sqrt{\frac{2\,OA}{c}}$$

$$= \sqrt{\frac{2 \times 50{,}000 \times 20}{0.50}}$$

$$= \sqrt{40{,}00{,}000}$$

= 2,000 units

(ii) Computation of Re-order Point

Daily usage = 50,000 ÷ 360 = 139 units

Reorder point = Safety stock + Lead time × Usage

= 2 (139) + 5 (139)

= 278 + 695 = 973

(c) The answer depends on how the company has been financed.

If the company is financed mainly from short-term sources, it cannot ignore an increase in interest rates and may choose to switch to long-term financing. This will be at a higher rate and profitability will be diminished.

If the company is financed mainly from long-term sources, an increase in interest rates will not affect its profits directly. However, higher interest rates may depress economic activity and its profits may fall accordingly.

If the company is financed mainly from retained earnings or equity, an increase in the required return of shareholders will lead to pressure for higher dividends. The company may have insufficient funds to meet such demands.

(d) Proposed changes to credit policy should be evaluated in the light of the additional costs and benefits that will result from their being undertaken. For example, the cost of the introduction of cash discounts can be compared with the benefits of faster settlement of accounts in terms of reduced interest charges, and possibly also the additional business that may result. The change should only be undertaken if the marginal benefits arising from the new policy exceed its marginal costs.

(e) Companies can exercise control over the levels of their working capital by formulating and implementing policies concerning inventory, debtors, cash and creditors. Such policies will take account of the factors that influence these components of working capital, as follows:

- *Debtors*: Credit period allowed by a company and its competitors, speed of invoicing and other aspects of administrative efficiency, the use of discounts for early settlement, debtor collection methods, the forecast volume of sales.
- *Stock*: The length of the production process, the rate of turnover of raw materials, the turnover period of finished goods, delivery lead time, the budgeted and actual volumes of output and sales.
- *Creditors:* The extent to which a company can delay payments to suppliers, the volume of purchases, and the availability of cash discounts for early payment.
- *Cash*: Interest rates and available short-term investments, the availability of credit, the ease with which a company can access funds.

2. Working Notes:

1.	*Manufacturing Expenses*		₹
	Sales		24,00,000
	Less: Gross Profit Margin at 20%		4,80,000
	Total Manufacturing Cost		19,20,000

	Less: Materials Consumed	6,00,000	
	Wages	4,80,000	10,80,000
	Manufacturing Expenses		8,40,000
	Less: Cash Manufacturing Expenses (50,000 × 12)		6,00,000
	Depreciation		2,40,000
2.	*Total Cash Costs*		₹
	Manufacturing Costs		19,20,000
	Less: Depreciation		2,40,000
	Cash Manufacturing Costs		16,80,000
	Add: Administrative Expenses		1,50,000
	Add: Sales Promotion Expenses		75,000
	Total Cash Costs		19,05,000

Statement showing the Requirements of Working Capital of the Company

		₹
Current Assets:		
Debtors 1/6 the of Total Cash Costs (1/6 × ₹ 19,05,000)		3,17,500
(Refer to Working Note 2)		
Sales Promotion Expenses (prepaid)		18,750
Stock of Raw Materials (1 month)		50,000
Finished Goods (1/12 of Cash Manufacturing Costs)		1,40,000
(₹ 16,80,000 x 1/12)		
(Refer to Working Note 2)		
Cash-in-Hand		80,000
		6,06,250
Less: Current Liabilities		
Creditors for Goods (2 months)	1,00,000	
Wages (1 month)	40,000	
Manufacturing Expenses (1 month)	50,000	
Administrative Expenses (1 month)	12,500	2,02,500
Net Working Capital		4,03,750
Add: Safety Margin @ 10%		40,375
Working Capital Required		4,44,125

3. Statement showing the Evaluation of Two Machines

Machines	*M1*	*M2*
Purchase Cost (₹): (i)	1,50,000	1,00,000
Life of Machines (years)	3	2
Running Cost of Machine per year (₹): (ii)	40,000	60,000
Cumulative Present Value Factor for 1-3 years @ 10%: (iii)	2.486	-
Cumulative Present Value Factor for 1-2 years @ 10%: (iv)	-	1.735
Present Value of Running Cost of Machines (₹): (v)	99,440	1,04,100
	[(ii) × (iii)]	[(ii) × (iv)]
Cash Outflow of Machines (₹): (vi)=(i) +(v)	2,49,440	2,04,100
Equivalent Present Value of Annual Cash Outflow	1,00,338	1,17,637
	[(vi)÷(iii)]	[(vi) ÷(iv)]

Advise: Mahalaxmi Limited should buy Machine M1 since its equivalent cash outflow is less than that of Machine M2.

4. (a) Computation of Sohna Limited's ROI

$$\text{ROI} = \frac{\text{EBIT}}{\text{Investment}}$$

EBIT = Sales – Variable Cost – Fixed Cost

= ₹ 75 lakhs – ₹ 42 lakhs – ₹ 6 lakhs = ₹ 27 lakhs.

$$\text{ROI} = \frac{₹\ 27\ \text{lakhs}}{₹\ 100\ \text{lakhs}} = 27\ \text{per cent}.$$

(b) Yes, Sohna Limited has favourable financial leverage as its ROI is higher than the interest on debt.

(c) Computation of Asset Turnover of Sohna Limited

$$\text{Asset turnover} = \frac{\text{Sales}}{\text{Total assets or Total investments}} = \frac{₹\ 75\ \text{lakhs}}{₹\ 100\ \text{lakhs}} = 0.75$$

The asset turnover of Sohna Limited is lower than the industry average of 3.

(d) Computation of Leverages

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{(₹\ 75\ \text{lakhs} - ₹\ 42\ \text{lakhs})}{₹\ 27\ \text{lakhs}} = 1.22$$

$$\text{Financial leverage} = \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}} = \frac{₹\ 27\ \text{lakhs}}{(₹\ 27\ \text{lakhs} - ₹\ 4.05\ \text{lakhs})} = 1.18$$

$$\text{Combined leverage} = \frac{\text{Sales - Variable cost}}{\text{EBIT - Interest}} = \frac{₹\ 33\ \text{lakhs}}{₹\ 22{,}95{,}000} = 1.44$$

(e) EBIT at Sales Level of ₹ 50 lakhs

	₹
Sales Revenue	50,00,000
Less: Variable Costs (50 lakhs × 0.56)	28,00,000
Less: Fixed Costs	6,00,000
EBIT	16,00,000

5. (a) Pattern of Raising Additional Finance

Equity	70% of ₹ 10,00,000	= ₹ 7,00,000
Debt	30% of ₹ 10,00,000	= ₹ 3,00,000

Capital Structure after Raising Additional Finance

			(₹)
Shareholders' Funds			
Equity Capital	(7,00,000 – 2,10,000)		4,90,000
Retained Earnings			2,10,000
Debt (Interest at 10% p.a.)			1,80,000
(Interest at 16% p.a.)	(3,00,000 – 1,80,000)		1,20,000
		Total Funds	10,00,000

(b) Determination of Post-Tax Average Cost of Additional Debt

$K_D = I\ (1 - T)$

On ₹ 1,80,000 = 10% (1 – 0.5) = 5% or 0.05

On ₹ 1,20,000 = 16% (1 – 0.5) = 8% or 0.08

Average Cost of Debt

$$= \frac{(₹\ 1{,}80{,}000 \times 0.05) + (₹\ 1{,}20{,}000 \times 0.08)}{₹\ 3{,}00{,}000} \times 100 = \frac{18{,}600}{3{,}00{,}000} = 6.2\%$$

(c) Determination of Cost of Retained Earnings and Cost of Equity Applying Dividend Growth Model

$$K_E = \frac{D_1}{P_0} + g$$

Where,

K_E = Cost of Equity

$D_1 = D_O(1+g)$

D_0 = Dividend Payout (i.e., 50% earnings = 50% × ₹ 4 = ₹ 2)

g = Growth Rate

P_0 = Current Market Price per Share

Then, $K_E = \frac{₹\ 2\ (1.1)}{₹\ 44} + 10\%$

$= \frac{₹\ 2.2}{₹\ 44} + 10\% = 5\% + 10\% = 15\%$

$K_r = K_e$ = 15 percent.

(d) Computation of Overall Weighted Average after Tax Cost of Additional Finance

Particular	*₹*	*Weights*	*Cost of Funds*
Equity (including Retained Earnings)	7,00,000	0.70	15%
Debt	3,00,000	0.30	6.2%

WACC = (Cost of Equity × % Equity) + (Cost of Debt × % Debt)

= (15% × 0.70) + (6.2% × 0.30)

= 10.5% + 1.86% = 12.36%.

6. Luna Ltd.

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

(Using direct method)

Particulars	*₹ in crores*	*₹ in crores*
Cash flows from Operating Activities		
Cash Sales (135 x0.6)	81	
Cash Receipts from Debtors	49	
[45+ (135x40%) - 50]		

Cash Purchases (20% of 55)	(11)	
Cash Payments to Suppliers	(42)	
[21+ (55x80%) – 23]		
Cash Paid to Employees	(22)	
Cash Payments for Overheads (Adm. and Selling)	(18)	
Cash Generated from Operations	37	
Income Tax Paid	(8)	
Net Cash Generated from Operating Activities	29	
Cash flows from Investing Activities		
Sale of Investments (12+ 2.40)	14.4	
Payments for Purchase of Fixed Assets	(11)	
N*et Cash Used in Investing Activities*	3.4	
Cash flows from Financing Activities		
Redemption of Debentures (22-15)	(7)	
Interest Paid	(1.5)	
Dividend Paid	(10.0)	
DDT paid	(1.7)	
Net Cash Used in Financing Activities		(20.2)
Net Increase in Cash		12.2
Cash at beginning of the period		6.0
Cash at end of the period		18.2

7. (a) Computation of Payback Periods

	Project A		*Project B*		*Project C*	
Year	*Cash flows*	*Cumulative Cash flows*	*Cash flows*	*Cumulative Cash flows*	*Cash flows*	*Cumulative Cash flows*
1	1,000	1,000	0	0	1,000	1,000
2	1,000	2,000	1,000	1,000	1,000	2,000
3	3,000	5,000	2,000	3,000	3,000	5,000
4	0	5,000	3,000	6,000	5,000	10,000

When projects cash flows are not uniform, then Payback period is calculated by the process of cumulative cash flows till the time when the cumulative cash flows become equal to the original investment. Taking this into consideration, therefore, the Payback Periods for Projects A, B and C are:

Payback Period for Project A= 3 years,

Payback Period for Project B = 2 years, and

Payback Period for Project C = 3 years.

(b) If cut-off period is 2 years then, Project B should be accepted.

(c) **Computation of Net Present Values (NPVs) of Projects A, B and C**

		Project A		*Project B*		*Project C*	
Year	*Discount factor @10%*	*Cash flows*	*Present Value of Cash flows*	*Cash flows*	*Present Value of Cash flows*	*Cash flows*	*Present Value of Cash flows*
0		(5,000)		(1,000)		(5,000)	
1	0.909	1,000	909	0	0	1,000	909
2	0.826	1,000	826	1,000	826	1,000	826
3	0.751	3,000	2,253	2,000	1,502	3,000	2,253
4	0.683	0	0	3,000	2,049	5,000	3,415
			3,988		4,377		7,403
		NPV	**(1,012)**		**3,377**		**2,403**

Advise: Projects B and C should be accepted as they have positive net present values. (NPV_B = ₹ 3,377; NPV_c = ₹ 2,403)

(d) False.

(e) True.

8. **(a)** **Calculation of Operating Expenses for the year ended 31st March, 2014**

Net Profit [@ 6.25% of Sales]		3,75,000
Add: Income Tax (@ 50%)		3,75,000
Profit Before Tax (PBT)		7,50,000
Add: Debenture Interest		60,000
Profit before interest and tax (PBIT)		8,10,000
Sales		60,00,000
Less: Cost of goods sold	18,00,000	
PBIT	8,10,000	26,10,000
Operating Expenses		33,90,000

(b) Draft Balance Sheet as on 31st March, 2014

Liabilities	₹	*Assets*	₹
Share Capital	10,50,000	Fixed Assets	17,00,000
Reserve and Surplus	4,50,000	Current Assets:	
15% Debentures	4,00,000	Stock	1,50,000
Sundry Creditors	2,00,000	Debtors	2,00,000
		Cash	50,000
	21,00,000		21,00,000

Working Notes:

(i) **Share Capital and Reserves**

The return on net worth is 25%. Therefore, the profit after tax of ₹ 3,75,000 should be equivalent to 25% of the networth.

$$\text{Net worth} \times \frac{25}{100} = ₹\ 3,75,000$$

$$\therefore \quad \text{Net worth} = \frac{₹\ 3,75,000 \times 100}{25}$$

$$= ₹\ 15,00,000$$

The ratio of share capital to reserves is 7:3

$$\text{Share Capital} = 15,00,000 \times \frac{7}{10} = ₹\ 10,50,000$$

$$\text{Reserves} = 15,00,000 \times \frac{3}{10} = ₹\ 4,50,000$$

(ii) **Debentures**

Interest on Debentures @ 15% = ₹ 60,000

$$\therefore \text{Debentures} = \frac{60,000 \times 100}{15}$$

$$= ₹\ 4,00,000$$

(iii) **Current Assets**

Current Ratio = 2

Sundry Creditors = ₹ 2,00,000

$\therefore$ Current Assets = 2 Current Liabilities

= 2× 2,00,000 = ₹ 4,00,000

(iv) **Fixed Assets**

	(₹)
Liabilities:	
Share Capital	10,50,000
Reserves	4,50,000
Debentures	4,00,000
Sundry Creditors	2,00,000
	21,00,000
Less: Current Assets	4,00,000
Fixed Assets	17,00,000

(v) **Composition of Current Assets**

Inventory Turnover = 12

$$\frac{\text{Cost of goods sold}}{\text{Closing stock}} = 12$$

Closing Stock = $\dfrac{₹\,18,00,000}{12}$

Closing Stock = ₹ 1,50,000

Composition:	(₹)
Stock	1,50,000
Sundry Debtors	2,00,000
Cash (balancing figure)	50,000
Total Current Assets	4,00,000

9. **Noah Limited**

Statement of Changes in Financial Position (Working Capital Basis) for the year ended 31st March, 2014

	(₹)
Sources	
Working Capital from Operations:	
Net Income after Tax	3,24,800

Add: Depreciation	72,000
	3,96,800
Less: Gain on Sale of Machinery	7,400
	3,89,400
Sale of Machinery (₹ 36,600 + ₹ 7,400)	44,000
Debentures Issued	9,60,000
Share Capital Issued for Cash (including Share Premium)	2,80,000
Financial Transaction not Affecting Working Capital	
Share Issued in Partial Payment for Investments in A Ltd.	1,80,000
Financial Resources Provided	18,53,400
Uses	
Purchase of Building	17,20,000
Purchase of Machinery	97,400
Instalment Currently due on Long-term Loans	40,000
Payment of Cash Dividends	1,20,600
Purchase of Investments in A Ltd. for Cash	1,20,000
Financial Transaction not Affecting Working Capital	
Purchase of Investments in A Ltd. in Exchange of Issue of 3000 Shares @ ₹ 60 each	1,80,000
Financial Resources Applied	22,78,000
Net Decrease in Working Capital	4,24,600

Machinery A/c

Particulars	₹	*Particulars*	₹
Opening balance (given)	4,28,200	Sale of Machinery (given)	36,600
Purchase	97,400	Depreciation (given)	45,600
	-	Closing Balance (given)	4,43,400
	5,25,600		5,25,600

Noah limited
Statement of Changes in Financial Position (Cash Basis)
for the year ended 31 March, 2014

	₹	₹
Sources		
Cash from Operations:		
Net Income after Tax	3,24,800	

Add: Depreciation	72,000	
Decrease in Debtors	3,200	
Decrease in Prepaid Expenses	1,600	
Increase in Creditors	6,800	
Increase in Income Tax Payable	25,600	4,34,000
Less: Gain on Sale of Machinery	7,400	
Increase in Stock	50,600	
Decrease in Accrued Expenses	1,000	59,000
		3,75,000
Sale of Trade Investment		2,60,000
Increase in Bank Overdraft		5,000
Sale of Machinery		44,000
Debentures Issued		9,60,000
Shares Issued		2,80,000
Financial Transaction not Affecting Cash		
Share Issued in Partial Payment for Investments in A Ltd.		1,80,000
Instalments Currently due on Long-term Loans		40,000
Financial Resources Provided		21,44,000
Uses		
Purchase of Buildings		17,20,000
Purchase of Machinery		97,400
Payment of Cash Dividend		1,20,600
Purchase of Investments in A Ltd. for Cash		1,20,000
Financial Transaction not Affecting Cash		
Purchase of Investments in A Ltd. in Exchange of Issue of 3,000 Shares @ ₹ 60 each		1,80,000
Instalments Currently due on Long-term Loans		40,000
Financial Resources Applied		22,78,000
Net Decrease in Cash		1,34,000

[Notes:

(a) Funds from operations are shown in net of taxes. Alternatively, payment of tax may be separately treated as use of funds. In that case, tax would be added to net profit.

(b) If tax shown in Profit and Loss Account is assumed to be a provision, then the amount of cash paid for tax has to be calculated. In the present problem if this procedure is followed, then cash paid for tax is: ₹ 1,67,400 + ₹ 2,09,400 – ₹ 1,93,000 = ₹ 1,83,800.

(c) Gain on the sale of trade investments is considered an operating income.]

10. (a) Inter-relationship between Investment, Financing and Dividend Decisions: The finance functions are divided into three major decisions, viz., investment, financing and dividend decisions. These decisions are inter-related because the underlying objective of these three decisions is the same, i.e. maximisation of shareholders' wealth. Since investment, financing and dividend decisions are all interrelated, one has to consider the joint impact of these decisions on the market price of the company's shares and these decisions should also be solved jointly. The decision to invest in a new project needs the finance for the investment. The financing decision, in turn, is influenced by and influences dividend decision because retained earnings used in internal financing deprive shareholders of their dividends. An efficient financial management can ensure optimal joint decisions. This is possible by evaluating each decision in relation to its effect on the shareholders' wealth.

The above three decisions are briefly examined below in the light of their inter-relationship and to see how they can help in maximising the shareholders' wealth i.e. market price of the company's shares.

Investment decision: The investment of long term funds is made after a careful assessment of the various projects through capital budgeting and uncertainty analysis. However, only that investment proposal is to be accepted which is expected to yield at least so much return as is adequate to meet its cost of financing. This has an influence on the profitability of the company and ultimately on its wealth.

Financing decision: Funds can be raised from various sources. Each source of funds involves different issues. The finance manager has to maintain a proper balance between long-term and short-term funds. With the total volume of long-term funds, he has to ensure a proper mix of loan funds and owner's funds. The optimum financing mix will increase return to equity shareholders and thus maximise their wealth.

Dividend decision: The finance manager is also concerned with the decision to pay or declare dividend. He assists the top management in deciding as to what portion of the profit should be paid to the shareholders by way of dividends and what portion should be retained in the business. An optimal dividend pay-out ratio maximises shareholders' wealth.

The above discussion makes it clear that investment, financing and dividend decisions are interrelated and are to be taken jointly keeping in view their joint effect on the shareholders' wealth.

(b) Business Risk and Financial Risk: Business risk refers to the risk associated with the firm's operations. It is the uncertainty about the future operating income (EBIT), i.e. how well can the operating income be predicted? Business risk can be measured by the standard deviation of the Basic Earning Power ratio.

Financial risk refers to the additional risk placed on the firm's shareholders as a result of debt use i.e. the additional risk a shareholder bears when a company uses debt in addition to equity financing. Companies that issue more debt instruments would have higher financial risk than companies financed mostly or entirely by equity. Financial risk can be measured by ratios such as the firm's financial leverage multiplier, total debt to assets ratio or degree of financial leverage. A company's risk is composed of financial risk, which is linked to debt, and risk, which is often linked to economic climate. If a company is entirely financed by equity, it would pose almost no financial risk, but, it would be susceptible to business risk or changes in the overall economic climate.

(c) Inflation Bonds and Floating Rate Bonds: Inflation Bonds are the bonds in which interest rate is adjusted for inflation. Thus, the investor gets interest which is free from the effects of inflation. For example, if the interest rate is 11 per cent and the inflation is 5 per cent, the investor will earn 16 per cent meaning thereby that the investor is protected against inflation.

Floating Rate Bonds, as the name suggests, are the bonds where the interest rate is not fixed and is allowed to float depending upon the market conditions. This is an ideal instrument which can be resorted to by the issuer to hedge themselves against the volatility in the interest rates. This has become more popular as a money market instrument and has been successfully issued by financial institutions like IDBI, ICICI etc.

PAPER – 4: TAXATION

PART – I: STATUTORY UPDATE

Significant Notifications and Circulars in income-tax and indirect taxes issued between 1st May 2014 and 31st October, 2014

A. INCOME TAX

NOTIFICATIONS

1. Notification of Cost Inflation Index for F.Y.2014-15 (Notification No. 31/2014, dated 11-6-2014)

The Central Government has, in exercise of the powers conferred by clause (v) of *Explanation* to section 48, vide this notification specified the Cost Inflation Index for the financial year 2014-15 as 1024.

S. No.	Financial Year	Cost Inflation Index	S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100	18.	1998-99	351
2.	1982-83	109	19.	1999-2000	389
3.	1983-84	116	20.	2000-01	406
4.	1984-85	125	21.	2001-02	426
5.	1985-86	133	22.	2002-03	447
6.	1986-87	140	23.	2003-04	463
7.	1987-88	150	24.	2004-05	480
8.	1988-89	161	25.	2005-06	497
9.	1989-90	172	26.	2006-07	519
10.	1990-91	182	27.	2007-08	551
11.	1991-92	199	28.	2008-09	582
12.	1992-93	223	29.	2009-10	632
13.	1993-94	244	30.	2010-11	711
14.	1994-95	259	31.	2011-12	785
15.	1995-96	281	32.	2012-13	852
16.	1996-97	305	33.	2013-14	939
17.	1997-98	331	**34.**	**2014-15**	**1024**

2. Increase in ceiling limit for investment in Public Provident Fund [Notification No. G.S.R. 588 (E), dated 13-8-2014]

In exercise of the powers conferred by Section 3(4) of the Public Provident Fund Act, 1968, the Central Government has increased annual ceiling limit for deposit in PPF A/c from ₹ 1 lakh to ₹ 1.50 lakhs by amending the Public Provident Fund Scheme, 1968.

3. Rate of depreciation in respect of windmills installed on or after 01.04.2014 (Notification No. 43/2014, dated 16-9-2014)

The Central Board of Direct Taxes has, vide this notification amended the rate of depreciation on certain renewable energy devices. Accordingly, the following renewable energy devices would be eligible for depreciation @80% from A.Y. 2015-16, if they are installed on or after 1st April 2014 –

(a) Wind mills and any specially designed devices which run on wind mills

(b) Any special devices including electric generators and pumps running on wind energy

This implies that if the aforesaid renewable energy devices were installed on or before 31st March 2014, they would be eligible for depreciation @ 15% from A.Y. 2015-16.

The applicable rate of depreciation for A.Y. 2014-15 and A.Y. 2015-16, based on date of installation of such renewable energy devices, have been tabulated hereunder for a better understanding of the amendment made vide this notification.

Date of installation	Rate of depreciation	
	A.Y. 2014-15	A.Y. 2015-16
On or before 31.03.2012	80%	15%
Between 1.04.2012 to 31.03.2014	15%	15%
On or after 01.04.2014	N.A	80%

B. INDIRECT TAXES

CENTRAL EXCISE

STTG certificate issued by the Indian Railways along with the photocopies of the railway receipts to be the eligible documents for availing CENVAT credit

Rule 9 of the CENVAT Credit Rules, 2004 has been amended to include **Service Tax Certificate for Transportation of Goods** by Rail (herein after referred to as STTG Certificate) issued by the Indian Railways, along with the photocopies of the railway receipts mentioned in the STTG certificate as a document eligible for taking CENVAT credit. Thus, in case of transport of goods by rail service, service tax can be availed on the basis of the STTG certificate.

[Notification No. 26/2014 – CE (N.T.) dated 27.08.2014]

SERVICE TAX

1. Service provided with respect to Kailash Mansarovar and Haj pilgrimage exempted from service tax

Mega exemption *Notification No. 25/2012-ST dated 20.06.2012* has been amended to exempt the services provided by a specified organisation in respect of a religious pilgrimage facilitated by the Ministry of External Affairs of the Government of India, under bilateral arrangement from service tax.

Specified organisation shall mean:

(a) Kumaon Mandal Vikas Nigam Limited, a Government of Uttarakhand Undertaking; or

(b) Haj Committee of India and State Haj Committees constituted under the Haj Committee Act, 2002, for making arrangements for the pilgrimage of Muslims of India for Haj.

Thus, the religious pilgrimage organized by the Haj Committee and Kumaon Mandal Vikas Nigam Ltd. will not be liable to service tax.

[Notification No.17/2014 - ST dated 20.08.2014]

2. Board/Chief Commissioner empowered to issue supplementary instructions [New rule 12 inserted in the Service Tax Rules, 1994]

With effect from 01.10.2014, Board or the Chief Commissioners of Central Excise may issue instructions for any incidental or supplemental matters for the implementation of the provisions of the Finance Act, 1994.

[Notification No. 19/2014-ST dated 25.08.2014]

3. Clarification regarding levy of service tax on joint venture

CBEC has issued following clarification regarding levy of service tax on joint venture:

(i) Services provided by the members of the Joint Venture (JV) to the JV and vice versa or between the members of the JV: In accordance with Explanation 3(a) of the definition of service under section 65B(44) of the Finance Act, 1994, JV (an unincorporated temporary association constituted for the limited purpose of carrying out a specified project) and the members of the JV are treated as distinct persons and therefore, taxable services provided for consideration, by the JV to its members or vice versa and between the members of the JV are taxable.

(ii) Cash calls (capital contributions) made by the members to the JV: If cash calls are merely a transaction in money, they are excluded from the definition of service provided in section 65B(44) of the Finance Act, 1994. Whether a 'cash call' is 'merely…. a transaction in money' [in terms of section 65B(44) of the Finance Act, 1994] and hence not in the nature of consideration for taxable service, would depend on the comprehensive examination of the Joint Venture Agreement, which may vary from case to case. Detailed and close scrutiny of the terms of JV agreement may be required in each case, to determine the service tax treatment of cash calls.

[Circular No. 179/5/2014-ST dated 24.09.2014]

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Basic Concepts

1. Compute the tax liability of Mr. Dherya, aged 58 years, for the assessment year 2015-16, from the following details:

	₹
Income from salaries	25,28,000
Profits and gains from business or profession	73,00,000
Income from other sources (Interest on bank Fixed Deposits)	3,82,000
Amount deposited in Public Provident Fund (PPF)	1,30,000

Residential Status and Scope of total income

2. (a) The business of a HUF is transacted from India and all the policy decisions are taken here. Mr. Aryan, the karta of the HUF, who was born in Mumbai, settled in London, since 1999. He visits India every year for 95 days. Determine the residential status of Mr. Aryan and the HUF for A.Y. 2015-16.

   (b) Mr. Sachin settled in Australia in the year 1990, earned the following incomes during the financial year 2014-15. Compute his total income for the assessment year 2015-16.

Sr. No.	Particulars	Amount (₹)
1.	Fees for technical services rendered in India, but received in Australia	75,000
2.	Interest on Savings Bank Deposit in Indian Bank	12,000
3.	Interest on Australia Development Bonds (only 50% of interest received in India)	55,000
4.	Dividend from Indian company received in Australia	28,000
5.	Profit from a business in Nagpur, but managed directly	95,000

	from Australia	
6.	Short term capital gain on sale of shares of an Indian company received in India	90,000
7.	Agricultural income from a land situated in Punjab	55,000
8.	Rent received in respect of house property at Bhopal	1,25,000

Income which do not form part of total income

3. State, with reference to the provisions of the Income-tax Act, 1961, whether the following are chargeable to tax and if so, the amount liable to tax :

   (i) Leave travel concession of ₹ 1,75,000 (being the total cost of tickets) received by Mr. Sahil, employee of P Ltd. for his holiday (with spouse & one child) to Mumbai by Air India (executive class). The flight fare for executive class is 2.5 times the fare for economy class.

   (ii) Income-tax of ₹ 43,000 paid by employer on non-monetary perquisites provided to employees.

   (iii) Sargam received ₹ 29,000 as his share of income from a partnership firm.

   (v) Mr. Tarun has derived an income of ₹ 80,000 derived from manufacturing, growing and curing coffee in India during the financial year 2014-15.

   (iv) Mr. Bhuwan received ₹ 15 lacs as Gratuity from XYZ Ltd., on his retirement, after completing 25 years and 3 months of service. Last drawn salary is ₹ 90,000. He is covered by the Payment of Gratuity Act, 1972.

Salaries

4. (a) Mr. Mayur is a production manager of M/s Iron & Ore Co. Ltd. During the financial year 2014-15, he gets the following emoluments from his employer:

Basic Salary	
Up to 31.7.2014	₹ 22,000 p.m.
From 01.8.2014	₹ 26,000 p.m.
Transport allowance	₹ 1,800 p.m.
Contribution to recognised provident fund	15% of basic salary
Children education allowance	₹ 400 p.m. per child for two children
City compensatory allowance	₹ 500 p.m.
Hostel expenses allowance	₹ 420 p.m. per child for two children
Tiffin allowance (actual expenses ₹ 4,300)	₹ 6,000 p.a.
Tax on employment paid by the employer	₹ 3,200

Compute taxable salary of Mr. Mayur for the Assessment year 2015-16.

(b) Mr. Saksham, who retired from the services of Silverqueen Ltd., on 31.1.2015 after putting in service of 5 years, received the following amounts from the employer for the year ending on 31.3.2015:

- Salary @ ₹ 21,000 p.m. comprising of basic salary of ₹ 12,000, Dearness allowance of ₹ 4,500, City compensatory allowance of ₹ 3,000 and Night duty allowance of ₹ 1,500.
- Pension @ 35% of basic salary from 1.2.2015.
- Leave salary of ₹ 80,000 for 225 days of leave accumulated during 5 years @ 45 days leave in each year. He has not availed any earned leave during his tenure of 5 years and utilized only his casual leave.
- Gratuity of ₹ 75,000.

Compute the taxable salary of Mr. Saksham for the assessment year 2015-16.

Income from house property

5. Mr. Vikul acquired a residential house in Delhi at a cost of ₹ 42,00,000 on 01.04.2014, in respect of which he took a housing loan of ₹ 24,00,000 from Canara Bank @12% p.a on the same date. There has been no principal repayment upto 31.03.2015.

The house is having two identical units. First unit (area 1200 sq. Ft) of the house is self-occupied by Mr. Vikul and another unit (area 400 sq.ft) is rented for ₹ 6,000 p.m. from 1st April, 2014. The rented unit was vacant for four months during the year. The particulars of the house for the previous year 2014-15 are as under:

Standard Rent	₹ 2,30,000 p.a.
Municipal Valuation	₹ 2,67,000 p.a.
Fair Rent	₹ 2,48,000 p.a.
Municipal tax paid by Mr. Vikul	12% of the Municipal Valuation
Light and water charges	₹ 8,000 p.a.
Insurance charges	₹ 7,500 p.a.
Painting expenses	₹ 50,000 p.a.

Compute income from house property of Mr. Vikul for the A.Y.2015-16.

Profits and gains of business or profession

6. (a) State with reasons, the deductibility or otherwise of the following expenses/payments under the Income-tax Act, 1961, while computing income under the head “Profits and gains of business or profession” for the Assessment Year 2015-16:

(i) ₹ 70 crore and ₹ 30 crore invested in new plant & machinery by ABC Ltd., a manufacturing company, during P.Y. 2013-14 and 2014-15, respectively.

(ii) MNO Ltd. paid ₹ 2,50,000 as technical fees to a non-resident on which tax is deducted during the previous year 2014-15 but deposited on 31.8.2015.

(iii) Bus & Train Pvt. Ltd. incurred ₹ 1,80,000 towards CSR Expenditure during the previous year 2014-15.

(iv) XYZ Ltd. has not deducted tax at source on the amount of ₹ 7,50,000 paid as annual salary to Mr. Raghav, an employee of the company during the previous year 2014-15. Mr. Raghav has not furnished any declaration to his employer regarding any investment made by him or any other income earned or loss incurred by him for the previous year 2014-15.

(v) Rise & Co. has set up a warehousing facility for storage of sugar. It commenced operations on 01.04.2013. In July 2014, Rise & Co. incurred capital expenditure of ₹ 72 lakhs on purchase of building.

Would your answer be different, if the company has set up a warehousing facility of food grain?

(b) Mr. Xavier commenced the business of operating goods vehicles on 1.4.2014. He purchased the following vehicles during the P.Y.2014-15. Compute his income under section 44AE for A.Y.2015-16.

	Type of Vehicle	Number	Date of purchase
(1)	Light Goods Vehicles	1	10.4.2014
		3	15.3.2015
(2)	Medium goods vehicle	2	16.7.2014
		1	2.1.2015
(3)	Heavy goods vehicle	1	29.8.2014
		2	23.2.2015

Capital Gains

7. Mr. Satvik purchased a residential house in February, 1979 for ₹ 2,40,000. In addition, he also paid stamp duty at the rate of 10% on stamp duty value of ₹ 2,50,000. Fair market value of property on 1.4.1981 is ₹ 2,60,000.

In January 1985, Mr. Satvik entered into an agreement with Mr. Naresh for sale of such property for ₹ 4,20,000 and received an amount of ₹ 50,000 as an advance. However, the sale transaction did not ultimately materialise and Mr. Satvik forfeited the advance.

In March, 1988, Mr. Satvik constructed the first floor by incurring a cost of ₹ 1,35,000. He entered into an agreement for sale of the said house on 25th August, 2014 for

₹ 91,00,000 to Mr. Manik and received ₹ 7,50,000 as advance. However, such advance was forfeited by Mr. Satvik on account of failure on the part of Mr. Manik in making balance payment.

Finally, on 18th October 2014, Mr. Satvik sold the house to Mr. Munish for ₹ 95,00,000. Stamp duty was paid at the rate of 12% on the stamp duty value of ₹ 97,00,000. Satvik has paid brokerage @ 1% of sale consideration to the broker.

He invested ₹ 35,00,000 in NHAI Bonds on 29th February, 2015 and ₹ 25,00,000 in RECL bonds on 10th April 2015.

Compute the capital gains chargeable to tax in the hands of Mr. Satvik for the assessment year 2015-16.

Financial Year	Cost Inflation Index
1981-82	100
1984-85	125
1987-88	150
2014-15	1024

Income from Other Sources

8. (a) On 12.12.2014, Mr. Gagan (a bank employee) received ₹ 8,50,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2011-12.

Out of this interest, ₹ 2,05,000 relates to the financial year 2011-12; ₹ 2,15,000 to the financial year 2012-13; and ₹ 2,30,000 to the financial year 2013-14. Only ₹ 2,00,000 relates to financial year 2014-15. He incurred ₹ 75,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2015-16?

(b) Discuss the tax implications under section 56(2) in respect of each of the following transactions –

(i) Sharma's son transferred shares of XYZ Ltd. to Sharma HUF without any consideration. The fair market value of the shares is ₹ 3.25 lakh.

(ii) Sunnyvale (P) Ltd. purchased 10,500 equity shares of Solid (P) Ltd. at ₹ 95 per share. The fair market value of the share on the date of transaction is ₹ 115.

(iii) Balaji (P) Ltd. issued 26,000 equity shares of ₹ 10 each at a premium of ₹ 7. The fair market value of each share on the date of issue is ₹ 13.

Income of Other Persons included in assessee's Total Income

9. The following are the particulars of income earned by Mr. Chandrapal and his family members:

	Particulars	₹
(i)	Income from Chandrapal' s profession	2,50,000
(ii)	Mrs. Chandrapal' s salary as primary teacher	1,06,000
(iii)	Minor son Arav (interest on fixed deposits with a bank which were gifted to him by his uncle)	12,000
(iv)	Arav also has income by way winnings from lottery (gross)	2,20,000
(v)	Minor daughter Pallavi's earnings from sports	1,05,000
(vi)	Cash gift received by minor married daughter Garima from friend of Mrs. Chandrapal	55,000
(vii)	Income of minor son Arvind, who suffers from disability specified in section 80U.	1,20,000

Discuss the tax implications in the hands of Mr. Chandrapal and Mrs. Chandrapal.

Set off and Carry Forward of Losses

10. Mr. Alok furnishes the following details for year ended 31.03.2015:

Particulars	₹
Short term capital gain	1,65,000
Loss from speculative business	58,000
Long term capital gain on sale of land	27,000
Long term capital loss on sale of shares (securities transaction tax not paid)	1,06,000
Income from business of textile (after allowing current year depreciation)	73,000
Income from activity of owning and maintaining race horses	21,000
Income from salary	1,38,000
Loss from house property	66,000

Following are the brought forward losses:

(i) Losses from activity of owning and maintaining race horses-pertaining to A.Y.2012-13 ₹ 37,000.

(ii) Brought forward loss from business of textile ₹ 82,000 - Loss pertains to A.Y.2007-08.

Compute gross total income of Mr. Alok for the Assessment Year 2015-16. Also state the losses which are eligible for carry forward to the Assessment Year 2016-17.

Deductions from Gross Total Income

11. The gross total income of Mr. Mayank (New retail investor) for the Assessment Year 2015-16, was ₹ 8,00,000. He has made the following investment/payments during the year 2014-15-

	Particulars	₹
1.	L.I.C. premium paid (Policy value ₹ 2,00,000) (taken on 1.07.2012)	30,000
2.	Contribution to Public Provident Fund (PPF)	110,000
3.	Repayment of housing loan to Indian Bank	35,000
4.	Payment made to LIC pension fund	28,000
5.	Medical insurance premium for self, wife and dependent children.	22,000
6.	Mediclaim premium for parents (aged over 80 years), who are not dependent on Mayank	32,000
7.	Invested in units of equity oriented fund of Rajiv Gandhi Equity Savings Scheme, 2013	47,000
8.	Donation to Congress Party by crossed cheque	30,000

Compute eligible deduction under Chapter VI-A for the Assessment Year 2015-16.

Computation of Total Income of an individual

12. Dr. Shivkumar, a resident individual at Pune, aged 55 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2015 is as under :

Expenditure	₹	Income	₹
To Medicine consumed	8,60,000	By Consultation and Medical charges	25,20,000
To Staff salary	5,58,000		
To Clinic consumables	1,82,000	By Income-tax refund (principal ₹ 16,000, interest ₹ 2,500)	18,500
To Rent paid	2,40,000		
To Administrative expenses	3,80,000		
To Donation to IIT Delhi for Research approved under section 35(2AA)	1,20,000	By Dividend from Indian companies	38,000
		By Winning from lottery (Net of TDS)	42,000
To Net Profit	3,39,500		
	-	By Rent	61,000
	26,79,500		**26,79,500**

(i) Rent paid includes ₹ 45,000 paid by cheque towards rent for his residence.

(ii) Clinic equipments (rate of depreciation 15%) are:

01.04.2014 Opening WDV	₹ 5,50,000
09.03.2015 Acquired (cost)	₹ 1,55,000

(iii) Rent received relates to property let out at Pune. The municipal tax of ₹ 12,000, paid in February 2015, has been included in "administrative expenses".

(iv) Dr. Shivkumar availed a loan of ₹ 5,30,000 from a bank for higher education of his daughter. He repaid principal of ₹ 70,000, and interest thereon ₹ 60,000 during the year 2014-15.

(v) He paid ₹ 65,000 as tuition fee to the university for full time education of his son.

From the above, compute the total income of Dr. Shivkumar for the A.Y.2015-16.

Provisions concerning deduction of tax at source/Provisions for filing of Return of Income

13. (a) Examine the applicability of the provisions for tax deduction at source in the following cases -

(i) The firm, M/s Duplicate, has two resident partners, Mr. Vikul and Mr. Rahul. During the previous year, the firm paid ₹ 25,000 and ₹ 30,000 as interest on capital to Mr. Vikul and Mr. Rahul, respectively.

(ii) Fee of ₹ 41,000 paid to Dr. Kunal Garg by Taneja (HUF) for surgery performed on Master Vatsal Taneja, son of the Karta of HUF.

(iii) Mr. Dheeraj, a resident, is due to receive ₹ 5.50 lakhs on 31.3.2015, towards maturity proceeds of LIC policy taken on 1.4.2012, for which the sum assured is ₹ 4.5 lakhs and the annual premium is ₹ 55,000.

(b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) If an individual does not pay self-assessment tax before furnishing the return of income, the return furnished shall be deemed to be an invalid return.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

Exemptions and Abatements under Service Tax

14. Examine the validity of following statements with reference to service tax law:

(i) Consultancy services provided to Government in relation to slum improvement and upgradation is exempt from service tax.

(ii) The transport of goods in a vessel attracts service tax at 40% of the gross amount charged.

(iii) Both service providers and service receivers need to satisfy the condition of non-availment of CENVAT credit for claiming abatement of 75% of gross amount charged in case of GTA service.

(iv) Service provided for transport of passengers by air conditioned buses is exempt from service tax.

Note: All the above cases relate to period on or after October 1, 2014.

Negative List of Services

15. Compute the value of taxable service and service tax payable on the services provided in each of the following independent cases:-

Services rendered	Amount (₹)
Sale of space for advertisement in a leading newspaper	55,000
Services related to preparation of advertisement	65,000
Sale of space for advertisements on internet websites	50,000
Sale of time for advertisement to be broadcast on TV Channel	1,00,000
Advertising in business directories	25,000
Advertising on film screen in theatres	90,000

Note: All the amounts stated above are exclusive of service tax.

Valuation under Central Excise

16. Safe 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 October, 2014 using the following information furnished by Safe Kitchen assuming the rate of excise duty as 12% plus 2% education cess and 1% secondary and higher education cess:

No. of pieces sold	Particulars
10	RSPs printed on the package of pressure cooker are ₹ 4,500 and ₹ 3,800.
20	RSP printed on the package of 15 pieces sold in Delhi is ₹ 3,000 per piece RSP printed on the package of 5 pieces sold in Haryana is ₹ 2,800 per piece
20	RSP printed on the date of removal of package from factory is ₹ 3500 per unit. However, after removal from factory RSP is increased to ₹ 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?

Eligibility of CENVAT Credit

17. Mr. Govinda, a manufacturer, is engaged in the manufacture of excisable goods. While Mr. Govinda avails CENVAT credit of excise duty paid on the inputs, he does not avail CENVAT credit of service tax paid on input services as he thinks that being a manufacturer, he cannot do so. However, his Tax Consultant has advised him that as per the provisions of the CENVAT Credit Rules, 2004, he can also avail CENVAT credit of service tax paid on input services used for manufacture of final products.

Having come to know of his entitlement, Mr. Govinda wants to avail CENVAT credit of service tax paid on input services used by him for manufacture of final products. You are required to examine whether Mr. Govinda can take CENVAT credit of service tax paid on input services on following invoices:

Bill No.	Date of issue of invoice
701	02.09.2014
705	14.09.2014
803	15.10.2015

Mr. Govinda wants to avail CENVAT credit on 12.03.2015.

Computation of CENVAT Credit

18. Compute the CENVAT credit available with Tony Motors Ltd., manufacturer of cars, in respect of the following services billed to it in the month of October, 2014:-

S.No.	Services billed	Service tax paid* [₹]
(i)	Sales promotion services	2,00,000
(ii)	Market research for the new car launched by Tony Motors Ltd.	4,00,000
(iii)	Quality control services	1,00,000
(iv)	Routine maintenance of the cars manufactured by Tony Motors Ltd.	50,000
(v)	Insurance of the cars manufactured	60,000
(vi)	Outdoor catering services provided to the employees	3,00,00

*including EC and SHEC

Service Tax Procedures

19. Shyam, a fashion designer, hires a cab from Sai, who is engaged in the business of renting of motor cabs. Value of services provided by Sai is ₹ 3,000. Sai avails CENVAT credit on inputs and capital goods. Who is liable to pay service tax in this case?

    Will your answer be different if Elite Ltd., a manufacturing company, hires the cab from Sai?

    Also, compute the amount of service tax payable.

    Note: Shyam, Sai and Elite Ltd. are located in Chennai.

Valuation of taxable service

20. Miss Sunidhi, a qualified Chartered Accountant, provides the following information for quarter ended 30th September, 2014:-

S. No.	Particulars	₹
1.	Preparation of accounts of various clients	4,00,000
2.	Fee received from United Nations Organization (returned in next quarter)	6,00,000
3.	Advance received from Lexicon Ltd.	5,00,000
4.	Preparation of accounts of charitable trusts	2,00,000

All the amounts received are exclusive of service tax except amount received from charitable trusts. Calculate value of taxable services.

Note: Fee received from United Nations Organization is returned in the succeeding quarter. Miss Sunidhi is not eligible for small sevice provider exemption available under N*otification No. 33/2012-ST dated 20.06.2012.*

Central Sales Tax

21. Briefly examine the validity of the following statements with reference to the Central Sales Tax Act, 1956:-

    (i) Sale includes a mortgage or hypothecation of or a charge or pledge on goods.

    (ii) Central sales tax is leviable on the inter-state sale of goods by any unincorporated association or body of persons to a member.

    (iii) Penultimate sales for exports is not liable to central sales tax.

    (iv) Central sales tax is collected by State Government of the State where goods are produced.

Value Added Tax

22. Compute net VAT liability of Tirupati from the following information:-

Particulars	₹	₹
Raw materials from foreign market (including duty paid on imports @ 20%)		1,20,000
Raw material purchased from local market		
Cost of raw material	2,50,000	
Add: Excise duty @ 12%	30,000	
	2,80,000	
Add: VAT @ 4%	11,200	2,91,200
Raw material purchased from neighbouring State (including CST @ 2%)		51,000
Storage and transportation cost		10,000
Manufacturing expenses		21,000

Tirupati sold goods to Suresh and earned profit @ 12% on the cost of production. VAT rate on sale of such goods is 4%.

Point of Taxation

23. A body corporate received some taxable services from one of its directors, Mr. Manan on 05.10.2014 for which an invoice was raised on 08.10.2014. Who is liable to pay service tax in this case and also determine the point of taxation in accordance with Point of Taxation Rules, 2011, if the body corporate makes the payment for the said services on:-

Case I: 27.12.2014

Case II: 13.01.2015

Customs Duty

24. Trident Enterprises imported goods from Bangladesh in a vehicle. Determine the rate of import duty to be considered for computation of import duty from the following information:-

Particulars	Date	Rate of customs duty
Date of filing of Bill of Entry	15.10.2014	10%
Date of arrival of vehicle	20.10.2014	12%
Date on which goods were allowed to be cleared from the land customs station	28.10.2014	11%
Date of payment for the goods imported	31.10.2014	8%

Payment under service tax

25. The aggregate value of taxable services provided by Mr. X in the year 2013-14 is ₹ 6,00,000. Accordingly, Mr. X had paid service tax of ₹ 60,000 in cash and ₹ 14,160 by utilizing CENVAT credit. Mr. X is liable to pay service tax of ₹ 10,000 for the quarter ending December, 2014. Is Mr. X required to make e-payment of service tax? Also, determine the due date for payment of service tax.

SUGGESTED ANSWERS/HINTS

1. **Computation of tax liability of Mr. Dherya for A.Y. 2015-16**

		₹
Income from salaries		25,28,000
Profits and gains from business or profession		73,00,000
Income from other sources (Interest on bank fixed deposit)		3,82,000
Gross total income		**1,02,10,000**
Less: Deduction under Chapter VI-A		
- Amount deposited in PPF allowed as deduction under section 80C (since it is within the overall limit of ₹1,50,000)		1,30,000
Total income		**1,00,80,000**
Tax liability		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 @ 10%	25,000	
₹ 5,00,001 – ₹ 10,00,000 @ 20%	1,00,000	
₹ 10,00,001 – ₹ 1,00,80,000 @ 30%	27,24,000	28,49,000
Add: Surcharge @ 10%, since total income exceeds ₹ 1 crore		2,84,900
		31,33,900
***Less:* Marginal Relief (See Note below)**		**2,28,900**
		29,05,000
Add: Education cess@ 2% and Secondary and higher education cess @ 1%		87,150
Tax liability		**29,92,150**

Note: Marginal relief in case of individuals is available where the total income exceeds ₹ 1 crore and surcharge is payable @10% of income tax. In such case, the amount of income-tax payable on the total income together with surcharge cannot exceed the amount of tax payable on ₹ 1 crore **plus** the income in excess of ₹ 1 crore.

Therefore, in this case, marginal relief would be ₹ 2,28,900 [excess of the tax payable on total income (including surcharge) i.e., ₹ 31,33,900 minus ₹ 29,05,000 (being the amount of tax payable on income of ₹ 1 crore i.e., ₹ 28,25,000 **plus** ₹ 80,000, the total income in excess of ₹ 1 crore)].

2. (a) **Determination of Residential Status of Mr. Aryan for A.Y. 2015-16**

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

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

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

Mr. Aryan visits India every year for 95 days. Therefore, his period of stay during 4 preceding previous years is 380 days (95 days x 4).

Since he satisfies one of the basic conditions, he is a resident for the assessment year 2015-16.

An individual is said to be a resident but not ordinarily resident, if

(i) he is a non-resident in India in any 9 out of the 10 previous years preceding the relevant previous year; **or**

(ii) he has been in India for a period of 729 days or less during the 7 previous years preceding the relevant previous year.

In this case, Mr. Aryan's period of stay in India during 7 preceding previous years is 665 days (95 days x 7). Therefore, he satisfies condition (ii) mentioned above.

Since Mr. Aryan's period of stay in India during the past 7 previous years is less than 730 days, **he is a resident but not ordinarily resident** during the previous year 2014-15 relevant to the assessment year 2015-16.

Determination of Residential Status of HUF for A.Y. 2015-16

Since the business of the HUF is transacted from India and nothing is mentioned regarding its control and management, it is assumed that the control and management is wholly situated in India. Therefore, the HUF is a resident for the P.Y.2014-15.

However, since Mr. Aryan, Karta of the HUF is a resident but not ordinarily resident during the previous year 2014-15, **the HUF would also be resident but not ordinarily resident** during the previous year 2014-15 relevant to the assessment year 2015-16.

(b) Mr. Sachin, is a non-resident, as he settled in Australia since 1990. Accordingly, his total income would be computed as follows:

Computation of total income of Mr. Sachin for the A.Y. 2015-16

S. No.	Particulars	Mr. Sachin (Non-Resident) (₹)
1.	Fees for technical services rendered in India, but received in Australia **(See Note 1)**	75,000
2.	Interest on Savings Bank Deposit in Indian Bank **(See Note 1)**	12,000
3.	Interest on Australia Development Bonds **(See Note 1)**	27,500
4.	Dividend from Indian Company received in Australia **(See Note 2)**	-
5.	Profit from a business in Nagpur but managed directly from Australia **(See Note 1)**	95,000
6.	Short term capital gain on sale of shares of an Indian company received in India **(See Note 1)**	90,000
7.	Agricultural income from a land in Punjab **(See Note 3)**	-
8.	Income from house property at Bhopal **(See Note 4)**	87,500
	Gross Total income	**3,87,000**
	Less: Deduction under Chapter VI-A	
	Section 80TTA **(See Note 5)**	10,000
	Total Income	**3,77,000**

Notes:

(1) In case of a resident, his global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

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

(ii) Income which accrues or arises or is deemed to accrue or arise in India.

Therefore, fees for technical services rendered in India would be taxable in hands of Mr. Sachin, even though he is a non-resident.

The income referred to in Sl. No. 2, 5 and 6 are also taxable in his hands, since these incomes accrue or arise or deemed to accrue or arise in India.

Interest on Australia Development Bonds to the extent of 50% would be taxable in India, since this portion is received in India.

(2) Dividend received from Indian company is exempt under section 10(34), both in the case of residents and non-residents. Hence, dividend received would not be includible in Mr. Sachins's total income.

(3) Agricultural income from a land situated in India is exempt under section 10(1).

(4) Income from house property:

Particulars	₹
Rent received (Rent received has been assumed as Gross Annual Value in the absence of information relating to fair rent, municipal value and standard rent)	1,25,000
Less: Deduction under section 24 @ 30%	37,500
Net income from house property	**87,500**

The net income from house property in India would be taxable in his hands since the accrual and receipt of the same are in India.

(5) In case of an individual, interest upto ₹ 10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA.

3.

S. No.	Taxable/ Not Taxable/ Partly Taxable	Amount liable to tax (₹)	Reason
(i)	Partly taxable	1,05,000	Section 10(5), which provides exemption of leave travel concession, exempts only an amount not exceeding the air economy fare, if the journey is performed by air. Since, the amount reimbursed to Mr. Sahil is for travelling in executive class, only the fare of economy class, being ₹ 70,000 (₹ 1,75,000/2.5), would be exempt under section 10(5) and the balance would be taxable.
(ii)	Not taxable	Nil	Income-tax paid by employer on behalf of employee on non-monetary perquisites provided to employees is exempt in the hands of an employee under section 10(10CC).
(iii)	Not taxable	Nil	Share of a partner in the total income of the firm is exempt under section 10(2A) in the hands of a partner.

(iv)	Partly taxable	20,000	As per Rule 7B of the Income-tax Rules, 1962, 25% of the income from manufacturing, growing and curing of coffee in India is taxable as business income under the head "Profits and gains from business or profession", and the balance 75%, being agricultural income, is exempt.
(v)	Partly taxable	5 lacs	As per section 10(10), least of the following amount would be exempt in the hands of Mr. Bhuwan out of ₹ 15 lacs received as gratuity: (i) ₹ 10 lacs (notified limit) (ii) ₹ 15 lacs (gratuity actually received) (iii) 12,98,077 [15/26 x ₹ 90,000 x 25] Therefore, ₹ 10 lacs would be exempt and balance of ₹ 5 lacs is taxable in the hands of Mr. Bhuwan.

4 . (a) **Computation of taxable salary of Mr. Mayur for the Assessment Year 2015-16**

Particulars	**₹**	**₹**
Basic Salary (₹ 22,000 x 4) +(₹ 26,000 x 8)		2,96,000
Transport allowance (₹ 1,800 x 12)	21,600	
Less : Exempt under section 10(14) (₹ 800 x 12)	9,600	12,000
Children education allowance (₹ 400 x 2 x 12)	9,600	
Less: Exempt under section 10(14) (₹ 100 x 2 x 12)	2,400	7,200
City Compensatory Allowance (₹ 500 x 12)		6,000
Hostel Expenses Allowance (₹ 420 x 2 x 12)	10,080	
Less: Exempt under section 10(14) (₹ 300 x 2 x 12)	7,200	2,880
Tiffin allowance (fully taxable)		6,000
Tax paid on employment **[See Note Below]**		3,200
Employer's contribution to recognized provident fund in excess of 12% of salary (i.e., 3% of ₹ 2,96,000)		8,880
Gross Salary		**3,42,160**
Less : Tax on employment under section 16(iii)		3,200
Taxable salary		**3,38,960**

Note: *Professional tax paid by employer should be included in the salary of Mr. Mayur as a perquisite since it is discharge of monetary obligation of the employee* *by the employer. Thereafter, deduction of professional tax paid is allowed to the employee from his gross salary.*

(b) Computation of taxable salary of Mr. Saksham for A.Y. 2015-16

Particulars	₹	₹
Income from Salaries		
Gross salary received during 1.4.2014 to 31.1.2015 @ ₹ 21,000 p.m. (₹ 21,000 x 10)		2,10,000
Pension for 2 months @ 35% of the basic salary of ₹ 12,000 p.m.		8,400
Leave Salary	80,000	
Less: Exempt under section 10(10AA) **(See Note1)**	60,000	20,000
Gratuity	75,000	
Less: Exempt under section 10(10) **(See Note 2)**	30,000	45,000
Total Income		**2,83,400**

Notes:

1. Leave encashment is exempt to the extent of least of the following :

	Particulars	₹
(i)	Statutory limit	3,00,000
(ii)	Cash equivalent of leave for 30 days for 5 years (₹ 12,000 × 5)	60,000
(iii)	10 months salary (based on average salary of last 10 months) (10 x ₹ 12,000)	1,20,000
(iv)	Actual amount received	80,000

Therefore, ₹ 60,000 is exempt under section 10(10AA).

2. Assuming that the employee is not covered under the Payment of Gratuity Act, 1972, Gratuity is exempt to the extent of least of the following :

	Particulars	₹
(i)	Statutory limit	10,00,000
(ii)	½ x average salary of last 10 months for every completed year of service [5 x ₹ 6,000 (₹ 12,000 x ½)]	30,000
(iii)	Actual gratuity received	75,000

Therefore, ₹ 30,000 is exempt under section 10(10).

3. It has been assumed that dearness allowance does not form part of salary for retirement benefits and therefore, not included in "Salary" for the purpose of computation of leave encashment and gratuity.

5. Computation of Income from house property of Mr. Vikul for A.Y. 2015-16

	Particulars	₹	₹
(A)	**Rented unit (25% of total area)**		
	Step I - Computation of Expected Rent		
	Municipal valuation (₹ 2,67,000 x ¼)	66,750	
	Fair rent (₹ 2,48,000 x ¼)	62,000	
	Standard rent (₹ 2,30,000 x ¼)	57,500	
	Expected Rent is higher of municipal valuation and fair rent, but restricted to standard rent	57,500	
	Step II - Actual Rent		
	Rent receivable for the whole year (₹ 6,000 x 12)	72,000	
	Step III – Computation of Gross Annual Value		
	Actual rent received owing to vacancy (₹ 72,000 – ₹ 24,000)	48,000	
	Since, owing to vacancy, the actual rent received is lower than the Expected Rent, the actual rent received is the Gross Annual value		
	Gross Annual Value (GAV)		**48,000**
	Less: Municipal taxes [(12% of ₹ 66,750)]		8,010
	Net Annual Value (NAV)		**39,990**
	Less : Deductions under section 24		
	(a) 30% of NAV	11,997	
	(b) Interest on borrowed capital (₹ 2,88,000 x ¼),	72,000	83,997
	Taxable income from let out portion		**(44,007)**
(B)	**Self occupied unit (75% of total area)**		
	Annual value	Nil	
	Less : Deduction under section 24:		
	- Interest on borrowed capital (₹ 2,88,000 x ¾), ₹ 2,16,000 restricted to ₹ 2,00,000	2,00,000	(2,00,000)
	Income from house property		**(2,44,007)**

Notes:

1. No deduction will be allowed separately for light and water charges, insurance charges and painting expenses.

2. Mr. Vikul is eligible for a maximum deduction of ₹ 2,00,000 under section 24 in respect of interest on housing loan taken in respect of a self-occupied property, for which he is claiming benefit of "Nil" annual value. Therefore, deduction in respect of the interest of ₹ 2,16,000 relating to self-occupied portion would be restricted to ₹ 2,00,000, which would represent his loss from self-occupied portion.

6. (a) (i) As per section 32AC(1), manufacturing companies would be entitled to deduction @ 15% of aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15, if the same exceeds ₹ 100 crore.

Further, sub-section (1A) to section 32AC provides that deduction @15% would be available to a manufacturing company which acquired and installed new plant and machinery for a sum exceeding ₹ 25 crore in the F.Y. 2014-15.

In this case, ABC Ltd. is not entitled for deduction under section 32AC(1), since the aggregate amount of actual cost of new plant and machinery acquired and installed during the F.Y. 2013-14 and F.Y. 2014-15 does not exceed ₹ 100 crore. However, it would be entitled for deduction of ₹ 4.5 crore (15% of ₹ 30 crore) under section 32AC(1A), in respect of the new plant and machinery acquired and installed during the financial year 2014-15, since the amount of investment made during the previous year 2014-15 exceeds ₹ 25 crore.

The deduction under section 32AC would be in addition to the deduction under section 32 in respect of depreciation and additional depreciation.

Computation of depreciation and additional depreciation under section 32

Particulars	₹ (in crores)
Written down value as on 01.04.2014 **(See Note below)**	45.50
Add: Plant and Machinery acquired during the previous year 2014-15	30.00
Written down value as on 31.03.2015	**75.50**
Less: Normal Depreciation @ 15%	11.33
Less: Additional Depreciation (20% of ₹ 30 crore)	6.00
WDV as on 01.04.2015	**58.17**
Total deduction under section 32 (₹ 11.33 crore + ₹ 6.0 crore)	**17.33**

Notes:

1. **Computation of written down value as on 1st April 2014**

Cost of the machinery acquired	70.00 crore
Less: Normal Depreciation @ 15%	10.50 crore

Less: Additional Depreciation@ 20%	14.00 crore
Written Down Value as on 01st April 2014	**45.50 crore**

2. It has been assumed that the new plant and machinery was put to use for more than 180 days during the P.Y. 2013-14 and P.Y 2014-15.

3. It is also assumed that the new plant and machinery does not include any plant or machinery which is previously used at any time within or outside India or which is installed in any office premises or residential accommodation or guest house or any office appliance or any vehicle, ship or aircraft.

(ii) As per section 40(a)(i), interest, royalty, fee for technical services or other sum chargeable under the Act which is payable to a non-resident is not allowable as deduction while computing business income if tax on such payment has not been deducted during the previous year or after deduction, is not paid on or before the due date specified for filing of return under section 139(1).

In the present case, MNO Ltd deducted tax at source on payment made to a non-resident in the previous year 2014-15 and deposited such amount on 31.08.2015, before the due date under section 139(1) i.e., 30th September 2015. Therefore, the disallowance under section 40(a)(i) would not be attracted, in this case.

(iii) Under section 37(1) of the Income-tax Act, 1961, only expenditure, not covered under sections 30 to 36, and incurred wholly and exclusively for the purposes of the business is allowed as a deduction while computing business income.

Explanation 2 to section 37 provides that any expenditure incurred by an assessee on the activities relating to corporate social responsibility referred to in section 135 of the Companies Act, 2013 shall not be deemed to have been incurred for the purpose of business and hence, shall not be allowed as deduction under section 37.

Accordingly, the amount of ₹ 1,80,000 incurred by Bus & Train Pvt. Ltd. towards CSR expenditure referred to in section 135 of the Companies Act, 2013 shall not be allowed as deduction under section 37.

However, the *Explanatory Memorandum* to the Finance (No.2) Bill, 2014 clarifies that CSR expenditure, which is of the nature described in sections 30 to 36, shall be allowed as deduction under these sections subject to fulfilment of conditions, if any, specified therein.

Therefore, if the CSR expenditure incurred by Bus & Train Pvt. Ltd. is of the nature described in sections 30 to 36, the same would be allowed as deduction under the respective section, subject to fulfilment of the conditions prescribed thereunder.

(iv) Section 40(a)(ia) provides that 30% of any sum payable to a resident, on which tax is deductible at source under Chapter XVII-B and such tax has not been deducted or after deduction has not been paid on or before the due date specified in section 139(1) would be disallowed.

Section 192 of Chapter XVII-B provides that tax is required to be deducted on the payment made as salaries. Tax is to be deducted on the estimated income at the average of income tax computed on the basis of the rates in force for the financial year in which payment is made.

In this case, XYZ Ltd. has not deducted tax at source on the amount of ₹ 7,50,000 paid as salary to Mr. Raghav. Therefore, ₹ 2,25,000 being 30% of ₹ 7,50,000 would be disallowed under section 40(a)(ia).

(v) As per section 35AD, investment linked deduction is available in respect of any of the specified businesses defined thereunder. 100% of the capital expenditure is available in respect specified business *inter alia* business of warehousing facility for storage of sugar. Therefore, in this case, Rise & Co. would be eligible for deduction of ₹ 72,00,000 (100% of ₹ 72 lakhs), in the P.Y. 2014-15. No other deduction is allowable in respect of the said sum under any other provision of the Income-tax Act, 1961.

Yes, the answer would be different, if the company has set up a warehousing facility of food grain. As per section 35AD(1A), a weighted deduction of 150% of the capital expenditure is available in respect of certain specified businesses which include *inter alia* business of warehousing facility for storage of agricultural produce. Therefore, ₹ 1,08,00,000, being 150% of ₹ 72 lakhs, would be allowable as deduction under section 35AD in the hands of Rise & Co. in the P.Y. 2014-15.

(b) Since Mr. Xavier does not own more than 10 vehicles at any time during the previous year 2014-15, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 7,500 per month or part of month for which each goods carriage is owned by him would be deemed as his profits and gains from each goods carriage.

(1)	**(2)**	**(3)**	**(4)**
Number of Vehicles	**Date of purchase**	**No. of months for which vehicle is owned**	**No. of months × No. of vehicles [(1) × (3)]**
1	10.4.2014	12	12
3	15.3.2015	1	3
2	16.7.2014	9	18
1	2.1.2015	3	3
1	29.8.2014	8	8

2	23.2.2015	2	4
10		**Total**	**48**

Therefore, presumptive income of Mr. Xavier under section 44AE for A.Y.2015-16 is ₹ 3,60,000, being 48 × ₹ 7,500.

7. Computation of capital gains in the hands of Mr. Satvik for A.Y.2015-16

Particulars	₹	₹
Actual Sale Consideration	95,00,000	
Valuation as per Stamp Valuation authority	97,00,000	
(Value to be taken is the higher of actual sale consideration or valuation adopted for stamp duty purpose as per section 50C)		
Deemed Sale Consideration for the purpose of Capital Gains		97,00,000
Less: Expenses on transfer (Brokerage @1% of ₹ 95,00,000)		95,000
Net Sale Consideration		**96,05,000**
Less: Indexed cost of acquisition **(See Note 1)**	22,01,600	
Indexed cost of improvement **(See Note 2)**	9,21,600	31,23,200
		64,81,800
Less: Exemption under section 54EC in respect of investment in NHAI Bonds **(See Note 4)**		50,00,000
Long-term Capital Gain		**14,81,800**

Notes:

(1) **Computation of indexed cost of acquisition**

Particulars	₹
Cost of acquisition, being the higher of - (i) fair market value as on April 1, 1981 i.e. ₹ 2,60,000 (ii) actual cost of acquisition i.e.₹ 2,65,000 (₹ 2,40,000 + ₹ 25,000, being stamp duty @ 10% of ₹ 2,50,000)	2,65,000
Less: Advance taken and forfeited **(See Note 3)**	50,000
Cost for the purpose of indexation	2,15,000
Indexed cost of acquisition (₹ 2,15,000 x 1024/100)	22,01,600

(2) **Computation of indexed cost of improvement**

Construction of first floor in March, 1988 (i.e., ₹ 1,35,000 x 1024/150)	₹ 9,21,600

(3) Clause (ix) has been inserted in section 56(2) to bring to tax advance received and forfeited on or after 01.04.2014, in respect of a transaction of sale of a capital asset which failed to materialise. Consequently, a proviso has been inserted in section 51 to provide that where any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset has been included in the total income of the assessee for any previous year, in accordance with section 56(2)(ix), such amount shall **not** be deducted from the cost for which the asset was acquired or the written down value or the fair market value, as the case may be, in computing the cost of acquisition.

Therefore, the advance of ₹ 7,50,000 received by Mr. Satvik on 25th August, 2014, which was forfeited due to the transaction not materializing, is taxable under section 56(2)(ix) as "Income from other sources" in the A.Y.2015-16. Hence, such amount would not be reduced to compute the indexed cost of acquisition while computing capital gains on sale of the property in October, 2014.

However, the advance of ₹ 50,000 received and forfeited before 01.04.2014 has to be deducted from cost of acquisition for determining indexed cost of acquisition, since the same was not subject to tax under section 56(2)(ix).

(4) 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 ₹ 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. Satvik has invested ₹ 35 lakhs in NHAI bonds in the F.Y.2014-15 and ₹ 25 lakhs in RECL bonds in the F.Y.2015-16, both within six months from the date of transfer. However, out of the total investment of ₹ 60 lakhs in eligible bonds, he would be eligible for exemption of only ₹ 50 lakhs under section 54EC.

8. (a) Section 145A provides that interest received by the assessee on enhanced compensation shall be deemed to be the income of the assessee of the year in which it is received, irrespective of the method of accounting followed by the assessee and irrespective of the financial year to which it relates.

Section 56(2)(viii) states that such income shall be taxable as 'Income from other sources'.

50% of such income shall be allowed as deduction by virtue of section 57(iv) and no other deduction shall be permissible from such Income.

Therefore, legal expenses incurred to receive the interest on enhanced compensation would not be allowed as deduction from such income.

Computation of interest on enhanced compensation taxable as "Income from other sources" for the A.Y 2015-16:

Particulars	₹
Interest on enhanced compensation taxable under section 56(2)(viii)	8,50,000
Less: Deduction under section 57(iv) (50% x ₹ 8,50,000)	4,25,000
Taxable interest on enhanced compensation	4,25,000

(b) (i) Any property received without consideration by a HUF from its relative is not taxable under section 56(2)(vii).

Since Sharma's son is a member of Sharma HUF, he is a "relative" of the HUF. Therefore, if Sharma HUF receives any property (shares, in this case) from its member, i.e., Sharma's son, without consideration, then, the fair market value of such shares will **not** be chargeable to tax in the hands of the HUF, since gift received from a "relative" is excluded from the scope of section 56(2)(vii).

(ii) The difference between the aggregate fair market value of shares of a closely held company and the consideration paid for purchase of such shares is deemed as income in the hands of the purchasing company under section 56(2)(viia), if the difference exceeds ₹ 50,000.

Accordingly, in this case, the difference of ₹ 2,10,000 [i.e.,(₹ 115 – ₹ 95) × 10,500] is taxable under section 56(2)(viia) in the hands of Sunnyvale (P) Ltd.

(iii) The provisions of section 56(2)(viib) are attracted in this case since the shares of a closely held company are issued at a premium (i.e., the issue price of ₹ 17 per share exceeds the face value of ₹ 10 per share) and the issue price exceeds the fair market value of such shares.

The consideration received by the company in excess of the fair market value of the shares would be taxable under section 56(2)(viib).

Therefore, ₹ 1,04,000 [i.e., (₹ 17 – ₹ 13) x 26,000 shares] shall be the income chargeable under section 56(2)(viib) in the hands of Balaji (P) Ltd.

9. Clubbing of income and other tax implications

As per the provisions of section 64(1A), in case the marriage of the parents subsist, the income of a minor child shall be clubbed in the hands of the parent whose total income, excluding the income of the minor child to be clubbed, is greater. In this problem, it has been assumed that the marriage of Mr. Chandrapal and Mrs. Chandrapal subsists.

However, in case the income arises to the minor child on account of any manual work done by the child or as a result of any activity involving application of skill, talent, specialized knowledge or experience of the child, then, the same shall not be clubbed in the hands of the parent.

Further, the income of minor child suffering from disability of the nature specified under section 80U shall also not be included in the hands of parents.

Tax implications

(i) Income of ₹ 2,50,000 from Mr. Chandrapal's profession shall be taxable in the hands of Mr. Chandrapal under the head "Profits and gains of business or profession".

(ii) Salary of ₹ 1,06,000 received by Mrs. Chandrapal as a Primary teacher shall be taxable as "Salaries" in the hands of Mrs. Chandrapal.

(iii) Income from fixed deposit of ₹ 12,000 arising to the minor son Arav, shall be clubbed in the hands of the father, Mr. Chandrapal as "Income from other sources", since Mr. Chandrapal's income is greater than the income of his wife before including the income of the minor child.

As per section 10(32), income of a minor child which is includible in the income of the parent shall be exempt to the extent of ₹ 1,500 per child. The balance income would be clubbed in the hands of the parent as "Income from other sources".

Therefore, ₹ 10,500 would be clubbed in the hands of Mr. Chandrapal.

(iv) Income of ₹ 2,20,000 arising to minor son Arav from lottery shall be included in the hands of Mr. Chandrapal as "Income from other sources", since Mr. Chandrapal's income is greater than the income of his wife before including the income of minor child.

Note – Mr. Chandrapal can reduce the tax deducted at source from such lottery income while computing his net tax liability.

(v) Income of ₹ 1,05,000 arising to the minor daughter Pallavi from sports shall not be included in the hands of the parent, since such income has arisen to the minor daughter on account of an activity involving application of her skill.

(vi) The clubbing provisions are attracted even in respect of income of minor married daughter. As per section 56(2)(vii), cash gifts received from any person/persons exceeding ₹ 50,000 during the year in aggregate is taxable. Since the cash gift in this case exceeds ₹ 50,000, the amount of ₹ 55,000 shall be taxable under section 56(2)(vii). This amount shall be clubbed in the hands of Mr. Chandrapal and exemption under section 10(32) of ₹ 1,500 per child shall be allowed in his hands.

(vii) Income of minor son Arvind, who suffers from disability specified under section 80U, shall not be included in the hands of either of his parents.

10. Computation of Gross Total Income of Mr. Alok for A.Y. 2015-16

Particulars	₹	₹
Salaries	1,38,000	
Less: Current year loss from house property	(66,000)	72,000

Profit and gains of business or profession		
Income from textile business	73,000	
Less: Loss from textile business brought forward from A.Y. 2007-08	82,000	
Balance business loss of A.Y. 2007-08 **(See Note 1)**	(9,000)	NIL
Income from the activity of owning and maintaining race horses	21,000	
Less: Loss from activity of owning and maintaining race horses brought forward from A.Y. 2012-13	37,000	
Loss to be carried forward to A.Y. 2016-17 **(See Note 2)**	(16,000)	NIL
Capital Gain		
Short term capital gain		1,65,000
Long term capital gain on sale of land	27,000	
Less: Long term capital loss on sale of shares	1,06,000	
Loss to be carried forward to A.Y. 2016-17 **(See Note 3)**	(79,000)	NIL
Gross Total Income		**2,37,000**

Losses to be carried forward to A.Y. 2016-17

Particulars	₹
Current year loss from speculative business **(See Note 4)**	58,000
Current year long term capital loss on sale of shares **(See Note 3)**	79,000
Loss from activity of owning and maintaining of race horse pertaining to A.Y.2012-13 **(See Note 2)**	16,000

Notes:

(1) As per section 72(3), business loss can be carried forward for a maximum of eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since the eight year period for carry forward of business loss of A.Y. 2007-08 expired with the A.Y. 2015-16, the balance unabsorbed business loss of ₹ 9,000 cannot be carried forward to A.Y. 2016-17.

(2) As per section 74A(3), the loss incurred from the activity of owning and maintaining of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum period of 4 assessment years. Therefore, the unabsorbed loss of ₹ 16,000 from the activity of owning and maintaining race horses pertaining to A.Y. 2012-13 can be carried forward upto A.Y. 2016-17.

(3) Long term capital gains on sale of shares on which securities transaction tax is not paid is not exempt under section 10(38). Therefore, long-term capital loss on sale of such shares can be set-off against long-term capital gain on sale of land. The balance loss of ₹ 79,000 cannot be set-off against short term capital gain or against any other head of income. The same has to be carried forward for set-off against long-term capital gain of the subsequent assessment year. Such long-term capital loss can be carried forward for a maximum of eight assessment years.

(4) Loss from speculation business cannot be set-off against any income other than profit and gains of another speculation business. Such loss can, however, be carried forward for a maximum of four years as per section 73(4) to be set-off against income from speculation business.

11. Computation of eligible deduction under Chapter VI-A of Mr. Mayank for A.Y. 2015-16

Particulars	₹	₹
Deduction under Section 80C		
LIC premium paid ₹ 30,000	20,000	
[Limited to 10% of policy value, since policy has been taken on or after 1.04.2012 (10% x ₹ 2,00,000)]		
Contribution to PPF.	1,10,000	
Repayment of housing loan to Indian Bank	35,000	
	1,65,000	
Deduction allowed under section 80C, restricted to	1,50,000	
Deduction under Section 80CCC		
Payment to LIC Pension Fund	28,000	
	1,78,000	
Deduction limited to ₹ 1,50,000 as per section 80CCE		1,50,000
Deduction under Section 80D		
Payment of medical insurance premium ₹ 22,000 for self, wife and dependent children. Deduction limited to ₹ 15,000.	15,000	
Medical insurance premium paid for non-dependant parents ₹ 32,000 (limited to ₹ 20,000, being the limit applicable for senior citizens)	20,000	35,000
Deduction under section 80CCG		
Mr. Mayank would be eligible for deduction under section 80CCG in respect of investment made in Equity Oriented Fund of Rajiv Gandhi Equity Savings Scheme, 2013, since his gross total income does not exceed ₹ 12,00,000 and he is a new retail investor. The allowable deduction would be	23,500	23,500

₹ 23,500, being 50% of ₹ 47,000, since the same is within the limit of ₹ 25,000.		
Deduction under section 80GGC		
Donation to National Congress party by crossed cheque	30,000	30,000
Eligible deduction under Chapter VI A		**2,38,500**

12. Computation of total income of Dr. Shivkumar for the A.Y. 2015-16

	Particulars	₹	₹	₹
I	**Income from house property**			
	Gross Annual Value		61,000	
	Less: Municipal taxes paid		12,000	
	Net Annual Value		**49,000**	
	Less: Deduction under section 24 @30%		14,700	34,300
II	**Income from profession**			
	Net profit as per Income and Expenditure account		3,39,500	
	Less: Items of income to be treated separately			
	(i) Income tax refund (including interest)	18,500		
	(ii) Dividend from Indian companies	38,000		
	(iii) Winning from lottery (net of TDS)	42,000		
	(iv) Rent received	61,000	1,59,500	
			1,80,000	
	***Add:* Expenditure debited but not allowable**			
	(i) Rent for his residence	45,000		
	(ii) Municipal tax paid relating to residential house at Pune included in administrative expenses	12,000	57,000	
			2,37,000	
	***Less*: Expenditure allowable but not debited**			
	Depreciation on Clinic equipments u/s 32			
	- on ₹ 5,50,000 @ 15%	82,500		
	- on ₹ 1,55,000 @7.5% (i.e., 50% of 15%)	11,625		
		94,125		
	Additional deduction of 100% in respect of amount paid to IIT [since weighted deduction of 200% is available in respect of such payment under section 35(2AA)]	1,20,000	2,14,125	22,875

III	**Income from other sources**			
	Interest on Income-tax refund		2,500	
	Dividend from Indian companies	38,000		
	Less: Exempt under section 10(34)	38,000	Nil	
	Winnings from lottery **(See Note 1)**		60,000	62,500
	Gross Total Income			**1,19,675**
	Less: Deductions under Chapter VI A:			
	- **Under section 80C**			
	Tuition fee paid to university for full time education of his son		65,000	
	- **Under section 80E**			
	Interest on loan taken for higher education of daughter		60,000	
			1,25,000	
	Deduction under Chapter VI-A, restricted to **(See Note 2)**			59,675
	Total income			**60,000**

Notes:

1. Winnings from lottery should be grossed up for the chargeability under the head "Income from other sources". The applicable rate of TDS is 30%. Gross income from lottery, would, therefore, be ₹ 42,000/70% = ₹ 60,000
2. Deduction under Chapter VI-A cannot exceed Gross Total Income. Further, no deduction is allowable from income by way of winning from lottery. Therefore, the maximum deduction allowable would be ₹ 59,675.

	₹
Gross Total Income	1,19,675
Less: Winnings from lottery	60,000
Maximum deduction under Chapter VI-A	**59,675**

   The total income of ₹ 60,000 would, therefore, represent winnings from lottery taxable at a flat rate of 30%, without any basic exemption limit.

3. Dr. Shivkumar is staying in rented premises in Pune itself. Hence, he would not be eligible for deduction under section 80GG, since he owns a house in Pune which he has let out.
4. Rent received has been taken as Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.

13. (a) (i) Section 194A requiring deduction of tax at source on any income by way of interest, other than interest on securities, credited or paid to a resident, excludes from its scope, income credited or paid by a firm to its resident partner. Therefore, no tax is required to be deducted at source under section 194A on interest on capital of ₹ 25,000 and ₹ 30,000 paid by the firm, M/s Duplicate, to its resident partners Mr. Vikul and Mr. Rahul.

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

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

Therefore, in the given case, even if Taneja (HUF) is liable to tax audit in the immediately preceding financial year, the liability to deduct tax at source under section 194J is not attracted in this case since, the fees for professional service paid to Dr. Kunal Garg is for personal purpose i.e. for the purposes of surgery on a member of the family.

(iii) Since the annual premium exceeds 10% of sum assured in respect of a policy taken on 1.4.2012, the maturity proceeds of ₹ 5.50 lakhs are not exempt under section 10(10D) in the hands of Mr. Dheeraj, a resident individual. Therefore, tax is required to be deducted@2% under section 194DA on the maturity proceeds of ₹ 5.50 lakhs payable to Mr. Dheeraj.

(b) (i) False : As per Explanation to section 139(9), the return of income shall be regarded as defective return unless the tax, together with interest, if any payable in accordance with the provisions of section 140A has been paid on or before the date of furnishing the return.

However, the defective return would be treated as invalid, only if the individual fails to rectify the defect within a period of 15 days from the date of intimation of the defect to him by the Assessing Officer or within such further period, as the Assessing Officer may allow, on an application made by such individual in this behalf.

(ii) False: Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

14. (i) The said statement is not valid. With effect from 11.07.2014, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*, has been amended to provide that services provided, *inter alia*, to Government by way of water supply, public health, sanitation conservancy, solid waste management or slum improvement and up-gradation are exempt but the exemption is not extendable to other services such as consultancy, designing, etc., not directly connected with these specified services. Prior to 11.07.2014, services provided, *inter alia,* to Government by way of carrying out **any activity in relation to** any function ordinarily entrusted to a municipality in relation to water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation were exempt vide Mega Exemption Notification.

(ii) **The said statement is valid**. With effect from 11.07.2014, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*, has been amended to increase the abatement in respect of transport of goods in a vessel from 50% to 60%. Thus, transport of goods in a vessel would attract service tax at 40% of the value of taxable service

(iii) **The said statement is not valid**. With effect from 11.07.2014, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*, has been amended to provide that the condition for non- availment of credit is required to be satisfied by the service providers only. Thus, service receiver may avail abatement without having to establish the satisfaction of this condition by the service provider.

(iv) **The said statement is not valid**. With effect from 11.07.2014, Mega Exemption *Notification No. 25/2012 ST dated 20.06.2012*, has been amended to provide that, transport of passengers, with or without accompanied belongings, by non-airconditioned contract carriage other than radio taxi, for transportation of passengers, excluding tourism, conducted tour, charter or hire, is exempt from service tax. Therefore, any service provided for transport of passengers by air-conditioned contract carriages like buses including the ones used for point to point travel, will attract service tax.

15. As per section 66D(g) of the Finance Act, 1994, selling of space for advertisements in print media is included in the negative list of services. In other words, advertisement in all media except print media is liable to service tax. Therefore, sale of space for advertisements on internet websites, sale of time for advertisement to be broadcast on TV Channel and advertising on film screen in theatres are liable to service tax.

Further, definition of print media specifically excludes business directories. Therefore, advertising in business directories attracts service tax.

Services related to preparation of advertisement are liable to service tax as they are not included in the negative list.

Computation of the value of taxable service and service tax payable

Services rendered	Amount (₹)	Service tax @ 12.36% (₹)
Sale of space for advertisement in a leading newspaper	55,000	Nil
Services related to preparation of advertisement	65,000	8,034

Sale of space for advertisements on internet websites	50,000	6,180
Sale of time for advertisement to be broadcast on TV Channel	1,00,000	12,360
Advertising in business directories	25,000	3,090
Advertising on film screen in theatres	90,000	11,124

16. 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	₹	₹
RSP of 10 pieces (10 × ₹4,500) (Note-1)	45,000	
Less: Abatement @ 25%	11,250	
Assessable value (A)		33,750
RSP of 15 pieces sold in Delhi (15 × ₹3,000) (Note-2)	45,000	
Less: Abatement @ 25%	11,250	
Assessable value (B)		33,750
RSP of 5 pieces sold in Haryana (5 × ₹ 2,800) (Note 2)	14,000	
Less: Abatement @ 25%	3,500	
Assessable value (C)		10,500
RSP of 20 pieces (20 × ₹ 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% [12% of ₹ 1,39,500]		16,740
Education cess @ 2% [2% of ₹ 16,740]		335
Secondary and Higher Education Cess @ 1% [1% of ₹ 16,740]		167
Total excise duty payable (rounded off)		**17,242**

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.

17. As per rule 3 of the CENVAT Credit Rules, 2004, a manufacturer of final product can take CENVAT credit of service tax paid on any input service received by it and used for the manufacture of final product. Thus, Mr. Govinda being a manufacturer of final product is eligible to avail CENVAT credit of service tax paid on input services received. However, rule 4(7) of the CENVAT Credit Rules, 2004 stipulates that the manufacturer or the provider of output service shall not take CENVAT credit after six months of the date of issue of invoice.

In view of the said provisions, Mr. Govinda can avail CENVAT credit with respect to Bill No. 705 and 803 and not with respect to Bill No. 701 as period of six months has expired from the date of issuance of invoice.

18. Computation of CENVAT credit available with Tony Motors Ltd.

Particulars	Amount [₹]
Sales promotion services [Note 1]	2,00,000
Market research for the new car launched by Tony Motors Ltd. [Note 1]	4,00,000
Quality control services [Note 1]	1,00,000
Routine maintenance of the cars manufactured by Tony Motors Ltd. [Note 2]	50,000
Insurance of the cars manufactured [Note 2]	60,000
Outdoor catering services provided to the employees [Note 3]	Nil
Total CENVAT credit available	8,10,000

Notes:

1. As per the definition of the input services, there is a specific inclusion with regard to the following services:-
   (a) Sales promotion services
   (b) Market research services
   (c) Quality control services

   Hence, the CENVAT credit of the service tax paid on the aforesaid services is available.

2. Service of general insurance business and repair and maintenance, in so far as they relate to a motor vehicle which is not a capital goods, is excluded from the definition of the input service except when used by a manufacturer of a motor vehicle in respect of a motor vehicle manufactured by such person.

   Thus, credit of the service tax paid on the insurance and maintenance of cars manufactured by Tony Motors Ltd. is available.

3. Outdoor catering services to the employees are specifically excluded from the definition of the input services. Hence, CENVAT credit of service tax paid on such services is not available.

19. In case of renting of motor cabs, abatement of 60% from gross amount charged is available if CENVAT credit on inputs, capital goods and input services other than input service of renting of motorcab is not availed. Therefore, since in the given case, Sai avails CENVAT credit on inputs and capital goods, it cannot pay service tax on abated value.

In case of taxable services provided by way of renting of a motor vehicle designed to carry passengers on non abated value to any person who is not engaged in the similar line of business by any individual/HUF/partnership firm (whether registered or not) including association of persons, located in the taxable territory to a business entity registered as body corporate, located in the taxable territory, both service provider and service receiver are liable to pay service tax. 50% of tax is to be paid by service provider and 50% by service receiver.

Since in the given case, service by way of renting of motor cabs is provided by an individual (Sai) to another individual (Shyam) and not to any body corporate, reverse charge provisions will not apply and entire service tax will be payable by service provider (Sai). Thus, service tax of ₹ 371 (12.36% of ₹ 3,000) is liable to be paid by Sai.

However, when motor cab is taken on rent by Elite Ltd. (a company), reverse charge provisions will apply and 50% of tax will be paid by Sai (service provider) and 50% by Elite Ltd. (service receiver). Thus, Sai will pay ₹ 185.5 and Elite Ltd. will pay ₹ 185.5.

20. Computation of value of taxable services rendered by Miss Sunidhi for the quarter ended 30th September, 2014

S. No.	Particulars	₹
1.	Preparation of accounts of various clients	4,00,000
2.	Fee received from United Nations Organization [Exempt from service tax vide mega exemption *Notification No. 25/2012 dated 20.06.2012*]	-
3.	Advance received from Lexicon Ltd. [Advance is taxable at the time of receipt of advance only vide Rule 3 of Point of Taxation Rules, 2011]	5,00,000

4.	Preparation of accounts of charitable trusts (2,00,000 x 100/112.36)	1,77,999
	Total value of taxable services	10,77,999

Note: Since fee received from UNO is exempt from service tax, there will be no treatment under service tax for the fees returned in the next quarter.

21. **(i)** **No, the statement is not valid**. The definition of sales clearly excludes a mortgage or hypothecation of or a charge or pledge on goods.

(ii) **Yes, the statement is valid**. Central sales tax is leviable on sales of all goods, other than electrical energy, in course of inter-state trade/ commerce. As per the definition of sale under Central Sales Tax Act, 1956, sale of goods by any unincorporated association or body of persons to a member is deemed to be a sale. Hence, Central sales tax is leviable on the sale of goods by any unincorporated association or body of persons to a member.

(iii) **Yes, the statement is valid**. Since penultimate sale for exports is deemed to be the sale in the course of exports, it would not be liable to central sales tax.

(iv) **No, the statement is not valid**. As per Section 9(1) of the Central Sales Tax Act, 1956, central sales tax so levied is collected by State Government of the State from which the movement of the goods is commenced.

22. **Computation of VAT liability of Tirupati:-**

Particulars	₹	₹
Raw materials purchased from foreign market (including duty paid on imports @ 20%) [Customs duty forms part of cost of production, input tax credit of cusoms duty paid is not available]		1,20,000
Raw material purchased from local market:-		
Cost of raw material	2,50,000	
Add: Excise duty @ 12%	30,000	2,80,000
[Input tax credit of excise duty is not available]		
Raw material purchased from neighbouring State (including CST @ 2%) [Input tax credit of CST is not available]		51,000
Storage and transportation cost		10,000
Manufacturing expenses		21,000
Cost of production		4,82,000
Add: Profit @ 12% of cost of production		57,840
Sale Price		5,39,840

VAT @ 4% on ₹ 5,39,840		21,593.6
Net VAT liability of Tirupati:-		
VAT on sale price (rounded off)		21,594
Less: Input tax credit		
Duty paid on imports	Nil	
CST paid on inter-State purchases	Nil	
VAT paid on local purchases	11,200	11,200
Net VAT payable by Tirupati		10,394

23. In respect of any taxable services provided or agreed to be provided by a director of a body corporate to the said body corporate, person liable to pay service tax is the recipient of such service, i.e. service tax has to be paid under reverse charge mechanism. Hence, in the given case, service tax is to be paid by the body corporate.

Further, rule 7 of the Point of Taxation Rules, 2011 provides that the point of taxation in respect of services taxed under reverse charge will be the payment date or the first day that occurs immediately after a period of 3 months from the date of invoice, whichever is earlier.

In the light of the aforesaid provisions, point of taxation will be as follows:-

Case-I: Since the payment has been made within 3 months from the date of invoice, point of taxation shall be the date of payment i.e. 27.12.2014.

Case-II: Since the payment has not been made within a period of 3 months from the date of invoice, point of taxation will be the date immediately following the said period of 3 months i.e. 08.01.2015.

24. With effect from 11.07.2014, section 15 of the Customs Act, 1962 has been amended to provide that in case the goods have been imported in a vehicle, the rate of duty shall be the rate in force on:-

(i) the date on which Bill of Entry is presented

or

(ii) the date on which arrival of vehicle takes place

whichever is later.

Therefore, the relevant date for determination of the rate of import duty, in the given case, is 20.10.2014. Hence, the rate of import duty applicable in the given case is 12%.

25. Rule 6 of Service Tax Rules, 1994 has been amended to provide that with effect from 01.10.2014, e-payment of service tax would be compulsory for all assesses irrespective of the quantum of service tax paid in the previous financial year. Hence Mr. X will be required to deposit service tax for the quarter ended December, 2014 electronically. The due date for payment of service tax for the quarter ended December, 2014 is 6th January, 2015.