PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY, 2018 EXAMINATION

A. <u>Applicable for May, 2018 examination</u>

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 31st October, 2017 will be applicable for May, 2018 Examination.

II. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013

As per the Amendment, under Chapter I, clause (40) of section 2, new exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

B. <u>Not applicable for May, 2018 examination</u>

Non-Applicability of Ind ASs for May, 2018 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2018 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

Preparation of Profit and Loss Statement and Balance Sheet

1. Kapil Ltd. has authorized capital of ₹ 50 lakhs divided into 5,00,000 equity shares of ₹ 10 each. Their books show the following balances as on 31st March, 2017:

	₹		₹
Inventory 1.4.2016	6,65,000	Bank Current Account	20,000
Discounts & Rebates allowed	30,000	Cash in hand	8,000
Carriage Inwards	57,500	Interest (bank overdraft)	1,11,000

Patterns	3,75,000	Calls in Arrear @ ₹ 2 per share	10,000
Rate, Taxes and Insurance	55,000	Equity share capital	20,00,000
Furniture & Fixtures	1,50,000	(2,00,000 shares of ₹ 10 each)	
Purchases	12,32,500	Bank Overdraft	12,67,000
Wages	13,68,000		
Freehold Land	16,25,000	Trade Payables (for goods)	2,40,500
Plant & Machinery	7,50,000	Sales	36,17,000
Engineering Tools	1,50,000	Rent (Cr.)	30,000
Trade Receivables	4,00,500	Transfer fees received	6,500
Advertisement	15,000	Profit & Loss A/c (Cr.)	67,000
Commission & Brokerage	67,500	Repairs to Building	56,500
Business Expenses	56,000	Bad debts	25,500

The inventory (valued at cost or market value, which is lower) as on 31st March, 2017 was ₹ 7,08,000. Outstanding liabilities for wages ₹ 25,000 and business expenses ₹ 36,000. Dividend declared @ 12% on paid-up capital and it was decided to transfer to reserve @ 2.5% of profits.

Charge depreciation on closing written down amount of Plant & Machinery @ 5%, Engineering Tools @ 20%; Patterns @ 10%; and Furniture & Fixtures @10%. Provide 25,000 as doubtful debts after writing off ₹16,000 as bad debts. Provide for income tax @ 30%. Corporate Dividend Tax Rate @ 17.304 (wherein Base Rate is 15%).

You are required to ***prepare Statement of Profit & Loss for the year ended 31st March, 2017 and Balance Sheet as on that date****.*

Preparation of Cash flow statement

2. A company provides you the following information:

   (i) Total sales for the year were ₹ 398 crores out of which cash sales amounted to ₹ 262 crores.

   (ii) Receipts from credit customers during the year, aggregated ₹ 134 crores.

   (iii) Purchases for the year amounted to ₹ 220 crores out of which credit purchase was 80%.

   Balance in creditors as on

1.4.2016	₹ 84 crores
31.3.2017	₹ 92 crores

(iv) Suppliers of other consumables and services were paid ₹ 19 crores in cash.

(v) Employees of the enterprises were paid 20 crores in cash.

(vi) Fully paid preference shares of the face value of ₹ 32 crores were redeemed. Equity shares of the face value of ₹ 20 crores were allotted as fully paid up at premium of 20%.

(vii) Debentures of ₹ 20 crores at a premium of 10% were redeemed. Debenture holders were issued equity shares in lieu of their debentures.

(viii) ₹ 26 crores were paid by way of income tax.

(ix) A new machinery costing ₹ 25 crores was purchased in part exchange of an old machinery. The book value of the old machinery was ₹ 13 crores. Through the negotiations, the vendor agreed to take over the old machinery at a higher value of ₹ 15 crores. The balance was paid in cash to the vendor.

(x) Investment costing ₹ 18 cores were sold at a loss of ₹ 2 crores.

(xi) Dividends amounting ₹ 15 crores (including dividend distribution tax of ₹ 2.7 crores) was also paid.

(xii) Debenture interest amounting ₹ 2 crore was paid.

(xiii) On 31st March 2016, Balance with Bank and Cash on hand was ₹ 2 crores.

On the basis of the above information, you are required to ***prepare a Cash Flow Statement*** *for the year ended 31st March, 2017 (Using direct method).*

Profit or Loss prior to Incorporation

3. The Business carried on by Kamal under the name "K" was taken over as a running business with effect from 1st April, 2016 by Sanjana Ltd., which was incorporated on 1st July, 2016. The same set of books was continued since there was no change in the type of business and the following particulars of profits for the year ended 31st March, 2017 were available.

	₹	₹
Sales: Company period	40,000	
Prior period	10,000	50,000
Selling Expenses	3,500	
Preliminary Expenses written off	1,200	
Salaries	3,600	
Directors' Fees	1,200	
Interest on Capital (Upto 30.6.2016)	700	
Depreciation	2,800	
Rent	4,800	

Purchases	25,000	
Carriage Inwards	1,019	43,819
Net Profit		6,181

The purchase price (including carriage inwards) for the post-incorporation period had increased by 10 percent as compared to pre-incorporation period. No stocks were carried either at the beginning or at the end.

You are required to ***prepare a statement showing the amount of pre and post incorporation period profits*** *stating the basis of allocation of expenses.*

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Manoj Ltd. as at 31st March, 20X1

	₹
Authorized capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	43,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Capital Redemption Reserve	1,20,000
Securities premium (collected in cash)	75,000
Profit and Loss Account	6,00,000

On 1st April, 20X1, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 20X1. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

You are required to ***prepare necessary journal entries*** *in the books of the company and* ***prepare the relevant extract of the balance sheet*** *as on 30th April, 20X1 after bonus issue.*

Right Issue

5. Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200.

You are required to ***calculate*** *the (i)* ***Ex-right value of a share****; (ii)* ***Value of a right share****?*

Redemption of Preference Shares

6. The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 20X1:

   Share capital: 50,000 Equity shares of ₹10 each fully paid – ₹5,00,000; 1,500 10% Redeemable preference shares of ₹100 each fully paid – ₹ 1,50,000.

   Reserve & Surplus: Capital reserve – ₹1,00,000; General reserve –₹ 1,00,000; Profit and Loss Account – ₹75,000.

   On 1st January 20X2, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

   You are required to ***prepare necessary Journal Entries*** *including cash transactions in the books of the company.*

Redemption of Debentures

7. On 1st January, 2006 Raman Ltd. allotted 20,000 9% Debentures of ₹100 each at par, the total amount having been received along with applications.

   (i) On 1st January, 2008 the Company purchased in the open market 2,000 of its own debentures @ ₹ 101 each and cancelled them immediately.

   (ii) On 1st January, 2011 the company redeemed at par debentures for ₹6,00,000 by draw of a lot.

   (iii) On 1st January, 2012 the company purchased debentures of the face value of ₹4,00,000 for 3,95,600 in the open market, held them as investments for one year and then cancelled them.

   (iv) Finally, as per resolution of the board of directors, the remaining debentures were redeemed at a premium of 2% on 1st January, 2016.

   You are required to ***prepare required journal entries*** *for the above-mentioned transactions ignoring debenture redemption reserve, debenture interest and interest on own debentures.*

Investment Accounts

8. Alpha Ltd. purchased 5,000, 13.5% Debentures of Face Value of ₹ 100 each of Pergot Ltd. on 1st May 2017 @ ₹ 105 on cum interest basis. The interest on these instruments is payable on 31st & 30th of March & September respectively. On August 1st 2017 the company again purchased 2,500 of such debentures @ ₹ 102.50 each on cum interest basis. On October 1st, 2017 the company sold 2,000 Debentures @ ₹ 103 each on ex-interest basis. The market value of the debentures as at the close of the year was ₹ 106. *You are required to* ***prepare the Investment in Debentures Account*** *in the books of Alpha Ltd. for the year ended 31st Dec. 2017 on Average Cost Basis.*

Insurance Claim for loss of stock

9. The premises of Anmol Ltd. caught fire on 22nd January 2017, and the stock was damaged. The firm makes account up to 31st March each year. On 31st March, 2016 the stock at cost was ₹ 6,63,600 as against ₹ 4,81,100 on 31st March, 2015.

   Purchases from 1st April, 2016 to the date of fire were ₹ 17,41,350 as against ₹ 22,62,500 for the full year 2015-16 and the corresponding sales figures were ₹ 24,58,500 and ₹ 26,00,000 respectively. You are given the following further information:

   (i) In July, 2016, goods costing ₹ 50,000 were given away for advertising purposes, no entries being made in the books.

   (ii) During 2016-17, a clerk had misappropriated unrecorded cash sales. It is estimated that the defalcation averaged ₹ 1,000 per week from 1st April, 2016 until the clerk was dismissed on 18th August, 2016.

   (iii) The rate of gross profit is constant.

   *You are required to **calculate** the value of stock in hand on the date of fire with the help of above information.*

Hire Purchase Transactions

10. Srikumar bought 2 cars from 'Fair Value Motors Pvt. Ltd. on 1.4.2014 on the following terms (for both cars):

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

   Interest is charged at 10% p.a.

   Srikumar provides depreciation @ 25% on the diminishing balances.

   On 31.3.2017 Srikumar failed to pay the 3rd installment upon which 'Fair Value Motors Pvt. Ltd.' repossessed 1 car. Srikumar agreed to leave one car with Fair Value Motors Pvt. Ltd. and adjusted the value of the car against the amount due. The car taken over was valued on the basis of 40% depreciation annually on written down basis. The balance amount remaining in the vendor's account after the above adjustment was paid by Srikumar after 3 months with interest @ 20% p.a.

   You are required to:

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

   (ii) ***Prepare Cars Account in the books of Srikumar*** *assuming books are closed on March 31, every year.*

   Figures may be rounded off to the nearest rupee.

Departmental Accounts

11. Following is the Trial Balance of Mr. Mohan as on 31.03.2017:

	Particulars	*Debit (₹)*	*Credit (₹)*
Capital Account			40,000
Drawing Account		1,500	
Opening Stock	Department A	8,500	
	Department B	5,700	
	Department C	1,200	
Purchases	Department A	22,000	
	Department B	17,000	
	Department C	8,000	
Sales	Department A		54,000
	Department B		33,000
	Department C		21,000
Sales Returns	Department A	4,000	
	Department B	3,000	
	Department C	1,000	
Freight and Carriage	Department A	1,400	
	Department B	800	
	Department C	200	
Furniture and fixtures		4,600	
Plant and Machinery		20,000	
Motor Vehicles		40,000	
Sundry Debtors		12,200	
Sundry Creditors			15,000
Salaries		4,500	
Power and water		1,200	
Telephone charges		2,100	
Bad Debts		750	
Rent and taxes		6,000	
Insurance		1,500	
Wages	Department A	800	
	Department B	550	

	Department C	150	
Printing and Stationeries		2,000	
Advertising		3,500	
Bank Overdraft			12,000
Cash in hand		850	
		1,75,000	1,75,000

*You are required to **prepare** Department Trading, Profit and Loss Account and the Balance Sheet taking into account the following adjustments*:

(a) Outstanding Wages: Department B- ₹ 150, Department C – ₹ 50.

(b) Depreciate Plant and Machinery and Motor Vehicles at the rate of 10%.

(c) Each Department shall share all expenses in proportion to their sales.

(d) Closing Stock: Department A - ₹ 3,500, Department B - ₹ 2,000, Department C - ₹ 1,500.

Branch Accounting

12. Alpha Ltd. has a retail shop under the supervision of a manager. The ratio of gross profit at selling price is constant at 25 per cent throughout the year to 31st March, 2017.

Branch manager is entitled to a commission of 10 per cent of the profit earned by his branch, calculated before charging his commission but subject to a deduction from such commission equal in 25 per cent of any ascertained deficiency of branch stock. All goods were supplied to the branch in head office.

The following details for the year ended 31st March, 2017 are given as follows:

	₹		₹
Opening Stock (at cost)	74,736	Chargeable expenses	49,120
Goods sent to branch (at cost)	2,89,680	Closing Stock (Selling Price)	1,23,328
Sales	3,61,280		
Manager's commission paid on account	2,400		

*From the above details, you are required to **calculate the commission due to manager** for the year ended 31st March, 2017.*

Accounts from Incomplete Records

13. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2016:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000

Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Creditors' Velocity* 1.5 month & Debtors' Velocity* 2 months.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Cost price will go up 15% as compared to last year and also sales in the current year will increase by 25% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year. All expenditures are paid off in cash.

(vii) Closing stock is to be valued on LIFO Basis.

(viii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to ***prepare Trading, Profit and Loss Account, Trade Debtors Account and Trade Creditors Account*** *for the year ending 31.03.2017.*

Conversion of Partnership Firm into a Company

14. (a) Aman, Baal and Chand share profits and losses of a business as to 3:2:1 respectively. Their balance sheet as at 31st March, 2017 was as follows:

Liabilities	₹	Assets	₹
Capital Accounts:		Goodwill	10,000
Aman	70,000	Land	20,000
Baal	80,000	Buildings	1,10,000
Chand	10,000	Machinery	50,000
General Reserve	18,000	Motor Car	28,000
Investment Fluctuation Fund	4,000	Furniture	12,000

* Velocity indicates the no. of times the creditors and debtors are turned over a year.

Chand's Loan	33,000	Investments		18,000
Mrs. Aman's loan	15,000	Loose tools		7,000
Creditors	96,000	Stock		18,000
Bills Payable	14,000	Bills receivable		20,000
Bank overdraft	60,000	Debtors:	40,000	
		Less: Provision	2,000	38,000
		Cash		1,000
		Chand's current A/c		56,000
		Profit and Loss A/c		12,000
	4,00,000			4,00,000

The partners decide to convert their firm into a Joint Stock Company. For this purpose ABC Ltd. was formed with an authorized capital of ₹ 10,00,000 divided into ₹ 100 equity Shares. The business of the firm was sold to the company as at the date of balance sheet given above on the following terms:

(i) Motor car, furniture, investments, loose tools, debtors and cash are not to be taken over by the company.

(ii) Liabilities for bills payable and bank overdraft are to be taken over by the company.

(iii) The purchase price is settled at ₹ 1,95,500 payable as to ₹ 75,500 in cash and the balance in company's fully paid shares of ₹ 100 each.

(iv) The remaining assets and liabilities of the firm are directly disposed of by the firm as per details given below:

Investments are taken over by Aman for ₹ 13,000; debtors realize in all ₹ 20,000; Motor Car, furniture and loose tools fetch ₹ 24,000, ₹ 4,000, and ₹ 1,000 respectively. Aman agrees to pay his wife's loan. The creditors were paid ₹ 94,000 in final settlement of their claims. The realization expenses amount to ₹ 500.

(v) The equity share received from the vendor company are to be divided among the partners in profit-sharing ratio.

You are required to ***prepare the necessary ledger accounts*** *in the books of the partnership firm.*

Limited Liability Partnership

(b) ***Explain*** *the Limitations of Liability of Limited Liability Partnership (LLP) and its partners.*

Framework for Preparation and Presentation of Financial statements

15. **Explain** *main elements of Financial Statements*.

Accounting Standards

AS 2 Valuation of Inventories

16. (a) A private limited company manufacturing fancy terry towels had valued its closing inventory of inventories of finished goods at the realizable value, inclusive of profit and the export cash incentives. Firm contracts had been received and goods were packed for export, but the ownership in these goods had not been transferred to the foreign buyers.

You are required to ***advise*** *the company on the valuation of the inventories in line with the provisions of AS 2.*

AS 4 Contingencies and Events Occurring after the Balance Sheet Date

(b) With reference to AS 4 "Contingencies and events occurring after the balance sheet date*",* ***identify*** *whether the following events will be treated as contingencies, adjusting events or non-adjusting events occurring after balance sheet date* in case of a company which follows April to March as its financial year.

(i) A major fire has damaged the assets in a factory on 5th April, 5 days after the year end. However, the assets are fully insured and the books have not been approved by the Directors.

(ii) A suit against the company's advertisement was filed by a party on 10th April, 10 days after the year end claiming damages of ₹ 20 lakhs.

AS 5 Net profit or Loss for the period, Prior Period Items and Changes in Accounting Policies

17. (a) Bela Ltd. has a vacant land measuring 20,000 sq. mts, which it had no intention to use in the future. The Company decided to sell the land to tide over its liquidity problems and made a profit of ₹10 Lakhs by selling the said land. Moreover, there was a fire in the factory and a part of the unused factory shed valued at ₹ 8 Lakhs was destroyed. The loss from fire was set off against the profit from sale of land and profit of ₹ 2 lakhs was disclosed as net profit from sale of assets.

You are required to ***examine*** *the treatment and disclosure done by the company and advise the company in line with AS 5.*

Depreciation Accounting as per AS 10 Property, Plant and Equipment

(b) In the year 2016-17, an entity has acquired a new freehold building with a useful life of 50 years for ₹ 90,00,000. The entity desires to calculate the depreciation charge per annum using a straight-line method. It has identified the following components (with no residual value of lifts & fixtures at the end of their useful life) as follows:

Component	Useful life (Years)	Cost
Land	Infinite	₹ 20,00,000

Roof	25	₹ 10,00,000
Lifts	20	₹ 5,00,000
Fixtures	10	₹ 5,00,000
Remainder of building	50	₹ 50,00,000
		₹ 90,00,000

You are required to ***calculate depreciation*** *for the year 2016-17 as per componentization method.*

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Power Track Ltd. purchased a plant for US$ 50,000 on 31st October, 2016 payable after 6 months. The company entered into a forward contract for 6 months @₹ 64.25 per Dollar. On 31st October, 2016, the exchange rate was ₹ 61.50 per Dollar.

You are required to ***calculate the amount of the profit or loss on forward contract*** *to be recognized in the books of the company for the year ended 31st March, 2017.*

AS 12 Government Grants

(b) D Ltd. acquired a machine on 01-04-2012 for ₹ 20,00,000. The useful life is 5 years. The company had applied on 01-04-2012, for a subsidy to the tune of 80% of the cost. The sanction letter for subsidy was received in November 2015. The Company's Fixed Assets Account for the financial year 2015-16 shows a credit balance as under:

Particulars	₹
Machine (Original Cost)	20,00,000
Less: Accumulated Depreciation (from 2012-13- to 2014-15 on Straight Line Method)	12,00,000
	8,00,000
Less: Grant received	(16,00,000)
Balance	(8,00,000)

You are required to ***explain*** *how should the company deal with this asset in its accounts for 2015-16?*

AS 13 Accounting for Investments

19. (a) Paridhi Electronics Ltd. invested in the shares of another unlisted company on 1st May 2012 at a cost of ₹ 3,00,000 with the intention of holding more than a year. The published accounts of unlisted company received in January, 2017 reveals that the company has incurred cash losses with decline in market share and investment of Paridhi Electronics Ltd. may not fetch more than ₹ 45,000.

You are required to ***explain*** *how you will deal with the above in the financial statements of the Paridhi Electronics Ltd. as on 31.3.17 with reference to AS 13?*

AS 16 Borrowing costs

(b) In May, 2016, Capacity Ltd. took a bank loan to be used specifically for the construction of a new factory building. The construction was completed in January, 2017 and the building was put to its use immediately thereafter. Interest on the actual amount used for construction of the building till its completion was ₹ 18 lakhs, whereas the total interest payable to the bank on the loan for the period till 31st March, 2017 amounted to ₹ 25 lakhs.

Can ₹ 25 lakhs be treated as part of the cost of factory building and thus be capitalized on the plea that the loan was specifically taken for the construction of factory building? ***Explain*** *the treatment in line with the provisions of AS 16*.

AS 17 Segment Reporting

20 (a) A Company has an inter-segment transfer pricing policy of charging at cost less 5%. The market prices are generally 20% above cost.

You are required to ***examine*** *whether the policy adopted by the company is correct or not?*

AS 22 Accounting for Taxes on Income

(b) Rama Ltd., has provided the following information:

	₹
Depreciation as per accounting records	= 2,00,000
Depreciation as per income tax records	= 5,00,000
Unamortized preliminary expenses as per tax record	= 30,000

There is adequate evidence of future profit sufficiency.

You are required to ***calculate*** *the amount of deferred tax asset/liability to be recognized as transition adjustment assuming Tax rate as 50%.*

ANSWERS

1. **Kapil Ltd.**

Balance Sheet
as at 31st March, 2017

		Particulars	Note No.	(₹)
I	**Equity and Liabilities**			
	(1)	**Shareholders' Funds**		
		(a) Share Capital	1	19,90,000

		(b) Reserves and Surplus	2	59,586
	(2)	**Current Liabilities**		
		(a) Trade Payables		2,40,500
		(b) Other Current Liabilities	3	13,28,000
		(c) Short-Term Provisions	4	4,07,414
		Total		40,25,500
II	**ASSETS**			
	(1)	**Non-Current Assets**		
		(a) Fixed Assets		
		(i) Tangible Assets	5	29,30,000
	(2)	**Current Assets**		
		(a) Inventories		7,08,000
		(b) Trade Receivables	6	3,59,500
		(c) Cash and Cash Equivalents	7	28,000
		Total		40,25,500

Kapil Ltd.

Statement of Profit and Loss for the year ended 31st March, 2017

	Particulars	Note No.	(₹)
I	Revenue from Operations		36,17,000
II	Other Income	8	36,500
III	**Total Revenue [I + II]**		**36,53,500**
IV	Expenses:		
	Cost of purchases		12,32,500
	Changes in Inventories [6,65,000-7,08,000]		(43,000)
	Employee Benefits Expenses	9	13,93,000
	Finance Costs	10	1,11,000
	Depreciation and Amortization Expenses		1,20,000
	Other Expenses	11	4,40,000
	Total Expenses		**32,53,500**
V	**Profit before Tax (III-IV)**		4,00,000
VI	**Tax Expenses @ 30%**		(1,20,000)
VII	**Profit for the period**		2,80,000

Notes to Accounts:

1. Share Capital

Authorized Capital	
5,00,000 Equity Shares of ₹ 10 each	50,00,000
Issued Capital	
2,00,000 Equity Shares of ₹ 10 each	20,00,000
Subscribed Capital and fully paid	
1,95,000 Equity Shares of ₹10 each	19,50,000
Subscribed Capital but not fully paid	
5,000 Equity Shares of ₹10 each ₹ 8 paid	40,000
(Call unpaid ₹10,000)	19,90,000

2. Reserves and Surplus

General Reserve		7,000
Surplus i.e. Balance in Statement of Profit & Loss:		
Opening Balance	67,000	
Add: Profit for the period	2,80,000	
Less: Transfer to Reserve @ 2.5%	(7,000)	
Less: Equity Dividend [12% of (20,00,000-10,000)]	(2,38,800)	
Less: Corporate Dividend Tax (Working note)	(48,614)	52,586
		59,586

3. Other Current Liabilities

Bank Overdraft	12,67,000
Outstanding Expenses [25,000+36,000]	61,000
	13,28,000

4. Short-term Provisions

Provision for Tax	1,20,000
Equity Dividend payable	2,38,800
Corporate Dividend Tax	48,614
	4,07,414

5. Tangible Assets

Particulars	Value given (₹)	Depreciation rate	Depreciation Charged (₹)	Written down value at the end (₹)
Land	16,25,000		-	16,25,000
Plant & Machinery	7,50,000	5%	37,500	7,12,500
Furniture & Fixtures	1,50,000	10%	15,000	1,35,000
Patterns	3,75,000	10%	37,500	3,37,500
Engineering Tools	1,50,000	20%	30,000	1,20,000
	30,50,000		1,20,000	29,30,000

6. Trade Receivables

Trade receivables (4,00,500-16,000)	3,84,500
Less: Provision for doubtful debts	(25,000)
	3,59,500

7. Cash & Cash Equivalent

Cash Balance	8,000
Bank Balance in current A/c	20,000
	28,000

8. Other Income

Miscellaneous Income (Transfer fees)	6,500
Rental Income	30,000
	36,500

9. Employee benefits expenses

Wages	13,68,000
Add: Outstanding wages	25,000
	13,93,000

10. Finance Cost

Interest on Bank overdraft	1,11,000

11. Other Expenses

Carriage Inward	57,500
Discount & Rebates	30,000
Advertisement	15,000

Rate, Taxes and Insurance	55,000
Repairs to Buildings	56,500
Commission & Brokerage	67,500
Miscellaneous Expenses [56,000+36,000] (Business Expenses)	92,000
Bad Debts [25,500+16,000]	41,500
Provision for Doubtful Debts	25,000
	4,40,000

Working Note

Calculation of grossing-up of dividend:

Particulars	₹
Dividend distributed by Company	2,38,800
Add: Increase for the purpose of grossing up of dividend 2,38,800 x [15/(100-15)]	42,141
Gross dividend	2,80,941
Dividend distribution tax @ 17.304%	48,614

2. Cash flow statement (using direct method) for the year ended 31st March, 2017

	(₹ in crores)	*(₹ in crores)*
Cash flow from operating activities		
Cash sales	262	
Cash collected from credit customers	134	
Less: Cash paid to suppliers for goods & services and to employees (Refer Working Note)	(251)	
Cash from operations	145	
Less: Income tax paid	(26)	
Net cash generated from operating activities		119
Cash flow from investing activities		
Net Payment for purchase of Machine (25 – 15)	(10)	
Proceeds from sale of investments	16	
Net cash used in investing activities		6
Cash flow from financing activities		
Redemption of Preference shares	(32)	
Proceeds from issue of Equity shares	24	
Debenture interest paid	(2)	
Dividend Paid	(15)	

Net cash used in financing activities		(25)
Net increase in cash and cash equivalents		100
Add: Cash and cash equivalents as on 1.04.2016		2
Cash and cash equivalents as on 31.3.2017		102

Working Note:

Calculation of cash paid to suppliers of goods and services and to employees

	(₹ in crores)
Opening Balance in creditors Account	84
Add: Purchases (220x .8)	176
Total	260
Less: Closing balance in Creditors Account	92
Cash paid to suppliers of goods	168
Add: Cash purchases (220x .2)	44
Total cash paid for purchases to suppliers (a)	212
Add: Cash paid to suppliers of other consumables and services (b)	19
Add: Payment to employees (c)	20
Total cash paid to suppliers of goods & services and to employees [(a)+ (b) + (c)]	251

3. **Statement showing the calculation of profits/losses for pre incorporation and Post incorporation period profits of Sanjana Ltd.**

for the year ended 31st March, 2017

Particulars	Basis	Pre	Post
		₹	₹
Sales (given)		10,000	40,000
Less: Purchases	1:3.3	5,814	19,186
Carriage Inwards	1:3.3	237	782
Gross Profit (i)		3,949	20,032
Less: Selling Expenses	1:4	700	2,800
Preliminary Expenses			1,200
Salaries	1:3	900	2,700
Director Fees			1,200
Interest on capital		700	

Depreciation	1:3	700	2,100
Rent	1:3	1,200	3,600
Total of Expenses(ii)		4,200	13,600
Capital Loss/Net Profit (i-ii)		(251)	6,432

Working Notes:

1: Sales Ratio = 10,000 : 40,000 = 1 :4

2: Time Ratio = 3:9 = 1:3

3: Purchase Price Ratio

∴ Ratio is 3 : 9

But purchase price was 10% higher in the company period

∴ Ratio is 3 : 9 + 10%

3:9.9 = 1:3.3.

4. Journal Entries in the books of Manoj Ltd.

			₹	₹
1-4-20X1	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-20X1	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	75,000	
	Capital redemption reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c (b.f.)	Dr.	1,20,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 20X1 (after bonus issue)

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹ 10 each, fully paid	33,75,000
(Out of the above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	4,80,000

5. Ex-right value of the shares

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares)

= (₹ 200 X 5 Shares + ₹ 125 X 1 Share) / (5 + 1) Shares

= ₹ 1,125 / 6 shares = ₹ 187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 200 – ₹ 187.50 = ₹ 12.50 per share.

6. In the books of ABC Limited

Journal Entries

Date 20X2	***Particulars***		***Dr. (₹)***	***Cr. (₹)***
Jan 1	10% Redeemable Preference Share Capital A/c	Dr.	1,50,000	
	Premium on Redemption of Preference Shares		15,000	
	To Preference Shareholders A/c			1,65,000
	(Being the amount payable on redemption transferred to Preference Shareholders Account)			
	Preference Shareholders A/c	Dr.	1,65,000	
	To Bank A/c			1,65,000

	(Being the amount paid on redemption of preference shares)			
	General Reserve A/c	Dr.	1,00,000	
	Profit & Loss A/c	Dr.	50,000	
	To Capital Redemption Reserve A/c			1,50,000
	(Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)			
	Profit & Loss A/c	Dr.	15,000	
	To Premium on Redemption of Preference Shares A/c			15,000
	(Being premium on redemption charged to Profit and Loss A/c)			

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

7. Journal Entries

		(₹) Dr.	(₹) Cr.
2006 Jan 1	Bank Dr.	20,00,000	
	To 9% Debenture Applications& Allotment Account		20,00,000
	(Being application money on 20,000 debentures @ ₹ 100 per debenture received)		
	9% Debentures Applications & Allotment Account Dr.	20,00,000	
	To 9% Debentures Account		20,00,000
	(Being allotment of 20,000 9% Debentures of ₹100 each at par)		
(i)	9% Debenture Account Dr.	2,00,000	
2008 Jan. 1	Loss on Redemption of Debentures Account Dr.	2,000	
	To Bank		2,02,000
	(Being redemption of 2,000 9% Debentures of ₹100 each by purchase in the open market @ ₹101 each)		
” ”	Profit & Loss Account Dr.	2,000	
	To Loss on Redemption of Debentures Account		2,000
	(Being loss on redemption of debentures being written off by transfer to Profit and Loss Account)		
(ii)	9% Debentures Account Dr.	6,00,000	
2011Jan. 1	To Sundry Debenture holders		6,00,000
	(Being Amount payable to debenture holders on redemption debentures for ₹6,00,000 at par by draw of a lot)		

” ”	Sundry Debenture holders Dr. To Bank (Being Payment made to sundry debenture holders for redeeming debentures of ₹6,00,000 at par)	6,00,000	6,00,000
(iii) 2012 Jan. 1	Own Debentures Dr. To Bank (Being purchase of own debentures of the face value of ₹4,00,000 for ₹3,95,600)	3,95,600	3,95,600
2013 ”	9% Debentures Dr. To Own Debentures To Profit on Cancellation of Own Debentures Account (Being Cancellation of own debentures of the face value of ₹4,00,000 purchased last year for ₹3,95,600)	4,00,000	3,95,600 4,400
” ”	Profit on Cancellation of Own Debentures Account Dr. To Capital Reserve Account (Being transfer of profit on cancellation of own debentures to capital reserve)	4,400	4,400
(iv) 2016Jan. 1	9% Debentures Account Dr. Premium on Redemption of Debentures Account Dr. To Sundry Debenture holders (Being amount payable to holders of debentures of the face value of ₹ 8,00,000 on redemption at a premium of 2% as per resolution of the board of directors)	8,00,000 16,000	8,16,000
” ”	Sundry Debenture holders Dr. To Bank Account (Being payment to sundry debenture holders)	8,16,000	8,16,000
” ”	Profit & Loss Account Dr. To Premium on Redemption of Debentures Account (Being utilization of a part of the balance in Securities Premium Account to write off premium paid on redemption of debentures)	16,000	16,000

8. **Books of Alpha Ltd.**

Investment in 13.5% Debentures in Pergot Ltd. Account

(Interest payable on 31st March & 30th September)

Date	Particulars	Nominal	Interest	Amount	Date	Particulars	Nominal	Interest	Amount
2017		₹	₹	₹	2017		₹	₹	₹
May 1	To Bank	5,00,000	5,625	5,19,375	Sept.30	By Bank		50,625	

						(6 months Int)			
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 Balance c/d	5,50,000	18,563	5,60,542
		7,50,000	69,188	7,66,542			7,50,000	69,188	7,66,542

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

Working Notes:

1. Interest paid on ₹ 5,00,000 purchased on May 1st, 2017 for the month of April 2017, as part of purchase price: 5,00,000 x 13.5% x 1/12 = ₹ 5,625
2. Interest received on 30th Sept. 2017

   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 2017 for April 2017 to July 2017 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 (2,000 x 103) = 2,06,000

   Profit on sale = ₹ 2,167
5. Cost of Balance Debentures

   (₹ 5,19,375 + ₹ 2,45,000) x ₹ 5,50,000/₹ 7,50,000 = ₹ 5,60,542
6. Interest on Closing Debentures for period Oct.-Dec. 2017 carried forward (accrued interest)

   ₹ 5,50,000 x 13.5% x 3/12 = ₹ 18,563

9. Ascertainment of rate of gross profit for the year 2015-16

Trading A/c for the year ended 31-3-2016

	₹		₹
To Opening stock	4,81,100	By Sales	26,00,000
To Purchases	22,62,500	By Closing stock	6,63,600

To Gross profit	5,20,000		
	32,63,600		32,63,600

Rate of gross profit = $\frac{GP}{Sales} \times 100$

$= \frac{5,20,000}{26,00,000} \times 100 = 20\%$

Memorandum Trading A/c for the period from 1-4-2016 to 22-01-2017

	₹	₹		₹	₹
To Opening stock		6,63,600	By Sales	24,58,500	
To Purchases	17,41,350		*Add*: Unrecorded cash sales (W.N.)	20,000	24,78,500
Less: Goods used for advertisement	(50,000)	16,91,350	By Closing stock		3,72,150
To Gross profit (20% of ₹ 24,78,500)		4,95,700			
		28,50,650			28,50,650

Estimated stock in hand on the date of fire was ₹ 3,72,150.

Working Note:

Cash sales defalcated by the Accountant:

Defalcation period = 1.4.2016 to 18.8.2016= 140 days

Since, 140 days / 7 weeks = 20 weeks

Therefore, amount of defalcation = 20 weeks × ₹ 1,000 = ₹ 20,000.

10. (i) Calculation of Interest and Cash Price

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

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

(ii) **In the books of Srikumar**
Cars Account

Date	Particulars	₹	Date	Particulars	₹
1.4.2014	To Fair Value Motors A/c	18,00,000	31.3.2015	By Depreciation A/c	4,50,000
				By Balance c/d	13,50,000
		18,00,000			18,00,000
1.4.2015	To Balance b/d	13,50,000	31.3.2016	By Depreciation A/c	3,37,500
				By Balance c/d	10,12,500
		13,50,000			13,50,000
1.4.2016	To Balance b/d	10,12,500	31.3.2017	By Depreciation A/c	2,53,125
				By Fair Value Motors A/c (Value of 1 Car taken over after depreciation for 3 years @ 40% p.a.) [9,00,000 - (3,60,000 + 2,16,000 + 1,29,600)]	1,94,400
				By Loss transferred to Profit and Loss A/c on surrender (Bal. fig.)	1,85,288
				By Balance c/d ½ (10,12,500-2,53,125)	3,79,687
		10,12,500			10,12,500

11. **Trading and Profit and Loss Account**
for the year ended on 31st Match, 2017

Particulars	*A (₹)*	*B (₹)*	*C (₹)*	*Particulars*	*A (₹)*	*B (₹)*	*C (₹)*
To Opening Stock	8,500	5,700	1,200	By Sales less Sales returns	50,000	30,000	20,000
To Purchases	22,000	17,000	8,000	By Closing Stock	3,500	2,000	1,500
To Freight & carriage	1,400	800	200				
To Wages	800	700	200				
To Gross profit	20,800	7,800	11,900				
	53,500	32,000	21,500		53,500	32,000	21,500
To Salaries	2,250	1,350	900	By Gross Profit	20,800	7,800	11,900
To Power & Water	600	360	240	By Net Loss	-	465	-

To Telephone Charges	1,050	630	420				
To Bad Debts	375	225	150				
To Rent & Taxes	3,000	1,800	1,200				
To Insurance	750	450	300				
To Printing & Stationery	1,000	600	400				
To Advertising	1,750	1,050	700				
To Depreciation (2,000 +4,000)	3,000	1,800	1,200				
To Net Profit	7,025		6,390				
	20,800	8,265	11,900		20,800	8,265	11,900

Balance Sheet as at 31.03.2017

Liabilities	₹		*Assets*	₹	
Capital A/c	40,000		Furniture & Fixtures		4,600
Add: Net Profit (₹ 7,025 + ₹ 6,390)	13,415		Plant & Machinery	20,000	
	53,415		*Less:* Depreciation	2,000	18,000
Less: Net loss in Dept B	465		Motor Vehicles	40,000	
	52,950		*Less:* Depreciation	4,000	36,000
Less: Drawings	1,500	51,450	Sundry Debtors		12,200
Sundry Creditors		15,000	Cash in hand		850
Bank Overdraft		12,000	Closing Stock		7,000
Wages Outstanding		200			
		78,650			78,650

Note: All expenses have been allocated among departments in proportion of their sales in the solution as per the specific requirement of the question.

12. Step 1: Calculation of Deficiency

Branch stock account (at invoice price)

Particulars	₹	*Particulars*	₹
To Opening Stock (₹ 74,736 + 1/3 of ₹ 74,736)	99,648	By Sales	3,61,280
To Goods sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328

		By Deficiency at sale price [Balancing figure]	1,280
	4,85,888		4,85,888

Step 2: Calculation of Net Profit before Commission

Branch account

Particulars	₹	*Particulars*	₹
To Opening [₹74,736 + 1/3 of ₹ 74,736]	99,648	By Sales	3,61,280
To Gross sent to Branch A/c (₹ 2,89,680 + 1/3 of ₹ 2,89,680)	3,86,240	By Closing Stock	1,23,328
To Expenses	49,120	By Stock Reserve A/c	24,912
To Stock Reserve A/c (₹ 1,23,328 x 25/100]	30,832	By goods sent to Branch A/c	96,560
To Net Profit – subject to manager's commission	40,240		
	6,06,080		6,06,080

Step 3: **Calculation of Commission still due to manager**

		₹
A	Calculation at 10% profit before charging his commission [₹ 40,240 x 10/100]	4,024
B	*Less:* 25% of cost of deficiency in stock (25% of (75% of ₹ 1,280)	(240)
C	Commission for the year [A-B]	3,784
D	*Less:* Paid on account	(2,400)
E	Balance due (C-D)	1,384

13. Trading and Profit and Loss account

for the year ending 31st March, 2017

Particulars	₹	*Particulars*	₹
To Opening Stock	40,000	By Sales	4,31,250
To Purchases (Working Note)	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	86,250		
	4,71,250		4,71,250
To Business Expenses	50,000	By Gross Profit b/d	86,250

To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Trade Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	50,000	By Bank (bal.fig.)	4,09,375
To Sales	4,31,250	By Balance c/d (1/6 of 4,31,250)	71,875
	4,81,250		4,81,250

Trade Creditors Account

Particulars	₹	Particulars	₹
To Bank (Balancing figure)	3,31,875	By Balancing b/d	30,000
To Balance c/d/ (1/8 of ₹ 3,45,000)	43,125	By Purchases	3,45,000
	3,75,000		3,75,000

Working Note:

		₹
(i)	*Calculation of Rate of Gross Profit earned during previous year*	
A	Sales during previous year (₹ 50,000 x 12/2)	3,00,000
B	Purchases (₹ 30,000 x 12/1.5)	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000} \times 100$	20%
(ii)	*Calculation of sales and Purchases during current year*	₹
A	Cost of goods sold during previous year	2,40,000
B	*Add:* Increases in volume @ 25 %	60,000
		3,00,000
C	*Add:* Increase in cost @ 15%	45,000
D	Cost of Goods Sold during Current Year	3,45,000
E	*Add:* Gross profit @ 25% on cost (20% on sales)	86,250
F	Sales for current year [D+E]	4,31,250

14. (a) Necessary Ledger Accounts in the books of Partnership Firm

Realization Account

Particulars	₹	₹	Particulars	₹	₹
To Goodwill		10,000	By provision to doubtful Debts		2,000
To land		20,000	By Trade creditors		96,000
To Buildings		1,10,000	By Bills Payable		14,000
To Machinery		50,000	By Bank overdraft		60,000
To Motor Car		28,000	By Mrs. Aman's loan		15,000
To Furniture		12,000	By ABC Ltd. (Purchase price)		1,95,500
To Investments		18,000	By Aman's Capital A/c (Investments taken over)		13,000
To Loose tools		7,000	By Cash A/c:		
To Stock		18,000	Debtors	20,000	
To Bill receivable		20,000	Motor Car	24,000	
To Debtors		40,000	Furniture	4,000	
To Aman's Capital A/c (Mrs. Aman's Loan)		15,000	Loose tools	1,000	49,000
To Cash A/c:					
Creditors	94,000				
Realization expenses	500	94,500			
To Profit on Realization t/f to:					
Aman's Capital A/c	1,000				
Baal's Capital A/c	667				
Chand's Capital A/c	333	2,000			
		4,44,500			4,44,500

ABC Ltd. Account

Particulars	₹	Particulars	₹
To Realization A/c	1,95,500	By Cash A/c	75,500
		By Shares in ABC Ltd.	1,20,000
	1,95,500		1,95,500

Partners' Capital Accounts

Particulars	*Aman ₹*	*Baal ₹*	*Chand ₹*	*Particulars*	*Aman ₹*	*Baal ₹*	*Chand ₹*
To Profit and Loss A/c	6,000	4,000	2,000	By Balance b/d	70,000	80,000	10,000

To Realization A/c	13,000	-	-	By Chand's Loan A/c	-	-	33,000
To Chand's Current A/c	-	-	56,000	By General reserve	9,000	6,000	3,000
To shares in ABC Ltd.	60,000	40,000	20,000	By Investment Fluctuation Fund*	2,000	1,333	667
To Cash A/c	18,000	44,000	-	By Realization A/c	1,000	667	333
				By Realization A/c (Mrs. Aman's loan A/c)	15,000	-	-
				By Cash A/c	-		31,000
	97,000	88,000	78,000		97,000	88,000	78,000

**Alternatively, Investment Fluctuation Fund Account may be transferred to Realization Account.*

Chand's Current Account

Particulars	₹	Particulars	₹
To Balance b/d	56,000	By Chand's Capital A/c-transfer	56,000
	56,000		56,000

Shares in ABC Ltd. Account

Particulars	₹	Particulars	₹
To ABC Ltd. Account	1,20,000	By Aman's Capital A/c	60,000
		By Baal's Capital A/c	40,000
		By Chand's Capital A/c	20,000
	1,20,000		1,20,000

Cash Account

Particulars	₹	Particulars	₹
To Balance b/d	1,000	By Realization A/c (Liabilities and expenses)	94,500
To ABC Ltd.	75,500	By Aman's Capital A/c	18,000
To Realization A/c (sale of assets)	49,000	By Baal's Capital A/c	44,000
To Chand's Capital A/c	31,000		-
	1,56,500		1,56,500

(b) Under section 27 (3) of the LLP Act, 2008 an obligation of an LLP arising out of a contract or otherwise, shall be solely the obligation of the LLP. The limitations of liability of an LLP and its partners are as follows:

- The Liabilities of an LLP shall be met out of the properties of the LLP;
- A partner is not personally liable, directly or indirectly (for an obligation of an LLP arising out of a contract or otherwise), solely by reason of being a partner in the LLP;
- An LLP is not bound by anything done by a partner in dealing with a person, if:
  - The partner does not have the authority to act on behalf of the LLP in doing a particular act; and
  - The other person knows that the partner has no authority or does not know or believe him to be a partner in the LLP
- The liability of the LLP and the partners perpetrating fraudulent dealings shall be unlimited for all or any of the debts or other liabilities of the LLP.

15. Elements of Financial Statements

The Framework for preparation and Presentation of financial statements classifies items of financial statements can be classified in five broad groups depending on their economic characteristics: Asset, Liability, Equity, Income/Gain and Expense/Loss.

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities.
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in equity other than those relating to distributions to equity participants.

16 (a) Accounting Standard 2 "Valuation of Inventories" states that inventories should be valued at lower of historical cost and net realizable value. The standard states, "at certain stages in specific industries, such as when agricultural crops have been harvested or mineral ores have been extracted, performance may be substantially complete prior to the execution of the transaction generating revenue. In such cases, when sale is assured under forward contract or a government guarantee or when market exists and there is a negligible risk of failure to sell, the goods are often valued at net realizable value at certain stages of production."

Terry Towels do not fall in the category of agricultural crops or mineral ores. Accordingly, taking into account the facts stated, the closing inventory of finished goods (Fancy terry towel) should have been valued at lower of cost and net realizable value and not at net realizable value. Further, export incentives are recorded only in the year the export sale takes place. Therefore, the policy adopted by the company for valuing its closing inventory of inventories of finished goods is not correct.

(b) According to AS 4 on 'Contingencies and Events Occurring after the Balance Sheet Date', adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. However, adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. "Contingencies" used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur.

(i) Fire has occurred after the balance sheet date and also the loss is totally insured. Therefore, the event becomes immaterial and the event is **non-adjusting** in nature.

(ii) The contingency is restricted to conditions existing at the balance sheet date. However, in the given case, suit was filed against the company's advertisement by a party on 10th April for amount of ₹ 20 lakhs. Therefore, it does not fit into the definition of a contingency and hence is a **non-adjusting event**.

17. (a) As per AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

In the given case the selling of land to tide over liquidation problems as well as fire in the Factory does not constitute ordinary activities of the Company. These items are distinct from the ordinary activities of the business. Both the events are material in nature and expected not to recur frequently or regularly. Thus, these are Extraordinary Items.

Therefore, in the given case, disclosing net profits by setting off fire losses against profit from sale of land is not correct. The profit on sale of land, and loss due to fire should be disclosed separately in the statement of profit and loss.

(b) Statement showing amount of depreciation as per Componentization Method

Component	Depreciation (Per annum) (₹)
Land	Nil
Roof	40,000
Lifts	25,000
Fixtures	50,000
Remainder of Building	1,00,000
	2,15,000

Note: When the roof requires replacement at the end of its useful life the carrying amount will be nil. The cost of replacing the roof should be recognized as a new component.

18. (a) Calculation of profit or loss to be recognized in the books of Power Track Limited

	₹
Forward contract rate	64.25
Less: Spot rate	(61.50)
Loss on forward contract	2.75
Forward Contract Amount	$ 50,000
Total loss on entering into forward contract = ($ 50,000 × ₹ 2.75)	₹1,37,500
Contract period	6 months
Loss for the period 1st November, 2016 to 31st March, 2017 i.e. 5 months falling in the year 2016-2017	5 months
Hence, Loss for 5 months will be ₹ 1,37,500 $\times \frac{5}{6}$ =	₹ 1,14,583

Thus, the loss amounting to ₹ 1,14,583 for the period is to be recognized in the year ended 31st March, 2017.

(b) From the above account, it is inferred that the Company follows Reduction Method for accounting of Government Grants. Accordingly, out of the ₹ 16,00,000 that has been received, ₹ 8,00,000 (being the balance in Machinery A/c) should be credited to the machinery A/c.

The balance ₹ 8,00,000 may be credited to P&L A/c, since already the cost of the asset to the tune of ₹ 12,00,000 had been debited to P&L A/c in the earlier years by way of depreciation charge, and ₹ 8,00,000 transferred to P&L A/c now would be partial recovery of that cost.

There is no need to provide depreciation for 2015-16 or 2016-17 as the depreciable amount is now Nil.

19. (a) As per AS 13, "Accounting for Investments" Investments classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognize a decline, other than temporary, in the value of the investments, such reduction being determined and made for each investment individually. The standard also states that indicators of the value of an investment are obtained by reference to its market value, the investee's assets and results and the expected cash flows from the investment.

On this basis, the facts of the case given in the question clearly suggest that the provision for diminution should be made to reduce the carrying amount of shares to ₹ 45,000 in the financial statements for the year ended 31st March, 2017 and charge the difference of loss of ₹ 2,55,000 to profit and loss account.

(b) AS 16 clearly states that capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Therefore, interest on the amount that has been used for the construction of the building up to the date of completion (January, 2017) i.e. ₹ 18 lakhs alone can be capitalized. It cannot be extended to ₹ 25 lakhs.

20 (a) AS 17 'Segment Reporting' requires that inter-segment transfers should be measured on the basis that the enterprise actually used to price these transfers. The basis of pricing inter-segment transfers and any change therein should be disclosed in the financial statements. Hence, the enterprise can have its own policy for pricing inter-segment transfers and hence, inter-segment transfers may be based on cost, below cost or market price. However, whichever policy is followed, the same should be disclosed and applied consistently. Therefore, in the given case inter-segment transfer pricing policy adopted by the company is correct if followed consistently.

(b) Table showing calculation of deferred tax asset / liability

Particulars	*Amount*	*Timing differences*	*Deferred tax*	*Amount @ 50%*
	₹			₹
Excess depreciation as per tax records (₹ 5,00,000 – ₹ 2,00,000)	3,00,000	Timing	Deferred tax liability	1,50,000
Unamortized preliminary expenses as per tax records	30,000	Timing	Deferred tax asset	(15,000)
Net deferred tax liability				1,35,000

PAPER – 2: CORPORATE AND OTHER LAWS

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR MAY, 2018 EXAMINATIONS

Applicability for May, 2018 examinations

The Study Material (July 2017 edition) is applicable for May, 2018 Examinations. It is updated for all relevant amendments/circulars/notifications/clarifications etc. till 30th April, 2017. Further, all relevant amendments/ circulars/ notifications etc. in the Company law part for the period 1st May 2017 to 31st October, 2017 are mentioned below:

Relevant Legislative amendments from 1st of May 2017 to 31st of October 2017				
The Companies Act, 2013/ Corporate Laws				
Sl. No.	**Amendments related to**	**Relevant Amendments**	**Page no. of the Study material (New study material) with reference of relevant provisions**	**Earlier Law**
1.	Enforcement of the Companies (Acceptance of Deposits) Amendment Rules, 2017 Vide Notification G.S.R. 454 (E) dated 11th May, 2017 in exercise of powers conferred by section 73 and 73 read with 469(1) and 469(2).	In the Companies (Acceptance of Deposits) Rules, 2014, In rule 2, in sub-rule (1), in clause (c), in sub-clause (xviii), after the words “Domestic Venture Capital Funds” the words “Infrastructure Investment Trusts” shall be inserted.	Pg. 5.4	(xviii) any amount received by a company from Alternate Investment Funds, Domestic Venture Capital Funds and Mutual Funds registered with the Securities and Exchange Board of India in accordance with regulations made by it.
2.	Exemptions to Government Companies Vide Notification G.S.R.	The Central Government amends the Notification G.S.R. 463(E), dated 5th June 2015,	Pg 7.51	Such other place as the Central Government may approve in this behalf.

	582(E) Dated 13th June, 2017	whereby Exceptions, Modifications and Adaptations were provided in case of Government companies. Following is the amendments: In sub-section (2) of section 96, for the words "such other place as the Central Government may approve in this behalf", the words "such other place within the city, town or village in which the registered office of the company is situate or such other place as the Central Government may approve in this behalf" shall be substituted.".		
		Insertion of Paragraph 2A in the principal notification G.S.R. 463(E), dated 5th June 2015: The aforesaid exceptions, modifications and adaptations (i.e. as given in Notification G.S.R. 463(E), dated 5th June 2015 and Notification G.S.R. 582(E) Dated 13th June, 2017) shall be applicable to a Government company which has not committed a default in filing of its financial statements under section 137 of the Companies Act or annual return under section 92 of the said Act with the Registrar.		
3.	Exemptions to Private Companies Vide Notification G.S.R. 583(E) Dated 13TH June, 2017	The Central Government amends the Notification G.S.R. 464(E), dated 5th June 2015		

		whereby Exceptions, Modifications and Adaptations were provided in case of Private companies. Following are the amendments: (1) In Chapter I, Clause (40) of section 2. For the proviso, the following shall be substituted, namely:- Provided that the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement; Explanation. - For the purposes of this Act, the term „start-up" or "start-up company" means a private company incorporated under the Companies Act, 2013 or the Companies Act, 1956 and recognised as start-up in accordance with the notification issued by the Department of	Pg 1.9	(1) Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement

		Industrial Policy and Promotion, Ministry of Commerce and Industry.		
		(2) In Chapter V, clauses (a) to (e) of sub-section (2) of section 73, shall not apply to a private company- (A) which accepts from its members monies not exceeding one hundred per cent. of aggregate of the paid up share capital, free reserves and securities premium account; or (B) which is a start-up, for five years from the date of its incorporation; or (C) which fulfils all of the following conditions, namely:- (a) which is not an associate or a subsidiary company of any other company; (b)if the borrowings of such a company from banks or financial institutions or any	Pg 5.6	(2) Clause (a) to (e) of Section 73 provides conditions for acceptance of deposits from members. Notification dated 5th June, 2015, provided that Clause (a) to (e) of Sub-section 2 of Section 73 shall not apply to private Companies which accepts from its members monies not exceeding one hundred per cent, of aggregate of the paid up share capital and free reserves, and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

		body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is lower; and (c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under this section: Provided that the company referred to in clauses (A), (B) or (C) shall file the details of monies accepted to the Registrar in such manner as may be specified.		
		(3) In Chapter VII, clause (g) of sub-section (1) of section 92, shall apply to private companies which are small companies, namely:- "(g) aggregate amount of remuneration drawn by directors;"	Pg 7.11	(3) clause (g) of sub-section (1) of section 92 is read as "remuneration of directors and key managerial personnel"
		(4) In Chapter VII, proviso to sub-section (1) of section 92,	Pg 7.12	(4) However, in relation to One Person Company and small company,

		For the proviso, the following proviso shall be substituted, namely:- "Provided that in relation to One Person Company, small company and private company (if such private company is a start-up), the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.".		the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.
		(5) Section 143(3)(i), shall not apply to a private company:- (i) which is a one person company or a small company; or (ii) which has turnover less than rupees fifty crores as per latest audited financial **statement or*** which has aggregate borrowings from banks or financial institutions or anybody corporate at any point of time during the financial year less than rupees twenty five crore."	Pg.10.24	(5) Section 143(3)(i) provides- whether the company has adequate internal financial controls system in place and the operating effectiveness of such controls;

		Insertion of Paragraph 2A in the principal notification G.S.R. 464(E), dated 5th June 2015: The aforesaid exceptions, modifications and adaptations shall be applicable to a Private company which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.		
***4.**	Corrigendum vide Notification S.O. 2218(E) dated 13th July 2017 with respect to the Notification G.S.R. 583(E) Dated 13TH June, 2017	Ministry of Corporate Affairs vide corrigendum stated that for the words "statement or" to read as "statement and" under section 143(3)(i).	Referred in point no. 3 above	In Section 143(3)(i)(ii) there were the words "statement or" which has been replaced with the word "statement and" through this notification.
5.	Enforcement of the Companies (Audit and Auditors) Second Amendment Rules, 2017 Vide Notification G.S.R. 621(E) dated 22nd June 2017 in exercise of powers conferred by section 139.	The Central Government hereby amends the Companies (Audit and Auditors) Rules, 2014. Through this amendment rule, in Rule 5(b), for the word "twenty", the word "fifty" shall be substituted.	Pg 10.6	Earlier Rule 5(b) stated that -all private limited companies having paid up share capital of rupees 20 crore or more;
6.	Clarification regarding applicability of exemption given to certain private companies under section 143(3)(i) vide circular no. 08/2017 dated 25th July 2017	Notification No. G.S.R. 583(E) dated 13th June, 2017 stated that requirements of reporting under section 143(3)(i) read Rule 10 A of the Companies (Audit and Auditors) Rules, 2014 of the Companies Act 2013	-	For the purposes of clause (i) of sub-section (3) of section 143, for the financial years commencing on or after 1st April, 2015, the report of the auditor shall state about existence of adequate internal financial controls system and its

		shall not apply to certain private companies. Through issue of this circular, it is hereby clarified that the exemption shall be applicable for those audit reports in respect of financial statements pertaining to financial year, commencing on or after 1st April, 2016, which are made on or after the date of the said notification.		operating effectiveness: Provided that auditor of a company may voluntarily include the statement referred to in this rule for the financial year commencing on or after 1st April, 2014 and ending on or before 31st March, 2015.
7.	Enforcement of the Companies (Acceptance of Deposits) Second Amendment Rules, 2017 Vide Notification G.S.R. 1172(E) dated 19th September, 2017 in exercise of powers conferred by section 73 and 73 read with 469(1) and 469(2).	In the Companies (Acceptance of Deposits) Rules, 2014, in rule 3, in sub-rule (3), for the proviso, the following shall be substituted, namely:- "Provided that a Specified IFSC Public company and a private company may accept from its members monies not exceeding one hundred per cent. of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the	Pg 5.8	Provided that a private company may accept from its members monies not exceeding one hundred per cent of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

		Registrar in Form DPT-3. Explanation.—For the purpose of this rule, a Specified IFSC Public company means an unlisted public company which is licensed to operate by the Reserve Bank of India or the Securities and Exchange Board of India or the Insurance Regulatory and Development Authority of India from the International Financial Services Centre located in an approved multi services Special Economic Zone set-up under the Special Economic Zones Act, 2005 (28 of 2005) read with the Special Economic Zones Rules, 2006: Provided further that the maximum limit in respect of deposits to be accepted from members shall not apply to following classes of private companies, namely:—		

		(i) a private company which is a start-up, for five years from the date of its incorporation; (ii) a private company which fulfils all of the following conditions, namely:— (a) which is not an associate or a subsidiary company of any other company; (b) the borrowings of such a company from banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is less ; and (c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under section 73: Provided also that all the companies accepting deposits shall file the details of monies so accepted to the Registrar in Form DPT-3.”.		

8.	Vide notification S.O. 3086(E) dated 20th September 2017	The Central Government hereby appoints the 20th September, 2017 as the date on which proviso to clause (87) of section 2 of the said Act shall come into force.	Pg 1.20	Earlier not notified

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

COMPANY LAW

The Companies Act, 2013

1. The paid-up share capital of Saras Private Limited is ₹ 1 crore, consisting of 8 lacs Equity Shares of ₹ 10 each, fully paid-up and 2 lacs Cumulative Preference Shares of ₹10 each, fully paid-up. Jeevan (JVN) Private Limited and Sudhir Private Limited are holding 3 lacs Equity Shares and 50,000 Equity Shares respectively in Saras Private Limited. Jeevan Private Limited and Sudhir Private Limited are the subsidiaries of Piyush Private Limited. With reference to the provisions of the Companies Act, 2013 examine whether Saras Private Limited is a subsidiary of Piyush Private Limited? Would your answer be different if Piyush Private Limited has 8 out of 9 Directors on the Board of Saras Private Limited?

2. In a General Meeting of Amit Limited, the Chairman directed to exclude certain matters detrimental to the interest of the company from the minutes. Manoj, a shareholder contended that the minutes must contain fair and correct summary of the proceedings thereat. Decide, whether the contention of Manoj is maintainable under the provisions of the Companies Act, 2013?

3. Mr Nilesh has transferred 1000 shares of Perfect Ltd. to Ms. Mukta. The company has refused to register transfer of shares and does not even send a notice of refusal to Mr. Nilesh or Ms. Mukta respectively within the prescribed period. Discuss as per the provisions of the Companies Act, 2013, whether aggrieved party has any right(s) against the company for such refusal?

4. The Director of Happy Limited proposed dividend at 12% on equity shares for the financial year 2016-17. The same was approved in the annual general meeting of the company held on 20th September, 2017. The Directors declared the approved dividends. Analysing the provisions of the Companies Act, 2013, give your opinion on the following matters:

(i) Mr. A, holding equity shares of face value of ₹ 10 lakhs has not paid an amount of ₹ 1 lakh towards call money on shares. Can the same be adjusted against the dividend amount payable to him?

(ii) Ms. N was the holder of 1,000 equity shares on 31st March, 2017, but she has transferred the shares to Mr. R, whose name has been registered on 20th May, 2017. Who will be entitled to the above dividend?

5. Tirupati Limited, a listed company has made the following profits, the profits reflect eligible profits under the relevant section of the Companies Act, 2013.

Financial year	Amount (₹ In crores)
2012-13	20
2013-14	40
2014-15	30
2015-16	70
2016-17	50

(i) Calculate the amount that the company has to spend towards CSR for the financial year 2017-18.

(ii) State the composition of the CSR committee unlisted company and a private company.

6. Kavish Ltd., desirous of buying back of all its equity shares from the existing shareholders of the company, seeks your advice. Examining the provisions of the Companies Act, 2013 discuss whether the above buy back of equity shares by the company is possible. Also, state the sources out of which buy-back of shares can be financed?

7. Altar Limited has on its Board, four Directors viz. W, X, Y and Z. In addition, the company has Mr. D as the Managing Director. The company also has a full time Company Secretary, Mr. Wise, on its rolls. The financial statements of the company for the year ended 31st March, 2017 were authenticated by two of the directors, Mr. X and Y under their signatures.

Referring to the provisions of the Companies Act, 2013:

(i) Examine the validity of the authentication of the Balance Sheet and Statement of Profit & Loss and the Board's Report.

(ii) What would be your answer in case the company is a One Person Company (OPC) and has only one Director, who has authenticated the Balance Sheet and Statement of Profit & Loss and the Board's Report?

8. (a) 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. Discuss can he do so?

(b) Mr Akshat entered into an agreement for purchasing a commercial property in Delhi belonging to NRT Ltd. At the time of registration, Mr Akshat comes to know that the title deed of the company is not free and the company expresses its inability to get the title deed transferred in the name of Mr Akshat saying that he ought to have had the knowledge of charge created on the property of the company. Examine with the help of 'Notice of a charge', whether the contention of NRT LTD. is correct?

9. Kapoor Builders Limited decides to pay 2.5 percent of the value of debentures as underwriting commission to the underwriters but the Articles of the company authorize only 2.0 percent underwriting commission on debentures. The company further decides to pay the underwriting commission in the form of flats. Examine the validity of the above arrangements under the provisions of the Companies Act,2013.

10. Explain how the auditor will be appointed in the following cases:

    (i) A Government Company within the meaning of section 394 of the Companies Act, 2013.

    (ii) The Auditor of the company (other than government company) has resigned on 31st December, 2016, while the Financial year of the company ends on 31st March, 2017.

OTHER LAWS

The Indian Contract Act, 1872

11. (a) R instructed S, a transporter, to send a consignment of apples to Chennai. After covering half the distance, Suresh found that the apples will perish before reaching Chennai. He sold the same at half the market price. R sued S. Decide will he succeed?

    (b) Ramesh hires a carriage of Suresh and agrees to pay ₹ 1500 as hire charges. The carriage is unsafe, though Suresh is unaware of it. Ramesh is injured and claims compensation for injuries suffered by him. Suresh refuses to pay. Discuss the liability of Suresh.

12. Mr. A of Delhi engaged Mr. S as his agent to buy a house in Noida Extension area. Mr. S bought a house for ₹ 50 lakhs in the name of a nominee and then purchased it himself for ₹ 60 lakhs. He then sold the same house to Mr. A for ₹ 80 lakhs. Mr. A later comes to know the mischief of Mr. S and tries to recover the excess amount paid to Mr. S. Discuss whether he is entitled to recover any amount from Mr. S? If so, how much?

The Negotiable Instruments Act, 1881

13. 'E' is the holder of a bill of exchange made payable to the order of 'F'. The bill of exchange contains the following endorsements in blank:

    First endorsement 'F'

    Second endorsement 'G'.

    Third endorsement 'H' and

Fourth endorsement 'I'

'E' strikes out, without I's consent, the endorsements by 'G' and 'H'. Decide with reasons whether 'E' is entitled to recover anything from 'I' under the provisions of Negotiable Instruments Act, 1881.

The General Clauses Act, 1897

14. A notice when required under the Statutory rules to be sent by "registered post acknowledgment due" is instead sent by "registered post" only. Whether the protection of presumption regarding serving of notice by "registered post" under the General Clauses Act is tenable? Referring to the provisions of the General Clauses Act, 1897, examine the validity of such notice in this case.

Interpretation of Statutes, Deeds and Documents

15. Explain the meaning of term 'Proviso'. Give the distinction between proviso, exception and Saving Clause.

SUGGESTED ANSWERS/HINTS

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

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

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

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

Explanation.—For the purposes of this clause,—

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors.

In the present case, Jeevan Pvt. Ltd. and Sudhir Pvt. Ltd. together hold less than one half of the total share capital. Hence, Piyush Private Ltd. (holding of Jeevan Pvt. Ltd. and Sudhir Pvt) will not be a holding company of Saras Pvt. Ltd.

However, if Piyush Pvt. Ltd. has 8 out of 9 Directors on the Board of Saras Pvt. Ltd. i.e. controls the composition of the Board of Directors; it (Piyush Pvt. Ltd.) will be treated as the holding company of Saras Pvt. Ltd.

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

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

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

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

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

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

3. The problem as asked in the question is governed by Section 58 of the Companies Act, 2013 dealing with the refusal to register transfer and appeal against refusal.

In the present case the company has committed the wrongful act of not sending the notice of refusal of registering the transfer of shares.

Under section 58 (4), if a public company without sufficient cause refuses to register the transfer of securities within a period of thirty days from the date on which the instrument of transfer is delivered to the company, the transferee may, within a period of sixty days of such refusal or where no intimation has been received from the company, within ninety days of the delivery of the instrument of transfer, appeal to the Tribunal.

Section 58 (5) further provides that the Tribunal, while dealing with an appeal made under sub-section (4), may, after hearing the parties, either dismiss the appeal, or by order—

(a) direct that the transfer or transmission shall be registered by the company and the company shall comply with such order within a period of ten days of the receipt of the order; or

(b) direct rectification of the register and also direct the company to pay damages, if any, sustained by any party aggrieved;

In the present case Ms. Mukta can make an appeal before the tribunal and claim damages.

4. **(i)** The given problem is based on the proviso provided in the section 127 (d) of the Companies Act, 2013. As per the law where the dividend is declared by a company and there remains calls in arrears and any other sum due from a member, in such case no offence shall be deemed to have been committed where the dividend has been lawfully adjusted by the company against any sum due to it from the shareholder.

As per the facts given in the question, Mr. A is holding equity shares of face value of ₹ 10 Lakhs and has not paid an amount of ₹ 1 lakh towards call money on shares. Referring to the above provision, Mr. A is eligible to get ₹ 1.20 lakh towards dividend, out of which an amount of ₹ 1 lakh can be adjusted towards call money due on his shares. ₹ 20,000 can be paid to him in cash or by cheque or in any electronic mode.

According to the above mentioned provision, company can adjust sum of ₹ 1 lakh due towards call money on shares against the dividend amount payable to Mr. A.

(ii) According to section 123(5), dividend shall be payable only to the registered shareholder of the share or to his order or to his banker. Facts in the given case state that Ms. N, the holder of equity shares transferred the shares to Mr. R whose name has been registered on 20th May 2017. Since, he became the registered shareholder before the declaration of the dividend in the Annual general meeting of the company held on 20th September 2017, so, Mr. Raj will be entitled to the dividend.

5. Section 135 read with *Companies (Corporate Social Responsibility Policy) Rules, 2014* of the Companies Act, 2013 deals with the provisions related to the Corporate Social Responsibility.

As per the given facts, following are the answers in the given situations-

(i) **Amount that Company has to spend towards CSR:** According to section 135 of the Companies Act, 2013, the Board of every company shall ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its CSR Policy.

Accordingly, net profits of Tirupati Ltd. for three immediately preceding financial years is 150 crores (30+70+50) and 2% of the average net profits of the company made during these three immediately preceding financial years will constitute 1 crore, can be spent towards CSR in financial year 2017-2018.

(ii) **Composition of CSR Committee:** The CSR Committee shall be consisting of 3 or more directors, out of which at least one director shall be an independent director.

(a) an unlisted public company or a private company covered under section 135(1) which is not required to appoint an independent director, shall have its CSR Committee without such director;

(b) a private company having only two directors on its Board shall constitute its CSR Committee with two such directors;

6. In terms of section 68 (2) (c) of the Companies Act, 2013 a company is allowed to buy back a maximum of 25% of the aggregate of its paid- up capital and free reserves. Hence, the company in the given case is not allowed to buy back its entire equity shares.

Section 68 (1) of the Companies Act, 2013 specifies the sources of funding buy back of its shares and other specified securities as under:

(a) Free reserves or

(b) Security Premium account or

(c) Proceeds of the issue of any shares or other specified securities

However, under the proviso to section 68 (1) no buy back of shares or any specified securities can be made out of the proceeds of an earlier issue of the same kind of shares or same kind of specified securities.

7. In accordance with the provisions of the Companies Act, 2013, as contained under section 134 (1), the financial statements, including consolidated financial statement, if any, shall be approved by the Board of Directors before they are signed on behalf of the Board by at least:

(1) The Chairperson of the company where he is authorized by the Board; or

(2) Two directors out of which one shall be the managing director and other the Chief Executive Officer, if he is a director in the company

(3) The Chief Financial Officer and the Company Secretary of the company, wherever they are appointed.

In case of a One Person Company, the financial statements shall be signed by only one director, for submission to the auditor for his report thereon.

The Board's report and annexures thereto shall be signed by its Chairperson of the company, if he is authorized by the Board and where he is not so authorized, shall be signed by at least two directors one of whom shall be a managing director or by the director where there is one director.

(i) In the given case, the Balance Sheet and Profit & Loss Account have been signed by Mr. X and Mr. Y, the directors. In view of the provisions of Section 134 (1), the Managing Director Mr. D should be one of the two signatories. Since, the company has also employed a full time Secretary, he should also sign the Balance Sheet and Profit & Loss Account. Therefore, authentication done by two directors is not valid.

(ii) In case of OPC, the financial statements should be signed by one director and hence, the authentication is in order.

8. **(a)** 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. Hence, in the given case the allottee can avoid the contract of allotment of shares.

(b) According to section 80 of the Companies Act, 2013, where any charge on any property or assets of a company or any of its undertakings is registered under section 77 of the Companies Act, 2013, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, the section clarifies that if any person acquires a property, assets or undertaking for which a charge is already registered, it would be deemed that he has complete knowledge of charge from the date the charge is registered.

Thus, the contention of NRT Ltd. is correct

9. Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription or procurement of subscription to its securities, whether absolute or conditional, subject to a number of conditions which are prescribed under *Companies (Prospectus and Allotment of Securities) Rules, 2014*. In relation to the case given, the conditions applicable under the above Rules are as under:

(a) The payment of such commission shall be authorized in the company's articles of association;

(b) The commission may be paid out of proceeds of the issue or the profit of the company or both;

(c) The rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less, and in case of debentures, shall not exceed two and a half per cent (2.5 %) of the price at which the debentures are issued, or as specified in the company's articles, whichever is less;

Thus, the Underwriting commission is limited to 5% of issue price in case of shares and 2.5% in case of debentures. The rates of commission given above are maximum rates.

In view of the above, the decision of Kapoor Builders Ltd. to pay underwriting commission exceeding 2% as prescribed in the Articles is invalid.

The company may pay the underwriting commission in the form of flats as both the Companies Act and the Rules do not impose any restriction on the mode of payment though the source has been restricted to either the proceeds of the issue or profits of the company.

10. (i) The appointment and re-appointment of auditor of a Government Company or a government controlled company is governed by the provisions of section 139 of the Companies Act, 2013 which are summarized as under:

The first auditor shall be appointed by the Comptroller and Auditor General of India within 60 days from the date of incorporation and in case of failure to do so, the Board shall appoint auditor within next 30 days and on failure to do so by Board of Directors, it shall inform the members, who shall appoint the auditor within 60 days at an extraordinary general meeting (EGM), such auditor shall hold office till conclusion of first Annual General Meeting.

In case of subsequent auditor for existing government companies, the Comptroller & Auditor General of India shall appoint the auditor within a period of 180 days from the commencement of the financial year and the auditor so appointed shall hold his position till the conclusion of the Annual General Meeting.

(ii) The situation as stated in the question relates to the creation of a casual vacancy in the office of an auditor due to resignation of the auditor before the AGM in case of a company other government company. Under section 139 (8)(i) any casual vacancy in the office of an auditor arising as a result of his resignation, such vacancy can be filled by the Board of Directors within thirty days thereof and in addition the appointment of the new auditor shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

11. (a) An agent has the authority in an emergency to do all such acts as a man of ordinary prudence would do for protecting his principal from losses which the principal would have done under similar circumstances.

A typical case is where the 'agent' handling perishable goods like 'apples' can decide the time, date and place of sale, not necessarily as per instructions of the principal, with the intention of protecting the principal from losses. Here, the agent acts in an emergency and acts as a man of ordinary prudence. In the given case S had acted in an emergency situation and hence, R will not succeed against him.

(b) Problem asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in Section 150. The section provides that if the goods are bailed for hire, the bailor is responsible for such damage, whether he was or was not aware of the existence of such faults in the goods bailed. Accordingly, applying the above provisions in the given case Suresh is responsible to compensate Ramesh for the injuries sustained even if he was not aware of the defect in the carriage.

12. The problem in this case, is based on the provisions of the Indian Contract Act, 1872 as contained in Section 215 read with Section 216. The two sections provide that where an agent without the knowledge of the principal, deals in the business of agency on his own account, the principal may:

(1) repudiate the transaction, if the case shows, either that the agent has dishonestly concealed any material fact from him, or that the dealings of the agent have been disadvantageous to him.

(2) claim from the agent any benefit, which may have resulted to him from the transaction.

Therefore, based on the above provisions, Mr. A is entitled to recover ₹ 30 lakhs from Mr. S being the amount of profit earned by Mr. S out of the transaction.

13. According to section 40 of the Negotiable Instruments Act, 1881, where the holder of a negotiable instrument, without the consent of the endorser, destroys or impairs the endorser's remedy against a prior party, the endorser is discharged from liability to the holder to the same extent as if the instrument had been paid at maturity. Any party liable on the instrument may be discharged by the intentional cancellation of his signature by the holder.

In the given question, E is the holder of a bill of exchange of which F is the payee and it contains the following endorsement in blank:

First endorsement, 'F'

Second endorsement, 'G'

Third endorsement, 'H'

Fourth endorsement, 'I'

'E', the holder, may intentionally strike out the endorsement by 'G' and 'H'; in that case the liability of 'G' and 'H' upon the bill will come to an end. But if the endorsements of 'G' and 'H' are struck out without the consent of 'I', 'E' will not be entitled to recover anything from 'I'. The reason being that as between 'H' and 'I', 'H' is the principal debtor and 'I' is surety. If 'H' is released by the holder under Section 39 of the Act, 'I', being surety, will be discharged. Hence, when the holder without the consent of the endorser impairs the endorser's remedy against a prior party, the endorser is discharged from liability to the holder.

Thus, if 'E' strikes out, without I's consent, the endorsements by 'G' and 'H', 'I' will also be discharged.

14. As per the provisions of Section 27 of the General Clauses Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

1. properly addressing,
2. pre-paying, and
3. posting by registered post.

A letter containing the document to have been effected at the time at which the letter would be delivered in the ordinary course of post.

Therefore, in view of the above provision, since, the statutory rules itself provides about the service of notice that a notice when required under said statutory rules to be sent by 'registered post acknowledgement due', then, if notice was sent by 'registered post' only it will not be the compliance of said rules. However, if such provision was not provided by such statutory rules, then service of notice if by registered post only shall be deemed to be effected.

Furthermore, in similar case of *In United Commercial Bank v. Bhim Sain Makhija, AIR 1994 Del 181*: A notice when required under the statutory rules to be sent by 'registered post acknowledgement due' is instead sent by 'registered post' only, the protection of presumption regarding serving of notice under 'registered post' under this section of the Act neither tenable not based upon sound exposition of law.

15. Proviso: The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment. Ordinarily a proviso is not interpreted as stating a general rule.

It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. *(Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax, AIR 1955 SC 765)*.

Distinction between Proviso, exception and saving Clause

There is said to exist difference between provisions worded as 'Proviso', 'Exception', or 'Saving Clause'.

Proviso	Exception	Saving Clause
Exception' is intended to restrain the enacting clause to particular cases	'Proviso' is used to remove special cases from general enactment and provide for them specially	'Saving clause' is used to preserve from destruction certain rights, remedies or privileges already existing

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

QUESTIONS

Material Cost

1. Aditya Brothers supplies surgical gloves to nursing homes and polyclinics in the city. These surgical gloves are sold in pack of 10 pairs at price of ₹ 250 per pack.

   For the month of April 2018, it has been anticipated that a demand for 60,000 packs of surgical gloves will arise. Aditya Brothers purchases these gloves from the manufacturer at ₹ 228 per pack within a 4 to 6 days lead time. The ordering and related cost is ₹ 240 per order. The storage cost is 10% p.a. of average inventory investment.

   Required:

   (i) CALCULATE the Economic Order Quantity (EOQ)

   (ii) CALCULATE the number of orders needed every year

   (iii) CALCULATE the total cost of ordering and storage of the surgical gloves.

   (iv) DETERMINE when should the next order to be placed. (Assuming that the company does maintain a safety stock and that the present inventory level is 10,033 packs with a year of 360 working days).

Employee Cost

2. Jyoti Ltd. wants to ascertain the profit lost during the year 2017-18 due to increased labour turnover. For this purpose, it has given you the following information:

   (1) Training period of the new recruits is 50,000 hours. During this period their productivity is 60% of the experienced workers. Time required by an experienced worker is 10 hours per unit.

   (2) 20% of the output during training period was defective. Cost of rectification of a defective unit was ₹ 25.

   (3) Potential productive hours lost due to delay in recruitment were 1,00,000 hours.

   (4) Selling price per unit is ₹ 180 and P/V ratio is 20%.

   (5) Settlement cost of the workers leaving the organization was ₹ 1,83,480.

   (6) Recruitment cost was ₹ 1,56,340

   (7) Training cost was ₹ 1,13,180

   Required:

   CALCULATE the profit lost by the company due to increased labour turnover during the year 2017-18.

Overheads: Absorption Costing Method

3. PQR manufacturers – a small scale enterprise, produces a single product and has adopted a policy to recover the production overheads of the factory by adopting a single blanket rate based on machine hours. The annual budgeted production overheads for the year 2017-18 are ₹ 44,00,000 and budgeted annual machine hours are 2,20,000.

   For a period of first six months of the financial year 2017-18, following information were extracted from the books:

Actual production overheads	₹ 24,88,200
Amount included in the production overheads:	
Paid as per court's order	₹ 1,28,000
Expenses of previous year booked in current year	₹ 1,200
Paid to workers for strike period under an award	₹ 44,000
Obsolete stores written off	₹ 6,700

   Production and sales data of the concern for the first six months are as under:

Production:	
Finished goods	24,000 units
Works-in-progress	
(50% complete in every respect)	18,000 units
Sale:	
Finished goods	21,600 units

   The actual machine hours worked during the period were 1,16,000 hours. It is revealed from the analysis of information that ¼ of the under/ over absorption was due to defective production policies and the balance was attributable to increase/decrease in costs.

   Required:

   (i) DETERMINE the amount of under/over absorption of production overheads for the six-month period of 2017-18.

   (ii) EXAMINE the accounting treatment of under/ over absorption of production overheads, and

   (iii) CALCULATE the apportionment of the under/ over absorbed overheads over the items.

Activity Based Costing

4. G-2020 Ltd. is a manufacturer of a range of goods. The cost structure of its different products is as follows:

Particulars	Product A	Product B	Product C	
Direct Materials	50	40	40	₹/u
Direct Labour @ ₹ 10/ hour	30	40	50	₹/u
Production Overheads	30	40	50	₹/u
Total Cost	110	120	140	₹/u
Quantity Produced	10,000	20,000	30,000	Units

G-2020 Ltd. was absorbing overheads on the basis of direct labour hours. A newly appointed management accountant has suggested that the company should introduce ABC system and has identified cost drivers and cost pools as follows:

Activity Cost Pool	Cost Driver	Associated Cost (₹)
Stores Receiving	Purchase Requisitions	2,96,000
Inspection	Number of Production Runs	8,94,000
Dispatch	Orders Executed	2,10,000
Machine Setup	Number of Setups	12,00,000

The following information is also supplied:

Details	Product A	Product B	Product C
No. of Setups	360	390	450
No. of Orders Executed	180	270	300
No. of Production Runs	750	1,050	1,200
No. of Purchase Requisitions	300	450	500

Required

CALCULATE activity based production cost of all the three products.

Cost Sheet

5. From the following figures, CALCULATE cost of production and profit for the month of March 2018.

	Amount (₹)		Amount (₹)
Stock on 1st March, 2018		Purchase of raw materials	28,57,000
- Raw materials	6,06,000	Sale of finished goods	1,34,00,000
- Finished goods	3,59,000	Direct wages	37,50,000

Stock on 31st March, 2018		Factory expenses	21,25,000
- Raw materials	7,50,000	Office and administration expenses	10,34,000
- Finished goods	3,09,000	Selling and distribution expenses	7,50,000
Work-in-process:		Sale of scrap	26,000
- On 1st March, 2018	12,56,000		
- On 31st March, 2018	14,22,000		

Cost Accounting System

6. As of 31st March, 2018, the following balances existed in a firm's cost ledger, which is maintained separately on a double entry basis:

	Debit (₹)	Credit (₹)
Stores Ledger Control A/c	3,20,000	–
Work-in-process Control A/c	1,52,000	–
Finished Goods Control A/c	2,56,000	–
Manufacturing Overhead Control A/c	–	28,000
Cost Ledger Control A/c	–	7,00,000
	7,28,000	7,28,000

During the next quarter, the following items arose:

	(₹)
Finished Product (at cost)	2,35,500
Manufacturing overhead incurred	91,000
Raw material purchased	1,36,000
Factory wages	48,000
Indirect labour	20,600
Cost of sales	1,68,000
Materials issued to production	1,26,000
Sales returned (at cost)	8,000
Materials returned to suppliers	11,000
Manufacturing overhead charged to production	86,000

Required:

PREPARE the Cost Ledger Control A/c, Stores Ledger Control A/c, Work-in-process Control A/c, Finished Stock Ledger Control A/c, Manufacturing Overhead Control A/c, Wages Control A/c, Cost of Sales A/c and the Trial Balance at the end of the quarter as per costing records.

Batch Costing

7. Arnav Confectioners (AC) owns a bakery which is used to make bakery items like pastries, cakes and muffins. AC use to bake at least 50 units of any item at a time. A customer has given an order for 600 cakes. To process a batch, the following cost would be incurred:

Direct materials - ₹ 5,000

Direct wages - ₹ 500 (irrespective of units)

Oven set- up cost - ₹750 (irrespective of units)

AC absorbs production overheads at a rate of 20% of direct wages cost. 10% is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

AC requires a profit margin of 25% of sales value.

Required:

(i) DETERMINE the price to be charged for 600 cakes.

(ii) CALCULATE cost and selling price per cake.

(iii) DETERMINE what would be selling price per unit If the order is for 605 cakes.

Job Costing

8. A factory uses job costing. The following data are obtained from its books for the year ended 31st March, 2018:

	Amount (₹)
Direct materials	9,00,000
Direct wages	7,50,000
Selling and distribution overheads	5,25,000
Administration overheads	4,20,000
Factory overheads	4,50,000
Profit	6,09,000

Required:

(i) PREPARE a Job Cost sheet indicating the Prime cost, Cost of Production, Cost of sales and the Sales value.

(ii) In 2018-19, the factory received an order for a job. It is estimated that direct materials required will be ₹ 2,40,000 and direct labour will cost ₹ 1,50,000. DETERMINE what should be the price for the job if factory intends to earn the same rate of profit on sales assuming that the selling and distribution overheads have gone up by 15%. The factory overheads is recovered as percentage of wages paid, whereas, other overheads as a percentage of cost of production, based on cost rates prevailing in the previous year.

Process Costing

9. Star Ltd. manufactures chemical solutions for the food processing industry. The manufacturing takes place in a number of processes and the company uses FIFO method to value work-in-process and finished goods. At the end of the last month, a fire occurred in the factory and destroyed some of paper containing records of the process operations for the month.

   Star Ltd. needs your help to prepare the process accounts for the month during which the fire occurred. You have been able to gather some information about the month's operating activities but some of the information could not be retrieved due to the damage. The following information was salvaged:

   - Opening work-in-process at the beginning of the month was 800 litres, 70% complete for labour and 60% complete for overheads. Opening work-in-process was valued at ₹ 26,640.
   - Closing work-in-process at the end of the month was 160 litres, 30% complete for labour and 20% complete for overheads.
   - Normal loss is 10% of input and total losses during the month were 1,800 litres partly due to the fire damage.
   - Output sent to finished goods warehouse was 4,200 litres.
   - Losses have a scrap value of ₹15 per litre.
   - All raw materials are added at the commencement of the process.
   - The cost per equivalent unit (litre) is ₹39 for the month made up as follows:

	(₹)
Raw Material	23
Labour	7
Overheads	9
	39

   Required:

   (i) CALCULATE the quantity (in litres) of raw material inputs during the month.

   (ii) CALCULATE the quantity (in litres) of normal loss expected from the process and the quantity (in litres) of abnormal loss / gain experienced in the month.

   (iii) CALCULATE the values of raw material, labour and overheads added to the process during the month.

   (iv) PREPARE the process account for the month.

Joint Products & By Products

10. A company processes a raw material in its Department 1 to produce three products, viz. A, B and X at the same split-off stage. During a period 1,80,000 kgs of raw materials were processed in Department 1 at a total cost of ₹ 12,88,000 and the resultant output of A, B and X were 18,000 kgs, 10,000 kgs and 54,000 kgs respectively. A and B were further processed in Department 2 at a cost of ₹ 1,80,000 and ₹ 1,50,000 respectively.

    X was further processed in Department 3 at a cost of ₹1,08,000. There is no waste in further processing. The details of sales affected during the period were as under:

	A	B	X
Quantity Sold (kgs.)	17,000	5,000	44,000
Sales Value (₹)	12,24,000	2,50,000	7,92,000

    There were no opening stocks. If these products were sold at split-off stage, the selling prices of A, B and X would have been ₹ 50, ₹ 40 and ₹ 10 per kg respectively.

    Required:

    (i) PREPARE a statement showing the apportionment of joint costs to A, B and X.

    (ii) PREPARE a statement showing the cost per kg of each product indicating joint cost and further processing cost and total cost separately.

    (iii) PREPARE a statement showing the product wise and total profit for the period.

    (iv) DECIDE with supporting calculations as to whether any or all the products should be further processed or not

Service Costing

11. AD Higher Secondary School (AHSS) offers courses for 11th & 12th standard in three streams i.e. Arts, Commerce and Science. AHSS runs higher secondary classes along with primary and secondary classes but for accounting purpose it treats higher secondary as a separate responsibility centre. The Managing committee of the school wants to revise its fee structure for higher secondary students. The accountant of the school has provided the following details for a year:

	Amount (₹)
Teachers' salary (15 teachers × ₹35,000 × 12 months)	63,00,000
Principal's salary	14,40,000
Lab attendants' salary (2 attendants × ₹15,000 × 12 months)	3,60,000
Salary to library staff	1,44,000
Salary to peons (4 peons × ₹10,000 × 12 months)	4,80,000
Salary to other staffs	4,80,000

Examinations expenditure	10,80,000
Office & Administration cost	15,20,000
Annual day expenses	4,50,000
Sports expenses	1,20,000

Other information:

(i)

	Standard 11 & 12			Primary & Secondary
	Arts	Commerce	Science	
No. of students	120	360	180	840
Lab classes in a year	0	0	144	156
No. of examinations in a year	2	2	2	2
Time spent at library per student per year	180 hours	120 hours	240 hours	60 hours
Time spent by principal for administration	208 hours	312 hours	480 hours	1,400 hours
Teachers for 11 & 12 standard	4	5	6	-

(ii) One teacher who teaches economics for Arts stream students also teaches commerce stream students. The teacher takes 1,040 classes in a year, it includes 208 classes for commerce students.

(iii) There is another teacher who teaches mathematics for Science stream students also teaches business mathematics to commerce stream students. She takes 1,100 classes a year, it includes 160 classes for commerce students.

(iv) One peon is fully dedicated for higher secondary section. Other peons dedicate their 15% time for higher secondary section.

(v) All school students irrespective of section and age participates in annual functions and sports activities.

Required:

(i) CALCULATE cost per student per annum for all three streams.

(ii) If the management decides to take uniform fee of ₹ 1,000 per month from all higher secondary students, CALCULATE stream wise profitability.

(iii) If management decides to take 10% profit on cost, COMPUTE fee to be charged from the students of all three streams respectively.

Standard Costing

12. 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

Required:

CALCULATE:

(i) Material Cost Variance;

(ii) Material Price Variance;

(iii) Material Mix Variance;

(iv) Material Yield Variance;

(v) Labour Cost Variance;

(vi) Labour Efficiency Variance and

(vii) Labour Yield Variance.

Marginal Costing

13. A company manufactures two types of herbal product, A and B. Its budget shows profit figures after apportioning the fixed joint cost of ₹15 lacs in the proportion of the numbers of units sold. The budget for 2018, indicates:

	A	B
Profit (₹)	1,50,000	30,000
Selling Price / unit (₹)	200	120
P/V Ratio (%)	40	50

Required:

COMPUTE the best option among the following, if the company expects that the number of units to be sold would be equal.

(i) Due to exchange in a manufacturing process, the joint fixed cost would be reduced by 15% and the variables would be increased by 7½ %.

(ii) Price of A could be increased by 20% as it is expected that the price elasticity of demand would be unity over the range of price.

(iii) Simultaneous introduction of both the option, viz, (i) and (ii) above.

Budget and Budgetary Control

14. G Ltd. manufactures two products called 'M' and 'N'. Both products use a common raw material Z. The raw material Z is purchased @ ₹ 36 per kg from the market. The company has decided to review inventory management policies for the forthcoming year.

The following information has been extracted from departmental estimates for the year ended 31st March 2018 (the budget period):

	Product M	**Product N**
Sales (units)	28,000	13,000
Finished goods stock increase by year-end	320	160
Post-production rejection rate (%)	4	6
Material Z usage (per completed unit, net of wastage)	5 kg	6 kg
Material Z wastage (%)	10	5

Additional information:

- Usage of raw material Z is expected to be at a constant rate over the period.
- Annual cost of holding one unit of raw material in stock is 11% of the material cost.
- The cost of placing an orders is ₹ 320 per order.
- The management of G Ltd. has decided that there should not be more than 40 orders in a year for the raw material Z.

Required:

(i) PREPARE functional budgets for the year ended 31st March 2018 under the following headings:

(a) Production budget for Products M and N (in units).

(b) Purchases budget for Material Z (in kgs and value).

(ii) CALCULATE the Economic Order Quantity for Material Z (in kgs).

(iii) If there is a sole supplier for the raw material Z in the market and the supplier do not sale more than 4,000 kg. of material Z at a time. Keeping the management purchase policy and production quantity mix into consideration, CALCULATE the maximum number of units of Product M and N that could be produced.

Miscellaneous

15. (i) DISCUSS on (a) Discretionary Cost Centre and (b) Investment Centre

(ii) DESCRIBE the three advantages of Cost-plus contract.

(iii) STATE the advantages of Zero-based budgeting.

(iv) DESCRIBE Operation costing with two examples of industries where operation costing is applied.

SUGGESTED HINTS/ANSWERS

1. (i) Calculation of Economic Order Quantity:

$$EOQ = \sqrt{\frac{2 \times A \times O}{Ci}} = \sqrt{\frac{2 \times (60{,}000 \text{ packs} \times 12 \text{ months}) \times ₹\,240}{₹\,228 \times 10\%}}$$

= 3,893.3 packs or 3,893 packs.

(ii) Number of orders per year

$$\frac{\text{Annual requirements}}{\text{E.O.Q}} = \frac{7{,}20{,}000 \text{ packs}}{3{,}893 \text{ packs}} = 184.9 \text{ or } 185 \text{ orders a year}$$

(iii) Ordering and storage costs

	(₹)
Ordering costs :– 185 orders × ₹ 240	44,400.00
Storage cost :– ½ (3,893 packs × 10% of ₹228)	44,380.20
Total cost of ordering & storage	88,780.20

(iv) Timing of next order

(a) Day's requirement served by each order.

$$\text{Number of days requirements} = \frac{\text{No. of working days}}{\text{No. of order in a year}} = \frac{360\text{ days}}{185\text{ orders}} = 1.94 \text{ days}$$

supply.

This implies that each order of 3,893 packs supplies for requirements of 1.94 days only.

(b) Days requirement covered by inventory

$$= \frac{\text{Units in inventory}}{\text{Economic order quantity}} \times \text{(Day's requirement served by an order)}$$

$$\therefore \frac{10{,}033\text{ packs}}{3{,}893\text{ packs}} \times 1.94\text{ days} = 5\text{ days requirement}$$

(c) Time interval for placing next order

Inventory left for day's requirement – Average lead time of delivery

5 days – 5 days = 0 days

This means that next order for the replenishment of supplies has to be placed immediately.

2. Output by experienced workers in 50,000 hours = $\frac{50{,}000}{10}$ = 5,000 units

∴ Output by new recruits	= 60% of 5,000 = 3,000 units
Loss of output	= 5,000 – 3,000 = 2,000 units
Total loss of output	= Due to delay recruitment + Due to inexperience
	= 10,000 + 2,000 = 12,000 units
Contribution per unit	= 20% of ₹180 = ₹ 36
Total contribution lost	= ₹36 × 12,000 units = ₹ 4,32,000
Cost of repairing defective units	= 3,000 units × 0.2 × ₹ 25 = ₹ 15,000

Profit forgone due to labour turnover

	(₹)
Loss of Contribution	4,32,000
Cost of repairing defective units	15,000
Recruitment cost	1,56,340

Training cost	1,13,180
Settlement cost of workers leaving	1,83,480
Profit forgone in 2017-18	9,00,000

3. **(i)** Amount of under/ over absorption of production overheads during the period of first six months of the year 2017-2018:

	Amount (₹)	Amount (₹)
Total production overheads actually incurred during the period		24,88,200
Less: Amount paid to worker as per court order	1,28,000	
Expenses of previous year booked in the current year	1,200	
Wages paid for the strike period under an award	44,000	
Obsolete stores written off	6,700	(1,79,900)
		23,08,300
Less: Production overheads absorbed as per machine hour rate (1,16,000 hours × ₹20*)		23,20,000
Amount of over absorbed production overheads		11,700

*Budgeted Machine hour rate (Blanket rate) = $\frac{₹44,00,000}{2,20,000 \text{ hours}} = ₹\ 20$ per hour

(ii) **Accounting treatment of over absorbed production overheads:** As, one fourth of the over absorbed overheads were due to defective production policies, this being abnormal, hence should be transferred to Costing Profit and Loss Account.

Amount to be transferred to Costing Profit and Loss Account = (11,700 × ¼) = ₹ 2,925

Balance of over absorbed production overheads should be distributed over Works in progress, finished goods and Cost of sales by applying supplementary rate*.

Amount to be distributed = (11,700 × ¾) =₹ 8,775

Supplementary rate = $\frac{₹\ 8,775}{33,000 \text{ units}} = ₹\ 0.2659$ per unit

(iii) Apportionment of under absorbed production overheads over WIP, Finished goods and Cost of sales:

	Equivalent completed units	Amount (₹)
Work-in-Progress (18,000 units × 50% × ₹ 0.2659)	9,000	2,393
Finished goods (2,400 units × ₹ 0.2659)	2,400	638
Cost of sales (21,600 units × ₹ 0.2659)	21,600	5,744
Total	33,000	8,775

4. The total production overheads are ₹26,00,000:

Product A: 10,000 × ₹ 30 = ₹ 3,00,000

Product B: 20,000 × ₹ 40 = ₹ 8,00,000

Product C: 30,000 × ₹ 50 = ₹ 15,00,000

On the basis of ABC analysis this amount will be apportioned as follows:

Statement Showing "Activity Based Production Cost"

Activity Cost Pool	Cost Driver	Ratio	Total Amount (₹)	A (₹)	B (₹)	C (₹)
Stores Receiving	Purchase Requisition	6:9:10	2,96,000	71,040	1,06,560	1,18,400
Inspection	Production Runs	5:7:8	8,94,000	2,23,500	3,12,900	3,57,600
Dispatch	Orders Executed	6:9:10	2,10,000	50,400	75,600	84,000
Machine Setups	Setups	12:13:15	12,00,000	3,60,000	3,90,000	4,50,000
Total Activity Cost				7,04,940	8,85,060	10,10,000
Quantity Produces				10,000	20,000	30,000
Unit Cost (Overheads)				70.49	44.25	33.67
Add: Conversion Cost (Material + Labour)				80	80	90
Total				150.49	124.25	123.67

5. Calculation of Cost of Production and Profit for the month ended April 2018:

Particulars	Amount (₹)	Amount (₹)
Materials consumed:		
- Opening stock	6,06,000	

- *Add:* Purchases	28,57,000	
	34,63,000	
- *Less:* Closing stock	(7,50,000)	27,13,000
Direct wages		37,50,000
Prime cost		64,63,000
Factory expenses		21,25,000
		85,88,000
Add: Opening W-I-P		12,56,000
Less: Closing W-I-P		(14,22,000)
Factory cost		84,22,000
Less: Sale of scrap		(26,000)
Cost of Production		**83,96,000**
Add: Opening stock of finished goods		6,06,000
Less: Closing stock of finished goods		(3,59,000)
Cost of Goods Sold		86,43,000
Office and administration expenses		10,34,000
Selling and distribution expenses		7,50,000
Cost of Sales		1,04,27,000
Profit (balancing figure)		**29,73,000**
Sales		1,34,00,000

6. Cost Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Store Ledger Control A/c	11,000	By Opening Balance	7,00,000
To Balance c/d	9,84,600	By Store ledger control A/c	1,36,000
		By Manufacturing Overhead Control A/c	91,000
		By Wages Control A/c	68,600
	9,95,600		9,95,600

Stores Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	3,20,000	By WIP Control A/c	1,26,000

To Cost ledger control A/c	1,36,000	By Cost ledger control A/c (Returns)	11,000
		By Balance c/d	3,19,000
	4,56,000		4,56,000

WIP Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	1,52,000	By Finished Stock Ledger Control A/c	2,35,500
To Wages Control A/c	48,000	By Balance c/d	1,76,500
To Stores Ledger Control A/c	1,26,000		
To Manufacturing Overhead Control A/c	86,000		
	4,12,000		4,12,000

Finished Stock Ledger Control Account

Particulars	(₹)	Particulars	(₹)
To Opening Balance	2,56,000	By Cost of Sales	1,68,000
To WIP Control A/c	2,35,500	By Balance c/d	3,31,500
To Cost of Sales A/c (Sales Return)	8,000		
	4,99,500		4,99,500

Manufacturing Overhead Control Account

Particulars	(₹)	Particulars	(₹)
To Cost Ledger Control A/c	91,000	By Opening Balance	28,000
To Wages Control A/c	20,600	By WIP Control A/c	86,000
To Over recovery c/d	2,400		
	1,14,000		1,14,000

Wages Control Account

Particulars	(₹)	Particulars	(₹)
To Transfer to Cost Ledger Control A/c	68,600	By WIP Control A/c	48,000
		By Manufacturing Overhead Control A/c	20,600
	68,600		68,600

Cost of Sales Account

Particulars	(₹)	Particulars	(₹)
To Finished Stock Ledger Control A/c	1,68,000	By Finished Stock Ledger Control A/c (Sales return)	8,000
		By Balance c/d	1,60,000
	1,68,000		1,68,000

Trial Balance

	(₹)	(₹)
Stores Ledger Control A/c	3,19,000	
WIP Control A/c	1,76,500	
Finished Stock Ledger Control A/c	3,31,500	
Manufacturing Overhead Control A/c	--	2,400
Cost of Sales A/c	1,60,000	
Cost ledger control A/c	--	9,84,600
	9,87,000	9,87,000

7. **Statement of cost per batch and per order**

No. of batch = 600 units ÷ 50 units = 12 batches

	Particulars	Cost per batch (₹)	Total Cost (₹)
	Direct Material Cost	5,000.00	60,000
	Direct Wages	500.00	6,000
	Oven set-up cost	750.00	9,000
	Add: Production Overheads (20% of Direct wages)	100.00	1,200
	Total Production cost	6,350.00	76,200
	Add: S&D and Administration overheads (10% of Total production cost)	635.00	7,620
	Total Cost	6,985.00	83,820
	Add: Profit (1/3rd of total cost)	2,328.33	27,940
(i)	**Sales price**	**9,313.33**	**1,11,760**
	No. of units in batch	50 units	
(ii)	**Cost per unit** (₹6,985 ÷ 50 units)	**139.70**	
	Selling price per unit (9,313.33 ÷ 50 units)	**186.27**	

(iii) If the order is for 605 cakes, then selling price per cake would be as below:

Particulars	Total Cost (₹)
Direct Material Cost	60,500
Direct Wages (₹500 × 13 batches)	6,500
Oven set-up cost (₹750 × 13 batches)	9,750
Add: Production Overheads (20% of Direct wages)	1,300
Total Production cost	78,050
Add: S&D and Administration overheads (10% of Total production cost)	7,805
Total Cost	85,855
Add: Profit (1/3rd of total cost)	28,618
Sales price	**1,14,473**
No. of units	605 units
Selling price per unit (₹1,14,473 ÷ 605 units)	**189.21**

8. (i) **Production Statement**

For the year ended 31st March, 2018

		Amount (₹)
Direct materials		9,00,000
Direct wages		7,50,000
	Prime Cost	16,50,000
Factory overheads		4,50,000
	Cost of Production	21,00,000
Administration overheads		4,20,000
Selling and distribution overheads		5,25,000
	Cost of Sales	30,45,000
Profit		6,09,000
	Sales value	36,54,000

Calculation of Rates:

1. Percentage of factory overheads to direct wages = $\frac{₹4,50,000}{₹7,50,000} \times 100 = 60\%$

2. Percentage of administration overheads to Cost of production

$= \frac{₹4,20,000}{₹21,00,000} \times 100 = 20\%$

3. Selling and distribution overheads = ₹ 5,25,000 × 115% = ₹ 6,03,750

Selling and distribution overhead % to Cost of production

$= \frac{₹6,03,750}{₹21,00,000} \times 100 = 28.75\%$

4. Percentage of profit to sales = $\frac{₹6,09,000}{₹36,54,000} \times 100 = 16.67\%$

(ii) Calculation of price for the job received in 2018-19

	Amount (₹)
Direct materials	2,40,000
Direct wages	1,50,000
Prime Cost	3,90,000
Factory overheads (60% of ₹1,50,000)	90,000
Cost of Production	4,80,000
Administration overheads (20% of ₹4,80,000)	96,000
Selling and distribution overheads (28.75% of ₹4,80,000)	1,38,000
Cost of Sales	7,14,000
Profit (20% of ₹7,14,000)	1,42,800
Sales value	8,56,800

9. (i) Calculation of Raw Material inputs during the month:

Quantities Entering Process	**Litres**	**Quantities Leaving Process**	**Litres**
Opening WIP	800	Transfer to Finished Goods	4,200
Raw material input (balancing figure)	5,360	Process Losses	1,800
		Closing WIP	160
	6,160		6,160

(ii) Calculation of Normal Loss and Abnormal Loss/Gain

	Litres
Total process losses for month	1,800

Normal Loss (10% input)	536
Abnormal Loss (balancing figure)	1,264

(iii) Calculation of values of Raw Material, Labour and Overheads added to the process:

	Material	Labour	Overheads
Cost per equivalent unit	₹23.00	₹7.00	₹9.00
Equivalent units (litre) (refer the working note)	4,824	4,952	5,016
Cost of equivalent units	₹1,10,952	₹34,664	₹45,144
Add: Scrap value of normal loss (536 units × ₹ 15)	₹8,040	--	--
Total value added	₹1,18,992	₹34,664	₹45,144

Workings:

Statement of Equivalent Units (litre):

Input Details	Units	Output details	Units	Equivalent Production					
				Material		Labour		Overheads	
				Units	(%)	Units	(%)	Units	(%)
Opening WIP	800	Units completed:							
Units introduced	5,360	- Opening WIP	800	--	--	240	30	320	40
		- Fresh inputs	3,400	3,400	100	3,400	100	3,400	100
		Normal loss	536	--	--	--	--	--	--
		Abnormal loss	1,264	1,264	100	1,264	100	1,264	100
		Closing WIP	160	160	100	48	30	32	20
	6,160		6,160	4,824		4,952		5,016	

(iv) Process Account for Month

	Litres	Amount (₹)		Litres	Amount (₹)
To Opening WIP	800	26,640	By Finished goods	4,200	1,63,800

To Raw Materials	5,360	1,18,992	By Normal loss	536	8,040
To Wages	--	34,664	By Abnormal loss	1,264	49,296
To Overheads	--	45,144	By Closing WIP	160	4,304
	6,160	2,25,440		6,160	2,25,440

10. (i) Statement showing the apportionment of joint costs to A, B and X

Products	A	B	X	Total
Output (kg)	18,000	10,000	54,000	
Sales value at the point of split off (₹)	9,00,000 (₹ 50 x 18,000)	4,00,000 (₹ 40 x 10,000)	5,40,000 (₹ 10 x 54,000)	18,40,000
Joint cost apportionment on the basis of sales value at the point of split off (₹)	6,30,000 $\left(\frac{₹12,88,000}{₹18,40,000} x ₹9,00,000\right)$	2,80,000 $\left(\frac{₹12,88,000}{₹18,40,000} x ₹4,00,000\right)$	3,78,000 $\left(\frac{₹12,88,000}{₹18,40,000} x ₹5,40,000\right)$	12,88,000

(ii) Statement showing the cost per kg. of each product (indicating joint cost; further processing cost and total cost separately)

Products	A	B	X
Joint costs apportioned (₹) : (I)	6,30,000	2,80,000	3,78,000
Production (kg) : (II)	18,000	10,000	54,000
Joint cost per kg (₹): (I ÷ II)	35	28	7
Further processing Cost per kg. (₹)	10 $\left(\frac{₹1,80,000}{18,000 kg}\right)$	15 $\left(\frac{₹1,50,000}{10,000 kg}\right)$	2 $\left(\frac{₹1,08,000}{54,000 kg}\right)$
Total cost per kg (₹)	45	43	9

(iii) Statement showing the product wise and total profit for the period

Products	A	B	X	Total
Sales value (₹)	12,24,000	2,50,000	7,92,000	
Add: Closing stock value (₹) (Refer to Working note 2)	45,000	2,15,000	90,000	
Value of production (₹)	12,69,000	4,65,000	8,82,000	26,16,000
Apportionment of joint cost (₹)	6,30,000	2,80,000	3,78,000	
Add: Further processing cost (₹)	1,80,000	1,50,000	1,08,000	

Total cost (₹)	8,10,000	4,30,000	4,86,000	17,26,000
Profit (₹)	4,59,000	35,000	3,96,000	8,90,000

Working Notes

1.

Products	A	B	X
Sales value (₹)	12,24,000	2,50,000	7,92,000
Quantity sold (Kgs.)	17,000	5,000	44,000
Selling price ₹/kg	72 $\left(\frac{\text{₹ } 12{,}24{,}000}{17{,}000 \text{ kg}}\right)$	50 $\left(\frac{\text{₹ } 2{,}50{,}000}{5{,}000 \text{ kg}}\right)$	18 $\left(\frac{\text{₹ } 7{,}92{,}000}{44{,}000 \text{ kg}}\right)$

2. Valuation of closing stock:

Since the selling price per kg of products A, B and X is more than their total costs, therefore closing stock will be valued at cost.

Products	A	B	X	Total
Closing stock (kgs.)	1,000	5,000	10,000	
Cost per kg (₹)	45	43	9	
Closing stock value (₹)	45,000 (₹ 45 x 1,000 kg)	2,15,000 (₹ 43 x 5,000 kg)	90,000 (₹9x10,000 kg)	3,50,00

(iv) Calculations for processing decision

Products	A	B	X
Selling price per kg at the point of split off (₹)	50	40	10
Selling price per kg after further processing (₹) (Refer to working Note 1)	72	50	18
Incremental selling price per kg (₹)	22	10	8
Less: Further processing cost per kg (₹)	(10)	(15)	(2)
Incremental profit (loss) per kg (₹)	12	(5)	6

Product A and X has an incremental profit per unit after further processing, hence, these two products may be further processed. However, further processing of product B is not profitable hence, product B shall be sold at split off point.

11. Calculation of Cost per annum

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Teachers' salary (W.N-1)	16,80,000	21,00,000	25,20,000	63,00,000
R-apportionment of Economics & Mathematics teachers' salary (W.N- 2)	(84,000)	1,45,091	(61,091)	-
Principal's salary (W.N-3)	1,24,800	1,87,200	2,88,000	6,00,000
Lab assistants' salary (W.N-4)	-	-	1,72,800	1,72,800
Salary to library staff (W.N-5)	43,200	28,800	57,600	1,29,600
Salary to peons (W.N-6)	31,636	94,909	47,455	1,74,000
Salary to other staffs (W.N-7)	38,400	1,15,200	57,600	2,11,200
Examination expenses (W.N- 8)	86,400	2,59,200	1,29,600	4,75,200
Office & Administration expenses (W.N- 7)	1,21,600	3,64,800	1,82,400	6,68,800
Annual Day expenses (W.N-7)	36,000	1,08,000	54,000	1,98,000
Sports expenses (W.N- 7)	9,600	28,800	14,400	52,800
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400

(i) Calculation of cost per student per annum

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Cost per annum	20,87,636	34,32,000	34,62,764	89,82,400
No. of students	120	360	180	660
Cost per student per annum	17,397	9,533	19,238	13,610

(ii) Calculation of profitability

Particulars	Arts (₹)	Commerce (₹)	Science (₹)	Total (₹)
Total Fees per annum	12,000	12,000	12,000	
Cost per student per annum	17,397	9,533	19,238	
Profit/ (Loss) per student per annum	(5,397)	2,467	(7,238)	
No. of students	120	360	180	
Total Profit/ (Loss)	(6,47,640)	8,88,120	(13,02,840)	(10,62,360)

(iii) Computation of fees to be charged to earn a 10% profit on cost

Particulars	Arts (₹)	Commerce (₹)	Science (₹)
Cost per student per annum	17,397	9,533	19,238
Add: Profit @10%	1,740	953	1,924
Fees per annum	19,137	10,486	21,162
Fees per month	1,595	874	1,764

Working Notes:

(1) Teachers' salary

Particulars	Arts	Commerce	Science
No. of teachers	4	5	6
Salary per annum (₹)	4,20,000	4,20,000	4,20,000
Total salary	16,80,000	21,00,000	25,20,000

(2) Re-apportionment of Economics and Mathematics teachers' salary

	Economics		Mathematics	
Particulars	**Arts**	**Commerce**	**Science**	**Commerce**
No. of classes	832	208	940	160
Salary re-apportionment (₹)	(84,000)	84,000	(61,091)	61,091
	$\left(\frac{₹4,20,000}{1,040}\times 208\right)$		$\left(\frac{₹4,20,000}{1,100}\times 160\right)$	

(3) Principal's salary has been apportioned on the basis of time spent by him for administration of classes.

(4) Lab attendants' salary has been apportioned on the basis of lab classes attended by the students.

(5) Salary of library staffs are apportioned on the basis of time spent by the students in library.

(6) Salary of Peons are apportioned on the basis of number of students. The peons' salary allocable to higher secondary classes is calculated as below:

	Amount (₹)
Peon dedicated for higher secondary	1,20,000

(1 peon × ₹10,000 × 12 months) *Add:* 15% of other peons' salary {15% of (3 peons × ₹10,000 × 12 months)}	54,000
	1,74,000

(7) Salary to other staffs, office & administration cost, Annual day expenses and sports expenses are apportioned on the basis of number of students.

(8) Examination Expenses has been apportion taking number of students and number examinations into account.

12. 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- $\left(\frac{800\text{kg.}}{0.9\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ = 939.68 or 940 kg.

Material B- $\left(\frac{600\text{kg.}}{0.9\times1{,}400\text{kg.}}\times1{,}480\text{kg.}\right)$ = 704.76 or 705 kg.

WN- 2: Revised Standard Quantity (RSQ):

Material A- $\left(\frac{800\text{kg.}}{1{,}400\text{kg.}}\times1{,}550\text{kg.}\right)$ = 885.71 or 886 kg.

Material B- $\left(\frac{600\text{kg.}}{1{,}400\text{kg.}}\times1{,}550\text{kg.}\right)$ = 664.28 or 664 kg.

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

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

(iii) Material Mix Variance (A + B) = {(RSQ × SP) – (AQ × SP)}

= {59,790 – 60,000} = 210 (A)

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

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

WN- 4: Revised Standard Hours (RSH):

Skilled labour- $\left(\frac{1{,}000\,\text{hr.}}{1{,}800\,\text{hr.}} \times 2{,}060\,\text{hr.}\right)$ = 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.

(v) Labour Cost Variance (Skilled + Unskilled) = {(SH × SR) – (AH × AR)}

= {61,496 – 62,380} = 884 (A)

(vi) Labour Efficiency Variance (Skilled + Unskilled) = {(SH × SR) – (AH × SR)}

= {61,496 – 63,920} = 2,424 (A)

(vii) Labour Yield Variance (Skilled + Unskilled) = {(SH × SR) – (RSH × SR)}

= {61,496 – 63,052} = 1,556 (A)

13. Option (i)

Increase in profit when due to change in a manufacturing process there is reduction in joint fixed cost and increase in variable costs.

	(₹)
Revised Contribution from 12,000 units of A due to 7.5% increase in Variable Cost {12,000 units × (₹200 – ₹129)}	8,52,000
Revised Contribution from 12,000 units of B due to 7.5% increase in Variable Cost {12,000 units × (₹120 – ₹64.50)}	6,66,000
Total Revised Contribution	15,18,000
Less: Fixed Cost (₹15,00,000 – 15% × ₹15,00,000)	12,75,000
Revised Profit	2,43,000
Less: Existing Profit	1,80,000
Increase in Profit	63,000

Option (ii)

Increase in profit when the price of product A increased by 20% and the price elasticity of its demand would be unity over the range of price.

	(₹)
Budgeted Revenue from Product A (12,000 units × ₹200)	24,00,000
Revised Demand (in units) (₹24,00,000 / ₹240)	10,000
Revised Contribution (in ₹) [10,000 units × (₹240 – ₹120)]	12,00,000
Less: Existing Contribution (12,000 units × ₹80)	9,60,000
Increase in Profit (Contribution)	2,40,000

***Note:** Since Price Elasticity of Demand is 1, therefore the Revenue in respect of Products will remain same.

Option (iii)

Increase in profit on the simultaneous introduction of above two options.

	(₹)
Revised Contribution from Product A [10,000 units × (₹240 – ₹129)]	11,10,000
Revised Contribution from Product B [12,000 units × (₹120 – ₹64.50)]	6,66,000
Total Revised Contribution	17,76,000
Less: Revised Fixed Cost	12,75,000
Revised Profit	5,01,000
Less: Existing Profit	1,80,000
Increase in Profit	3,21,000

A comparison of increase in profit figures under above three options clearly indicates that the option (iii) is the best as it increases the profit of the concern by ₹3,21,000.

Note: The budgeted profit / (loss) for 2018 in respect of products A and B should be ₹ 2,10,000 and (₹30,000) respectively instead of ₹ 1,50,000 and ₹ 30,000.

Workings

1. **Contribution per unit of each product:**

	Product	
	A (₹)	**B (₹)**
Contribution *per unit* (Sales × P/V Ratio)	80 (₹200 × 40%)	60 (₹120 × 50%)

2. **Number of units to be sold:**

Total Contribution – Fixed Cost = Profit

Let x be the number of units of each product sold, therefore:

(80x + 60x) – ₹15,00,000 = ₹1,50,000 + ₹30,000

Or x = 12,000 units

14. (i) (a) Production Budget (in units) for the year ended 31st March 2016

	Product M	Product N
Budgeted sales (units)	28,000	13,000
Add: Increase in closing stock	320	160
No. good units to be produced	28,320	13,160
Post production rejection rate	4%	6%
No. of units to be produced	29,500 $\left(\frac{28,320}{0.96}\right)$	14,000 $\left(\frac{13,160}{0.94}\right)$

(b) Purchase budget (in kgs and value) for Material Z

	Product M	Product N
No. of units to be produced	29,500	14,000
Usage of Material Z per unit of production	5 kg.	6 kg.
Material needed for production	1,47,500 kg.	84,000 kg.
Materials to be purchased	1,63,889 kg.	88,421 kg.

	$\left(\frac{1,47,500}{0.90}\right)$	$\left(\frac{84,000}{0.95}\right)$
Total quantity to be purchased	2,52,310 kg.	
Rate per kg. of Material Z	₹36	
Total purchase price	₹90,83,160	

(ii) Calculation of Economic Order Quantity for Material Z

$$EOQ = \sqrt{\frac{2 \times 2,52,310 \text{kg.} \times ₹320}{₹36 \times 11\%}} = \sqrt{\frac{16,14,78,400}{₹3.96}} = 6,385.72 \text{ kg.}$$

(iii) Since, the maximum number of order per year can not be more than 40 orders and the maximum quantity per order that can be purchased is 4,000 kg. Hence, the total quantity of Material Z that can be available for production:

= 4,000 kg. × 40 orders = 1,60,000 kg.

	Product M	**Product N**
Material needed for production to maintain the same production mix	1,03,929 kg. $\left(1,60,000 \times \frac{1,63,889}{2,52,310}\right)$	56,071 kg. $\left(1,60,000 \times \frac{88,421}{2,52,310}\right)$
Less: Process wastage	10,393 kg.	2,804 kg.
Net Material available for production	93,536 kg.	53,267 kg.
Units to be produced	18,707 units $\left(\frac{93,536 \text{kg.}}{5 \text{kg.}}\right)$	8,878 units $\left(\frac{53,267 \text{kg.}}{6 \text{kg.}}\right)$

15. (i) (a) Discretionary Cost Centre: The cost centre whose output cannot be measured in financial terms, thus input-output ratio cannot be defined. The cost of input is compared with allocated budget for the activity. Example of discretionary cost centres are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.

(b) Investment Centres: These are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions. The performance of these responsibility centres are measured on the basis of Return on Investment (ROI) besides profit. Examples of investment centres are Maharatna, Navratna and Miniratna companies of Public Sector Undertakings of Central Government.

(ii) Cost plus contracts have the following advantages:

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

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

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

(iii) The advantages of zero-based budgeting are as follows:

- It provides a systematic approach for the evaluation of different activities and rank them in order of preference for the allocation of scarce resources.
- It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way.
- It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.
- The areas of wasteful expenditure can be easily identified and eliminated.
- Departmental budgets are closely linked with corporation objectives.
- The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfillment of the objectives of traditional budgeting but it can also be used for a variety of other purposes.

(iv) This product costing system is used when an entity produces more than one variant of final product using different materials but with similar conversion activities. Which means conversion activities are similar for all the product variants but materials differ significantly. Operation Costing method is also known as Hybrid product costing system as materials costs are accumulated by job order or batch wise but conversion costs i.e. labour and overheads costs are accumulated by department, and process costing methods are used to assign these costs to products. Moreover, under operation costing, conversion costs are applied to products using a predetermined application rate. This predetermined rate is based on budgeted conversion costs.

The two example of industries are Ready made garments and Jewellery making.

PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2017, including significant notifications/circulars issued upto 31st October, 2017 is applicable for May, 2018 examination. The relevant assessment year for May, 2018 examination is A.Y.2018-19. The significant notifications/circulars issued upto 31.10.2017, relevant for May, 2018 examination but not covered in the July 2017 edition of the Study Material, are given hereunder.

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on-board foreign ships, is being subjected to tax in India for the reason that the salary has been received by the seafarer into the NRE bank account maintained in India by the seafarer. On receiving representations in this regard, the CBDT has examined the matter. It noted that section 5(2)(a) of the Income-tax Act, 1961 provides that only such income of a non-resident shall be subjected to tax in India that is either received or is deemed to be received in India.

Accordingly, the CBDT has, vide this circular, clarified that that salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) shall not be included in the total income merely because the said salary has been credited in the NRE account maintained with an Indian bank by the seafarer.

CHAPTER 4: HEADS OF INCOME
UNIT 4: CAPITAL GAINS

Long-term specified asset notified for the purpose of claiming exemption under section 54EC [Notification No. 47/2017, dated 08.06.2017 and Notification No. 79/2017, dated 08.08.2017]

Section 54EC provides exemption from chargeability of capital gain from the transfer of a long-term capital asset where the assessee has invested the whole or any part of the capital gain in a long-term specified asset. As per clause (ba) of *Explanation* to section 54EC "long term specified asset" means any bond redeemable after three years and issued on or after 01.04.07 by the National Highways Authority of India (NHAI) or by the Rural Electrification Corporation Limited (RECL) or any other bond notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide these notifications, notified any bond redeemable after three years and issued by the **Power Finance Corporation Limited** on or after 15.06.17 or by the **Indian Railway Finance Corporation Limited** on or after 08.08.17 as ‘long-term specified asset’.

CHAPTER 4: HEADS OF INCOME
UNIT 5: INCOME FROM OTHER SOURCES

Clarification regarding trade advance not to be treated as deemed dividend under section 2(22)(e) – [Circular No. 19/2017, dated 12.06.2017]

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(22)(e) and therefore, the same would not to be treated as deemed dividend.

CHAPTER 9: ADVANCE TAX, TAX DEDUCTION AT SOURCE, INTRODUCTION TO TAX COLLECTION AT SOURCE

Deduction of tax at source on interest income accrued to minor child, where both the parents have deceased [Notification No. 05/2017, dated 29.05.2017]

Under Rule 31A(5) of the Income-tax Rules, 1962, the Director General of Income-tax (Systems) is authorized to specify the procedures, formats and standards for the purposes of furnishing and verification of, *inter alia*, the statements and shall be responsible for the day-to-day administration in relation to furnishing and verification of the statements in the manner so specified.

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), specified that in case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

Deduction of tax at source on interest on deposits made under Capital Gains Accounts Scheme, 1988 where depositor has deceased - Notification No. 08/2017, dated 13.09.2017

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), vide this notification, specified that in case of deposits under the Capital Gains Accounts Scheme, 1988 where the depositor has deceased:

(i) TDS on the interest income accrued for and upto the period of death of the depositor is required to be deducted and reported against PAN of the depositor, and

(ii) TDS on the interest income accrued for the period after death of the depositor is required to be deducted and reported against PAN of the legal heir,

unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator [Circular No. 21/2017, dated 12.06.2017]

Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. *Explanation* to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; (e) plant; (f) equipment (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

The primary requirement of any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I.

Accordingly, the CBDT has, *vide* this circular, clarified that the provisions of section 194-I shall **not** be applicable on payment of PSF by an airline to Airport Operator.

Clarification regarding TDS on Goods and Services Tax (GST) component comprised in payments made to residents [Circular No. 23/2017 dated 19.07.2017]

The CBDT had, vide Circular No. 1/2014 dated 13.01.2014, clarified that wherever in terms of the agreement or contract between the payer and the payee, the service tax component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such service tax component.

In order to harmonize the same treatment with the new system for taxation of services under the GST regime w.e.f. 01.07.2017, the CBDT has, vide this circular, clarified that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component.

GST shall include Integrated Goods and Services Tax, Central Goods and Services Tax, State Goods and Services Tax and Union Territory Goods and Services Tax.

Further, for the purposes of this Circular, any reference to "service tax" in an existing agreement or contract which was entered into prior to 01.07.2017 shall be treated as "GST on services" with respect to the period from 01.07.2017 onward till the expiry of such agreement or contract.

CHAPTER 10: PROVISIONS FOR FILING RETURN OF INCOME AND SELF ASSESSMENT

Scope of qualifications for e-Return Intermediary extended to include Company Secretaries, Cost Accountants and Tax Return Preparer [Notification No 66/2016, dated 09.08.2016]

Section 139(1B) provides for an alternative method to furnish return of income. Vide Notification No 210/2007, dated 27.07.2007, an Electronic Furnishing of Return of Income Scheme, 2007 was notified for the said purpose. The scheme, *inter alia* provides that an eligible person may, at his option, furnish his return of income which he is required to furnish under various provisions of the Act, to an e-Return Intermediary who shall digitize the data of such return and transmit the same electronically to a server designated for this purpose by the e-Return Administrator, on or before the due date.

Para 5 of the said Notification lays down the qualifications of an e-Return Intermediary. A firm of Chartered Accountants or Advocates, which has been allotted a Permanent Account Number, as well as a Chartered Accountant or an Advocate who has been allotted a Permanent Account Number, *inter alia,* qualified to be an e-Return intermediary.

Vide this Notification, a firm of Company Secretaries or Cost Accountants, if the firm has been allotted PAN as well as a Company Secretary or a Cost Accountant or Tax Return Preparer, who has been allotted a Permanent Account Number, would also qualify to be an e-Return intermediary.

Persons who are not required to quote Aadhar Number or Enrolment ID in application form for allotment of PAN and in return of income [Notification No. 37/2017 dated 11.05.2017]

Section 139AA requires every person who is eligible to obtain Aadhar Number to mandatorily quote Aadhar Number or Enrolment ID of Aadhar application form, on or after 1st July, 2017 in the application form for allotment of PAN and in the return of income. However, this provision shall not applicable to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

PART II: QUESTIONS AND ANSWERS

QUESTIONS

1. Mr. Kavin, a non-resident, entered into the following transactions during the financial year 2017-18:

   (a) Received ₹ 20 lakhs from a non-resident for use of patent for a business in India.

   (b) Received foreign currency equivalent to ₹ 15 lakhs from a non-resident Indian for use of know-how for a business in Sri Lanka and this amount was received in Korea.

   (c) Received ₹ 7 lakhs from RR Ltd., an Indian company as fees for providing technical services in India.

   (d) Received ₹ 5 lakhs from R & Co., Mumbai, resident in India, for conducting the feasibility study for a new project in Nepal and the payment was made in Nepal.

   (e) Received ₹ 8 lakhs towards interest on moneys borrowed by a non-resident for the purpose of business within India. Amount was received in Korea.

   Examine briefly whether the above receipts are chargeable to tax in India.

2. Examine with reasons whether the following receipts are taxable or not under the provisions of Income-tax Act, 1961.

   (a) Mr. Akash received a sum of ₹ 3,00,000 as compensation from "Sahayata Foundation" towards the loss of property on account of Flood Disaster at Chennai.

   (b) Rent of ₹ 60,000 received for letting out agricultural land for a movie shooting.

   (c) Dividend of ₹ 17 lakhs received by Mr. Yatin during P.Y. 2017-18 from A Ltd., a domestic company.

   (d) Agricultural income of ₹ 1,30,000 of Mr. Sunil from a land situated in Canada.

3. Mr. Kashyap retired from the services of M/s ABC Ltd. on 31.01.2018, after completing service of 30 years and one month. He had joined the company on 1.1.1988 at the age of 30 years and received the following on his retirement:

   (i) Gratuity ₹ 5,50,000. He was covered under the Payment of Gratuity Act, 1972.

   (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

   (iii) As per the scheme of the company, he was offered a car on 31.01.2018 which was purchased on 01.03.2015 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.

   (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.

(v) Company presented him a gift voucher worth ₹ 8,000 on his retirement.

Following are the other particulars:

(i) He has drawn a basic salary of ₹ 20,000 and dearness allowance @50% of basic salary for the period from 01.04.2017 to 31.01.2018. Dearness allowance does not form part of pay for retirement benefits.

(ii) Received pension of ₹ 7,000 per month for the period 01.02.2018 to 31.03.2018 after commutation of pension.

Compute his income taxable under the head “Salaries” for Assessment Year 2018-19.

4. In August 2016, Mr. Kailash, a first-time home buyer, borrowed a sum of ₹ 35 lakhs from the National Housing Bank for construction of a residential house for ₹ 48 lakhs. The loan was sanctioned on 12.5.2016. The loan amount was disbursed directly to the flat promoter by the bank. The construction was completed in May, 2018 and repayments towards principal and interest commenced immediately after disbursement of loan.

In the light of the above facts, examine:

(i) Whether Mr. Kailash can claim deduction under section 24 in respect of interest for the A.Y. 2018-19?

(ii) Whether deduction under Section 80C and 80EE can be claimed by him for the A.Y. 2018-19?

5. Mr. Abhay has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2018:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payments made to an approved Agro Research Association	25
(ii)	Payment made to RR University, an approved University	15
(iii)	Payment made to XY College	17
(iv)	Payment made to IIT, Madras (under an approved programme for scientific research)	10
(v)	Machinery purchased for in-house scientific research	20
(vi)	Salaries to research staff engaged in in-house scientific research	14

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2018-19, while determining his income under the head “Profits and gains of business or profession”.

6. Mr. Arjun bought a vacant land for ₹ 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

   He entered into an agreement for sale of the above said residential house with Mr. Jerry (not a relative) on 9th April 2017 and received ₹ 20 lakhs as advance in cash on that date. The stamp duty value on that date was ₹ 740 lakhs. The actual sale consideration was, however, fixed at ₹ 700 lakhs.

   The sale deed was executed and registered on 10-6-2017 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 770 lakhs. Mr. Arjun paid 1% as brokerage on sale consideration received.

   Subsequent to sale, Mr. Arjun made following investments:

   (i) Acquired a residential house at Mumbai for ₹ 110 lakhs.

   (ii) Acquired a residential house at London for ₹ 150 lakhs.

   (iii) Subscribed to NHAI bond: ₹ 45 lakhs on 29-8-2017 and ₹ 50 lakhs on 12-10-2017.

   Compute the income chargeable under the head "Capital Gains" for A.Y. 2018-19. The choice of exemption must be in the manner most beneficial to the assessee.

Cost Inflation Index:	F.Y. 2004-05	113
	F.Y. 2006-07	122
	F.Y. 2017-18	272

7. From the following transactions relating to Mrs. Sonu, determine the amount chargeable to tax in her hands for the A.Y. 2018-19. Your answer should be supported by reasons:

   (i) Received cash gifts on the occasion of her marriage on 19-11-2017 of ₹ 2,10,000. It includes gift of ₹ 55,000 received from non-relatives.

   (ii) On 1-1-2018, being her birthday, she received a gift of ₹ 45,000 by means of cheque from her father's maternal uncle.

   (iii) On 12-2-2018, she acquired a vacant site from her friend for ₹ 1,12,000. The State stamp valuation authority fixed the value of site at ₹ 1,92,000 for stamp duty purpose.

   (iv) She bought 50 equity shares of a private company from another friend for ₹ 75,000. The fair market value of such shares on the date of purchase was ₹ 1,33,000.

8. Compute the income to be included in the hands of Mr. Sharma for the Assessment year 2018-19 with reasons from the following information:

A proprietary business was started by Mrs. Sharma in the year 2015. As on 1.4.2016 her capital in business was ₹ 5,00,000. Her husband gifted ₹ 3,00,000 on 2.4.2016, which Mrs. Sharma invested in her business on the same date. Mrs. Sharma earned profits from her proprietory business for the financial year 2016-17, ₹ 2,00,000 and financial year 2017-18 ₹ 4,20,000.

9. The following are the details relating to Mr. Gupta, a resident Indian, relating to the year ended 31.3.2018:

Particulars	₹
Income from salaries	2,20,000
Long-term capital loss from sale of listed shares in recognized stock exchange (STT paid at the time of sale and acquisition of shares)	1,50,000
Loss from cloth business	2,40,000
Income from speculation business	30,000
Loss from specified business covered by section 35AD	45,000
Long-term capital gains from sale of urban land	2,50,000
Loss from house property	2,50,000
Loss from card games	40,000
Income from betting (Gross)	35,000
Life Insurance Premium paid (Sum assured ₹ 5,00,000)	25,000

Compute his total income for A.Y. 2018-19 and show the items eligible for carry forward.

10. For the A.Y. 2018-19, the Gross Total Income of Mr. Raja, a resident in India, was ₹ 8,00,000 which includes long-term capital gain of ₹ 2,50,000 and Short-term capital gain of ₹ 50,000. The Gross Total Income also includes interest income of ₹ 15,000 from savings bank deposits with banks. Mr. Raja has invested in PPF ₹ 1,40,000 and also paid a medical insurance premium ₹ 35,000 for self. Mr. Raja also contributed ₹ 50,000 to Public Charitable Trust eligible for deduction under section 80G by way of an account payee cheque. Compute the total income and tax thereon of Mr. Raja, who is 65 years old as on 31.3.2018.

11. Mr. Yusuf Khan, a resident individual aged 55, furnishes the following information pertaining to the year ended 31.3.2018:

    (i) He is a working partner in ABC & Co. He has received the following amounts from the firm:

    Interest on capital at 15% : ₹ 3,00,000

    Salary as working partner (at 1% of firm's sales) (allowed fully to the firm): ₹ 90,000

(ii) He is engaged in a business of manufacturing. The Profit and Loss account pertaining to this proprietary business (summarised form) is as under:

Particulars	₹	Particulars	₹
To Salaries	1,20,000	By Gross profit	12,50,000
To Bonus	48,000	By Interest on Bank FD	45,000
To Car expenses	50,000	(Net of TDS)	
To Machinery repairs	2,34,000	By Agricultural income	60,000
To Advance tax	70,000	By Pension from LIC	
To Depreciation on:		Jeevan Dhara	24,000
- Car	3,00,000		
- Machinery	1,25,000		
To Net profit	4,32,000		
	13,79,000		**13,79,000**

Details of assets:

Particulars	₹
Opening WDV of assets are as under:	
Car	3,00,000
Machinery (Used during the year for 179 days)	6,50,000
Additions to machinery:	
Purchased on 23.9.2017 by cash in single payment	2,00,000
Purchased on 12.11.2017 by account payee cheque	3,00,000
Second hand machinery purchased on 12.4.2017 by bearer cheque in single payment	1,25,000

(All assets added during the year were put to use immediately after purchase)

One-fifth of the car expenses are towards estimated personal use of the assessee.

Salary includes ₹ 15,000 paid by way of a single cash payment to manager.

(iii) In February, 2016, he had sold a house at Chennai. Arrears of rent relating to this house amounting to ₹ 75,000 was received in March, 2018.

(iv) Details of his Savings and Investments are as under:

Particulars	₹
Life insurance premium for policy in the name of his major son employed in a multinational company, at a salary of ₹ 10 lakhs p.a.	

(Sum assured ₹ 2,00,000) (Policy taken on 1.07.2013)	30,000
Contribution to PPF	70,000
Medical Insurance premium for his father aged 79, who is not dependent on him	32,000

You are required to compute the total income of Mr. Yusuf Khan for the assessment year 2018-19.

12. Mr. Sachal, a resident individual aged 54, furnishes his income & other details for the P.Y. 2017-18:

    (i) Income of ₹ 8,10,000 from wholesale cloth business, whose accounts are audited u/s 44AB.

    (ii) Income from other sources ₹ 2,70,000.

    (iii) Tax deducted at source ₹ 25,000.

    (iv) Advance tax paid ₹ 1,03,000 during the P.Y. 2017-18.

    Return of income filed on 11-12-2018. Calculate the interest payable under section 234B of the income-tax Act, 1961. Assume that the return of income would be processed on the same day of filing of return. What are the consequences for delay in furnishing return of income under the Income-tax Act, 1961? Examine, making the required computations in this case.

13. Mention the significant differences between TDS and TCS.

14. Ms. Geetha submits her return of income on 29-09-2018 for A.Y 2018-19 consisting of income under the head "Salaries", "Income from house property" and bank interest. On 01-02-2019, she realized that she had not claimed deduction under section 80D in respect of medical insurance premium of ₹ 15,000 paid for her mother. She wants to revise her return of income. Can she do so? Examine.

    Would your answer be different if she discovered this omission on 02-04-2019?

SUGGESTED ANSWERS

1. Taxability of certain receipts in the hands of Mr. Kavin, a non-resident, for A.Y. 2018-19

	Taxability	Reason
(a)	**Taxable**	Amount of ₹ 20 lakhs received from a non-resident is deemed to accrue or arise in India by virtue of section 9(1)(vi)(c), since the patent was used for a business in India. Therefore, the amount is chargeable to tax in India.
(b)	**Not Taxable**	Foreign currency equivalent to ₹ 15 lakhs received in Korea from a non-resident for use of know-how for a business in

		Sri Lanka is not deemed to accrue or arise in India as per section 9(1)(vi)(c), since it is in respect of a business carried on outside India. Also, the amount was received outside India. Therefore, the same is not chargeable to tax in India.
(c)	**Taxable**	Amount of ₹ 7 lakhs received from RR Ltd., an Indian Company, is deemed to accrue or arise in India by virtue of section 9(1)(vii)(b), since it is for providing technical services in India. Therefore, the same is chargeable to tax in India.
(d)	**Not Taxable**	Amount of ₹ 5 lakhs received in Nepal from R & Co., a resident, for conducting feasibility study for the new project in Nepal is not deemed to accrue or arise in India as per section 9(1)(vii)(b), since such study was done for a project outside India. The amount was also received outside India. Therefore, the same is not chargeable to tax in India.
(e)	**Taxable**	Amount of ₹ 8 lakhs received in Korea towards interest on moneys borrowed by a non-resident for the purpose of business within India is deemed to accrue or arise in India by virtue of section 9(v)(c), since money borrowed was used for the purpose of business in India. Therefore, the same is chargeable to tax in India.

2. Taxability of receipts under the provisions of Income-tax Act, 1961

	Taxable/Not taxable	**Reason**
(a)	Taxable	As per section 10(10BC), any amount received or receivable by an individual as compensation, on account of any disaster, from the Central Government, State Government or a local authority is exempt from tax, to the extent the individual has not been allowed deduction under any other provision of Income-tax Act, 1961 on account of any loss or damage caused by such disaster. However, in this case, since Mr., Akash has received a compensation of ₹ 3,00,000 from Sahayata Foundation, and not from the Central Government or State Government or local authority, no exemption will be available under section 10(10BC) and the same is chargeable to tax.
(b)	Taxable	Agricultural income is exempt from income-tax as per section 10(1). Agriculture income means, *inter alia*, any rent or revenue derived from land which is situated in India and is used for agricultural purposes. In this case, rent is being derived from letting out of

		agricultural land for a movie shoot, which is not an agricultural purpose. In effect, the land is not being put to use for agricultural purposes. Therefore, ₹ 60,000, being rent received from letting out agricultural land for movie shooting, is not exempt under section 10(1) and the same is chargeable to tax.
(c)	Partly taxable	Dividend received from a domestic company is subject to dividend distribution tax in the hands of domestic company under section 115-O. Dividend income received from an Indian company, which is subject to dividend distribution tax, is exempt under section 10(34). However, dividend in excess of ₹ 10 lakhs received, *inter alia,* by an individual is chargeable to tax under section 115BBDA and not exempt under section 10(34). Therefore, in this case, dividend received upto ₹ 10 lakh is exempt in the hands of Mr. Yatin under section 10(34). ₹ 7 lakh, being dividend in excess of ₹ 10 lakh, is taxable in his hands @10% as per section 115BBDA.
(d)	Taxable	Agricultural income from a land situated in any foreign country is not exempt under section 10(1) and hence, is chargeable to tax. Therefore, in this case, agricultural income of ₹ 1,30,000 of Mr. Sunil from land situated in Canada is taxable.

3. Computation of income chargeable under the head "Salaries" of Mr. Kashyap for A.Y. 2018-19

Particulars	**₹**
Basic Salary = ₹ 20,000 x 10	2,00,000
Dearness Allowance = 50% of basic salary	1,00,000
Gift Voucher **(See Note - 1)**	8,000
Transfer of car **(See Note - 2)**	1,20,000
Gratuity **(See Note - 3)**	30,769
Leave encashment **(See Note - 4)**	1,30,000
Uncommuted pension (₹ 7000 x 2)	14,000
Commuted pension **(See Note - 5)**	1,50,000
Taxable Salary /Gross Total Income	**7,52,769**

Notes:

(1) As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household not exceeding ₹ 5,000 in aggregate during the previous year is exempt. In this case, the amount was received on his retirement and the sum exceeds the limit of ₹ 5,000.

Therefore, the entire amount of ₹ 8,000 is liable to tax as perquisite.

Note - *An alternate view is possible that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001. Gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 3,000 and gross total income would be ₹ 7,47,769.*

(2) **Perquisite value of transfer of car:** As per Rule 3(7)(viii), the value of benefit to the employee arising from the transfer of an asset, being a motor car, by the employer is the actual cost of the motor car to the employer as reduced by 20% on a written down value basis for each completed year during which such motor car was put to use by the employer. Therefore, the value of perquisite on transfer of motor car, in this case, would be:

Particulars	₹
Purchase price (1.3.2015)	5,00,000
Less: Depreciation @ 20%	1,00,000
WDV on 29.2.2016	4,00,000
Less: Depreciation @ 20%	80,000
WDV on 28.2.2017	3,20,000
Less: Amount recovered	2,00,000
Value of perquisite	**1,20,000**

Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case, the third year of use of car is completed on 28.2.2018 whereas the car was sold to the employee on 31.1.2018. Accordingly, wear and tear has to be calculated @20% on reducing balance method for only two years.

The rate of 15% as well as the straight line method adopted by the company for depreciation of vehicle is not relevant for calculation of perquisite value of car in the hands of Mr. Kashyap.

(3) **Taxable gratuity**

Particulars	₹
Gratuity received	5,50,000
Less: Exempt under section 10(10) - Least of the following:	
(i) Notified limit = ₹ 10,00,000	
(ii) Actual gratuity received = ₹ 5,50,000	
(iii) 15/26 x last drawn salary x no. of completed years or part in excess of 6 months	
15/26 x 30,000 x 30 = ₹ 5,19,231	5,19,231
Taxable Gratuity	**30,769**

***Note** – As per the Payment of Gratuity Act, 1972, dearness allowance is included in the meaning of salary. Since, in this case, Mr. Kashyap is covered under the Payment of Gratuity Act, 1972, dearness allowance has to be included within the meaning of salary for computation of exemption under section 10(10).*

(4) **Taxable leave encashment**

Particulars			₹
Leave Salary received			3,30,000
Less: Exempt under section 10(10AA) - Least of the following:			
(i)	Notified limit	₹ 3,00,000	
(ii)	Actual leave salary received	₹ 3,30,000	
(iii)	10 months x ₹ 20,000	₹ 2,00,000	
(iv)	Cash equivalent of leave to his credit	₹ 2,20,000	
	$\left(\frac{330}{30} \times 20{,}000\right)$		2,00,000
Taxable Leave encashment			**1,30,000**

***Note -** Salary, for the purpose of exemption under section 10(10AA), would include dearness allowance only if it forms part of pay for retirement benefits. Therefore, in this case, since dearness allowance does not form part of pay for retirement benefits, only basic salary has to be considered for computing exemption under section 10(10AA).*

(5) **Commuted Pension**

Since Mr. Kashyap is a non-government employee in receipt of gratuity, exemption under section 10(10A) would be available to the extent of 1/3rd of the amount of the commuted pension which he would have received had he commuted the whole of the pension.

Particulars	₹
Amount received	3,00,000
Less: Exemption under section 10(10A) = $\frac{1}{3}\times\left[3,00,000\times\frac{3}{2}\right]$	1,50,000
Taxable amount	**1,50,000**

4. (i) As per section 24(b), interest payable on loans borrowed for the purpose of acquisition, construction, repairs, renewal or reconstruction of house property can be claimed as deduction. Interest payable on borrowed capital for the period prior to the previous year in which the property has been acquired or constructed, can be claimed as deduction over a period of 5 years in equal annual installments commencing from the year of acquisition or completion of construction.

It is stated that the construction is completed only in May, 2018. Hence, deduction under section 24 in respect of interest on housing loan cannot be claimed in the assessment year 2018-19.

(ii) Deduction under section 80C cannot be claimed

Clause (xviii) of section 80C is attracted where there is any payment for the purpose of purchase or construction of a residential house property, the income from which is chargeable to tax under the head 'Income from house property'. Such payment covers repayment of any amount borrowed from the National Housing Bank.

However, deduction is *prima facie* eligible only if the income from such property is chargeable to tax under the head "Income from House Property". During the assessment year 2018-19, there is no such income chargeable under this head. Hence, deduction under section 80C cannot be claimed for A.Y. 2018-19.

Deduction under section 80EE can be claimed

As per section 80EE, interest payable on loan taken for the purpose of acquisition of a residential house from any financial institution qualifies for deduction, subject to a maximum of ₹ 50,000, provided following conditions are satisfied –

(i) Such loan is sanctioned during the P.Y. 2016-17

(ii) The value of the house does not exceed ₹ 50 lakhs

(iii) The amount of loan sanctioned does not exceed ₹ 35 lakhs and

(iv) the assessee does not own any residential house on the date of sanction of loan

Section 80EE does not pose any restriction regarding the chargeability of the income from such property under the head "Income from House Property. Therefore, in this case, since Mr. Kailash satisfies all the conditions stipulated under section 80EE, interest on such loan would qualify for deduction under section 80EE, subject to a maximum of ₹ 50,000.

5. **Computation of deduction allowable under section 35**

Particulars	**Amount (₹ in lakhs)**	**Section**	**% of weighted deduction**	**Amount of deduction (₹ in lakhs)**
Payment for scientific research				
Approved Agro Research Association	25	35(1)(ii)	150%	37.5
RR University, an approved University	15	35(1)(ii)	150%	22.5
XY College **[See Note 1]**	17	-	NIL	NIL
IIT Madras (under an approved programme for scientific research)	10	35(2AA)	150%	15
In-house research [See Note 2]				
Capital expenditure – Purchase of Machinery	20	35(1)(iv) r. w. 35(2)	100%	20
Revenue expenditure - Salaries to research staff engaged in in-house scientific research	14	35(1)(i)	100%	14
Deduction allowable under section 35				**109**

Notes:-

1. **Payment to XY College:** Since the question clearly mentions that only Agro Research Association and RR University (mentioned in item (i) and (ii), respectively) are approved research institutions, it is logical to conclude that XY College mentioned in item (iii) is not an approved research institution. Therefore, payment to XY College would not qualify for deduction under section 35.

2. **Deduction for in-house research and development:** Only company assessees are entitled to weighted deduction @150% under section 35(2AB) in respect of expenditure on scientific research on in-house research and development facility. However, in this case, the assessee is an individual. Therefore, he would be entitled to deduction@100% of the revenue expenditure incurred under section 35(1)(i) and 100% of the capital expenditure incurred under section 35(1)(iv) read with section 35(2), assuming that such expenditure is laid out or expended on scientific research related to his business.

6. **Computation of income chargeable under the head "Capital Gains" for A.Y.2018-19**

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 700 lakhs		
Value adopted by Stamp Valuation Authority ₹ 770 lakhs		
Gross Sale consideration		770.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 740 lakhs on the date of agreement cannot be adopted as the full value of consideration. Stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ 700 lakhs)		7.00
Net Sale consideration		763.00
Less: Indexed cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, *plus* registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land [₹ 88 lakhs × 272/113]	211.82	
- Construction cost of residential building (₹ 100 lakhs x 272/122)	222.95	434.77
Long-term capital gains before exemption		**328.23**
Less: **Exemption under section 54**		110.00
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of		

one residential house property in India one year before or two years after the date of transfer of original asset. Therefore, in the present case, the exemption would be available only in respect of the residential house acquired at Mumbai and not in respect of the residential house in London		
Less: **Exemption under section 54EC**		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.12.2017) would qualify for exemption, to the maximum extent of ₹ 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 95 lakhs, even if the both the investments are made on or before 09.12.2017 (i.e., within six months from the date of transfer).		
Long term capital gains chargeable to tax		**168.23**

Note: Since the residential house property was held by Mr. Arjun for more than 24 months immediately preceding the date of its transfer, the resultant gain is a long-term capital gain.

7. Computation of amount chargeable to tax in hands of Mrs. Sonu for A.Y. 2018-19

	Particulars	**₹**
(i)	Cash gift of ₹ 2,10,000 received on the occasion of her marriage is not taxable, since gifts received by an individual on the occasion of marriage is excluded from tax under section 56(2)(x), even if the same are from non-relatives.	Nil
(ii)	Even though father's maternal uncle does not fall within the definition of "relative" under section 56(2)(x), gift of ₹ 45,000 received from him by cheque is not chargeable to tax since the aggregate sum of money received by Mrs. Sonu without consideration from non-relatives (other than on the occasion of marriage) during the previous year 2017-18 does not exceed ₹ 50,000.	Nil
(iii)	Purchase of vacant site for inadequate consideration on 12.2.2018 would attract the provisions of section 56(2)(x). Where any immovable property is received for a consideration which is less than the stamp duty value of the property by an amount exceeding ₹ 50,000, the difference between the stamp duty value and consideration is chargeable to tax in the hands of Individual. Therefore, in the given case ₹ 80,000 (₹ 1,92,000 - ₹ 1,12,000) is taxable in the hands of Mrs. Sonu.	80,000

(iv)	Since shares are included in the definition of "property" and difference between the purchase value and fair market value of shares is ₹ 58,000 (₹ 1,33,000 - ₹ 75,000) i.e. it exceeds ₹ 50,000, the difference would be taxable under section 56(2)(x).	58,000
Amount chargeable to tax		**1,38,000**

8. Section 64(1)(iv) provides for the clubbing of income in the hands of the individual, if the income earned is from the assets transferred directly or indirectly to the spouse of the individual, otherwise than for adequate consideration or in connection with an agreement to live apart. In this case, Mrs. Sharma received a gift of ₹ 3,00,000 from her husband which she invested in her business. In a case where gift from spouse has been invested in business, as per *Explanation 3* to section 64(1), the income or loss from such business for any previous year has to be apportioned between the spouses on the basis of the ratio of their capital employed as on 1st April of the relevant previous year. Accordingly, the income to be included in the hands of Mr. Sharma for A.Y.2018-19 has to be computed as under:

Particulars	Mrs. Sharma's Capital Contribution	Capital Contribution Out of gift from husband	Total
	₹	₹	₹
Capital as on 1.4.2016	5,00,000	--	5,00,000
Investment on 02.04.2016 out of gift received from her husband		3,00,000	3,00,000
	5,00,000	3,00,000	8,00,000
Profit for F.Y. 2016-17 to be apportioned on the basis of capital employed on the first day of the previous year i.e., on 1.4.2016	2,00,000		2,00,000
Capital employed as on 1.4.2017	**7,00,000**	**3,00,000**	**10,00,000**
Profit for F.Y. 2017-18 to be apportioned on the basis of capital employed as on 1.4.2017 (i.e., 7:3)	2,94,000	1,26,000	4,20,000

Therefore, the income to be included in the hands of Mr. Sharma for A.Y.2018-19 is ₹ 1,26,000.

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

Particulars	₹	₹
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property **[See Note (i)]**	2,00,000	20,000
Profits and gains of business or profession		
Income from speculation business	30,000	
Less: Loss from cloth business set off **[See Note (iv)]**	30,000	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Loss from cloth business set off **[See Note (iv)]**	2,10,000	40,000
Income from other sources		
Income from betting		35,000
Gross Total Income		**95,000**
Less: Deduction under section 80C (life insurance premium paid) **[See Note (vi)]**		20,000
Total income		**75,000**

Losses to be carried forward:

Particulars		₹
(1)	Loss from house property (**₹ 2,50,000 - ₹ 2,00,000)**	50,000
(2)	Loss from cloth business **(₹ 2,40,000 - ₹ 30,000 - ₹ 2,10,000)**	Nil
(3)	Loss from specified business covered by section 35AD	45,000

Notes:

(i) As per section 71(3A), loss from house property can be set-off against income under any other head to the extent of ₹ 2,00,000 only. As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year.

(ii) Long-term capital gains from sale of listed shares in a recognized stock exchange on which STT is paid at the time of acquisition and sale is exempt under section 10(38). Loss from an exempt source cannot be set off against profits from a taxable source. Therefore, long-term capital loss on sale of listed shares on which STT is paid cannot be set-off against long-term capital gains from sale of urban land. Such loss cannot also be carried forward for set-off in the subsequent years.

(iii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. The unabsorbed loss has to be carried forward for set-off against profits and gains of any specified business in the following year(s).

(iv) Since inter-source set-off of losses is permissible as per section 70(1), loss from cloth business to the extent of ₹ 30,000 can be set-off against income from speculation business. The remaining business loss cannot be set off against salary income due to restriction contained in section 71(2A). However, the remaining business loss of ₹ 2,10,000 (₹ 2,40,000 – ₹ 30,000) can be set-off against long-term capital gains of ₹ 2,50,000 from sale of urban land. Consequently, the taxable long-term capital gains would be ₹ 40,000.

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

(vi) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to ₹ 20,000 [i.e., Gross Total Income of ₹ 1,05,000 – ₹ 40,000 (LTCG) – ₹ 45,000 (Casual income)].

(vii) Income from betting is chargeable to tax at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

10. Computation of total income and tax payable by Mr. Raja for the A.Y. 2018-19

Particulars	**₹**	**₹**
Gross total income including long term capital gain		8,00,000
Less: Long term capital gain		2,50,000
		5,50,000
Less: **Deductions under Chapter VI-A:**		
Under section 80C in respect of PPF deposit	1,40,000	
Under section 80D (it is assumed that premium of ₹ 35,000 is paid by otherwise than by cash. The deduction would be restricted to ₹ 30,000, since Mr. Raja is a resident senior citizen)	30,000	
Under section 80G (See Notes 1 & 2 below)	18,500	
Under section 80TTA (See Note 3 below)	10,000	1,98,500
Total income (excluding long term capital gains)		**3,51,500**

Total income (including long term capital gains)		**6,01,500**
Tax on total income (including long-term capital gains of ₹ 2,50,000)		
LTCG ₹ 2,50,000 x 20%		50,000
Balance total income ₹ 3,51,500: Tax @5% on ₹ 51,500 (₹ 3,51,500 – ₹ 3,00,000, being the basic exemption limit for senior citizen)		2,575 52,575
Add: Education cess @2% and Secondary and higher education cess @1%		1,577
Total tax liability		**54,152**
Total tax liability (rounded off)		**54,150**

Notes:

1. Computation of deduction under section 80G:

Particulars	₹
Gross total income (excluding long term capital gains)	5,50,000
Less: Deduction under section 80C, 80D & 80TTA	1,80,000
	3,70,000
10% of the above	37,000
Contribution made to Public Charitable Trust	50,000
Lower of the two eligible for deduction under section 80G	37,000
Deduction under section 80G – 50% of ₹ 37,000	**18,500**

2. Deduction under section 80G is allowed only if amount is paid by any mode other than cash, in case of amount exceeding ₹ 2,000. Therefore, the contribution made to public charitable trust is eligible for deduction since it is made by way of an account payee cheque.

3. Deduction of upto ₹ 10,000 under section 80TTA is allowed, *inter alia,* to an individual assessee if gross total income includes interest income from deposits in a saving account with bank. Since Gross Total Income of Mr. Raja includes interest income of ₹ 15,000 on savings bank deposit, he is eligible for deduction of ₹ 10,000 under section 80TTA.

11. Computation of total income of Mr. Yusuf Khan for the A.Y. 2018-19

Particulars		₹	₹
Income from house property			
Arrears of rent received in respect of the Chennai house taxable under section 25A **[Note 1]**		75,000	
Less: Deduction @ 30%		22,500	52,500
Profits and gains of business or profession			
(a) Own business [Note 3]			6,37,000
(b) Income from partnership firm [Note 2]			
Interest on capital		2,40,000	
[As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]			
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)		90,000	3,30,000
Income from other sources			
(a) LIC Jeevan Dhara pension		24,000	
(b) Interest from bank FD (gross)		50,000	74,000
Gross Total Income			**10,93,500**
Less: **Deductions under Chapter VIA**			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of ₹ 2,00,000.	20,000		
Contribution to PPF	70,000	90,000	
Section 80D			
Mediclaim premium for father, a senior citizen	32,000		
(qualifies for deduction, even though the father is not dependent on the assessee, subject to a maximum of ₹ 30,000)		30,000	1,20,000
Total Income			**9,73,500**

Notes:

(1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.

(2) The income by way of interest on capital and salary of Mr. Yusuf Khan from the firm, ABC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, ₹ 3,30,000 [i.e., ₹ 90,000 (salary) + ₹ 2,40,000 (interest@12%)] should be included in his business income.

(3) **Computation of income from own business**

Particulars	₹	₹
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	45,000	
Agricultural income	60,000	
Pension from LIC Jeevan Dhara	24,000	1,29,000
		3,03,000
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (₹ 50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds ₹ 10,000	15,000	5,20,000
		8,23,000
Less: Depreciation (See Working Note below)		1,86,000
Income from business		**6,37,000**

Working Note:

Computation of depreciation allowable under the income-tax Act, 1961

Particulars		₹	₹
On Car:			
Depreciation @15% on 3,00,000		45,000	
Less: 1/5th for personal use		9,000	
Depreciation on Car allowable as deduction			**36,000**
On Machinery:			
Opening WDV	6,50,000		
Additions during the year (used for more than 180 days)			
- New Machinery purchased on 23.9.17	2,00,000		
- Second hand machinery purchased on 12.4.17	1,25,000		
Additions during the year (used for less than 180 days)	3,00,000		
Normal Depreciation			
Depreciation @15% on ₹ 6,50,000		97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 12.4.2017 and on new machinery purchased on 23.9.2017 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]			
Depreciation @ 7.5% on ₹ 3,00,000		22,500	
Total normal depreciation on machinery (A)		**1,20,000**	
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.			
Additional depreciation (B)			
New machinery			
Used for less than 180 days = 10% of ₹ 3,00,000		30,000	

Total permissible depreciation on machinery (A) + (B)		**1,50,000**
Depreciation allowable under section 32		**1,86,000**

12. **Computation of interest payable under section 234B by Mr. Sachal**

Particulars	₹
Tax on total income of ₹ 10,80,000 [Business income of ₹ 8,10,000 + Income from other sources of ₹ 2,70,000]	1,36,500
Add: Education cess and SHEC@3%	4,095
Tax on total income	**1,40,595**
Less: Tax deducted at source	25,000
Assessed Tax	**1,15,595**
90% of assessed tax	1,04,036
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of ₹ 1,03,000 paid is less than ₹ 1,04,036, being 90% of assessed tax	
Number of months from 1st April, 2018 to 11th December, 2018, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on ₹ 12,500 [i.e., difference between assessed tax of ₹ 1,15,595 and advance tax of ₹ 1,03,000 paid, being ₹ 12,595 which is rounded off to ₹ 12,500 under Rule 119A of Income-tax Rules, 1962]	1,125

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sachal's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2018-19, in his case, is 30.09.2018. Mr. Sachal has filed his return on 11.12.2018 i.e., interest under section 234A will be payable for 3 months (from 1.10.2018 to 11.12.2018) @ 1% per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., ₹ 12,595 rounded off to ₹ 12,500 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = ₹ 12,500 x 1% x 3 = ₹ 375

Fee for late filing of return under section 234F

Since Mr. Sachal has furnished his return of income after the due date but before 31.12.2018 and his total income exceeds ₹ 5 lakhs, a fee of ₹ 5,000 will be payable by him.

13. Significant Differences between TDS and TCS

	TDS	TCS
(1)	TDS is tax deduction at source	TCS is tax collection at source.
(2)	Person responsible for paying is required to deduct tax at source at the prescribed rate.	Seller of certain goods or provider of services is responsible for collecting tax at source at the prescribed rate from the buyer. Person who grants licence or lease (in respect of any parking lot, toll plaza, mine or quarry) is responsible for collecting tax at source at the prescribed rate from the licensee or lessee, as the case may be.
(3)	Generally, tax is required to be deducted at the time of credit to the account of the payee or at the time of payment, whichever is earlier. However, in certain cases, tax is required to be deducted at the time of payment. For e.g., in case of payment of salary, payment in respect of life insurance policy	Generally, tax is required to be collected at source at the time of debiting of the amount payable by the buyer of certain goods to the account of the buyer or at the time of receipt of such amount from the said buyer, whichever is earlier. However, in case of sale of motor vehicle of the value exceeding ₹ 10 lakhs, tax collection at source is required at the time of receipt of sale consideration.

14. Since Ms. Geetha has income only under the heads "Salaries", "Income from house property" and "Income from other sources", she does not fall under the category of a person whose accounts are required to be audited under the Income-tax Act, 1961. Therefore, the due date of filing return for A.Y.2018-19 under section 139(1), in her case, is 31st July, 2018. Since Ms. Geetha had submitted her return only on 29.9.2018, the said return is a belated return under section 139(4).

As per section 139(5), a return furnished under section 139(1) or a belated return u/s 139(4) can be revised, if she discovers any omission or wrong statement therein. Thus, a belated return under section 139(4) can also be revised. Therefore, Ms. Geetha can revise the return of income filed by her under section 139(4) in February 2019, to claim deduction under section 80D, since the time limit for filing a revised return is upto the end of the relevant assessment year, which is 31.03.2019.

However, she cannot revise return had she discovered this omission only on 02-04-2019, since it is beyond 31.03.2019, being the end of A.Y. 2018-19.

SECTION B : INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 31.10.2017.

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

1. Raman Ltd., a registered supplier in Mumbai (Maharashtra), has supplied goods to Sahil Traders and Jaggi Motors Ltd. located in Ahmedabad (Gujarat) and Pune (Maharashtra) respectively. Raman Ltd. has furnished the following details for the current month:

S. No.	Particulars	Sahil Traders (₹)	Jaggi Motors Ltd. (₹)
(i)	Price of the goods (excluding GST)	20,000	15,000
(ii)	Packing charges	600	
(iii)	Commission	400	
(iv)	Weighment charges		1,000
(v)	Discount for prompt payment (recorded in the invoice)		500

Items given in points (ii) to (v) have not been considered while arriving at price of the goods given in point (i) above.

Compute the GST liability [CGST & SGST or IGST, as the case may be] of Raman Ltd. for the given month. Assume the rates of taxes to be as under:

Particulars	Rate of tax
Central tax (CGST)	9%
State Tax (SGST)	9%
Integrated tax (IGST)	18%

Make suitable assumptions, wherever necessary.

Note: The supply made to Sahil Traders is an inter-State supply.

2. (i) Tirupati Traders, a registered supplier of goods, pays GST [CGST & SGST or IGST, as the case may be] under regular scheme. It has furnished the following particulars for a tax period:-

Particulars	₹
Value of intra-State supply of goods	12,000
Value of intra-State purchase of goods	10,000

Note:

(i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the input tax credit have been fulfilled.

Compute the net GST payable by Tirupati Traders during the given tax period assuming that there is no opening balance of input tax credit (ITC). Make suitable assumptions wherever required.

(ii) Govind, a registered supplier, is engaged in providing services in the neighbouring States from his registered office located in Mumbai. He has furnished the following details in respect of the inward and outward supplies made during a tax period:-

Particulars	(₹)
Inter-State supply of services	1,80,000
Receipt of goods and services within the State	1,00,000

Assume the rates of taxes to be as under:-

Particulars	Rate
CGST	9%
SGST	9%
IGST	18%

Note:

(i) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(ii) All the conditions necessary for availing the input tax credit have been fulfilled.

Compute the net GST payable by Govind during the given tax period. Make suitable assumptions if required.

3. Shipra Traders is a registered supplier of goods in Assam. It purchased goods valued at ₹ 10,000 from Kartik Suppliers located within the same State. Kartik Suppliers charged CGST & SGST separately in its invoice. Subsequently, Shipra Traders sold goods valuing ₹ 9,500 to Rabina Manufacturers located in Assam. 20% of the inputs purchased are still lying in stock and there was no opening stock of goods. Rate of CGST and SGST on supply and purchase of goods is 9% each. Calculate the net GST payable by Shipra Traders and input tax credit (ITC) to be carried forward, if any.

4. Granites Textiles Ltd. purchased a needle detecting machine on 8th July, 2017 from Makhija Engineering Works Ltd. for ₹ 10,00,000 (excluding GST) paying GST @ 18% on the same. It availed the ITC of the GST paid on the machine and started using it for manufacture of goods. The machine was sold on 22nd October, 2018 for ₹ 7,50,000 (excluding GST), as second hand machine to LT. Pvt. Ltd. The GST rate on supply of machine is 18%.

   State the action which Granites Textiles Ltd. is required to take, if any, in accordance with the statutory GST provisions on the sale of the second-hand machine.

5. Royal Sweet Co., Delhi, a registered supplier, has furnished the details of the following few transactions which took place in November, 20XX:

S. No.	Date	Particulars	Date of invoice	Amount (₹)
(i)	11.11.20XX	Payment made to an advocate in Delhi	07.07.20XX	1,25,000
(ii)	20.11.20XX	Paid sitting fee to Director from Haryana for meeting held in Delhi on 15.10.20XX [Inter-State supply]	15.10.20XX	75,000

   Assume the rates of taxes to be as under:-

Particulars	Rate
CGST	9%
SGST	9%
IGST	18%

   You are required to compute GST [CGST & SGST/IGST, as the case may be] payable for the month of November, 20XX along with time of supply of the aforementioned activities.

6. Sahab Sales, an air-conditioner dealer in Janakpuri, Delhi, needs 4 air-conditioners for his newly constructed house in Safdarjung Enclave. Therefore, he transfers 4 air-conditioners [on which ITC has already been availed by it] from its stock, for the said purpose. Examine whether the said activity amounts to supply under section 7 of the CGST Act, 2017.

   Further, a Janakpuri resident, Aakash, approached Sahab Sales. He sold an air-conditioner to Sahab Sales for ₹ 5,000. Aakash had bought the said air-conditioner six months before, for his residence. Does sale of the air conditioner by Aakash to Sahab Sales amount to supply under section 7 of the CGST Act, 2017?

7. Pure Oils, Delhi has started the supply of machine oils and high speed diesel in the month of April, 20XX. The following details have been furnished by it for the said month:-

Sl. No.	Particulars	₹*
(i)	Supply of machine oils in Delhi	2,00,000
(ii)	Supply of high speed diesel in Delhi	4,00,000
(iii)	Supply made through Fortis Lubricants - an agent of Pure Oils in Delhi	3,75,000
(iv)	Supply made by Pure Oils from its branch located in Punjab	1,80,000

*excluding GST

Determine whether Pure Oils is liable for registration. Will your answer change, if Pure Oils supplies machine oils amounting to ₹ 2,50,000 from its branch located in Himachal Pradesh in addition to the above-mentioned supplies?

8. Royal Fashions, a registered supplier of designer outfits in Delhi, decides to exhibit its products in a Fashion Show being organised at Hotel Park Royal, Delhi on 4th January, 20XX. For the occasion, it gets the makeover of its models done by Aura Beauty Services Ltd., Ashok Vihar, for which a consideration is ₹ 5,00,000 (excluding GST) has been charged. Aura Beauty Services Ltd. issued a duly signed tax invoice on 10th February, 20XX showing the lumpsum amount of ₹ 5,90,000 inclusive of CGST and SGST @ 9% each. Royal Fashions made the payment the very next day. Answer the following questions:

   (i) Examine whether the tax invoice has been issued within the time limit prescribed under law?

   (ii) Tax consultant of Royal Fashions objected to the invoice raised suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd. However, Aura Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of Royal Fashions?

SUGGESTED ANSWERS/HINTS

1. Computation of GST liability

S. No.	Particulars	Sahil Traders (₹)	Jaggi Motors Ltd. (₹)
(i)	Price of goods	20,000	15,000
(ii)	*Add:* Packing charges (Note-1)	600	
(iii)	*Add*: Commission (Note-1)	400	
(iv)	*Add:* Weighment charges (Note-1)	-	1,000

(v)	*Less:* Discount for prompt payment (Note-2)	-	500
	Value of taxable supply	21,000	15,500
	IGST payable @ 18% (Note-3)	**3,780**	
	CGST payable @ 9% (Note-4)		**1,395**
	SGST payable @ 9% (Note-4)		**1,395**

Notes:

1. Incidental expenses, including commission and packing, charged by supplier to recipient of supply is includible in the value of supply. Weighment charges are also incidental expenses, hence includible in the value of supply [Section 15 of the CGST Act, 2017].
2. Since discount is known at the time of supply, it is deductible from the value in terms of section 15 of the CGST Act, 2017.
3. Since supply made to Sahil Traders is an inter-State supply, IGST is payable in terms of section 5 of the IGST Act, 2017.
4. Since supply made to Jaggi Motors Ltd. is an intra-State supply, CGST & SGST is payable on the same.

2. (i) Computation of net GST payable

Particulars	CGST (₹)	SGST (₹)
GST payable on intra-State supply of goods [Being an intra-State supply, CGST and SGST is payable on the same]	1,080 (₹12,000 × 9%)	1,080 (₹12,000 × 9%)
Less: Input tax credit (ITC) on intra-State purchase of goods [CGST and SGST paid on the intra-State purchases of goods]	900 (₹10,000 × 9%)	900 (₹10,000 × 9%)
Net GST payable	180	180

(ii) Computation of net GST payable by Govind

Particulars	₹
IGST @ 18% payable on inter-State supply of services [Being an inter-State supply, IGST is payable on the same in terms of section 5 of the IGST Act, 2017]	32,400 [1,80,000 × 18%]
Less: ITC of CGST @ 9% paid on intra-State receipt of goods and services	9,000

[Cross utilisation of CGST towards IGST]	[1,00,000 × 9%]
Less: ITC of SGST @ 9% paid on intra-State receipt of goods and services [Cross utilisation of SGST towards IGST]	9,000 [1,00,000 × 9%]
Net GST payable in cash	**14,400**

Note:

1. CGST shall first be utilised towards payment of CGST and the amount remaining, if any, be utilised towards the payment of IGST [Section 49 of the CGST Act, 2017].
2. SGST shall first be utilised towards payment of SGST and the amount remaining, if any, may be utilised towards the payment of IGST [Section 49 of the CGST Act, 2017].

3. Computation of net GST payable by Shipra Traders

Particulars	**CGST @ 9% (₹)**	**SGST @ 9% (₹)**
GST payable on intra-State supply of goods [Being an intra-State supply, CGST and CGST is payable on the same]	855 [9,500 × 9%]	855 [9,500 × 9%]
Less: ITC on intra-State purchase of goods [ITC of CGST and SGST paid on intra-State purchase is available in full, even if some inputs are lying in stock]	900 [10,000 × 9%]	900 [10,000 × 9%]
Net GST payable	**Nil**	**Nil**
Input tax credit carried forward in Electronic Credit Ledger	**45**	**45**

4. Section 18 of the CGST Act, 2017 read with the CGST Rules, 2017 provides that if capital goods or plant and machinery on which input tax credit has been taken are supplied outward by the registered person, he must pay an amount that is the higher of the following:

(a) input tax credit taken on such goods reduced by 5% per quarter of a year or part thereof from the date of issue of invoice for such goods (i.e., input tax credit pertaining to remaining useful life of the capital goods), or

(b) tax on transaction value.

Accordingly, the amount payable on supply of needle detecting machine shall be computed as follows:

Particulars	₹	₹
Input tax credit taken on the machine (₹ 10,00,000 × 18%)		1,80,000
Less: Input tax credit to be reversed @ 5% per quarter for the period of use of machine (i) For the year 2017-18 = (₹ 1,80,000 × 5%) × 3 quarters (ii) For the year 2018-19 = (₹ 1,80,000 × 5%) × 3 quarters	 27,000 27,000	 54,000
Amount required to be paid **(A)**		1,26,000
Duty leviable on transaction value (₹ 7,50,000 × 18%) **(B)**		1,35,000
Amount payable towards disposal of machine is higher of **(A)** and **(B)**		1,35,000

5. Computation of GST payable for the month of November, 20XX

S. No.	Particulars	Time of supply of services	CGST (₹)	SGST (₹)	IGST (₹)	Interest (₹)
(i)	Services from an advocate in Delhi	06.09.20XX [Note-1 & 3]	11,250	11,250	-	244 [Note-4]
(ii)	Director's Sitting fee	20.11.20XX [Note-2 & 3]	-	-	13,500	

Notes:-

1. Services supplied by an individual advocate to any business entity located in the taxable territory is a notified service on which tax is payable on reverse charge basis by the recipient of services.
2. Services supplied by a director of a company to the said company is a notified service on which tax is payable on reverse charge basis by the recipient of services.
3. As per section 13 of the CGST Act, 2017, the time of supply of services in case of reverse charge is earliest of the following:-
   (a) Date of payment as entered in the books of account of the recipient or the date on which the payment is debited to his bank account, whichever is earlier, or
   (b) Date immediately following 60 days since the date of issue of invoice.

   Provisions of time of supply as provided under section 13 of the CGST Act are also applicable for inter-State supply vide section 20 of the IGST Act.

   In view of the aforesaid provisions, the time of supply and due date for payment of tax in the given cases would be determined as under:

(i) Time of supply of the services is the date immediately following 60 days since the date of issue of invoice, i.e. 06.09.20XX. The due date for payment of tax is 20.10.20XX with return of September, 20XX.

(ii) Time of supply of service is 20.11.20XX and due date for payment of tax is 20.12.20XX with return of December, 20XX.

4. The due date for payment of tax in case (i) is 20.10.20XX with return of September, 20XX. However, the payment of tax is actually made on 11.11.20XX. Thus, payment of tax is delayed by 22 days.

   In case of delayed payment of tax, interest @ 18% per annum is payable for the period for which the tax remains unpaid starting from the day succeeding the day on which such tax was due to be paid [Section 50 of the CGST Act, 2017 read with *Notification No. 13/2017 CT dated 28.06.2017*]. In view of the same, in the given case, interest payable would be as follows:

   Amount of interest payable = ₹ 22,500 × 18% × 22/365 = ₹ 244 (rounded off)

6. Section 7 of the CGST Act, 2017 stipulates that in order to qualify as supply:

(a) Supply should be of goods and/or services.

(b) Supply should be made for a consideration.

(c) Supply should be made in the course or furtherance of business.

Further, Schedule I of the CGST Act, 2017 illustrates the activities to be treated as supply even if made without consideration. One such activity is permanent transfer or disposal of business assets where input tax credit has been availed on such assets, i.e. said activity is to be treated as supply even if made without consideration. In view of said provisions, permanent transfer of air conditioners by Sahab Sales from its stock for personal use at its residence, though without consideration, would amount to supply.

However, sale of air-conditioner by Aakash to Sahab Sales will not qualify as supply under section 7 of the CGST Act, 2017 as although it is made for a consideration, but its not in the course or furtherance of business.

7. As per section 22 of the CGST Act, 2017, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds ₹ 20 lakh.

However, if such taxable supplies are made from any of the specified special category States, namely, States of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand, he shall be liable to be registered if his aggregate turnover in a financial year exceeds ₹ 10 lakh.

As per section 2(6) of the CGST Act, 2017, aggregate turnover includes the aggregate value of:

(i) all taxable supplies,

(ii) all exempt supplies,

(iii) exports of goods and/or services and

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

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

Further, the explanation to section 22 provides that the expression "aggregate turnover" shall include all supplies made by the taxable person, whether on his own account or made on behalf of **all his principals**.

Section 9 of the CGST Act, 2017 provides that CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. As per section 2(47) of the CGST Act, 2017, exempt supply includes non-taxable supply. Thus, supply of high speed diesel in Delhi, being a non-taxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

In the backdrop of the above-mentioned discussion, the aggregate turnover for the month of April, 20XX is computed as under:

S. No.	Particulars	Amount (in ₹)
(i)	Supply of machine oils in Delhi	2,00,000
(ii)	*Add:* Supply of high speed diesel in Delhi	4,00,000
(iii)	*Add:* Supply made through Fortis Lubricants - an agent of Pure Oils in Delhi	-
(iv)	*Add:* Supply made by Pure Oils from its branch located in Punjab	1,80,000
	Aggregate Turnover	7,80,000

Since the aggregate turnover does not exceed ₹ 20 lakh, Pure Oils is not liable to be registered.

If Pure Oils made supply of machine oils amounting to ₹ 2,50,000 from its branch in Himachal Pradesh in addition to the above supply, then threshold limit of registration will be reduced to ₹ 10 lakh as Himachal Pradesh is one of the specified Special Category States.

Aggregate Turnover in that case would be ₹ 7,80,000 + ₹ 2,50,000 = ₹ 10,30,000. So, if Pure Oils supplies machine oils amounting to ₹2,50,000 from its branch in Himachal Pradesh, then it is liable to be registered.

8. (i) As per section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service.

In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto 03.02.20XX. However, the invoice has been issued on 10.02.20XX.

In such a case, the time of supply as per section 13 of the CGST Act, 2017 would be 04.01.20XX i.e. earliest of the following:

(a) Date of provision of service (04.01.20XX)

(b) Date of receipt of payment (11.02.20XX)

(ii) Section 31 of the CGST Act, 2017 read with the CGST Rules, 2017, *inter alia,* provides that tax invoice shall contain the following particulars-

(a) Total value of supply of goods or services or both;

(b) Rate of tax (central tax, State tax, integrated tax, Union territory tax or cess);

(c) Amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess);

The objection raised by the tax consultant of Royal Fashions suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Aura Beauty Services Ltd., is valid in law. In the present case, the tax amount has not been shown separately in the invoice.

<u>Note:</u> GST law is in its nascent stage and has been subject to frequent changes. Although many clarifications have been issued in the last six months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.