

PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2016 EXAMINATION

A. Applicable for November, 2016 examination

Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2016 will be applicable for November, 2016 Examination.

B. Not applicable for November, 2016 examination

I. **Non-Applicability of Ind ASs for November, 2016 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 have not been made applicable for November, 2016 Examination.

II. **Non-applicability of Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015**

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 and Companies (Indian Accounting Standards) Rules, 2015 have not been made applicable for November, 2016 examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) Prepare a Balance Sheet as at 31st March 2016, as per Schedule III of the Companies Act, 2013, from the following information of Kalyan Ltd.-

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	20,00,000	Investments (Non-current)	,50,000
Trade payables	22,90,000	Profit for the year	16,00,000
Other advances	7,44,000	Trade receivables	24,50,000
Cash and Bank Balances	19,20,000	Miscellaneous Expenses	1,16,000
Staff Advances	1,10,000	Loan from other parties	4,00,000
Provision for Taxation	5,10,000	Provision for Doubtful	

Securities Premium	9,50,000	Debts	40,000
Loose Tools	1,00,000	Stores	8,00,000
General Reserve	31,00,000	Fixed Assets (WDV)	1,13,00,000
Capital Work-in- progress	4,00,000	Finished Goods	15,00,000

Additional Information:-

- Share Capital consist of-
 - 60,000 Equity Shares of ₹ 100 each fully paid up.
 - 20,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
- The company proposed and declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%.
- Depreciate Assets by ₹ 10,00,000.

Managerial Remuneration – Effective Capital

- (b) The following extract of Balance Sheet of Star Ltd. was obtained:

Balance Sheet (Extract) as on 31st March, 2016

<i>Liabilities</i>	₹
Authorised capital:	
60,000, 14% preference shares of ₹100	60,00,000
6,00,000 Equity shares of ₹100 each	<u>6,00,00,000</u>
	<u>6,60,00,000</u>
Issued and subscribed capital:	
45,000, 14% preference shares of ₹ 100 each fully paid	45,00,000
3,60,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	2,88,00,000
Share suspense account	60,00,000
Reserves and surplus	
Capital reserves (₹ 4,50,000 is revaluation reserve)	5,85,000
Securities premium	1,50,000
Secured loans:	
15% Debentures	1,95,00,000
Unsecured loans:	
Public deposits	11,10,000
Cash credit loan from SBI (short term)	3,95,000
Current Liabilities:	
Trade Payables	10,35,000
Assets:	
Investment in shares, debentures, etc.	2,25,00,000
Profit and Loss account (Dr. balance)	<u>45,75,000</u>

Share suspense account represents application money received on shares, the allotment of which is not yet made.

You are required to compute effective capital as per the provisions of Schedule V. Would your answer differ if Star Ltd. is an investment company?

Cash flow statement

2. The following are the summarized Balance Sheets of Fan Ltd. as on 31st March 2015 and 2016:

<i>Liabilities</i>	31-3-2015 ₹	31-3-2016 ₹
Equity share capital (₹ 10 each)	5,00,000	6,25,000
Capital reserve		5,000
Profit and loss A/c	2,00,000	2,40,000
Long term loan from the bank	2,50,000	2,00,000
Trade payables	2,50,000	2,00,000
Provision for taxation	<u>25,000</u>	<u>30,000</u>
	<u>12,25,000</u>	<u>13,00,000</u>
<i>Assets</i>	₹	₹
Land and building	2,00,000	1,90,000
Machinery	3,75,000	4,60,000
Investment	50,000	25,000
Inventory	1,50,000	1,40,000
Trade receivables	2,00,000	2,10,000
Cash in hand	1,00,000	70,000
Cash at bank	<u>1,50,000</u>	<u>2,05,000</u>
	<u>12,25,000</u>	<u>13,00,000</u>

Additional information:

- (1) Depreciation written off on land and building ₹ 10,000.
- (2) The company sold some investment at a profit of ₹ 5,000, which was credited to Capital Reserve.
- (3) Income-tax provided during the year ₹ 27,500.
- (4) During the year, the company purchased a machinery for ₹ 1,12,500. They paid ₹ 62,500 in cash and issued 5,000 equity shares of ₹ 10 each at par.

You are required to prepare a cash flow statement for the year ended 31st March 2016 as per AS 3 by using indirect method.

Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1st July, 2015 to acquire a running business of Feel goods with effect from 1st April, 2015. During the year 2015-16, the total sales were ₹ 48,00,000 of which ₹ 9,60,000 were for the first six months. The Gross profit of the company ₹ 7,81,600. The expenses debited to the Profit & Loss Account included:
- (i) Director's fees ₹ 60,000
 - (ii) Bad debts ₹ 14,400
 - (iii) Advertising ₹ 48,000 (under a contract amounting to ₹ 4,000 per month)
 - (iv) Salaries and General Expenses ₹ 2,56,000
 - (v) Preliminary Expenses written off ₹ 20,000
 - (vi) Donation to a political party given by the company ₹ 20,000.

Prepare a statement showing pre-incorporation and post-incorporation profit for the year ended 31st March, 2016.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Sona Ltd. as at 31st March, 2016

	₹
Authorised capital:	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,00,000 Equity shares of ₹ 10 each	<u>30,00,000</u>
	<u>33,00,000</u>
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 Reserve (profit realized on sale of plant)	1,20,000
Securities premium	75,000
Profit and Loss Account	6,00,000

On 1st April, 2016, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2016. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four

shares held. Company decides to use Capital Reserve for bonus issue as it has been realized in cash.

Show necessary journal entries in the books of the company and prepare the extract of Notes to accounts of the balance sheet as on 30th April, 2016 after bonus issue.

Internal Reconstruction of a Company

5. The summarised Balance Sheet of Preet Limited as on 31st March 2016, was as follows:

<i>Liabilities</i>	(₹)	<i>Assets</i>	(₹)
Authorised and subscribed capital: 20,000 Equity shares of ₹ 100 each fully paid	20,00,000	Fixed Assets: Machineries	7,00,000
Unsecured loans: 15% Debentures	6,00,000	Current Assets: Inventory	5,06,000
Accrued interest	90,000	Trade receivables	4,60,000
Current Liabilities: Trade payables	1,04,000	Bank	40,000
Provision for income tax	72,000	Profit & loss A/c	11,60,000
	28,66,000		28,66,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- (i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
- (ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- (iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- (iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- (v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) Balance of Profit and Loss account to be written off.
- (vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above and the resultant Balance Sheet.

Amalgamation of Companies

6. Following is the summarized Balance Sheets as at March 31, 2016:

Liabilities	Kanak Ltd.	Ronak Ltd.	Assets	(₹'000)	
				Kanak Ltd.	Ronak Ltd.
Share capital:			Goodwill	60	—
Equity shares of ₹ 100 each	45,00	30,00	Other fixed assets	45,00	22,80
9% Preference shares of ₹ 100 each	15,00	1,200	Trade receivables	19,53	13,20
General reserve	540	510	Inventory	11,79	20,40
Profit and loss account	—	45	Cash at bank	78	390
12% Debentures of ₹ 100 each	18,00	600	Own debentures		
Trade payables	12,45	675	(Nominal value ₹ 6,00,000)	576	
			Discount on issue of debentures	6	
			Profit and loss account	<u>12,33</u>	<u> </u>
	<u>95,85</u>	<u>60,30</u>		<u>95,85</u>	<u>60,30</u>

On 1.4.2016, Kanak Ltd. adopted the following scheme of reconstruction:

- Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.
- Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.
- Own debentures of ₹ 2,40,000 were sold at ₹ 98 cum-interest and remaining own debentures were cancelled.
- Debenture holders of ₹ 8,40,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.
- Trade payables, trade receivables and inventory were valued at ₹ 10,50,000, ₹ 17,70,000 and ₹ 10,80,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.
- The Company paid ₹ 45,000 as penalty to avoid capital commitments of ₹ 9,00,000.

On 2.4.2016 a scheme of absorption was adopted. Kanak Ltd. would take over Ronak Ltd. The purchase consideration was fixed as below:

- Equity shareholders of Ronak Ltd. will be given 50 equity shares of ₹ 10 each fully paid up, in exchange for every 5 shares held in Ronak Ltd.

- (b) Issue of 9% preference shares of ₹ 100 each in the ratio of 4 preference shares of Kanak Ltd. for every 5 preference shares held in Ronak Ltd.
- (c) Issue of one 12% debenture of ₹ 100 each of Kanak Ltd. for each 12% debenture in Ronak Ltd.

You are required to give Journal entries in the books of Kanak Ltd. and draw the resultant Balance Sheet as at 2nd April, 2016

Average Due Date

7. 'Mani' lent ₹ 50,000 to 'Prem' on 1st January, 2015. The amount is repayable in 5 half-yearly installments commencing from 1st January, 2016. Calculate the average due date and interest @ 10% per annum.

Account Current

8. Following transactions took place between L and M during the month of April, 2016:

Date	Particulars	₹
1.4.2016	Amount payable by L to M	5,000
7.4.2016	Received acceptance of L to M for 2 months	2,500
10.4.2016	Bills receivable (accepted by M) on 7.2.2016 is honoured on this due date	5,000
10.4.2016	L sold goods to M (due date 10.5.2016)	7,500
12.4.2016	L received cheque from M (due date 15.5.2016)	3,750
15.4.2016	M sold goods to L (due date 15.5.2016)	3,000
20.4.2016	L returned goods sold by M on 15.4.2016	500
20.4.2016	Bill accepted by M is dishonoured on this due date	2,500

Prepare M's account in the books of L for the month of April, 2016, taking interest into account @ 10% p.a.

Self Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2016:

	(₹)
Debit balances in Debtors Ledger on 01-04-2016	1,79,100
Credit balances in Debtors Ledger on 01-04-2016	4,700
Transactions during the month of April, 2016 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700

Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2016	4,900

Financial Statements of Not for Profit Organisations

10. From the following data, prepare an Income and Expenditure Account for the year ended 31st December, 2016, and Balance Sheet as at that date of the Ganesh Hospital:

Receipts and Payments Account for the year ended 31 December, 2016

<i>Receipts</i>	₹		<i>Payments</i>		₹
To Balance b/d			By Salaries :		
Cash	800		(₹ 7,200 for 2015)		31,200
Bank	<u>5,200</u>	6,000	By Hospital Equipment		17,000
To Subscriptions :			By Furniture purchased		6,000
For 2015		5,100	By Additions to Building		50,000
For 2016		24,500	By Printing and		2,400
For 2017		2,400	Stationery		
To Government Grant :			By Diet expenses		15,600
For building		80,000	By Rent and rates		
For maintenance		20,000	(₹ 300 for 2017)		2,000
Fees from sundry			By Electricity and water		
patients		4,800	charges		2,400
To Donations (not to be		8,000	By office expenses		2,000
capitalised)			By Investments		20,000
To Net collections from			By Balances :		
benefit shows		6,000	Cash	1,400	
			Bank	<u>6,800</u>	<u>8,200</u>
		<u>1,56,800</u>			<u>1,56,800</u>

Additional information :	₹
Value of building under construction as on 31.12.2016	1,40,000
Value of hospital equipment on 31.12.2016	51,000
Building Fund as on 1.1. 2016	80,000
Subscriptions in arrears as on 31.12.2015	6,500
Investments in 8% Govt. securities were made on 1st July, 2016.	

Accounts from Incomplete Records

11. The following is the Balance Sheet of Chirag as on 31st March, 2015:

Liabilities	₹	Assets	₹
Capital Account	48,000	Building	32,500
Loan	15,000	Furniture	5,000
Creditor	31,000	Motor car	9,000
		Stock	20,000
		Debtors	17,000
		Cash in hand	2,000
		Cash at bank	<u>8,500</u>
	<u>94,000</u>		<u>94,000</u>

A riot occurred on the night of 31st March, 2016 in which all books and records were lost. The cashier had absconded with the available cash. He gives you the following information:

- His sales for the year ended 31st March, 2016 were 20% higher than the previous year's. He always sells his goods at cost plus 25%; 20% of the total sales for the year ended 31st March, 2016 were for cash. There were no cash purchases
- On 1st April, 2015 the stock level was raised to ₹ 30,000 and stock was maintained at this new level all throughout the year.
- Collection from debtors amounted to ₹ 1,40,000 of which ₹ 35,000 was received in cash, Business expenses amounted to ₹ 20,000 of which ₹ 5,000 was outstanding on 31st March, 2016 and ₹ 6,000 was paid by cheques.
- Analysis of the Pass Book revealed the Payment to Creditors ₹ 1,37,500, Personal Drawing ₹ 7,500, Cash deposited in Bank ₹ 71,500, and Cash withdrawn from Bank ₹ 12,000.
- Gross profit as per last year's audited accounts was ₹ 30,000.
- Provide depreciation on Building and Furniture at 5% and Motor Car at 20%.

(g) The amount defalcated by the cashier may be treated as recoverable from him.

You are required to prepare the Trading and Profit and Loss Account for the year ended 31st March, 2016 and Balance Sheet as on that date.

Hire Purchase Transactions

12. Moon purchased a machine on Hire Purchase System. The total cost price of the machine was ₹ 15,00,000 payable 20% down and four annual installments of ₹ 4,20,000, ₹ 3,90,000, ₹ 3,60,000 and ₹ 3,30,000 at the end of the 1st, year 2nd year, 3rd year and 4th year respectively. Calculate the interest included in each year's installment assuming that the sales were made at the beginning of the year.

Investment Accounts

13. Mitthan holds 2,000, 15% Debentures of ₹ 100 each in Seema Industries Ltd. as on April 1, 2015 at a cost of ₹ 2,10,000. Interest is payable on June, 30 and December, 31 each year.

On May 1, 2015, 1,000 debentures are purchased cum-interest at ₹ 1,07,000. On November 1, 2015, 1,200 debentures are sold ex-interest at ₹ 1,14,600. On November 30, 2015, 800 debentures are purchased ex-interest at ₹ 76,800. On December, 31, 2015, 800 debentures are sold cum-interest for ₹ 1,10,000.

You are required to prepare the Investment Account showing value of holdings on March 31, 2016 at cost, using FIFO Method.

Insurance claim for loss of stock

14. Ram trader's godown caught fire on 29th August, 2016, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged incurring fire fighting expenses amounting to ₹ 2,350.

The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2015	3,55,250
Cost of stock on 31st March, 2016	3,95,050
Purchases during the year ended 31st March, 2016	28,39,800
Purchases from 1st April, 2016 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2016 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2016 to the date of fire	1,000
Sales for the year ended 31st March, 2016	40,00,000
Sales from 1st April, 2016 to the date of fire	22,68,000

The insurance company also admitted firefighting expenses. The trader had taken the fire insurance policy for ₹ 4,50,000 with an average clause.

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

Issues in Partnership Accounts

15. The following was the Balance Sheet of 'Kamal' and 'Rani', who were sharing profits and losses in the ratio of 2:1 on 31.12.2015:

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts		Plant and machinery	24,00,000
Kamal	20,00,000	Building	18,00,000
Rani	10,00,000	Sundry debtors	6,00,000
Reserves	18,00,000	Stock	8,00,000
Sundry creditors	8,00,000	Cash	2,00,000
Bills payable	<u>2,00,000</u>		
	<u>58,00,000</u>		<u>58,00,000</u>

They agreed to admit 'Nisha' into the partnership on the following terms:

- (i) The goodwill of the firm was fixed at ₹ 2,10,000.
- (ii) That the value of stock and plant and machinery were to be reduced by 10%.
- (iii) That a provision of 5% was to be created for doubtful debts.
- (iv) That the building account was to be appreciated by 20%.
- (v) There was an unrecorded liability of ₹ 20,000.
- (vi) Investments worth ₹ 40,000 (Not mentioned in the Balance Sheet) were taken into account.
- (vii) That the value of reserve, the values of liabilities and the values of assets other than cash are not to be altered.
- (viii) 'Nisha' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare Memorandum Revaluation Account, Capital account of the partners and the Balance Sheet of the newly reconstituted firm.

Accounting in Computerised Environment

16. Write any four disadvantages of Pre-packaged Accounting Software.

AS 1 Disclosure of Accounting Policies

17. (a) Om Ltd. purchases goods on behalf of its customers for execution of work under a

works contract against which it receives full payment and necessary declaration form under Central Sales Tax Act to be passed on to the supplier. The company follows the practice of treating the same as its purchases and accordingly debits to its Profit and Loss Account. Give your views on the above.

AS 2 Valuation of Inventories

- (b) Hello Ltd. purchased goods at the cost of ₹ 20 lakhs in October. Till the end of the financial year, 75% of the stocks were sold. The Company wants to disclose closing stock at ₹ 5 lakhs. The expected sale value is ₹ 5.5 lakhs and a commission at 10% on sale is payable to the agent. What is the correct value of closing stock?

AS 6 Depreciation Accounting

18. (a) Meena Ltd. has an equipment purchased 2 year ago for ₹ 1,90,000. The residual value of the asset was estimated to be ₹ 10,000. The total useful life of the asset when purchased was 12 years. The company charges Depreciation as per Straight Line Method. Due to price adjustment, the cost of the asset is now increased by ₹ 15,000. What is the treatment for the increase in historical cost? Comment and calculate the revised depreciation for the current year.

AS 7 Construction Contracts

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

AS 9 Revenue Recognition

19. (a) Khetan Ltd. has received two lakh subscriptions during the current year under its new scheme whereby customers are required to pay a sum of ₹ 4,500 for which they will be entitled to receive a magazine for a period of 3 years. Khetan wants to treat the entire amount as revenue for the current year. Comment.

AS 10 Accounting for Fixed Assets

- (b) Alex Ltd. intends to set up a solar plant. Alex Ltd. has acquired a dilapidated factory, having an area of 7,500 acres at a cost of ₹ 70,000 per acre. Alex Ltd. has incurred ₹ 50,00,000 on demolishing the old factory building thereon. A sum of ₹ 43,57,500 (including 5% Sales Tax) was realized from sale of material salvaged from the site. Alex Ltd. also incurred Stamp Duty and Registration Charges of 5% of Land Value, paid Legal and Consultancy Charges ₹ 5,00,000 for land acquisition and incurred ₹ 2,00,000 on Title Guarantee Insurance. Compute the value of land acquired.

AS 13 Accounting for Investments

20. (a) Give your comments on the following situations, each being independent of the other.
1. Current Investments are valued at ₹ 60 Lakhs, being the cost of acquisition, fair value of these investments on the Balance Sheet date is ₹ 48 Lakhs.
 2. Current investments were acquired at a cost of ₹ 86 lakhs whereas their fair market value as on the Balance Sheet Date was ₹ 90 lakhs. Due to insufficiency of profits from operations, the Company would like to recognize the profit on these investments for 'improving' its Financial Statements.

AS 14 Accounting for Amalgamations

- (b) How are the balances in profit and loss account treated in the books of transferee company?

SUGGESTED ANSWERS / HINTS

1. (a) **Balance Sheet of Kalyan Ltd. as at 31st March, 2016**

		Note	₹
I	EQUITY AND LIABILITIES:		
(1)	(a) Share Capital	1	80,00,000
	(b) Reserves and Surplus	2	49,32,212
(2)	Non-current Liabilities		
	Long term Borrowings-Secured Borrowings – Terms Loans		20,00,000
(3)	Current Liabilities		
	(a) Trade Payables	-	22,90,000
	(b) Other current liabilities - Loan from other parties		4,00,000
	(c) Short-term Provisions	3	<u>11,11,788</u>
	Total		1,87,34,000
II	ASSETS		
(1)	Non-current Assets		
	(a) Fixed Assets:		
	(i) Tangible Assets	4	1,03,00,000
	(ii) Capital WIP		4,00,000

	(b) Non- current Investments		4,50,000
(2)	Current Assets:		
	(a) Inventories	5	24,00,000
	(b) Trade Receivables	6	24,10,000
	(c) Cash and Cash Equivalents		19,20,000
	(d) Short-term Loans and Advances	7	<u>8,54,000</u>
	Total		1,87,34,000

Notes to accounts

			(₹)
1.	Share Capital		
	Authorized, Issued, subscribed & called up 60,000, Equity Shares of ₹ 100 each	60,00,000	
	20,000 10% Redeemable Preference Shares of 100 each	<u>20,00,000</u>	80,00,000
2.	Reserves and Surplus		
	Securities Premium Account	9,50,000	
	General reserve	31,00,000	
	Profit & Loss Balance		
	Opening balance		
	Profit for the period	16,00,000	
	Less: Miscellaneous Expenditure written off	<u>(1,16,000)</u>	
		14,84,000	
	Less: Appropriations		
	Proposed dividend	(5,00,000)	
	Dividend distribution tax	<u>(1,01,788)</u>	
		<u>8,82,212</u>	49,32,212
3.	Short-term provisions		
	Provision for taxation	5,10,000	
	Proposed Dividend	5,00,000	
	Dividend Distribution tax [W.N]	<u>1,01,788</u>	11,11,788
4.	Tangible assets		
	Fixed Assets		
	Opening balance	1,13,00,000	

	Less: Depreciation	(10,00,000)	
	Closing balance		1,03,00,000
5.	Inventories		
	Finished Goods	15,00,000	
	Stores	8,00,000	
	Loose Tools	<u>1,00,000</u>	24,00,000
6.	Trade Receivables		
	Trade receivables	24,50,000	
	Less: Provision for Doubtful Debts	<u>(40,000)</u>	24,10,000
7.	Short term loans & Advances		
	Staff Advances	1,10,000	
	Other Advances	<u>7,44,000</u>	8,54,000

Working Note:**Calculation of Dividend distribution tax**

(i) Grossing-up of dividend:

		₹
Dividend distributed by Kalyan Ltd.		
Equity shares dividend	3,00,000	
Preference share dividend	<u>2,00,000</u>	5,00,000
Add: Increase for the purpose of grossing up of dividend 5,00,000 x [15 / (100-15)]		<u>88,235</u>
Gross dividend		<u>5,88,235</u>

(ii) Dividend distribution tax @ 17.304% 1,01,788

(b) **Computation of effective capital:**

	Where Star Ltd. is a non-investment company	Where Star Ltd. is an investment company
	₹	₹
Paid-up share capital —		
45,000, 14% Preference shares	45,00,000	45,00,000
3,60,000 Equity shares	2,88,00,000	2,88,00,000
Capital reserves	1,35,000	1,35,000
Securities premium	1,50,000	1,50,000

15% Debentures	1,95,00,000	1,95,00,000
Public Deposits	<u>11,10,000</u>	<u>11,10,000</u>
(A)	<u>5,41,95,000</u>	<u>5,41,95,000</u>
Investments	2,25,00,000	—
Profit and Loss account (Dr. balance)	<u>45,75,000</u>	<u>45,75,000</u>
(B)	<u>2,70,75,000</u>	<u>45,75,000</u>
Effective capital (A–B)	<u>2,71,20,000</u>	<u>4,96,20,000</u>

2. In the books of Fan Ltd.

Cash Flow Statement for the year ending 31st March, 2016

	₹	₹
I Cash flow from Operating Activities		
Net Profit before tax for the year (W.N.1)	67,500	
Add: Depreciation on machinery (W.N.2)	27,500	
Depreciation on land & building	<u>10,000</u>	
Operating profit before change in working capital	1,05,000	
Add: Decrease in Inventories	10,000	
Less: Increase in Trade receivables	(10,000)	
Less: Decrease in Trade payables	<u>(50,000)</u>	
Cash generated from Operations	55,000	
Less: Income tax paid (W.N.3)	<u>(22,500)</u>	
Net cash generated from operating activities		32,500
II Cash flow from Investing activities		
Purchase of machinery (1,12,500 – 50,000)	(62,500)	
Sale of investment (W.N. 4)	<u>30,000</u>	
Net cash used in investing activities		(32,500)
III Cash flow from financing activities		
Issue of equity shares (1,25,000-50,000)	75,000	
Repayment of long term loan	<u>(50,000)</u>	
Net cash generated from financing activities		<u>25,000</u>
Net increase in cash and cash equivalents		25,000
Cash and cash equivalents at the beginning of the year (1,00,000 + 1,50,000)		<u>2,50,000</u>
Cash and cash equivalents at the end of the year (70,000+2,05,000)		<u>2,75,000</u>

Working Notes:**1. Calculation of Net Profit before tax**

	₹
Increase in Profit & Loss (Cr.) balance	40,000
Add: Provision for taxation made during the year	<u>27,500</u>
	<u>67,500</u>

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

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	3,75,000	By Depreciation (Bal.fig.)	27,500
To Bank	62,500	By Balance c/d	4,60,000
To Equity share capital	<u>50,000</u>		<u> </u>
	<u>4,87,500</u>		<u>4,87,500</u>

3. Calculation of tax paid during the year**Provision for Taxation A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Cash (Bal.fig.)	22,500	By Balance b/d	25,000
To Balance c/d	<u>30,000</u>	By Profit and Loss A/c	<u>27,500</u>
	<u>52,500</u>		<u>52,500</u>

4. Calculation of sale value of investment sold**Investment A/c**

Particulars	Amount (₹)	Particulars	Amount (₹)
To Balance b/d	50,000	By Bank A/c (Bal.fig.)	30,000
To Capital reserve (Profit on sale of investments)	<u>5,000</u>	By Balance c/d	25,000
	<u>55,000</u>		<u> </u>
			<u>55,000</u>

3. Statement showing the calculation of Profits for the pre-incorporation and post-incorporation periods

For the year ended 31st March, 2016

Particulars	Total Amount	Basis of Allocation	Pre-incorporation	Post-incorporation
Gross Profit	7,81,600	Sales	78,160	7,03,440
Less: Directors' fee	60,000	Post		60,000
Bad debts	14,400	Sales	1,440	12,960
Advertising	48,000	Time	12,000	36,000
Salaries & general expenses	2,56,000	Time	64,000	1,92,000
Preliminary expenses	20,000	Post		20,000
Donation to Political Party	20,000	Post		20,000
Net Profit	3,63,200			3,62,480
Pre-incorporation profit transferred to Capital Reserve			720	

Working Notes:

1. Sales ratio

Particulars	₹
Sales for period up to 30.06.2015 (9,60,000 x 3/6)	4,80,000
Sales for period from 01.07.2015 to 31.03.2016 (48,00,000 – 4,80,000)	43,20,000

Thus, Sales Ratio = 1 : 9

2. Time ratio

1st April, 2015 to 30 June, 2015: 1st July, 2015 to 31st March, 2016

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. Journal Entries in the books of Sona Ltd.

		₹	₹
1-4-2016	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....)		

20-4-2016	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c (For final call money on 2,70,000 equity shares received)			5,40,000
	Securities Premium A/c	Dr.	75,000	
	Capital Reserve A/c	Dr.	1,20,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	1,20,000	
	To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)			6,75,000
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c (For issue of bonus shares)			6,75,000

**Extract of Notes to Accounts of the Balance Sheet as at 30th April, 2016
(after bonus issue)**

	₹
Authorised Capital	
30,000 12% Preference shares of ₹ 10 each	3,00,000
3,67,500 Equity shares of ₹ 10 each (W.N.)	<u>36,75,000</u>
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 (Out of above, 67,500 equity shares @ ₹ 10 each were issued by way of bonus)	33,75,000
Reserves and surplus	
Profit and Loss Account	4,80,000

Working Note:

	₹
The authorized capital should be increased as per details given below:	
Existing authorized Equity share capital	30,00,000
Add: Issue of bonus shares to equity shareholders (25% of ₹ 27,00,000)	<u>6,75,000</u>
	<u>36,75,000</u>

5.

In the books of Preet Limited

Journal Entries

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c To Share Surrender A/c To Equity Share Capital (₹ 10) A/c (Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)	Dr.	20,00,000	
				10,00,000
				10,00,000
(ii)	15% Debentures A/c Accrued Interest A/c (proportionate 50%) To Reconstruction A/c (Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)	Dr. Dr.	3,00,000 45,000	
				3,45,000
(iii)	Trade payables A/c To Reconstruction A/c (Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)	Dr.	1,04,000	
				1,04,000
(iv)	Share Surrender A/c To 10% Preference Share Capital A/c To Equity Share Capital A/c To Reconstruction A/c (Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)	Dr.	10,00,000	
				2,00,000
				78,000
				7,22,000
(v)	Reconstruction A/c To Profit & Loss A/c	Dr.	11,71,000	
				11,60,000

To Capital Reserve A/c (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)	11,000
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Preet Limited (and reduced)**Balance Sheet as on 31st March, 2016**

<i>Particulars</i>	<i>Notes No.</i>	<i>₹</i>
Equity and Liabilities		
1 Shareholders' funds		
a) Share capital	1	12,78,000
b) Reserves and Surplus	2	11,000
2 Non-current liabilities		
Long-term borrowings	3	3,00,000
3 Current liabilities		
a) Other current liabilities	4	45,000
b) Short-term provisions	5	<u>72,000</u>
Total		<u>17,06,000</u>
Assets		
1 Non-current assets		
a) Fixed assets		
i) Tangible assets	6	7,00,000
2 Current assets		
a) Inventories		5,06,000
b) Trade receivables		4,60,000
c) Cash and cash equivalents	7	<u>40,000</u>
Total		<u>17,06,000</u>

Notes to Accounts

	<i>₹</i>
1. Share Capital	
1,07,800, Equity shares of ₹ 10 each	10,78,000
20,000, 10% Preference shares of ₹ 10 each	<u>2,00,000</u>
	<u>12,78,000</u>

	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	Reserves and Surplus	
	Capital Reserves	11,000
3.	Long-term borrowings	
	Unsecured	
	15% Debentures	3,00,000
4.	Other current liabilities	
	Accrued Interest on 15% Debentures	45,000
5.	Short-term provisions	
	Provision for income tax	72,000
6.	Tangible assets	
	Machineries	7,00,000
7.	Cash and cash equivalents	
	Balances with banks	40,000

6. In the Books of Kanak Ltd.

<i>Particulars</i>		<i>Dr.</i>	<i>Cr.</i>
01.04.2016		<i>Amount</i>	<i>Amount</i>
		₹	₹
Equity share capital A/c	Dr.	45,00,000	
To Equity share capital A/c			45,00,000
(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
Equity share capital A/c	Dr.	22,50,000	
To Capital reduction A/c			22,50,000
(Being reduction of Equity capital by 50%)			
Capital reduction A/c	Dr.	40,500	
To Bank A/c			40,500
(Being payment in cash of 10% of arrear of preference dividend)			
Bank A/c (2,400 x 98)	Dr.	2,35,200	
To Own debentures A/c (2,400 x 96)			2,30,400
To Capital reduction A/c			4,800
(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			

12% Debentures A/c	Dr.	3,60,000	
To Own debentures A/c			3,45,600
To Capital reduction A/c			14,400
(Being profit on cancellation of own debentures transferred to capital reduction A/c)			
12% Debentures A/c	Dr.	8,40,000	
Capital reduction A/c	Dr.	60,000	
To Machinery A/c			9,00,000
(Being machinery taken up by debenture holders for ₹ 8,40,000)			
Trade payables A/c	Dr.	1,95,000	
Capital reduction A/c (balancing figure)	Dr.	87,000	
To Trade receivables A/c			1,83,000
To Inventory A/c			99,000
(Being assets and liabilities revalued)			
Capital reduction A/c	Dr.	12,99,000	
To Goodwill A/c			60,000
To Discount on debentures A/c			6,000
To Profit and Loss A/c			12,33,000
(Being the above assets written off)			
Capital reduction A/c	Dr.	45,000	
To Bank A/c			45,000
(Being penalty paid for avoidance of capital commitments)			
Capital reduction A/c	Dr.	7,37,700	
To Capital reserve A/c			7,37,700
(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			
02.04.2016			
Business Purchase A/c	Dr.	39,60,000	
To Liquidators of Ronak Ltd.			39,60,000
(Being the purchase consideration payable to Ronak Ltd.)			
Fixed Assets A/c	Dr.	22,80,000	
Inventory A/c	Dr.	20,40,000	
Trade receivables A/c	Dr.	13,20,000	
Cash at Bank A/c	Dr.	3,90,000	
To Trade payables A/c			6,75,000
To 12% Debentures A/c of Ronak Ltd.			6,00,000

To Profit and Loss A/c			45,000
To General reserve A/c ₹ (5,10,000+2,40,000*)			7,50,000
To Business purchase A/c			39,60,000
(Being the take over of all assets and liabilities of Ronak Ltd. by Kanak Ltd.)			
Liquidators of Ronak Ltd. A/c	Dr.	39,60,000	
To Equity Share Capital			30,00,000
To 9% Preference share capital			9,60,000
(Being the purchase consideration discharged)			
12% Debentures of Ronak Ltd. A/c	Dr.	6,00,000	
To 12% Debentures A/c			6,00,000
(Being Kanak Ltd. issued their 12% Debentures in against of every Debentures of Ronak Ltd.)			

Balance Sheet of Kanak Ltd. as at 2.4.2016

Particulars	Note No	Amount(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	77,10,000
(b) Reserves and Surplus	2	20,72,700
(2) Non-current Liabilities		
(a) Long-term borrowings - 12% Debentures		12,00,000
(3) Current Liabilities		
(a) Trade payables		17,25,000
Total		1,27,07,700
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
(i) Tangible assets		58,80,000
(2) Current assets		
(a) Inventories		31,20,000
(b) Trade receivables		30,90,000
(c) Cash and cash equivalents		6,17,700
Total		1,27,07,700

* ₹ 2,40,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

Notes to Accounts

			₹
1	Share Capital		
	Equity Share Capital		52,50,000
	9% Preference share capital		<u>24,60,000</u>
			<u>77,10,000</u>
2	Reserves and Surplus		
	Profit and Loss A/c		45,000
	General Reserve		
	Share Capital of Ronak Ltd. (Equity + Preference)	42,00,000	
	Less: Share Capital issued by Kanak Ltd.	<u>39,60,000</u>	
	General reserve (resulted due to absorption)	2,40,000	
	Add: General reserve of Ronak Ltd.	5,10,000	
	General reserve of Kanak Ltd.	<u>5,40,000</u>	12,90,000
	Capital Reserve		<u>7,37,700</u>
			<u>20,72,700</u>

Working Notes:**1. Arrear dividend to Preference Shareholders**

Preference Share Capital ₹ 15,00,000 @ 9% will yield dividend of ₹ 1,35,000 per year and for 3 years = ₹ 4,05,000. Out of this only 10% is paid and the balance is waived off. Hence, amount paid = ₹ 40,500.

2. Profit on redemption of own debentures

Own Debentures with Nominal Value of ₹ 2,40,000 sold for ₹ 98 per deb = 2,40,000 x 98/100 = ₹ 2,35,200.

Book Value = ₹ 5,76,000 / 6,00,000 X 2,40,000 = ₹ 2,30,400. Profit on own debentures sold = ₹ 2,35,200 – ₹ 2,30,400 = ₹ 4,800

Balance of Own Debentures = ₹ 5,76,000 – 2,30,400 = ₹ 3,45,600 which are cancelled

3. Purchase Consideration

Equity share capital 30,000 x 50/5 x 10 = 30,00,000

9% Preference share capital 12,000 x 4/5 x 100 = 9,60,000

₹ 39,60,000

7. 1st payment is made after 12 months from the date of loan.
 2nd payment is made after 18 months from the date of loan.
 3rd payment is made after 24 months from the date of loan.
 4th payment is made after 30 months from the date of loan.
 5th payment is made after 36 months from the date of loan.

Sum of the months =120

Average due date =

Date of loan + $\frac{\text{Sum of months from 1st January, 2016 to the date of each installment}}{\text{Number of installments}}$

$$=1^{\text{st}} \text{ January, 2015} + \frac{120 \text{ months}}{5}$$

$$=1^{\text{st}} \text{ January, 2015} + 24 \text{ months}$$

$$=1^{\text{st}} \text{ January, 2017}$$

$$\text{Interest} = ₹ 50,000 \times 10/100 \times 2 \text{ years} = ₹ 10,000$$

8. 'M' In Account Current with 'L'
(Interest to 30th April, 2016 @ 10% p.a.)

Date	Particulars	Due Date	Amount ₹	Days	Product	Date	Particulars	Due Date	Amount ₹	Days	Product
2016		2016				2016		2016			
7 April	To Bills Payable	10 June	2,500	-	-	1 April	By Balance b/d		5,000	30	1,50,000
10 April	To Sales A/c	10 May	7,500	-	-	12 April	By Bank A/c	15 May	3,750	-	-
20 April	To Purchase Returns	15 May	500	-	-		(Cheque received dated 15.5.2016)				
20 April	To Bill Receivable A/c	20 April	2,500	10	25,000	15 April	By Purchase A/c	15 May	3,000	-	-
30 April	To Red Ink Product as per contra (₹ 7,500 x 15)	15 May	-	15	56,250	30 April	(invoice dated 15.5.2016)	10 June	-	41	1,02,500
30 April	To Red Ink Product as per contra (₹ 6,000 x 15)	15 May	-	15	45,000	30 April	By Red Ink Product as per contra (2,500 x 41)	10 May	-	10	75,000
30 April	To Balance of product				2,08,750	30 April	By Red Ink Product as per contra (7,500 x 10)	15 May	-	15	7,500
			<u>13,000</u>		<u>3,35,000</u>	30 April	By Interest A/c [2,08,750 x 10/100]/365		57.19		
						30 April	By Balance c/d		<u>1,192.81</u>		<u>3,35,000</u>
									<u>13,000</u>		

No entry is required for bill matured on 10th April since party is not contracted.

9. General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	₹	Date	Particulars	₹
01.04.2016	To Balance b/d	4,700	1.4.2016	By Balance b/d	1,79,100
01.04.2016	To Debtors ledger		01.04.2016	By Debtors ledger	
to	adjustment A/c :		to	adjustment A/c :	
30.4.2016	Cash received	8,62,850	30.4.2016	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2016	By Balance c/d	4,900
30.04.2016	To Balance c/d (bal.fig)	<u>2,48,850</u>			
		<u>11,88,450</u>			<u>11,88,450</u>

10.

Ganesh hospital

Income & Expenditure Account
for the year ended 31 December, 2016

Expenditure	₹	Income	₹
To Salaries	24,000	By Subscriptions	24,500
To Diet expenses	15,600	By Govt. Grants (Maintenance)	20,000
To Rent & Rates	1,700	By Fees, Sundry Patients	4,800
To Printing & Stationery	2,400	By Donations	8,000
To Electricity & Water-charges	2,400	By Benefit shows (net collections)	6,000
To Office expenses	2,000	By Interest on Investments	800
To Excess of Income over expenditure transferred to Capital Fund	<u>16,000</u>		
	<u>64,100</u>		<u>64,100</u>

Balance Sheet as at 31st Dec., 2016

Liabilities	₹	₹	Assets	₹	₹
Capital Fund :			Building :		
Opening balance	49,300		Opening balance	90,000	
Excess of Income			Addition	<u>50,000</u>	1,40,000

Over Expenditure	<u>16,000</u>	65,300	Hospital Equipment :		
Building Fund :			Opening balance	34,000	
Opening balance	80,000		Addition	<u>17,000</u>	51,000
Add : Govt. Grant	<u>80,000</u>	1,60,000	Furniture		6,000
Subscriptions received in advance		2,400	Investments- 8% Govt. Securities		20,000
			Subscriptions receivable		1,400
			Accrued interest		800
			Prepaid expenses (Rent)		300
			Cash at Bank		6,800
			Cash in hand		1,400
		<u>2,27,700</u>			<u>2,27,700</u>

Working Notes:

(1) Balance sheet as at 31st Dec., 2015			
<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Fund		Building	90,000
(Balancing Figure)	49,300	Equipment	34,000
Building Fund	80,000	Subscription Receivable	6,500
Creditors for Expenses :		Cash at Bank	5,200
Salaries payable	<u>7,200</u>	Cash in hand	<u>800</u>
	<u>1,36,500</u>		<u>1,36,500</u>
(2) Building			₹
Balance on 31 st Dec. 2016			1,40,000
Paid during the year			<u>(50,000)</u>
Balance on 31 st Dec. 2015			<u>90,000</u>
(3) Equipment			
Balance on 31 st Dec. 2016			51,000
Paid during the year			<u>(17,000)</u>
Balance on 31 st Dec. 2015			<u>34,000</u>
(4) Subscription due for 2015			
Receivable on 31 st Dec. 2015			6,500
Received in 2016			<u>(5,100)</u>
Still Receivable for 2015			<u>1,400</u>

11.

Trading and Profit and Loss Account
For the year ending on 31st March, 2016

<i>Particulars</i>		₹	<i>Particulars</i>		₹
To Opening Stock		20,000	By Sales		1,80,000
To Purchases (bal.fig.);		1,54,000	By Closing Stock		<u>30,000</u>
To Gross Profit c/d (@20% on sales)		<u>36,000</u>			<u>2,10,000</u>
		<u>2,10,000</u>			
To Sundry Business Expenses		20,000	By Gross Profit b/d		36,000
To Depreciation on Building	1,625				
Furniture	250				
Motor	<u>1,800</u>	3,675			
To Net profit transferred to Capital A/c		<u>12,325</u>			
		<u>36,000</u>			<u>36,000</u>

Balance Sheet as at 31st March, 2016

<i>Liabilities</i>		₹	<i>Assets</i>		₹
Capital Account:			Building	32,500	
Opening Balance	48,000		Less: Depreciation	<u>(1,625)</u>	30,875
Add: Net profit	<u>12,325</u>		Furniture	5,000	
	60,325		Less: Depreciation	<u>(250)</u>	4,750
Less: Drawings	<u>(7,500)</u>	52,825	Motor Car	9,000	
Loan		15,000	Less: Depreciation	<u>(1,800)</u>	7,200
Sundry Creditors		47,500	Stock in trade		30,000
Outstanding Expenses		5,000	Sundry Debtors		21,000
			Cash at Bank		22,000
			Sundry Advances (Amount recoverable from Cashier)		<u>4,500</u>
		<u>1,20,325</u>			<u>1,20,325</u>

Working Notes:(i) **Total Debtors Account**

Particulars	₹	Particulars	₹
To Balance b/d	17,000	By Bank (₹ 1,40,000 – ₹ 35,000)	1,05,000
To Sales (80% of ₹ 1,80,000)	1,44,000	By Cash A/c	35,000
		By Balance c/d	<u>21,000</u>
	<u>1,61,000</u>		<u>1,61,000</u>

(ii) **Total Creditors Account**

Particulars	₹	Particulars	₹
To Bank	1,37,500	By Balance b/d	31,000
To Balance c/d	<u>47,500</u>	By Purchases	<u>1,54,000</u>
	<u>1,85,000</u>		<u>1,85,000</u>

(iii) **Cash Book**

Particulars	Cash ₹	Bank ₹	Particulars	Cash ₹	Bank ₹
To Balance b/d	2,000	8,500	By Business Expenses	9,000	6,000
To Sales	36,000	-	By Drawings	-	7,500
To Sundry Debtors	35,000	1,05,000	By Sundry Creditors	-	1,37,500
To Cash (Contra)	-	71,500	By Bank (Contra)	71,500	-
To Bank (Contra)	12,000		By Cash (Contra)	-	12,000
			By Defalcation (Bal fig.)	4,500	-
			By Balance c/d (Bal fig.)		<u>22,000</u>
	<u>85,000</u>	<u>1,85,000</u>		<u>85,000</u>	<u>1,85,000</u>

(iv) Last year's Total Sales = Gross Profit x 100/20 = ₹ 30,000 x 100/20 = ₹ 1,50,000

(v) Current year's Total Sales = ₹ 1,50,000 + 20% of ₹ 1,50,000 = ₹ 1,80,000

(vi) Current year's Credit Sales = ₹ 1,80,000 x 80% = ₹ 1,44,000

(vii) Cost of Goods Sold = Sales – G.P. = ₹ 1,80,000 – ₹ 36,000 = ₹ 1,44,000

(viii) Purchases = Cost of Goods Sold + Closing Stock – Opening Stock
= 1,44,000 + ₹ 30,000 – ₹ 20,000 = ₹ 1,54,000

12. (a) Calculation of Interest for each year:

Interest for 1 st year	=	₹ 3,00,000 x 150/360 =	₹ 1,25,000
Interest for 2 nd year	=	₹ 3,00,000 x 108/360 =	₹ 90,000
Interest for 3 rd year	=	₹ 3,00,000 x 69/360 =	₹ 57,500
Interest for 4 th year	=	₹ 3,00,000 x 33/360 =	<u>₹ 27,500</u>
			<u>₹ 3,00,000</u>

Working Notes:

- Hire Purchase Price = Down Payment + Instalments
 = ₹ 3,00,000 + (₹ 4,20,000 + ₹ 3,90,000 + ₹ 3,60,000 + ₹ 3,30,000)
 = 18,00,000
- Total Interest = H.P. Price – Cash Price
 = 18,00,000 – ₹ 15,00,000 = ₹ 3,00,000
- Calculation of ratio of hire purchase price outstanding in the beginning of each year**

A Year	B Outstanding Hire Purchase Price in the Beginning of each Year	C Instalment Paid	D = B - C Outstanding Hire Purchase Price at the End of each Year
I	15,00,000	4,20,000	10,80,000
II	10,80,000	3,90,000	6,90,000
III	6,90,000	3,60,000	3,30,000
IV	3,30,000	3,30,000	Nil

Ratio of Outstanding Hire Purchase Price at the beginning of year = 150:108:69:33

13.**Investment Account of Mitthan**

For the year ended 31.3.2016

(Script: 15% Debentures in Seema Industries Ltd.)

(Interest payable on 30th June and 31st December)

Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value ₹	Interest ₹	Cost ₹
1.04.15	To Balance A/c	2,00,000	7,500	2,10,000	30.06.15	By Bank A/c	-	22,500	
1.05.15	To Bank A/c	1,00,000	5,000	1,02,000	1.11.15	By Bank A/c	1,20,000	6,000	1,14,600
30.11.15	To Bank A/c	80,000	5,000	76,800	1.11.15	By Profit & Loss A/c	-	-	11,400
31.12.15	To Profit &			20,000	31.12.15	By Bank A/c	80,000	6,000	1,04,000

31.03.16	Loss A/c To Profit & Loss A/c (Bal. fig.)		37,250		31.12.15	By Bank A/c	-	13,500	-
					31.12.15	By Bank A/c	-	6,750	-
					31.3.16	By Bal. c/d	1,80,000	-	1,78,800
		3,80,000	54,750	4,08,800			3,80,000	54,750	4,08,800

Working Notes:

- (i) Accrued Interest as on 1st April, 2015 = ₹ 2,00,000 x $\frac{15}{100} \times \frac{3}{12}$ = ₹ 7,500
- (ii) Accrued Interest as on 1.5.2015 = ₹ 1,00,000 x $\frac{15}{100} \times \frac{4}{12}$ = ₹ 5,000
- (iii) Cost of Investment for purchase on 1st May = ₹ 1,07,000 – ₹ 5,000 = ₹ 1,02,000
- (iv) Interest received as on 30.6.2015 = ₹ 3,00,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 22,500
- (v) Accrued Interest on debentures sold on 1.11.2015
 $= ₹ 1,20,000 \times \frac{15}{100} \times \frac{4}{12} = ₹ 6,000$
- (vi) Accrued Interest = ₹ 80,000 x $\frac{15}{100} \times \frac{5}{12}$ = ₹ 5,000
- (vii) Accrued Interest on sold debentures 31.12.2015 = ₹ 80,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 6,000
- (viii) Sale Price of Investment on 31st Dec. = ₹ 1,10,000 – ₹ 6,000 = ₹ 1,04,000
- (ix) Loss on Sale of Debenture on 1.1.2015

Sale Price of debenture	1,14,600
Less: Cost Price of debenture	
2,10,000	
$\frac{2,10,000}{2,00,000} \times ₹ 1,20,000$	<u>1,26,000</u>
Loss on sale	11,400

- (x) Accrued interest as on 31.12.2015 = ₹ 1,80,000 x $\frac{15}{100} \times \frac{6}{12}$ = ₹ 13,500
- (xi) Accrued Interest = ₹ 1,80,000 x $\frac{15}{100} \times \frac{3}{12}$ = ₹ 6,750

(xii) Cost of investment as on 31st March = ₹ 1,02,000 + ₹ 76,800 = ₹ 1,78,800

(xiii) Profit on debentures sold on 31st December

$$= ₹ 1,04,000 - (₹ 2,10,000 \times 800 / 2,000) = ₹ 20,000$$

14. Memorandum Trading Account for the period 1st April, 2016 to 29th August 2016

		₹			₹	
To	Opening Stock		3,95,050	By	Sales	22,68,000
To	Purchases	16,55,350		By	Closing stock (Bal. fig.)	4,41,300
	Less: Advertisement	(20,500)				
	Drawings	(1,000)	16,33,850			
To	Gross Profit [30% of Sales] [W N]		6,80,400			
			<u>27,09,300</u>			<u>27,09,300</u>

Statement of Insurance Claim

	₹
Value of stock destroyed by fire	4,41,300
Less: Salvaged Stock	(54,000)
Add: Fire Fighting Expenses	<u>2,350</u>
Insurance Claim	<u>3,89,650</u>

Note: Since policy amount is more than claim amount, average clause will not apply. Therefore, claim amount of ₹ 3,89,650 will be admitted by the Insurance Company.

Working Note:

Trading Account for the year ended 31st March, 2016

		₹			₹
To	Opening Stock	3,55,250	By	Sales	40,00,000
To	Purchases	28,39,800	By	Closing stock	3,95,050
To	Gross Profit	<u>12,00,000</u>			
		<u>43,95,050</u>			<u>43,95,050</u>

Rate of Gross Profit in 2015-16

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

15. Memorandum Revaluation Account

	₹		₹
To Stock	80,000	By Building	3,60,000
To Plant & machinery	2,40,000	By Investments	40,000
To Provision for doubtful debts	30,000		
To Unrecorded liability	20,000		
To Profit transferred to Partners' Capital A/cs (in old ratio)			
Kamal = 20,000			
Rani = <u>10,000</u>	<u>30,000</u>		
	<u>4,00,000</u>		<u>4,00,000</u>
To Building	3,60,000	By Stock	80,000
To Investments	40,000	By Plant & machinery	2,40,000
		By Provision for doubtful debts	30,000
		By Unrecorded liability	20,000
		By Loss transferred to Partners' Capital A/cs (in new ratio)	
		Kamal = 15,000	
		Rani = 7,500	
		Nisha = <u>7,500</u>	<u>30,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

Partners' Capital Accounts

	Kamal	Rani	Nisha		Kamal	Rani	Nisha
To Memorandum Revaluation	15,000	7,500	7,500	By Balance b/d	20,00,000	10,00,000	-
To Reserve Fund	9,00,000	4,50,000	4,50,000	By Reserve	12,00,000	6,00,000	-
To Kamal (W.N.3)	-	-	35,000	By Nisha (W.N.3)	35,000	17,500	-
To Rani (W.N.3)	-	-	17,500	By Memorandum Revaluation A/c	20,000	10,000	
To Balance c/d (Refer W.N.2)	<u>23,40,000</u>	<u>11,70,000</u>	<u>11,70,000</u>	By Cash (Bal. Fig.)			16,80,000
	<u>32,55,000</u>	<u>16,27,500</u>	<u>16,80,000</u>		<u>32,55,000</u>	<u>16,27,500</u>	<u>16,80,000</u>

Balance Sheet of newly reconstituted firm as on 31.12.2015

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts		Plant & Machinery	24,00,000
Kamal	23,40,000	Building	18,00,000
Rani	11,70,000	Sundry Debtors	6,00,000
Nisha	11,70,000	Stock	8,00,000
Reserve Fund	18,00,000	Cash (2,00,000 + 16,80,000)	18,80,000
Sundry Creditors	8,00,000		
Bills Payable	<u>2,00,000</u>		
	<u>74,80,000</u>		<u>74,80,000</u>

Working Notes:

1. Calculation of new profit and loss sharing ratio

Nisha will get 1/4th share in the new profit sharing ratio.

Therefore, remaining share will be $1 - 1/4 = 3/4$

Share of Kamal will be $3/4 \times 2/3 = 2/4$ i.e. $1/2$

Share of Rani will be $3/4 \times 1/3 = 1/4$

New ratio will be

Kamal : Rani : Nisha

$1/2 : 1/4 : 1/4$

$2 : 1 : 1$

2. Calculation of closing capital of Nisha

Closing capitals of Kamal & Rani after all adjustments are:

Kamal = ₹ 23,40,000

Rani = ₹ 11,70,000

Since Rani's capital is less than Kamal's capital, therefore Rani's capital is taken as base.

Hence, Nisha's closing capital should be ₹ 11,70,000 ($46,80,000 \times 1/4$) i.e. at par with Rani (as per new profit and loss sharing ratio)

3. Adjustment entry for goodwill*

Partners	Goodwill as per old ratio	Goodwill as per new ratio	Effect	
Kamal	1,40,000	1,05,000	+ 35,000	-
Rani	70,000	52,500	+ 17,500	-
Nisha	-	<u>52,500</u>	-	<u>52,500</u>
	<u>2,10,000</u>	<u>2,10,000</u>	<u>52,500</u>	<u>52,500</u>

Adjustment entry will be:

Nisha's Capital A/c	Dr.	52,500	
To Kamal's Capital A/c			35,000
To Rani's Capital A/c			17,500

16. Disadvantage of Pre-packaged Accounting Software:

1. Lesser Flexibility: Business today is becoming more and more complex. A standard package may not be able to take care of these complexities i.e. it does not cover peculiarities of specific business. Therefore, customization may not be possible in such softwares.
2. Covers only few functional areas and only main reports are covered: Many pre-packaged accounting softwares do not cover all functional areas. For example, production process may not be covered by most pre-packaged accounting softwares. The demands for modern day business may make the management desire for several other reports for exercising management control. These reports may not be available in a standard package.
3. Lack of security: Any person can view data of all companies with common access password. Levels of access control as we find in many customised accounting software packages are generally missing in a pre-packaged accounting package.
4. Bugs in the software: Certain bugs may remain in the software which takes long time to be rectified by the vendor and is common in the initial years of the software.

- 17. (a)** AS-1 "Disclosures of Accounting Policies", states that the accounting treatment and presentation in Financial Statements of transactions should be governed by their substance and not merely by the legal form. The treatment in the given case would depend on the terms of the Works Contract and also the substance of the agreement.

* As per para 36 of AS 10, 'Accounting for fixed Assets,' goodwill should be recorded in the books only when some consideration in money or money's worth has been paid for it. Therefore, the goodwill raised at the time of admission of Nisha is to be written off in new ratio among all partners including new partner, Nisha.

Accordingly, there can be two possibilities in the instant case, viz.

Situation 1

The Company acts as the agent of the customer.

Disclosure should be made to this effect that the material purchased belongs to the customer.

Where ownership of goods vests with the customers and the company merely purchases goods on behalf of its customers, it acts in the capacity of an agent for execution of works under a works contract for which it receives full payment.

Hence, these purchases cannot be treated as the purchases of the Company and so, the debit to its P&L A/c is not correct

Situation 2

The Company is the owner of the materials purchased in substance and has the right, (though a restricted one) to use the materials, for all practical purposes.

If the terms of Works Contract provide for factor linked payment by customer and in substance the materials acquired by the Company belongs to the company only, irrespective of the legal form of ownership, the Company is justified in debiting its P&L A/c.

- (b) As per para 5 of AS 2 "Valuation of Inventories", the inventories are to be valued at lower of cost or net realizable value.

In this case, the cost of inventory is ₹ 5 lakhs. The net realizable value is ₹ 4.95 lakhs (₹ 5.5 lakhs less cost to make the sale @ 10% of ₹ 5.5 lakhs). So, the closing stock should be valued at ₹ 4.95 lakhs.

18. (a)

Depreciation amount per annum	$\frac{₹ (1,90,000 - 10,000)}{12 \text{ years}}$	=	₹ 15,000
Present book value of the equipment after two years	$₹ 1,90,000 - (₹ 15,000 \times 2 \text{ years})$	=	₹ 1,60,000
Revised depreciable value after price adjustment	$₹ 1,60,000 + ₹ 15,000 - ₹ 10,000$	=	₹ 1,65,000
Revised depreciation amount per annum	$\frac{₹ 1,65,000}{10 \text{ years}}$	=	₹ 16,500

Increase in historical cost will be considered as revaluation of the book value of the asset. This revaluation of the book value of the asset is change in accounting estimate and hence depreciation on the same has been calculated prospectively.

- (b) As per para 7 of AS 7 on 'Construction Contracts', when a contract covers a number of assets, the construction of each asset should be treated as a separate construction contract when:
- (a) separate proposals have been submitted for each asset;
 - (b) each asset has been subject to separate negotiation and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and
 - (c) the costs and revenues of each asset can be identified.

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

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

19. (a) As illustrated in AS 9 'Revenue Recognition', revenue received or billed should be deferred and recognised either on a straight line basis over time or, where the items delivered vary in value from period to period, revenue should be based on the sales value of the item delivered in relation to the total sales value of all items covered by the subscription. Accordingly, in the given case the accounting treating adopted by Khetan Ltd. to treat the entire amount as revenue for the current year is not in accordance with AS 9. The revenue should be recognized on a straight line basis over the period of 3 years.

(b) **Computation of value of land acquired**

<i>Particulars</i>	<i>₹ in lakhs</i>
Purchase price @ ₹ 70,000 per acre for 7,500 acres	5,250.00
Stamp duty & registration charges @ 5%	262.5
Legal fees	5.00
Title guarantee insurance	2.00
Demolition expenses	50.00
Less: Sale of salvaged materials (net of tax) (43,57,500 x 100/105)	<u>(41.5)</u>
Value of land	5,528

20. (a) 1. As per AS 13 "Accounting for Investments", current investments should be carried at cost or fair value, whichever is lower. Here, the current Investment should be carried at fair value of ₹ 48 Lakhs, being the lower of ₹ 60 Lakhs

(cost) or ₹ 48 Lakhs (fair value). The difference of ₹ 12 Lakhs should be charged to profit and loss account.

2. Current investment should be carried at cost or fair value, whichever is lower. In the given case, the current investments should be carried at cost of ₹ 86 Lakhs, being the lower of ₹ 86 Lakhs (cost) or ₹ 90 Lakhs (fair value).

(b) (i) When amalgamation is in the nature of merger

Balance in Profit and Loss Account of the transferor company is

- (a) Aggregated with the corresponding balance appearing in financial statements of the transferee company; Or
- (b) Transferred to the general reserve, if any.

(ii) When amalgamation is in the nature of purchase

Balance in profit and loss account of the transferor company, whether debit or credit, loses its identity.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2016 EXAMINATION

I. Applicability for Nov 2016 examinations

The study material (July 2015 edition), practice manual (April 2016 edition) along with the “Supplementary Study Paper 2016” for Paper 2: Business Law, Ethics and Communication (Relevant for students appearing in November 2016 and May 2017 examinations) is relevant for November 2016 examinations. The Supplementary Study Paper 2016 contains all relevant amendments/ circulars/ notifications etc. in the Business and the Company law part made from 1st May 2015 to 30th April, 2016 and the same is reproduced here for reference of the students:

The Negotiable Instruments Act, 1881

The Negotiable Instruments (Amendment) Act, 2015 received the assent of the president on 26th December, 2015 and has been notified in the Official Gazette on 29th December, 2015 by the Ministry of Law and Justice.

This is an Act further to amend the Negotiable Instruments Act, 1881 (N.I. Act, 1881) and shall be deemed to have come into force on the 15th day of June, 2015.

The N.I. Act, 1881 defines promissory notes, cheques and specifies penalties for bouncing of cheques, and other violations. It does not however specify the jurisdiction of courts where cheque bouncing cases may be filed.

The Amendment Act, 2015 modifies the definition of a cheque in electronic form given in section 6, and clarifies the appropriate area of jurisdiction of courts by amendment in cognizance of offences in section 142 and through insertion of a new section 142A dealing with the transfer of pending cases related to the dishonour of cheques.

Key Highlights of the Negotiable Instruments (Amendment) Act, 2015:

1. Amendment in the definition of cheque given under section 6 of the N.I. Act, 1881

(i) Explanation I, for clause (a) in the Principal Act, deals with the following definition-
(a) “Cheque in the electronic form” - Under the Negotiable Instruments Act, 1881, this was defined as a cheque containing the exact mirror image of a paper cheque and generated, written and signed in a secure system using a digital signature (with /without biometric signature) and asymmetric crypto system.

This above definition has been amended and substituted with the following namely -
“Cheque in the electronic form”-means a cheque drawn in electronic form by using any computer resource, and signed in a secure system with a digital signature (with /without biometric signature) and asymmetric crypto system or electronic signature, as the case may be;

(ii) After the Explanation II in the principal Act, the following explanation shall be inserted, namely-

“Explanation III—For the purposes of this section, the expressions " asymmetric crypto system", "computer resource", "digital signature", "electronic form" and "electronic signature" shall have the same meanings respectively assigned to them in the Information Technology Act, 2000.”

2. Amendment of section 142 (Cognizance of offences)- In the principal Act, section 142 shall be numbered as sub-section (1) thereof and after sub-section (1) as so numbered, the following sub-section shall be inserted, namely-

“(2) The offence under section 138, which deals with the dishonour of cheque, shall be inquired into and tried only by a court within whose local jurisdiction,—

- (a) **if the cheque is delivered for collection through an account**, the branch of the bank where the payee or holder in due course, as the case may be, maintains the account, is situated; or
- (b) **if the cheque is presented for payment by the payee or holder in due course**, otherwise through an account, the branch of the drawee bank where the drawer maintains the account, is situated.

Explanation— For the purposes of clause (a), where a cheque is delivered for collection at any branch of the bank of the payee or holder in due course, then, the cheque shall be deemed to have been delivered to the branch of the bank in which the payee or holder in due course, as the case may be, maintains the account.”

3. Insertion of new section 142A- Validation for transfer of pending cases - Section 142A is the new insertion in the Act. All cases of cheque bouncing which were pending in any court, before the Act came into force, will be transferred to a court with the appropriate jurisdiction.

“142A (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973 or any judgment, decree, order or direction of any court, all cases transferred to the court having jurisdiction under sub-section (2) of section 142, as amended by the Negotiable Instruments (Amendment) Ordinance, 2015, shall be deemed to have been transferred under this Act, as if that sub-section had been in force at all material times.

(2) Notwithstanding anything contained in sub-section (2) of section 142 or sub-section (1), where the payee or the holder in due course, as the case may be, has filed a complaint against the drawer of a cheque in the court having jurisdiction under sub-section (2) of section 142 or the case has been transferred to that court under sub-section (1) and such complaint is pending in that court, all subsequent complaints arising out of section 138 against the same drawer shall be filed before the same court irrespective of whether those cheques were delivered for collection or presented for payment within the territorial jurisdiction of that court.

This sub-section deals with respect to filing of subsequent complaints- The payee has filed a complaint against the drawer in a court with the appropriate jurisdiction, all subsequent complaints against that person regarding cheque bouncing will be filed in the same court. This will be irrespective of the mode of presentation of cheque.

(3) If, on the date of the commencement of the Negotiable Instruments (Amendment) Act, 2015, more than one prosecution filed by the same payee or holder in due course, as the case may be, against the same drawer of cheques is pending before different courts, upon the said fact having been brought to the notice of the court, such court shall transfer the case to the court having jurisdiction under sub-section (2) of section 142, as amended by the Negotiable Instruments (Amendment) Ordinance, 2015, before which the first case was filed and is pending, as if that sub-section had been in force at all material times.

This sub-section deals with where more than one case filed by the same payee against the same drawer before different courts- If more than one case is filed by the same payee against the same drawer before different courts, the case will be transferred to the court with the appropriate jurisdiction before which the first case was filed.

4. Repeal and Savings-(1) The Negotiable Instruments (Amendment) Second Ordinance, 2015, which was promulgated in September 22, 2015, is hereby repealed.

(2) Notwithstanding such repeal, anything done or any action taken under the principal Act, as amended by the said Ordinance, shall be deemed to have been done or taken under the corresponding provisions of the principal Act, as amended by this Act.

[Refer Page 2.6 & Page 2.36 of the Study material (July 2015 edition)]

The Payment of Bonus Act, 2015

The Payment of Bonus (Amendment) Act, 2015 is an Act further to amend the Payment of Bonus Act, 1965. The Act received the assent of the President on the 31st December, 2015, and published in the Official gazette on 1st January 2016 by Ministry of Law and Justice. It shall be deemed to have come into force on the 1st day of April, 2014.

Highlights to the Payment of Bonus (Amendment) Act, 2015

1. Amendment in Section 2(13)-Section 2(13) of the Payment of Bonus Act, 1965 (i.e., Principal Act) states the definition of “employee” who is eligible for bonus.

As per the Principal Act, Employee means any person (other than an apprentice) employed –On a salary or wage **not exceeding ₹ 10,000 per mensem** in any industry, to do any skilled or unskilled, manual, supervisory, managerial, administrative, technical or clerical work, for hire or reward, whether the terms of employment be express /implied.

As per the **Payment of Bonus (Amendment) Act, 2015**, the eligibility limit for payment of bonus has been enhanced from **₹ 10, 000 to ₹ 21,000 per mensem**.

2. Amendment in Section 12- Section 12 of the Payment of Bonus Act, 1965 deals with the calculation of bonus with respect to certain employees. According to the Principal Act, where the salary or wage of an employee exceeds ₹ **3,500 per mensem**, the bonus payable to such employee under Section 10 or, as the case may be, under Section 11, shall be calculated as if his salary or wage were only ₹ **3,500 per mensem**.

This section have been incorporated by the Payment of Bonus (Amendment) Act, 2007 w.e.f. from 1.04.2006.

As per the **Payment of Bonus (Amendment) Act, 2015**, calculation ceiling for the bonus has been raised. For the words “**3,500 rupees**” at both the places where they occur, the words “**7,000 rupees or the minimum wage for the scheduled employment, as fixed by the appropriate Government, whichever is higher**” shall respectively be substituted;

Further, **Explanation** have been inserted at the end of this section, namely:—

‘Explanation.—For the purposes of this section, the expression “**scheduled employment**” shall have the same meaning as assigned to it in clause (g) of section 2 of the Minimum Wages Act, 1948.’

3. Amendment in section 38 – Section 38 of the Payment of Bonus Act, 1965 deals with power to make rules. The Principal Act empowers the Central Government to make rules for the purpose of giving effect to the provisions of this Act. Since the said section does not provide for the previous publication of the rules.

As per the **Payment of Bonus (Amendment) Act, 2015**, an enabling provision providing for the previous publication for the purpose of inviting objections and suggestions in tune with the other legislations pertaining to welfare of labour have been inserted.

As of that, section 38 of the principal Act, for sub-section (1), the following sub-section shall be substituted, namely

“(1) The Central Government may, subject to the condition of previous publication, by notification in the Official Gazette, make rules to carry out the provisions of this Act.

[Refer Page 3.4, page 3.19 & page 3.28 of the Study material (July 2015 edition)]

The Companies Act, 2013

The Companies (Amendment) Act, 2015 and other relevant legislative amendments:

1. Vide Notification **G.S.R.349(E)**, dated **1st May 2015**, the Central Government through the enforcement of **the Companies(Incorporation) Amendment Rules, 2015**, hereby inserted relevant Rule 7A and Rule 36 to the Companies (Incorporation) Rules, 2014 in exercise of the power conferred by sections 3, 4, 5 and 7, read with section 469 sub-section (1) & (2) of the Companies Act, 2013.

- (i) **“Rule 7A. Penalty-** If a One Person Company (OPC) or any officer of such company contravenes any of the provisions of rules related to the formation and nomination by the subscriber/member of One Person Company, the OPC or any officer of such company shall be punishable with fine which may extend to 5000 rupees and with a further fine which may extend to 500 rupees for every day after the first offence during which such contravention continues.”
- (ii) **“Rule 36.Integrated process for incorporation-**
- (1) For the purpose of simplifying the filing of forms for incorporation of a company, the integrated process shall apply with effect from 1st May, 2015.
 - (2) For the purposes of sub-rule(1), the application for allotment of Director Identification Number (DIN) upto 3 Directors, reservation of a name, incorporation of company and appointment of Directors of the proposed company shall be filed in Integrated Form No. INC-29, for One Person Company, Private company, Public Company and producer company, with the Registrar within whose jurisdiction the registered office of the company is proposed to be situated, along with the fee of rupees two thousand in addition to the registration fee as specified in Companies (Registration of Offices and Fees) Rules, 2014.
 - (3) For the purposes of filing Integrated Incorporation form, the particulars of maximum of 3 directors shall be allowed to be filled in INC-29 and allotment of DIN of maximum of 3 proposed directors shall be permitted in Form INC-29 in case of proposed directors not having approved DIN.
 - (4) The promoter or applicant of the proposed company shall propose only one name in e-form No. INC-29.
 - (5) The promoter or applicant of the proposed company may prepare Memorandum of Association as per templates in Form INC-30 and may opt for templates of Articles of Association in Form INC-31 in accordance with the provisions of rule 13 for preparation of Memorandum of Association and Article of Association.
 - (6) The promoter or the applicant shall sign and witness, the Memorandum of Association and Articles of Association in the forms downloaded from the portal of the Ministry of Corporate Affairs and scanned legibly and attach to e-form INC-29 in accordance with the provisions of rule 16 for preparation of Memorandum of Association and Articles of Association.
 - (7) The facility to file Integrated application for incorporation in Form INC-29 is available as an option to the process for separate applications for allotment of Director Identification Number, reservation of name and Incorporation of a company as provided in these rules.

- (8) For an application filed using the Integrated process of incorporation as provided in this rule, the provisions of sub clause (i) of sub-section (5) of section 4 of the Act and rule 9 of these rules shall not apply.
- (9) A company using the provisions of this rule may furnish verification of its registered office under sub-section (2) of section 12 of the Act by filling e-Form INC -29 in which case the company shall attach along with such e-Form INC-29, any of the documents referred to in sub-rule (2) of rule 25.
- (10) The requirement of filing e-Form INC-28 may be dispensed with if, the proposed company maintains its registered office at the given correspondence address.
- (11) The Registrar within whose jurisdiction the registered office of the company is proposed to be situated shall process INC-29 including application for allotment of DIN.
- (12) (a) Where the Registrar, on examining e-form INC-29, finds that it is necessary to call for further information or finds such application or document to be defective or incomplete in any respect, he shall give intimation to the applicant to remove the defects and re-submit the e-form within fifteen days from the date of such intimation given by the Registrar.
(b) After the resubmission of the document, if the registrar still finds that the document is defective or incomplete in any respect, he shall give one more opportunity of fifteen days to remove such defects or deficiencies.
(c) In case, the Registrar is of the opinion that the document is defective or incomplete in any respect after giving such two opportunities, the e-form INC-29 of the proposed company shall be rejected.
- (13) The Certificate of Incorporation shall be issued by the Registrar in Form No. INC-11."

[Refer Para 1.6 for Point (i), Page 6.18 for Point (ii) of the Study material (July 2015 edition)]

2. Vide **Notification No. G.S.R 442(E), dated 29th May 2015**, the Central Government enforced the **Companies (Incorporation) Second Amendment Rules, 2015** to further amend the Companies (Incorporation) Rules, 2014 in exercise of the powers conferred by section 7 read with section 469 sub-sections (1) & (2) of the Companies Act, 2013.

According to this Notification, a proviso has been inserted to Rule 12 to the Companies (Incorporation) Rules, 2014 which is related with the filing of application for incorporation of companies to registrar under section 7(1).

“Provided that in case pursuing of any objects of a company requires registration or approval from sectoral regulators such as RBI, SEBI, registration or approval, as the case may be, from such regulator shall be obtained by the company before pursuing such objects and a declaration in this behalf shall be submitted at the stage of incorporation of the company.”

[Refer Para 1.6, Page 6.18, Point (ii) of the Study material (July 2015 edition)]

3. Vide Notification No. **S.O.1440(E) dated 29th May 2015** Central Government hereby appointed the 29th May 2015, as the date of enforcement of the provisions of Sections 1 to 10 and 15 to 23 of the Companies(Amendment) Act, 2015.

The Companies (Amendment) Act, 2015 was notified in the official gazette on 26th May 2015 to further amend the Companies Act, 2013.

Following are the relevant sections amended by the Companies (Amendment) Act, 2015:

Relevant Provisions of the Companies Act, 2013	Amendment by the Companies (Amendment) Act, 2015	Reference of the Page No. of the study material (July 2015 edition) covering the relevant topics
In definition of private company given in section 2(68)	The words “of one lakh rupees or such higher paid-up share capital” shall be omitted;	Page 6.7
In definition of public company given in section 2(71)	In sub-clause (b), the words “of five lakh rupees or such higher paid-up capital,” shall be omitted.	Page 6.8
Effect of Registration given in section 9	The words “and a common seal” shall be omitted	Page 6.20
Section 11 dealt with commencement of business	Omitted	Page 6.22

Registered office of the company given in section 12	In sub section(3), for clause(b), the following clause shall be substituted, namely- “(b)Having its name engraved in legible characters on its seal, if any,”	Page 6.23
Execution of bills of exchange, etc. given in section 22	(i) in sub-section (2),— (a) for the words “under its common seal”, the words “under its common seal, if any,” shall be substituted; (b) the following proviso shall be inserted, namely:— “Provided that in case a company does not have a common seal, the authorisation under this sub-section shall be made by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary.”; (ii) in sub-section (3), the words “and have the effect as if it were made under its common seal” shall be omitted.	Page 6.78
Certificate of shares given in section 46	In sub-section (1), for the words “issued under the common seal of the company”, the words “issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary” shall be substituted.	Page 6.92

<p>Acceptance of deposits from public by certain companies given in section 76</p>	<p>After section 76, the following new section shall be inserted, namely:—</p> <p>“76A. Where a company accepts or invites or allows or causes any other person to accept or invite on its behalf any deposit in contravention of the manner or contravention of the conditions prescribed under section 73 or section 76 or rules made thereunder or if a company fails to repay the deposit or part thereof or any interest due thereon within the time specified under section 73 or section 76 or rules made thereunder or such further time as may be allowed by the Tribunal under section 73,—</p> <p>(a) the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees but which may extend to ten crore rupees; and</p> <p>(b) every officer of the company who is in default shall be punishable with imprisonment which may extend to seven years or with fine which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, or with both:</p>	<p>Page 6.65</p>
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	Provided that if it is proved that the officer of the company who is in default, has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or depositors or creditors or tax authorities, he shall be liable for action under section 447.”	
Resolutions and agreements to be filed in section 117	In sub-section (3),— (i) in clause (g), the word “and” occurring at the end shall be omitted; (ii) after clause (g), the following proviso shall be inserted, namely:— “Provided that no person shall be entitled under section 399 to inspect or obtain copies of such resolutions; and”.	Page 6.160

4. Ministry Vide **Notification G.S.R. 466 (E) dated 5th June 2015**, directed that certain provisions of the Companies Act, 2013 shall not apply or shall apply with certain exceptions, modifications and adaptation to the **companies covered under section 8** of the Companies Act, 2013.

Following are the sections which are influenced by this Notification:

Relevant Provisions of the Act	Amendment through the Notification	Reference of the Page No. of the study material (July 2015 edition) covering the relevant topics
“Private company” given under section 2(68)	The requirement of having minimum paid-up share capital shall not apply.	Page 6.7

“Public company” given under section 2(71)	The requirement of having minimum paid-up share capital shall not apply.	Page 6.8
Provision related to Annual General Meeting(AGM) covered under section 96(2)	In sub-section (2), after the proviso and before explanation, the following proviso shall be inserted- Provided further that the time, date and place of each AGM are decided upon before-hand by the Board of Directors having regards to the directions, if any, given in this regards by the company in its general meeting.	Page 6.128
Provision related to notice of meeting given in section 101(1)	For the words “twenty one days”, the words “fourteen days” shall be substituted.	Page 6.135
“Minutes” given in section 118	Shall not apply as a whole except that minutes may be recorded within 30 days of the conclusion of every meeting in case of companies where articles of association provide for confirmation of minutes by circulation.	Page 6.166

5. Ministry Vide **Notification G.S.R. 463 (E) dated 5th June 2015**, directed that certain provisions of the Companies Act, 2013 shall not apply or shall apply with certain exceptions, modifications and adaptation to a **Government company**.

Following are the sections which are influenced by this Notification:

Relevant Provisions of the Act	Amendment through the Notification	Reference of the Page No. of the study material (July 2015 edition) covering the relevant topics
Provision related to Memorandum given in section 4(1)(a)	Words “in the case of a public limited company, or the last words “Private Limited” in the case of a private limited company’ shall be omitted in the case of Government company.	Page 6.25

Provision related to transfer and transmission of securities in section 56(1)	After the given proviso, following provisos shall be inserted- Provided further the provisions of this sub-section, in so far as it requires a proper instrument of transfer, to be duly stamped and executed by or on behalf of the transferor and by or on behalf of the transferee, shall not apply with respect to bonds issued by a Government company, provided that an intimation by the transferee specifying his name, address, and occupation, if any, has been delivered to the company along with the certificate relating to the bond; and if no such certificate is in existence, along with the letter of allotment of the bond: Provided also that the provisions of this sub-section shall not apply to a Government company in respect of the securities held by nominees of the government.	Page 6.95
“Declaration in respect of beneficial interest in any share” given in section 89	Shall not apply	Page 6.121
“Investigation of beneficial ownership of shares in certain cases” under section 90	Shall not apply	Page 6.123
Provision related to AGM under section 96(2)	For the words “some other places within city, town, or village in which the registered office of the company is situate”, the words “such other place as the Central Government may approve in this behalf” shall be substituted.	Page 6.128

6. Ministry Vide **Notification G.S.R. 465 (E) dated 5th June 2015**, directed that certain provisions of the Companies Act, 2013 shall not apply or shall apply with certain exceptions, modifications and adaptation to a **Nidhis**.

Following are the sections which are influenced by this Notification:

Relevant Provisions of the Act	Amendment through the Notification	Reference of the Page No. of the study material (July 2015 edition) covering the relevant topics
Provision related to service of documents covered under section 20(2)	Shall apply subject to modification, that the documents may be served only on members who holds shares of more than ₹ 1000 in face value or more than 1% of the total paid up share capital of the nidhis whichever is less.	Page 6.39
Provisions related to private placement under section 42, except sub-section(1), explanation(II) to Sub-section (2), sub-sections (4),(6),(8), (9) & (10)	Shall not apply	Page 6.59
"Voting rights" given in section 47	Shall apply subject to modification that no member shall exercise voting rights on poll in excess of 5% of total voting rights of equity shareholders.	Page 6.84
"Further issue of share capital" covered in section 62	Shall not apply	Page 6.84
Provision related to Restriction on purchase by company or giving of loans by it for purchase of its shares given in section 67(1)	Shall not apply, when share are purchased by the company from a member on his ceasing to be a depositor or borrower and it shall not be considered as reduction of capital under section 66 of the Companies Act, 2013.	Page 6.67

7. Ministry Vide **Notification G.S.R. 464 (E) dated 5th June 2015**, directed that certain provisions of the Companies Act, 2013 shall not apply or shall apply with certain exceptions, modifications and adaptation to a **Private company**.

Following are the sections which are influenced by this Notification:

Relevant Provisions of the Act	Amendment through the Notification	Reference of the Page No. of the study material (July 2015 edition) covering the relevant topics
"Kinds of share capital" given in section 43 and "Voting rights" under section 47	Shall not apply where memorandum/ articles of private company so provides.	Page 6.80 and page 6.84
Provisions related to further issue of share capital given under section 62(1)(a)(i)& (2)	Shall apply with following modifications: Following proviso has been inserted under clause (a), sub-clause (i)- Provided that notwithstanding anything contained in this sub-clause and sub-section (2) of this section, in case 90% of the members of a private company have given their consent in writing or in electronic mode, the periods lesser than those specified in the said sub-clause or sub-section shall apply.	Page 6.84
Provisions related to further issue of share capital given under section 62(1)(b)	For the words "Special resolution", the words "ordinary resolution" shall be substituted.	Page 6.84
"Restriction on purchase by company or giving of loans by it for purchase of its shares" given in section 67	Shall not apply to private companies- (i) In whose share capital no other body corporate has invested and money;	Page 6.67

	(ii) If the borrowings of such company from banks/financial institutions/anybody corporate is less than twice its paid up share capital/ 50 crore rupees, whichever is lower; and (iii) Such company has no default in repayment of such borrowings subsisting at the time of making transactions under this section.	
Provisions related to prohibition on acceptance of deposits from public under section 73(2)(a) to 73(2)(e)	Shall not apply to a private company which accepts from its members monies not exceeding 100% 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.	Page 6.63
Provisions related to notice of meeting, statement annexed with the notice, quorum, chairman of meetings, proxies, restrictions on voting rights, voting by show of hands and demand for poll covered under sections 101- 107 & 109	Shall apply unless otherwise specified in respective sections or articles of the company provide otherwise.	Page 6.134 to page 6.156
Provisions related to resolutions and agreements to be filed given in section 117(3)(g)	Shall not apply	Page 6.161

8. **Vide General Circular No. 09/2015 dated 18th June 2015**, clarification has been issued by the Ministry on repayment of deposits accepted by the companies before

the commencement of the Companies Act, 2013 under section 74 of the said Act and filing of the prosecutions against defaulting companies.

Government vide removal of difficulties(second)order, dated 2nd June 2014 and removal of difficulties(Fourth)order, dated 6th June 2014 has clarified that the CLB has been empowered to exercise the powers of the NCLT under section 73(4) and section 74(2) of the Companies Act, 2013 till it is constituted.

Thus, depositor is free to file an application under section 73(4) with the CLB if the company fails to make repayment of deposits accepted by it. Further the company may also file application under section 74(2) with CLB seeking extension of time in making repayment of deposits accepted by it before the commencement of the provisions of the said Act.

Also clarified that there is no bar on the registrar of companies for filing of prosecution against a company if such company fails to make repayment of deposits accepted by it under the provisions of the companies Act, 1956 or Companies Act, 2013, subject to the terms and conditions for which the deposits had been accepted.

[Refer Page 6.64 of the study material (July 2015 edition)]

9. Vide **Notification G.S.R. 669(E), dated 28 August, 2015**, the Central Government hereby enforced the Companies (Management and Administration) Amendment Rules, 2015 further to amend the Companies (Management and Administration) Rules, 2014, namely-

In rule 23, in sub-rule (1) for the words “not more than five lakh rupees”, the words ‘not less than five lakh rupees’ shall be substituted.

[Refer Page 6.159 of the study material (July 2015 edition)]

10. Vide **Notification No. G.S.R. 695(E) dated 15th September 2015**, in exercise of the powers conferred by section 73 and 76 read with section 469 sub-sections (1) & (2) of the Companies Act, 2013, Central Government further amended the Companies (Acceptance of Deposits) Rules, 2014 by the enforcement of **the Companies(Acceptance of Deposits) Second Amendment Rules, 2015**.

In clause(c), for sub-clause(viii), the following shall be substituted, namely-

“(viii) any amount received from the person who, at the time of the receipt of the amount, was a director of the company or a relative of the director of the private company:

Provided that the director of the company or relative of the director of the private company, as the case may be, from whom money is received, furnishes to the company at the time of giving the money, a declaration in writing to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and the company shall disclose the details of money so accepted in the Board's report;"

[Refer Page 6.62 of the study material (July 2015 edition)]

11. Vide **Notification No. G.S.R. 841(E), dated 6th November 2015** Central Government enforced the Companies (Share Capital and Debentures) Third Amendment Rules, 2015 to further amend the Companies (Share Capital and Debentures) Rules, 2014.

In the Companies (Share Capital and Debentures) Rules, 2014, in rule 18, in sub-rule (1), in clause (a) for sub-clause (iii) following sub-clauses shall be substituted, namely:

“(iii) infrastructure Debt Fund Non-Banking Financial Companies’ as defined in clause (b) of direction 3 of Infrastructure Debt Fund Non-Banking Financial Companies (Reserve Bank) Directions, 2011;

(iv) Companies permitted by a Ministry or Department of the Central Government or by Reserve Bank of India or by the National Housing Bank or by any other statutory authority to issue debentures for a period exceeding ten years”.

[Refer Page 6.104 of the study material (July 2015 edition)]

12. Vide Notification No. **G.S.R. 99(E), dated 22nd January, 2016**, Central Government hereby makes the amendments in rule 36 sub-rule (12) to further amend the Companies (Incorporation) Rules, 2014. Rule 36 deals with the Integrated process for incorporation which was notified vide Notification no. **G.S.R.349(E), dated 1st May 2015**.

“(i) After sub-clause (b), the following shall be inserted-

‘(ba) After the re-submission of the documents and on completion of second opportunity, if the registrar still finds that the documents are defective or incomplete, he shall give third opportunity to remove such defects and deficiencies;’

Provided that the total period for re-submission of documents shall not exceed a total period of 30 days.

(ii) In sub-clause(c), for the words ‘three opportunities’ shall be substituted.”

[Refer Para 1.6, Page 6.18, Point (ii) of the Study material (July 2015 edition)]

II. Non-Applicability of the following relevant sections of the Companies Act, 2013 for November 2016 examinations

S.No.	Section No.	Section title
1.	Section 48	Variation of shareholders' right
2.	Section 66	Reduction of share capital
3.	Section 75	damages for fraud
4.	Section 97	Power of tribunal to call AGM
5.	Section 98	Power of Tribunal to call meetings of members, Etc.
6.	Section 99	Punishment for default in complying with provisions of sections 96 to 98

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act, 1872

1. (a) Examine what is the legal position, as to the following:
 - (i) Mohit offered to sell his land to Neha for ₹ 12,80,000/-. Neha replied purporting to accept the offer and enclosed a cheque for ₹ 80,000/-. She also promised to pay the balance of ₹ 12,00,000/- in monthly installments of ₹ 50,000/- each.
 - (ii) Aditya offered to sell his house to Babban for ₹ 10,00,000/-. Babban replied that he can accept the house for only ₹ 8,00,000/-. Aditya rejected Babban's counter offer to buy the house for ₹ 8,00,000/-. Babban later changed his mind and is now willing to buy the house for ₹ 10,00,000/-.
- (b) Red Shirt Textile enters into a contract with Retail Garments Show Room for supply of 1,000 pieces of Cotton Shirts at ₹ 300 per shirt to be supplied on or before 31st December, 2015. However, on 1st November, 2015 Red Shirt Textile informs Retail Garments Show Room that it is not willing to supply the goods as the price of cotton shirts in the meantime has gone upto ₹ 350 per shirt. Examine the rights of Retail Garments Show Room in this regard.
2. (a) Do the following statements amount to involvement of fraud?

- (i) Where the vendor of a piece of land told a prospective purchaser that, in his opinion, the land can support 2000 heads of sheep whereas, in truth, the land could support only 1500 sheep.
 - (ii) X bought shares in a company on the faith of a prospectus which contained an untrue statement that one Z was a director of the company. X had never heard of Z and the untrue statement of Z being a director was immaterial from his point of view. Can X claim damages on grounds of fraud?
- (b) Mr. N is employed as a cashier on a monthly salary of ₹ 2,000 by XYZ bank for a period of three years. 'A' gave surety for N's good conduct. After nine months, the financial position of the bank deteriorates. Then N agrees to accept a lower salary of ₹ 1,500/- per month from Bank. Two months later, it was found that N has misappropriated cash since the time of his appointment. What is the liability of A?

The Negotiable Instruments Act, 1881

- 3. A draws and B accepts the bill payable to C or order, C endorses the bill to D and D to E, who is a holder-in-due course. From whom E can recover the amount? Examining the right of E, state the privileges of the holder-in-due course provided under the Negotiable Instruments Act, 1881.
- 4. Who will exercise jurisdiction for filing of complaints under Section 138 of the Negotiable Instruments Act, 1881 as amended by the Negotiable Instruments (Amendment) Act, 2015. Explain.

The Payment of Bonus Act, 1965

- 5. Mr. Eager joined as supervisor on monthly salary of ₹ 13,400 on 1. 02. 2016 and resigned from his job on 29. 02. 2016. The company declared a bonus of 20% to all eligible employees and paid it on time. Mr. Eager knowing the facts made a claim to HRD, which in turn rejected the claim. Examine the validity in the light of the provisions of the Payment of Bonus Act, 1965.
- 6. During the financial year 2014-2015 Mr. Ram who was a temporary employee in Ayurved Products Limited and was drawing a salary of ₹ 6000/- per month. On the basis of charge of violent behavior within the premises of the company, he was prevented from working in the company for 60 days pending inquiry. Since there was no adverse conclusion against him, he was reinstated in the service with back salary. He worked for the remaining ten months in that financial year and thereafter resigned from the service. Afterwards, when bonus was paid to other employees, the company refused to pay bonus to Mr. Ram. Decide, whether Mr. Ram will be entitled to bonus under the provisions of the Payments of Bonus Act, 1965?

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

- 7. An employee of a limited company filed a claim for provident fund settlement with the Provident Fund Commissioner. However, he did not get any settlement from the authority

even after six months. Referring to the Employees' Provident Funds and Miscellaneous Provisions Act, 1952 what course of action an authority should have taken in this respect.

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

The Payment of Gratuity Act, 1972

9. Asma who was an employee of Aron Publishing Limited, retired on 1st January 2015 after 30 years of continuous service. The company did not pay the amount of gratuity to Asma till the end of December 2015. Now, Asma claims the amount of gratuity along with interest. Decide, under the Payment of Gratuity Act, 1972, whether Asma will succeed in his claim?
10. An employee, working in an establishment which is governed by the Payment of Gratuity Act, 1972, committed a theft in the course of his employment. And consequently his services was terminated. State in this connection, whether the gratuity payable to him shall be wholly or partly forfeited.

The Companies Act, 2013

11. John, an assessee, was a wealthy man earning huge income by way of dividend and interest. He formed three Private Companies and agreed with each to hold a block of investment as an agent for them. The dividend and interest income received by the companies was handed back to John as a pretended loan. This way, John divided his income into three parts in a bid to reduce his tax liability.

Decide, for what purpose the three companies were established? Whether the legal personality of all the three companies may be disregarded.

12. (a) Explain in the light of the provisions of the Companies Act, 2013, the circumstances under which a subsidiary company can become a member of its holding company.
(b) With reference to the Companies Act, 2013, examine the position of the following with regard to membership in a company:
 - (i) Partnership Firm
 - (ii) An Insolvent
13. A company wants to get registered with the Registrar of companies. As a Chartered Accountant advise as to how it can get itself incorporated as per the Integrated Process of Incorporation under the provisions of the Companies Act, 2013.
14. The object clause of the Memorandum of Association of Miranda Private Ltd, Kolkata authorized it to do trading in fruits and vegetables. The company, however, entered into a Partnership with Mr. Karan and traded in steel and incurred liabilities to Mr. Karan. The company, subsequently, refused to admit the liability to Karan on the ground that the deal

was 'Ultra Vires' the company. Examine the validity of the company's refusal to admit the liability to Karan. Give reasons in support of your answer.

15. Mr. Ashok, the transferee, acquired 250 equity shares of KPMC Limited from Mr. Deepak, the transferor. But the signature of Mr. Deepak, the transferor, on the transfer deed was forged. Mr. Ashok after getting the shares registered by the company in his name, sold 150 equity shares to Mr. Sanjay on the basis of the share certificate issued by KPMC Limited. Mr. Ashok and Mr. Sanjay were not aware of the forgery. State the rights of Mr. Deepak, Ashok and Sanjay against the company with reference to the aforesaid shares.

PART – B: ETHICS

16. State the objectives of the Central Consumer Protection Council in India.
17. What is the difference between 'Morals' and 'Ethics'?
18. What reasons force a marketing executive to adopt ethical practices in marketing? Explain.
19. Write note on:
- (i) Harassment at workplace.
 - (ii) Ecological ethics
20. Explain the reasons for unethical behaviour among finance and accounting professionals.

PART – C: COMMUNICATION

21. Write Short Notes On:
- (a) Advantages of Ethical Communication
 - (b) Organization Values
22. Explain the functions of interpersonal communication.
23. "Once the process of consensus building has begun, mediators try to assist the parties in their efforts to generate a creative resolution of differences". Examine this statement and also state in brief the process which should be followed by mediators to resolve the differences between the parties.
24. The Board of Safe Investments Pvt. Ltd., appoint and authorize Mr. Alok giving powers to sell and sign transfer deeds for transfer of shares and debentures by executing an instrument of the "Power of Attorney". Draft such instrument of "Power of Attorney".
25. Symphony Ltd. wants to hold its Annual General Meeting on 5th August, 2016 to discuss the matters relating to ordinary business. Draft a notice in brief for calling Annual General Meeting of its shareholders.

SUGGESTED ANSWERS/HINTS

1. (a) To conclude a contract between the parties, the acceptance must be communicated in some perceptible form. Any conditional acceptance or acceptance with varying or too deviant conditions is not acceptance. Such conditional acceptance is a counter proposal and has to be accepted by the proposer, if the original proposal has to materialize into a contract. Further when a proposal is accepted, the offeree must have the knowledge of the offer made to him. If he does not have the knowledge, there can be no acceptance. The acceptance must relate specifically to the offer made. Then only it can materialize into a contract. With the above rules in mind, we may note that the following is the solution to the given problems:
- (i) It is not a valid acceptance and no contract can come into being. Here, Mohit offered to sell his land to Neha for ₹ 12,80,000/-. Neha replied purporting to accept the offer but enclosed a cheque for ₹ 80,000/- only. She promised to pay the balance of ₹ 12,00,000 by monthly installments of ₹ 50,000.
- The facts of the given situation are similar to the case of *Neale vs. Merret*. Thus, applying the above judgement to the given situation, Neha cannot enforce her acceptance because it was not an unqualified one.
- (ii) In the given situation Aditya offered to sell his house to Babban for ₹ 10,00,000/-, to which Babban replied that he can pay ₹ 8,00,000 for it. Consequently, the offer of Aditya is rejected by Babban as the acceptance is not unqualified. But when Babban later changes his mind and is prepared to pay ₹ 10,00,000/-, it becomes a counter offer and it is up to Aditya whether to accept it or not. This problem is similar to the facts of *Union of India v. Bahulal* case.
- In the light of decided case law, in the given situation, when Babban later changes his mind and is prepared to pay ₹ 10,00,000/-, it becomes a counter offer and it is up to Aditya whether to accept it or not.
- (b) In the given problem Red Shirt Textile has indicated its unwillingness to supply the cotton shirts on 1st November 2015 itself when it has time upto 31st December 2015 for performance of the contract of supply of goods. It is therefore called anticipatory breach of contract. Thus, Retail Garments showroom can claim damages from Red Shirt Textile immediately after 1st November, 2015, without waiting upto 31st December 2015. The damages will be calculated at the rate of ₹ 50 per shirt i.e. the difference between ₹ 350/- (the price prevailing on 1st November) and ₹ 300/- the contracted price.
2. (a) (i) The problem is based on the facts of the case *Bisset vs Wilkinson* (1927). In the given problem the vendor says that in his opinion the land could support 2000

heads of sheep. This statement is only an opinion and not a representation and hence cannot amount to fraud.

- (ii) The problem is based on the facts of the case *Smith vs Chadwick* (1884). In the problem though the prospectus contained an untrue statement, however, that untrue statement was not the one that induced X to purchase the shares. Hence, X cannot claim damages.
 - (b) According to section 133 of the Indian Contract Act, 1872, if any variance is made without surety's consent, in terms of the contract between the principal debtor and creditor, it discharges the surety as to transaction subsequent to the variance. In the instant case A is liable as a surety for the loss suffered by the bank due to misappropriation of cash by N during the first nine months but not for misappropriations committed after the reduction in salary.
3. Section 36 of the Negotiable Instruments Act, 1881 describes the liabilities of prior parties to the holder in due course. This section says that a holder in due course has privilege to hold every prior party to a negotiable instrument liable on it until the instrument is duly satisfied. Here, the holder in due course can hold all the prior parties liable jointly and severally. Prior parties includes the maker or drawer, the acceptor and endorsers. Accordingly, in the given problem, E, a holder in due course can recover the amount from all the prior parties i.e., D & C (the endorsers), B (acceptor) and A (the drawer).

Privileges of a "Holder in Due Course": According to the provisions of the Negotiable Instruments Act, 1881, a holder in due course has the following privileges:-

- i. A person signing and delivering to another a stamped but otherwise inchoate instrument is debarred from asserting, as against a holder in due course, that the instrument has not been filled in accordance with the authority given by him, the stamp being sufficient to cover the amount (Section 20).
- ii. In case a bill of exchange is drawn payable to drawer's order in a fictitious name and is endorsed by the same hand as the drawer's signature, it is not permissible for acceptor to allege as against the holder in due course that such name is fictitious (Section 42).
- iii. In case a bill or note is negotiated to a holder in due course, the other parties to the bill or note cannot avoid liability on the ground that the delivery of the instrument was conditional or for a special purpose only (Sections 42 and 47).
- iv. The person liable in a negotiable instrument cannot set up against the holder in due course the defences that the instrument had been lost or obtained from the former by means of an offence or fraud or for an unlawful consideration (Section 58).
- v. No maker of a promissory note, and no drawer of a bill or cheque and no acceptor of a bill for the honour of the drawer shall, in a suit thereon by a holder in due

course be permitted to deny the validity of the instrument as originally made or drawn (Section 120).

- vi. No maker of a promissory note and no acceptor of a bill payable to order shall, in a suit thereon by a holder in due course, be permitted to deny the payee's capacity to endorse the same (Section 121).
4. According to section 142(2) of the Negotiable Instrument Act, 1881, the offence under section 138, which deals with the dishonour of cheque, shall be inquired into and tried only by a court within whose local jurisdiction,—
- (a) if the cheque is delivered for collection through an account, the branch of the bank where the payee or holder in due course, as the case may be, maintains the account, is situated; or
 - (b) if the cheque is presented for payment by the payee or holder in due course, otherwise through an account, the branch of the drawee bank where the drawer maintains the account, is situated.

Explanation.— For the purposes of clause (a), where a cheque is delivered for collection at any branch of the bank of the payee or holder in due course, then, the cheque shall be deemed to have been delivered to the branch of the bank in which the payee or holder in due course, as the case may be, maintains the account.

5. Under section 8 of the Payment of Bonus Act, 1965 an employee is entitled for bonus in an accounting year if he has worked in the establishment for not less than thirty working days in that year. Under section 2 (13), an employee is defined to include an employee drawing a salary of less than ₹ 21,000 per month.

In the given case, Mr Eager was an eligible employee within the meaning of the term under section 2 (13) but became ineligible to receive bonus as he worked in the accounting year only for 29 days and hence will not be entitled to receive bonus.

6. As per Section 9 of the Payment of Bonus Act, 1965, an employee shall be disqualified from receiving bonus under this Act, if he is dismissed from service for -
- (a) fraud; or
 - (b) riotous or violent behavior while on the premises of the establishment; or
 - (c) theft, misappropriation or sabotage of any property of the establishment.

The above provision involves the following legal process:

- (i) When an employee is charged for any of the above acts, an inquiry is essential;
- (ii) The allegedly guilty employee is suspended for the period of the inquiry till submission of the inquiry report. In case he is found guilty, he may be dismissed or reinstated after warning but without wages for the period of suspension. On the other hand if he is found innocent, he will have to be reinstated with back wages as per the various labour laws including the Industrial Disputes Act.

(iii) It makes no difference whether the employee is temporary or permanent

It is clear from the above provision that if an employee is reinstated with back wages, it means he did not commit the disqualifying act and hence his disqualification does not arise. Therefore, he is entitled to receive bonus for the full year. [*Gammon India Ltd. Vs. Niranjan Das (1984)*].

Therefore, refusal of company is not valid and Mr. Ram will be entitled to the bonus under the Payment of Bonus Act, 1965.

7. The Provident Fund “claims” complete in all respects submitted along with the requisite documents are required to be settled and the benefit amount paid to the beneficiaries within 30 days from the date of its receipt of the complete “claims” by the Commissioner.

If there is any deficiency in the claim, the same shall be recorded in writing and communicated to the applicant within 30 days from the date of receipt of such application.

In case the Commissioner fails without sufficient cause to settle a claim complete in all respects within 30 days, the Commissioner shall be liable for the delay beyond the said period and penal interest at the rate of 12% per annum may be charged on the benefit amount and the same may be deducted from the salary of the Commissioner.

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

- (a) attachment and sale of the movable or immovable property of the establishment or, as the case may be, the employer;
- (b) arrest of the employer and his detention in prison;
- (c) appointing a receiver for the management of the movable or immovable properties of the establishment or, as the case may be, the employer;

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

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

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

9. As per the provisions of section 4(1) of the Payment of Gratuity Act, 1972, gratuity shall be payable to an “employee” (defined in section 2(e) of the Act) on the termination of his employment after he has rendered continuous service for not less than 5 years –
- ◆ On his superannuation or
 - ◆ On his retirement or resignation or
 - ◆ On his death or disablement due to accident or disease;

Further, as per the provisions of section 7(3), the employer shall arrange to pay the amount of gratuity within thirty days from the date it becomes payable to the person as gratuity, whether the application for the payment of gratuity has been given or not by the employee.

Section 8 of the Act deals with Recovery of gratuity – If the amount of gratuity payable under this Act is not paid by the employer, within the prescribed time, to the person entitled thereto, the controlling authority shall, on an application made to it in this behalf by the aggrieved person, issue a certificate for that amount to the Collector, who shall recover the same, together with compound interest thereon at such rate as the Central Government may, by notification, specify, from the date of expiry of the prescribed time, as arrears of land revenue and pay the same to the person entitled thereto provided that the controlling authority shall, before issuing a certificate under this section, give the employer a reasonable opportunity of showing cause against the issue of such certificate provided further that the amount of interest payable under this section shall, in no case exceed the amount of gratuity payable under this Act.

Applying the above provisions of law to the question, Asma will succeed and the company Aron Publishing Limited, is required to pay gratuity along with interest.

10. **Reduction and forfeiture of Gratuity:** Under Section 4(6)(a) of the Payment of Gratuity Act, 1972, in the case of damage, loss or destruction of property of employer, due to the willful omission or negligence of the employee, the amount of gratuity to the extent of loss or damage shall be forfeited by the employer.

Further, under section 4(6)(b), the gratuity payable to an employee may be wholly or partially forfeited, where the services of an employee are terminated on the ground of:

- (i) riotous or disorderly conduct or act of violence; or
- (ii) committing an offence involving moral turpitude in the course of his employment.

Theft is an offence involving moral turpitude and consequently, if the services of an employee had been terminated for committing theft in the course of his employment, the

gratuity payable to him under the provisions of the Act shall be wholly forfeited in view of Section 4(6)(b)(ii). [*Bharat Gold Mines Ltd. Vs Regional Labour Commissioner (Central), (1987) 70 FJR 11 (Kern.)*].

11. The House of Lords in *Salomon Vs Salomon & Co. Ltd.* laid down that a company is a person distinct and separate from its members, and therefore, has an independent separate legal existence from its members who have constituted the company. But under certain circumstances the separate entity of the company may be ignored by the courts. When that happens, the courts ignore the corporate entity of the company and look behind the corporate façade and hold the persons in control of the management of its affairs liable for the acts of the company. Where a company is incorporated and formed by certain persons only for the purpose of evading taxes, the courts have discretion to disregard the corporate entity and tax the income in the hands of the appropriate assessee.
 - (1) The fact of the case says that the three companies were formed by the assessee purely and simply as a means of avoiding tax and the companies were nothing more than the façade of the assessee himself. Therefore, the whole idea of Mr. John was simply to split his income into three parts with a view to evade tax. No other business was done by the company.
 - (2) Therefore, the legal personality of the three private companies may be disregarded because the companies were formed only to avoid tax liability. It carried on no other business, but was created simply as a legal entity to ostensibly receive the dividend and interest and to hand them over to the assessee as pretended loans. The same was upheld in *Re Sir Dinshaw Maneckji Petit* AIR 1927 Bom.371 and *Juggilal vs. Commissioner of Income Tax* AIR (1969) SC (932).
12. (a) In accordance with the provisions of Section 19 of the Companies Act, 2013, a subsidiary company cannot either by itself or through its nominees hold any shares in its holding company and no holding company shall allot or transfer its shares to any subsidiary companies. Any such allotment or transfer of shares in a company to its subsidiary is void. The section however does not apply where:
 - (i) the subsidiary company holds shares in its holding company as the legal representative of a deceased member of the holding company, or
 - (ii) the subsidiary company holds such shares as a trustee, or
 - (iii) the subsidiary company was a shareholder in the holding company even before it became its subsidiary.
- (b) **Position of the following with regard to membership in a company:**
 - (i) **Partnership Firm:** Section 2 (55) of the Companies Act 2013 defines a member as a subscriber to the memorandum of association whose name is entered in the Register of Members following the incorporation of the company, every other person who agrees in writing to become a member of the company

and whose name is entered in the register of members of the company and any person holding shares in a company and whose name is entered as the beneficial owner in the records of the depository.

A partnership firm may therefore hold shares in a company provided its name appears in the register of members of the company. However, as a firm is not a legal entity it will be able to hold shares in the individual names of partners as joint shareholders. However, this will not apply to a "Limited Liability Partnership". (*Ganesh Das Ram Gopal v. R.G. Cotton Mills Ltd.*)

Under section 8 (3) of the Companies Act 2013, a firm may be a member of a company incorporated under section 8 i.e. a company formed as a charitable or social venture.

- (ii) **An Insolvent:** An insolvent may be a member of a company. So long as his name appears in the register of members, he is a member and is entitled to vote even though his shares vest in the Official Assignee or Receiver. (*Morgan v. Gray*).

13. The Ministry of Corporate Affairs vide Notification G.S.R. 349(E), dated 1st May 2015, through the enforcement of **the Companies (Incorporation) Amendment Rules, 2015**, inserted Rule 36 to the Companies (Incorporation) Rules, 2014 in exercise of the power conferred by sections 3, 4, 5 and 7, read with section 469 sub-section (1) & (2) of the Companies Act, 2013.

As per Rule 36:

- (1) For the purpose of simplifying the filing of forms for incorporation of a company, the integrated process shall apply with effect from 1st May, 2015.
- (2) For the purposes of sub-rule (1), the application for allotment of Director Identification Number (DIN) upto 3 Directors, reservation of a name, incorporation of company and appointment of Directors of the proposed company shall be filed in Integrated Form No. INC-29, for One Person Company, Private company, Public Company and producer company, with the Registrar within whose jurisdiction the registered office of the company is proposed to be situated, along with the fee of ₹ 2,000 in addition to the registration fee as specified in Companies (Registration of Offices and Fees) Rules, 2014.
- (3) For the purposes of filing Integrated Incorporation form, the particulars of maximum of 3 directors shall be allowed to be filled in INC-29 and allotment of DIN of maximum of 3 proposed directors shall be permitted in Form INC-29 in case of proposed directors not having approved DIN.
- (4) The promoter or applicant of the proposed company shall propose only one name in e-form No. INC-29.
- (5) The promoter or applicant of the proposed company may prepare Memorandum of Association as per templates in Form INC-30 and may opt for templates of Articles

of Association in Form INC-31 in accordance with the provisions of rule 13 for preparation of Memorandum of Association and Article of Association.

- (6) The promoter or the applicant shall sign and witness, the Memorandum of Association and Articles of Association in the forms downloaded from the portal of the Ministry of Corporate Affairs and scanned legibly and attach to e-form INC-29 in accordance with the provisions of rule 16 for preparation of Memorandum of Association and Articles of Association.
 - (7) The facility to file integrated application for incorporation in Form INC-29 is available as an option to the process for separate applications for allotment of Director Identification Number, reservation of name and Incorporation of a company as provided in these rules.
 - (8) A company using the provisions of this rule may furnish verification of its registered office under sub-section (2) of section 12 of the Act by filling e-Form INC -29 in which case the company shall attach along with such e-Form INC-29, any of the documents referred to in sub-rule (2) of rule 25.
 - (9) The Registrar within whose jurisdiction the registered office of the company is proposed to be situated shall process INC-29 including application for allotment of DIN.
 - (10) (a) Where the Registrar, on examining e-form INC-29, finds that it is necessary to call for further information or finds such application or document to be defective or incomplete in any respect, he shall give intimation to the application to remove the defects and re-submit the e-form within fifteen days from the date of such intimation given by the Registrar.
 - (b) After the resubmission of the document, if the registrar still finds that the document is defective or incomplete in any respect, he shall give one more opportunity of fifteen days to remove such defects or deficiencies.
 - (c) In case, the Registrar is of the opinion that the document is defective or incomplete in any respect after giving such two opportunities, the e-form INC-29 of the proposed company shall be rejected.
 - (11) The Certificate of Incorporation shall be issued by the Registrar in Form No. INC-11.
- 14.** In terms of section 4(1)(c) of the Companies Act, 2013, the powers of the company are limited to:
- (i) Powers expressly given in the “Objects Clause” of the Memorandum (which is popularly known as ‘express’ power), or conferred by the Companies Act, or by any other statute and
 - (ii) powers reasonably incidental or necessary to the company’s main objects (termed as “Implied’ powers).

The Act further provides that the acts beyond the powers of a company are ultra vires and void and cannot be ratified even though every member of the company may give his consent [*Ashbury Railway Carriage Company Vs Richee*]

The objects clause enables the shareholders, creditors or others to know what its powers are and what is the range of its activities. The objects clause therefore is of fundamental importance to the shareholders, creditors and every other person who deals with the company in any manner what so ever. A company being an artificial legal person can act only within the ambit of the powers conferred upon it by the Memorandum through the "Objects Clause".

Every person who enters into a contractual relationship with a company on any matter is presumed to be aware of its objects and is supposed to have examined the Memorandum of Articles of the company to ensure proper contractual agreement. If a person fails to do so, it is entirely at his own peril.

It is also pertinent to note that the objects of a company may be changed by following the provisions for the change of Memorandum as laid out in section 13 of the said Act.

Miranda Pvt. Ltd is authorised to trade directly on fruits and vegetables. It has no power to enter into a partnership for iron and steel with Mr. Karan. Such act cannot be treated as being within either the 'express' or 'implied' powers of the company. Mr Karan who entered into partnership is deemed to be aware of the lack of powers of Miranda Pvt. Ltd. In the light of the above, Mr. Karan cannot enforce the agreement or liability against Miranda Pvt. Ltd under the Companies Act, 2013. Mr. Karan should be advised accordingly.

However, under the Indian Contract Act, 1872 where a person derives any benefit either in the absence of a contract or under a void agreement, will be liable to make a reasonable payment for the value of such benefit.

15. According to Section 46(1) of the Companies Act, 2013, a share certificate once issued under the common seal, if any, of the company or signed by two directors or by a director and the Company Secretary, wherever the company has appointed a Company Secretary, specifying the shares held by any person, shall be prima facie evidence of the title of the person to such shares. Therefore, in the normal course the person named in the share certificate is for all practical purposes the legal owner of the shares therein and the company cannot deny his title to the shares.

However, a forged transfer is a nullity. It does not give the transferee (Mr. Ashok) any title to the shares. Similarly any transfer made by Mr. Ashok (to Mr. Sanjay) will also not give a good title to the shares as the title of the buyer is only as good as that of the seller.

Therefore, if the company acts on a forged transfer and removes the name of the real owner (Mr. Deepak) from the Register of Members, then the company is bound to restore the name of Mr. Deepak as the holder of the shares and to pay him any dividends which he ought to have received (*Barton v. North Staffordshire Railway Co.* 38 Ch D 456).

In the above case, therefore, Mr. Deepak has the right against the company to get the shares recorded in his name. However, neither Mr. Ashok nor Mr. Sanjay have any rights against the company even though they are bona fide purchasers.

However, since Mr. Deepak seems to be the perpetrator of the forgery, he will be liable both criminally and for compensation to Mr. Ashok and Mr. Sanjay.

16. The objectives of the Central Consumer Protection Council in India are to promote and protect the rights of the consumers such as:-
- (i) the right to be protected against the marketing of goods and services which are hazardous to life and property;
 - (ii) the right to be informed about the quality, quantity, potency, purity, standard and price of goods/services so as to protect the consumer against unfair trade practices;
 - (iii) the right to be assured, whichever possible, access to a variety of goods and services at competitive prices;
 - (iv) the right to be heard and to be assured that consumers interest will receive due consideration at appropriate terms;
 - (v) the right to seek redressal against unfair trade practices;
 - (vi) the right to consumer education.
17. **Moral vs. Ethics:** Following are the points of difference between Ethics and Moral:
- (i) The word 'Éthics' is derived from Ancient Greek 'éthikos' meaning 'character'. The word 'moral' is derived from Latin 'mos' meaning 'custom'.
 - (ii) Character is the essence of values and habits of a person or group. It severs the analysis and employment of concepts such as right and wrong, good and evil and acting with responsibility. Moral is defined as relating to principles of right and wrong.
 - (iii) Character is a personal attitude, while custom is defined by a group over a period of time. For example People have character, Societies have custom.
 - (iv) Morals are accepted from an authority (such as cultural, religious etc.) while ethics are accepted because they follow from personally accepted principles. An ethical view might be based on an idea of personal property that should not be taken without social consent. Moral norms can usually be expressed as general rules and statements such as 'always tell the truth'.
 - (v) Morals work on smaller scale than ethics, more reliably, but by addressing human needs for belonging and emulation, while ethics has a much wider scope.
18. **Pragmatic reasons for maintaining ethical behaviour:** Marketing executives should practice ethical behaviour because it is morally correct. To maintain ethical behaviour in marketing, the following positive reasons may be useful to the marketing executives:

1. **To reverse declining public confidence in marketing:** Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers' reputation. To reverse this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfil it. Companies must set high ethical standards and enforce them. Moreover, it is in management's interest to be concerned with the well-being of consumers, since they are the lifeblood of a business.
2. **To avoid increase in government regulation:** Business apathy, resistance, or token responses to unethical behaviour increase the probability of more governmental regulation. The governmental limitations may also result from management's failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.
3. **To retain power granted by society:** Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.
4. **To protect the image of the organisation:** Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Sometimes, a single sales clerk may pervert the market opinion in relation to that company which he represents.

Therefore, the ethical behaviour in marketing may be strengthened only through the behaviour of the marketing executives.

19. (i) **Harassment at workplace:** Harassment is "tormenting by subjecting to constant interference or intimidation". Law prohibits harassing acts and conduct that "creates an intimidating hostile or offensive working environment," which could be a term or condition of an individual's employment, either explicitly or implicitly or such conduct which has the purpose or effect of unreasonably interfering with an individual's work performance or creating an intimidating, hostile or offensive working environment. Another type of harassment is sexual harassment – situations in which an employee is coerced into giving in to another employee's sexual demands by the threat of losing some significant job benefit, such as a promotion, raise or even the job. Sexual harassment is prohibited and an employer is held responsible for all sexual harassment engaged in by employees, "regardless of whether the employer knew or should have known" the harassment was occurring and regardless of whether it was "forbidden by the employer."
- (ii) **Ecological Ethics:** The problem of pollution and other environmental issues can best be framed in terms of our duty to recognize and preserve the ecological systems within which we live. An ecological system is an interrelated and interdependent set of organisms and environments, such as a lake, in which the fish

depend on small aquatic organisms, which in turn live off decaying plant and fish waste products. Since the various parts of an ecological system are interrelated, the activities of one of its parts will affect all other parts. Business and all social firms are parts of a larger ecological system.

Business firms depend on the natural environment for their energy, material resources, waste disposal and that environment in turn is affected by the commercial activities of business firms. Unless business recognize the interrelationship and interdependencies of the ecological systems within which they operate and unless they ensure that their activities will not seriously injure these systems one cannot hope to deal with the problem of pollution.

Ecological ethics is based on the idea that the environment should be protected not only for the sake of human being but also for its own sake. The issue of environmental ethics goes beyond the problem relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal. It is the issue of exploitive human nature and attitudes that should be addressed in a rational way. Problems like global warming, ozone depletion and disposal of hazardous waste that concern the entire world. They require international co-operation and have to be tackled at the global level.

20. The reasons which lead to unethical behaviour are as follows:

1. Emphasis on short term results.

This is one of the primary reasons which has led to the downfall of many companies like Enron and Worldcom.

2. Ignoring small unethical issues.

It is a known fact that most of the compromises we make are small but however they lead us into committing large infractions. And ignoring minor lapses, lead to bigger and more huge mistakes.

3. Economic cycles.

In good times, companies are relaxed in their accounting procedures or disclosures, as there is a pervasive feel-good effect. But when times of hardship follow, then the hit taken by them is almost fatal, as was proved in the Enron case. So companies need to watch out for economic cycles and be vigilant in good times as well as bad.

4. Accounting rules.

In the era of globalization and massive cross border flow of capital, accounting rules are changing faster than ever before. The rules have become more complex and it is difficult to identify deviations from these complex set of requirements. The complexity of these principles and rules and the difficulty associated with identifying abuse are reasons which may promote unethical behaviour.

21. (a) **Advantages of Ethical Communication:** Ethical communication promotes long-term business success and profit. However, improving profits isn't reason enough to be ethical, as soon as the cost of being ethical outweighs the benefits, ethical choices would no longer be possible. One advantage of ethics is long-term integrity. Survey reports that all employees want to work for organizations with high ethical standards. Competent people are likely to search for organizations that maintain high ethical standards. When competent people migrate toward ethical firms, everyone benefits because both competence and ethics are perpetuated.
- (b) **Organization Values:** Values are the principles and ideas that people or organizations strongly believe in and consider important. When people are in doubt about decisions, they frequently rely on deep-seated values to help them make the right choice. In organizations, reliance on shared values makes setting goals easier in the face of the competing ideas, desires, and objectives of individual employees.
- One can get a good idea about the values of an organization by examining its vision and mission statement. These statements are short descriptions of the purpose of organizations and the directions they try to take to achieve success. Many organizations post their vision and mission statements in several places so that employees know what the organization values are.
22. **Functions of Interpersonal Communication:** Interpersonal communication is important because of the following functions it achieves:
- Gaining Information:** One reason, we engage in interpersonal communication, is to gain knowledge about another individual. We attempt to gain information about others so that we can interact with them more effectively.
- Building Understanding:** Interpersonal communication helps us to understand better what someone says in a given context. Words can mean very different things depending on how they are said or in what context. **Content Messages** refer to the surface level meaning of a message. **Relationship Messages** refer to how a message is said. The two are sent simultaneously, but each affects the meaning assigned to the communication and helps us understand each other better.
- Establishing Identity:** We also engage in interpersonal communication to establish an identity based on our relationships and the image we present to others.
- Interpersonal Needs:** We also engage in interpersonal communication to express interpersonal needs. William Schutz has identified three such needs: inclusion, control, and affection.
- Inclusion is the need to establish identity with others.
 - Control is the need to exercise leadership and prove one's abilities.
 - Affection is the need to develop relationships with people. Groups are an excellent way to make friends and establish relationships.

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

- (i) **Problem – solving orientation** – It is important to be constructive and maintain a problem solving orientation, even in the face of strong differences and personal antagonism. It is in every participant's best interest to behave in a fashion, they would like others to follow. Concerns or disagreement should be expressed in an unconditionally constructive manner.
- (ii) **Engage in active listening** – Participants in every consensus building process should be encouraged (indeed, instructed, if necessary) to engage in what is known as active listening.
- (iii) **Disagree without being disagreeable** – Participants in every consensus building process should be instructed to 'disagree without being disagreeable'.
- (iv) **Strive for the greatest degree of transparency possible** – To the greatest extent possible, consensus building process should be transparent. That is, the group's mandate, its agenda and ground rules, the list of participants and the groups or interests they are representing, the proposals they are considering, the decision rules they have adopted, their finances and their final report should, at an appropriate time, be open to scrutiny by anyone affected by the group's recommendations.
- (v) **Strive to invent options for mutual gain** – The goals of a consensus building process ought to be to create as much value as possible and to ensure that whatever value is created be divided in ways that take account of all relevant considerations. The key to creating value is to invent options for mutual gain.

24. Power of Attorney to execute a deed for the transfer of shares & debentures:-

BY THIS POWER OF ATTORNEY, Safe Investments Pvt. Ltd. (full details), the company hereby appoints Mr. Alok (full details) as Attorney of the company, to act in his name and on his behalf and to do or execute all or any of the acts or things relating to transfer of shares and debentures, that is to say:

1. To receive from.....(Full details), the transferee the sum of ₹.....(Rupees..... only) being the price agreed to be paid to the company by the said transferee for the purchase of (full description of shares and debentures) under an agreement dated.....and to give proper receipt and discharge for the same.
2. To execute a transfer deed of the said shares and debentures
3. To present the said transfer deed for registration before the proper registration authority, to admit the execution thereof, to do all acts, deeds and things which may be necessary for registering the said transfer deed.
4. To execute or to do all acts, things or deeds or assurance for the completion of the transfer of the said shares and debentures.

AND, the company DO HEREBY AGREE to ratify all acts, things, deeds or proceedings lawfully done by the said Attorney on behalf of the company and in the name of the company by virtue of this power of attorney and the same shall be binding on company in full force or effect.

IN WITNESS WHEREOF the company have executed this power atthis.....day of.....20.....

Witness:

1 _____

Signature

2 _____

(Executant)

25. Draft of notice for Calling Annual General Meeting:

Notice

Notice is hereby given that the 3rd annual general meeting of the Symphony Ltd. will be held on Friday, the 5th of August, 2016, at the registered office of the company at 123, tower complex, Lucknow Distt. Lucknow (U.P.) at 11.00 a.m. to transact the following ordinary business:

1. To receive, consider and adopt the audited balance sheet of the company as on 31st March 2016 and the profit and loss account for the year ended and the auditor's and directors' reports there on.
2. To declare dividend for the year ending 31st March 2016.
3. To appoint a director in place of Mr. Yuvraj Sharma, who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a director in place of Mr. Yash Singh, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint statutory auditors of the company and fix their remuneration.

Regd. Office

For and on behalf of Board of Directors.

123, Tower complex

Distt. Lucknow (U.P.)

Sd/-

Dated:

Chairman of the meeting
the Board of Directors

Place :

Date

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART I: COST ACCOUNTING

QUESTIONS

Material

1. Arnav Udyog, a small scale manufacturer, produces a product X by using two raw materials A and B in the ratio of 3:2. Material A is perishable in nature and if not used within 5 days of purchase it becomes obsolete. Material B is durable in nature and can be used even after one year. The company has estimated a sales volume of 30,000 kg. for the month of July 2016 and expects that the trend will continue for the entire year. The ratio of input and output is 5:3. The purchase price of per kilogram of raw material A and B is ₹15 and ₹22 respectively exclusive of taxes. Material A can be purchased from the local market within 1 to 2 days period. On the other hand Material B is purchased from neighbouring state and it takes 2 to 4 days to receive the material in the store.

To place an order the company has to incur an administrative cost of ₹120. Carrying cost for Material A and B is 15% and 5% respectively.

At present Material A is purchased in a lot of 8,000 kg. to avail 10% discount on market price.

VAT applicable for material A is 4% (credit available) and CST on Material B is 2% (credit not available).

Company works for 25 days in a month and production is carried out evenly.

You are required to calculate:

- (i) Economic Order Quantity (EOQ) for each material;
- (ii) Maximum stock level for Material A;
- (iii) Calculate saving/ loss in Material A if purchase quantity equals to EOQ.

Labour

2. A Company is undecided as to what kind of wage scheme should be introduced. The following particulars have been compiled in respect of three workers. Which are under consideration of the management.

	I	II	III
Actual hours worked	380	100	540
Hourly rate of wages (in ₹)	40	50	60
Productions in units:			
- Product A	210	-	600
- Product B	360	-	1350

- Product C	460	250	-
Standard time allowed per unit of each product is:			
	A	B	C
Minutes	15	20	30

For the purpose of piece rate, each minute is valued at ₹ 1/-

You are required to calculate the wages of each worker under:

- (i) Guaranteed hourly rate basis
- (ii) Piece work earning basis, but guaranteed at 75% of basic pay (Guaranteed hourly rate if his earnings are less than 50% of basic pay.)
- (iii) Premium bonus basis where the worker received bonus based on Rowan scheme.

Overheads

3. PQR Ltd. manufactures two products A and B. The manufacturing division consists of two production department P₁ and P₂ and two service departments S₁ and S₂. Budgeted overhead rates are used in the production departments to absorb factory overhead to the products. The rate of department P₁ is based on direct machine hours, while the rate of department P₂ is based on direct labour hours. In applying overheads, the pre-determined rates are multiplied by actual hours.

For allocating the service department costs to production departments, the basis adopted is as follows:

- (i) Cost of department S₁ to department P₁ and P₂ equal and
- (ii) Cost of department S₂ to department P₁ and P₂ in the ratio of 2:1 respectively.

Annual profit plan data:

Factory Overheads budgeted for the year:

Departments	P ₁	P ₂	S ₁	S ₂
Amount (₹)	25,50,000	21,75,000	6,00,000	4,50,000

Budgeted output of product A and B are 50,000 units and 30,000 units respectively.

Budgeted raw material cost per unit for product A and B are ₹120 and ₹150 respectively.

Budgeted time required for production per unit:

	Product A	Product B
Department P ₁	1.5 machine hours	1.0 machine hours
Department P ₂	2 direct labour hours	2.5 direct labour hours

Average wage rates budgeted in Department P₂ are: Product A – ₹ 72 per hour and Product B – ₹ 75 per hour.

All materials are used in Department P₁ only.

Actual data (for the month of July 2016)

Units actually produced: Product A 4,000 units

Product B 3,000 units

Actual direct machine hours worked in Department P₁:

On Product A – 6,100 hours, Product B – 4,150 hours.

Actual direct labour hours worked in Department P₂:

On Product A – 8,200 hours, Product B – 7,400 hours.

Costs actually incurred:

	Product A	Product B
Raw Materials	4,89,000	4,56,000
Wages	5,91,000	5,52,000

Factory Overheads:

Departments	P ₁	P ₂	S ₁	S ₂
Amount (₹)	2,31,000	2,04,000	60,000	48,000

You are required to:

- Compute the predetermined overhead rate for each production department.
- Prepare a Statement showing Budgeted and Actual costs for the month of July, 2016.

Non- Integrated Accounts

- The following is the summarised Trading and Profit and Loss Account of XYZ Ltd. for the year ended 31st March 2016:

Particulars	Amount (₹)	Particulars	Amount (₹)
Direct Material	14,16,000	Sales (30,000 units)	30,00,000
Direct wages	7,42,000	Finished stock (2,000 units)	1,67,500
Works overheads	4,26,000	Work-in-progress:	
Administration overheads	1,50,000	- Materials	34,000
Selling and distribution overheads	1,65,000	- Wages	16,000

Net profit for the year	3,22,500	- Works overhead	<u>4,000</u>	54,000
	32,21,500			32,21,500

The company's cost records show that in course of manufacturing a standard unit (i) works overheads have been charged @ 20% on prime cost, (ii) administration overheads are related with production activities and are recovered at ₹5 per finished unit, and (iii) selling and distribution overheads are recovered at ₹6 per unit sold.

You are required to prepare:

- Costing Profit and Loss Account indicating the net profits,
- A Statement showing reconciliation between profit as disclosed by the Cost Accounts and Financial Accounts.

Contract Costing

5. ABC Construction Ltd. has started a contract on 1st April 2015. The Trial balance as on 31st March 2016 showed the following balances:

Particulars	Dr. (₹)	Cr. (₹)
Paid up share capital		1,75,00,000
Land and buildings	46,00,000	
Machinery at cost (80% at site)	36,00,000	
Cash and bank	30,000	
Materials at cost	25,26,000	
Creditors for materials		10,30,600
Direct wages	13,28,000	
Site expenses	9,60,000	
Vehicles	32,20,000	
Furniture	3,22,000	
Office equipments	6,40,000	
Postage and Stationery	29,600	
Office expenses	6,26,000	
Rates and taxes	25,600	
Fuel and power	8,46,000	
Outstanding wages		2,24,000
Advance rates and taxes	1,400	
	1,87,54,600	1,87,54,600

The contract price is ₹ 2,50,00,000 and work certified is ₹ 1,00,00,000. The cost of work uncertified is ₹ 12,00,000. Machinery costing ₹ 2,00,000 was returned to stores at the end of the year. Stock of material at site on 31st March 2016 was of the value of ₹ 50,000. Depreciation on Machinery, Vehicles and furniture are 10%, 20% and 15% respectively.

You are required to calculate the profit from the contract.

Operating Costing

6. P Ltd. distributes its goods to dealers using a delivery van. The dealers' premises are 40 kilometre away from the company's office. The van has a capacity of 10 tonnes and makes the journey twice a day fully loaded on the outward journeys and empty on return journey. The following information is available for a four weekly period during the year 2016:

Diesel consumption	10 kilometre per litre
Diesel cost	₹48 per litre
Lubricant oil	₹600 per week
Drivers salary	₹12,000 per month
Repairs & Maintenance	₹1,800 per month
Garage rent	₹4,800 per months
Cost of van (excluding tyres)	₹16,00,000
Life of van	3,80,000 kilometres
Insurance	₹5,400 per annum
Cost of tyres	₹22,000
Life of tyres	80,000 kilometres
Estimated sale value of van at end of its life	₹2,40,000
Vehicle permit fee	₹3,600 per annum
Other overhead cost	₹66,000 per annum

The van operates five-day a week.

Required:

- (i) A statement to show the total monthly cost of operating the vehicle.
- (ii) Calculate the operating cost per kilometre and per tonne kilometre.

Process Costing

7. Following data are available for a product for the month of July, 2016:

Particulars	Process- I (₹)	Process- II (₹)
Opening work-in- progress	Nil	Nil
Costs incurred during the month:		
- Direct materials	6,00,000	
- Labour	1,20,000	1,60,000
- Factory overheads	2,40,000	2,00,000
Units of production:		
Received in process	40,000	36,000
Completed and transferred	36,000	32,000
Closing work-in-progress	2,000	?
Normal loss in process	2,000	1,500

Production remaining in process has to be valued as follows:

Materials 100% Labour 50% Overheads 50%

There has been no abnormal loss in Process- II.

The company follows weighted average method for valuing inventory.

Prepare Process Accounts after working out the missing figures and with detailed workings.

Standard Costing

8. XYZ Ltd. produces a product X by using two raw materials A and B. The following standards have been set for the production:

Material	Standard Mix	Standard Price (₹)
A	40%	40 per kg.
B	60%	30 per kg.

The standard loss in processing is 15%.

During July, 2016 the company produced 2,000 kg. of finished output.

The positions of stock and purchases for the month of July, 2016 are as under:

Material	Stock on 1 st July 2016	Stock on 31 st July 2016	Purchases during July 2016	
			Quantity	Amount (₹)
A	40 kg.	10 kg.	900 kg.	42.50
B	50 kg.	60 kg.	1,400 kg.	25.00

Calculate the following variances:

- (i) Material Price Variance; (ii) Material Usage Variance;
 (iii) Material Mix Variance; (iv) Material Yield Variance;
 (v) Total Material Cost Variance.

The company follows FIFO method of stock valuation.

Marginal Costing

9. ABC Baggage Ltd. sells different styles of laptop bags with identical purchase costs and selling prices. The company is trying to find out the profitability of opening another store which will have the following expenses and revenues:

	Amount per piece (₹)
Selling Price	600
Variable costs:	
Material cost	410
Salesmen's commission	60
Total variable cost	470
Annual fixed expenses are:	(₹)
- Rent	6,00,000
- Office and administrative expenses	20,00,000
- Advertising	8,00,000
- Other fixed expenses	2,00,000

For the each following independent situation, you are required to:

- (i) Calculate the annual break-even point in units and in value. Also determine the profit or loss if 35,000 units of bags are sold.
- (ii) The sales commissions are proposed to be discontinued, but instead a fixed amount of ₹ 9,00,000 is to be incurred in fixed salaries. A reduction in selling price of 5% is also proposed. What will be the break-even point in units?
- (iii) It is proposed to pay the store manager ₹ 5 per piece as further commission. The selling price is also proposed to be increased by 5%. What would be the break-even point in units?

Budget and Budgetary Control


10. Aditya Ltd. manufactures two products K and H. The sales director has anticipated to sale 8,000 units of Product K and 4,200 units of Product H. The Standard cost data for the products for next year are as follows:

	Product- K Per unit	Product- H Per unit
Direct materials:		
-Material X @ ₹ 15 per kg.	12 kg.	15 kg.
-Material Y @ ₹ 16 per kg.	15 kg.	6 kg.
-Material Z @ ₹ 5 per ltr.	8 ltr.	14 ltr.
Direct wages:		
-Unskilled @ ₹ 40 per hour	12 hour	10 hour
-Skilled @ ₹ 75 per hour	8 hour	5 hour

Budgeted stocks for next year are as follows:

	Product- K (Units)	Product- H (Units)	
1 st April, 2016	800	1,600	
31 st March, 2017	1,000	2,100	
	Material-X (kg)	Material-Y (kg)	Material-Z (ltr)
1 st April, 2016	25,000	30,000	14,000
31 st March, 2017	30,000	18,000	7,500

Prepare the following budgets for next year:

- Production budget, in units; 
- Material purchase budget, in quantity and in value;
- Direct labour budget, in hours and in value.

SUGGESTED HINTS/ANSWERS

1. Workings:

Monthly Production of X = 30,000 kgs.

$$\text{Raw Material Required} = \frac{30,000}{3} \times 5 = 50,000 \text{ kgs.}$$

$$\text{Material A} = \frac{50,000}{5} \times 3 = 30,000 \text{ kg.}$$

$$\text{Material B} = \frac{50,000}{5} \times 2 = 20,000 \text{ kg.}$$

(i) Calculation of Economic Order Quantity (EOQ):

$$\begin{aligned} \text{Material A} &= \sqrt{\frac{2 \times \text{Annual consumption} \times \text{Order cost}}{\text{Carrying cost per unit p.a.}}} \\ &= \sqrt{\frac{2 \times (30,000 \text{ kg.} \times 12 \text{ months}) \times ₹120}{(15\% \text{ of } ₹15)}} \\ &= \sqrt{\frac{8,64,00,000}{2.25}} = 6,196.77 \text{ kg. or } 6,197 \text{ kg.} \end{aligned}$$

$$\begin{aligned} \text{Material B} &= \sqrt{\frac{2 \times (20,000 \text{ kg.} \times 12 \text{ months}) \times ₹120}{(5\% \text{ of } ₹22.44^*)}} \\ &= \sqrt{\frac{5,76,00,000}{1.122}} = 7,164.97 \text{ or } 7,165 \text{ kg.} \end{aligned}$$

*Purchase price + 2% CST = ₹ 22 + 2% of ₹ 22 = ₹ 22.44

(ii) Calculation of Maximum Stock level: Since, the Material A is perishable in nature and it required to be used within 5 days, hence, the Maximum Stock Level shall be lower of two:

(a) Stock equal to 5 days consumption

$$= \frac{30,000 \text{ kg.}}{25 \text{ days}} \times 5 \text{ days} = 6,000 \text{ kg.}$$

(a) Maximum Stock Level for Material A:

Re-order Quantity + Re-order level – (Min consumption* × Min. lead time)

Where, Re-order Quantity = 8,000 kg.

Re-order level = Max. Consumption* × Max. Lead time
= 30,000/25 × 2 days = 2,400 kg.

Maximum stock Level = 8,000 kg. + 2,400 kg. - (30,000/25 × 1 day)
= 10,400 – 1,200 = 9,200 kg.

Stock required for 5 days consumption is lower than the maximum stock level calculated through the formula. Therefore, Maximum Stock Level will be 6,000 kg.

(*Since, production is processed evenly throughout the month hence material consumption will also be even.)

(iii) Calculation of Savings/ loss in Material A if purchase quantity equals to EOQ.

	Purchase Quantity = 8,000 kg.	Purchase Quantity = EOQ i.e. 6,197 kg.
Annual consumption	3,60,000 kg. (30,000 × 12 months)	3,60,000 kg. (30,000 × 12 months)
No. of orders [Note- (i)]	60 (3,60,000 ÷ 6,000)	60 (3,60,000 ÷ 6,000)
Ordering Cost (a)	₹7,200 (₹120 × 60)	₹7,200 (₹120 × 60)
Carrying Cost (b) [Note- (ii)]	₹8,100 (15% of ₹13.50 × 4,000)	₹6,972 (15% of ₹15 × 3,098.5)
Purchase Cost (c) (for good portion)	₹48,60,000 (₹13.50 × 3,60,000)	₹54,00,000 (₹15 × 3,60,000)
Loss due to obsolescence (d) [Note- (iii)]	₹16,20,000 [₹13.5 × (60 × 2,000)]	₹1,77,300 [₹15 × (60 × 197)]
Total Cost [(a) + (b) + (c) + (d)]	₹ 64,95,300	₹ 55,91,472

If purchase quantity equals to EOQ, there will be a saving of ₹9,03,828 i.e. ₹ 64,95,300 - ₹ 55,91,472.

Notes: (i) As after 5 days of purchase the Material A gets obsolete, the quantity in excess of 5 days consumption i.e. 6,000 kg. are wasted. Hence, after 6,000 kg. a fresh order needs to be given.

(ii) Carrying cost is incurred on average stock of Materials purchased.

(iii) the excess quantity of material gets obsolete and loss has to be incurred.

2. (i) Computation of wages of each worker under guaranteed hourly rate basis

Worker	Actual hours worked (Hours)	Hourly wage rate (₹)	Wages (₹)
I	380	40	15,200
II	100	50	5,000
III	540	60	32,400

(ii) Computation of Wages of each worker under piece work earning basis

Product	Piece rate per unit (₹)	Worker-I		Worker-II		Worker-III	
		Units	Wages (₹)	Units	Wages (₹)	Units	Wages (₹)
A	15	210	3,150	-	-	600	9,000
B	20	360	7,200	-	-	1,350	27,000
C	30	460	13,800	250	7,500	-	-
Total			24,150		7,500		36,000

Since each worker's earnings are more than 50% of basic pay. Therefore, worker-I, II and III will be paid the wages as computed i.e. ₹ 24,150, ₹ 7,500 and ₹ 36,000 respectively.

Working Notes:

1. Piece rate per unit

Product	Standard time per unit in minute	Piece rate each minute (₹)	Piece rate per unit (₹)
A	15	1	15
B	20	1	20
C	30	1	30

2. Time allowed to each worker

Worker	Product-A	Product-B	Product-C	Total Time (Hours)
I	210 units × 15 = 3,150	360 units × 20 = 7,200	460 units × 30 = 13,800	24,150/60 = 402.50
II	-	-	250 units × 30 = 7,500	7,500/60 = 125
III	600 units × 15 = 9,000	1,350 units × 20 = 27,000	-	36,000/60 = 600

(iii) Computation of wages of each worker under Premium bonus basis (where each worker receives bonus based on Rowan Scheme)

Worker	Time Allowed (Hr.)	Time Taken (Hr.)	Time saved (Hr.)	Wage Rate per hour (₹)	Earnings (₹)	Bonus (₹)*	Total Earning (₹)
I	402.5	380	22.5	40	15,200	850	16,050
II	125	100	25	50	5,000	1,000	6,000
III	600	540	60	60	32,400	3,240	35,640

$$* \frac{\text{Time Taken}}{\text{Time Allowed}} \times \text{Time Saved} \times \text{Wage Rate}$$

$$\text{Worker-I} = \frac{380}{402.5} \times 22.5 \times 40 = 850$$

$$\text{Worker-II} = \frac{100}{125} \times 25 \times 50 = 1,000$$

$$\text{Worker-III} = \frac{540}{600} \times 60 \times 60 = 3,240$$

3. (i) Computation of predetermined overhead rate for each production department for budgeted data

Particulars	Production Departments		Service Departments	
	P ₁ (₹)	P ₂ (₹)	S ₁ (₹)	S ₂ (₹)
Budgeted overhead for the year	25,50,000	21,75,000	6,00,000	4,50,000
Allocation of Service department S ₁ 's cost to Production Dept. P ₁ and P ₂ equally	3,00,000	3,00,000	(6,00,000)	--
Allocation of Service department S ₂ 's cost to Production Dept. P ₁ and P ₂ in the ratio of 2:1	3,00,000	1,50,000	--	(4,50,000)
Total	31,50,000	26,25,000	Nil	Nil
Budgeted Machine hours in department P ₁ (working note 1)	1,05,000			
Budgeted Direct labour hours in department P ₂ (working note 1)		1,75,000		
Budgeted Machine/ Direct labour hour rate	₹30	₹15		

(ii) Statement showing Budgeted and Actual Costs for the month of July 2016.

	Budgeted (₹)	Actual (₹)
Raw Materials used in Department P ₁		
-A (4,000 units × ₹120)	4,80,000	4,89,000
-B (3,000 units × ₹150)	4,50,000	4,56,000
Direct Labour Cost on the basis of labour hours worked in department P ₂		
-A (4,000 × 2 hrs × ₹72)	5,76,000	5,91,000
-B (3,000 × 2.5 hrs × ₹75)	5,62,500	5,52,000
Factory Overheads:		
On machine hour basis in Department P ₁		
-A (4,000 × 1.5 hrs × ₹30)	1,80,000	1,74,370*
-B (3,000 × 1 hr × ₹30)	90,000	1,18,630*
On Direct labour hour basis in Department P ₂		
-A (4,000 × 2 hrs × ₹15)	1,20,000	1,31,410*
-B (3,000 × 2.5 hrs × ₹15)	1,12,500	1,18,590*
	25,71,000	26,31,000

*Refer Working Note- 3

Working Notes:

	Product A	Product B	Total
1. Budgeted output (in units)	50,000	30,000	
Budgeted Machine hours in Department P ₁	75,000 hrs (50,000 × 1.5 hrs)	30,000 hrs (30,000 × 1 hr)	1,05,000 hrs
Budgeted Direct labour hour in Department P ₂	1,00,000 hrs (50,000 × 2 hrs)	75,000 hrs (30,000 × 2.5 hrs)	1,75,000 hrs
2. Actual output (units)	4,000	3,000	
Actual Machine hours utilized in Department P ₁	6,100	4,150	10,250
Actual Direct labour hours utilized in Department P ₂	8,200	7,400	15,600

3. Computation of actual overhead rates for each production department from actual data

Particulars	Production Departments		Service Departments	
	P ₁ (₹)	P ₂ (₹)	S ₁ (₹)	S ₂ (₹)
Actual factory overhead for July 2016.	2,31,000	2,04,000	60,000	48,000
Allocation of Service department S ₁ 's cost to Production Dept. P ₁ and P ₂ equally	30,000	30,000	(60,000)	--
Allocation of Service department S ₂ 's cost to Production Dept. P ₁ and P ₂ in the ratio of 2:1	32,000	16,000	--	(48,000)
Total	2,93,000	2,50,000	Nil	Nil
Actual Machine hours in department P ₁ (Working note 2)	10,250			
Actual Direct labour hours in department P ₂ (Working note 2)		15,600		
Machine hour rate (₹ 2,93,000 ÷ 10,250)	₹28.5853			
Direct Labour hour rate (₹ 2,50,000 ÷ 15,600)		₹16.0256		
Product A	1,74,370 (₹28.5853 × 6,100)	1,31,410 (₹16.0256 × 8,200)		
Product B	1,18,630 (₹28.5853 × 4,150)	1,18,590 (₹16.0256 × 7,400)		
Total	2,93,000	2,50,000		

4. (i) Costing Profit and Loss Account for the year ended 31st March 2016:

Particulars	Amount (₹)	Particulars	Amount (₹)
Material consumed	14,16,000	Sales (30,000 units)	30,00,000
Direct wages	7,42,000		
Prime Cost	21,58,000		
Works overheads (20% of Prime cost)	4,31,600		
	25,89,600		

Less: Work in progress	(54,000)		
Factory cost	25,35,600		
Administration overheads (₹5 × 32,000 units)	1,60,000		
Cost of production of goods produced	26,95,600		
Less: Finished stock	(1,68,475)		
Cost of production of goods sold	25,27,125		
Selling and distribution overheads (₹6 × 30,000 unit)	1,80,000		
Cost of sales	27,07,125		
Profit (balancing figure)	2,92,875		
	30,00,000		30,00,000

- (ii) Statement reconciling the profit as per costing profit and loss account with the profit as per financial accounts

Particulars	Amount (₹)	Amount (₹)
Profit as per cost records		2,92,875
Add: Overheads over-absorbed:		
-Works overheads (₹ 4,31,600 – ₹ 4,26,000)	5,600	
-Administration OH (₹ 1,60,000 – ₹ 1,50,000)	10,000	
-Selling and Distribution (₹ 1,80,000 – ₹ 1,65,000)	15,000	30,600
Less: Closing stock overvalued (₹ 1,68,475 – ₹ 1,67,500)		(975)
Profit as per financial accounts		3,22,500

*It is assumed that the number of units Produced

= Number of units sold + Finished stock = 30,000 + 2,000 = 32,000 units.

5. **Contract Account**

Particulars	Amount (₹)	Amount (₹)	Particulars	Amount (₹)	Amount (₹)
To Materials		25,26,000	By material at site		50,000
To Direct wages	13,28,000		By Work in progress:		
Add: outstanding	2,24,000	15,52,000	- Work certified	1,00,00,000	
To Site expenses		9,60,000	- Work uncertified	12,00,000	1,12,00,000
To Office expenses		6,26,000			

To Postage and Stationery		29,600			
To Rates and taxes	25,600				
Less: Advance	(1,400)	24,200			
To Fuel and power		8,46,000			
To Depreciation*		9,80,300			
To Notional profit c/d		37,05,900			
		1,12,50,000			1,12,50,000

* Depreciation

- (i) On Machinery = {10% on (₹36,00,000 × 0.8)} = ₹2,88,000
(ii) On Vehicles = 20% on ₹32,20,000 = ₹6,44,000
(iii) On Furniture = 15% on ₹3,22,000 = ₹48,300
= ₹9,80,300

6. (i) **Workings:**

- (a) Distance travelled in a month = 40 k.m. × 2 × 2 trips × 5 days × 4 weeks
= 3,200 k.m.
(b) Total Tonne-km. = 10 tonnes × 40 k.m. × 2 trips × 5 days × 4 weeks
= 16,000 tonne-k.m.
(c) Consumption of diesel = 3,200 k.m. ÷ 10 k.m = 320 litre.
(d) Tyre cost = ₹22,000 ÷ 80,000 k.m. × 3,200 k.m = ₹880
(e) Depreciation of van = $\frac{₹16,00,000 - ₹2,40,000}{3,80,000 \text{ k.m.}} \times 3,200 \text{ k.m.} = ₹11,453$

Monthly Operating Cost Statement

Particulars	Amount (₹)
Running costs:	
- Cost of diesel (320 ltr × ₹48)	15,360
- Lubricant oil (₹600 × 4 weeks)	2,400
- Driver's salary	12,000
- Repairs & Maintenance	1,800
- Cost of tyres	880
- Depreciation	11,453
Total Running cost (A)	43,893

Fixed Costs:	
- Garage rent	4,800
- Insurance (₹5,400 ÷ 12)	450
- Permit fee (₹3,600 ÷ 12)	300
- Other overheads (₹66,000 ÷ 12)	5,500
Total fixed cost (B)	11,050
Total cost {(A) + (B)}	54,943

$$(ii) \text{ Operating Cost per kilometre} = \frac{\text{₹}54,943}{3,200 \text{ km.}} = \text{₹}17.17$$

$$\text{Cost per tonne-km} = \frac{\text{₹}54,943}{16,000 \text{ tonne-km.}} = \text{₹}3.43$$

7. **Statement of Equivalent Units (Process- I)**

Input (Units)	Particulars	Output (Units)	Equivalent Production			
			Materials		Labour and Overheads	
			Units	(%)	Units	(%)
40,000	Introduced and completed	36,000	36,000	100	36,000	100
	Normal loss	2,000	-	-	-	-
	Closing stock	2,000	2,000	100	1,000	50
40,000		40,000	38,000		37,000	

Computation of cost per Equivalent Unit for each element of cost (Process- I)

Elements of Cost	Total Cost (₹)	Equivalent units	Cost per Equivalent units (₹)
Direct Materials	6,00,000	38,000	15.7895
Labour	1,20,000	37,000	3.2432
Factory Overheads	2,40,000	37,000	6.4865

Statement of Apportionment of Cost

Items	Elements	Equivalent units	Cost per unit (₹)	Cost (₹)	Total (₹)
Units introduced and completed	Materials	36,000	15.7895	5,68,422.00	
	Labour	36,000	3.2432	1,16,755.20	
	Overheads	36,000	6.4865	2,33,514.00	9,18,691.20

Closing stock	Materials	2,000	15.7895	31,579.00	
	Labour	1,000	3.2432	3,243.20	
	Overheads	1,000	6.4865	6,486.50	41,308.70

Process- I Account

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Materials	40,000	6,00,000	By Normal loss	2,000	-
To Labour		1,20,000	By Process II	36,000	9,18,691
To Overheads		2,40,000	By Closing stock	2,000	41,309
	40,000	9,60,000		40,000	9,60,000

Statement of Equivalent Units (Process- II)

Input (Units)	Particulars	Output (Units)	Equivalent Production			
			Materials		Labour and Overheads	
			Units	(%)	Units	(%)
36,000	Units transferred from Process- I					
	Normal loss	1,500	-	-	-	-
	Completed	32,000	32,000	100	32,000	100
	Closing stock (balancing figure)	2,500	2,500	100	1,250	50
36,000		36,000	34,500		33,250	

Computation of cost per Equivalent Unit for each element of cost (Process- I)

Elements of Cost	Total Cost (₹)	Equivalent units	Cost per Equivalent units (₹)
Cost of 36,000 units transferred from Process- I	9,18,691	34,500	26.6287
Labour	1,60,000	33,250	4.8120
Factory Overheads	2,00,000	33,250	6.0150

Statement of Apportionment of Cost

Items	Elements	Equivalent units	Cost per unit (₹)	Cost (₹)	Total (₹)
Units introduced and completed	Materials	32,000	26.6287	8,52,118.40	
	Labour	32,000	4.8120	1,53,984.00	
	Overheads	32,000	6.0150	1,92,480.00	11,98,582.40

Closing stock	Materials	2,500	26.6287	66,571.75	
	Labour	1,250	4.8120	6,015.00	
	Overheads	1,250	6.0150	7,518.75	80,105.50

Process- II Account

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Units introduced	36,000	9,18,691	By Normal loss	1,500	-
To Labour		1,60,000	By Finished stock	32,000	11,98,582
To Overheads		2,00,000	By Closing stock	2,500	80,109*
	36,000	12,78,691		36,000	12,78,691

*Difference arose due to rounding-off has been adjusted.

8. Workings:

1. Calculation of Actual Materials Consumed:

Particulars	Material A (kg.)	Material B (kg.)
Opening stock	40	50
Add: Purchases	900	1,400
Less: Closing Stock	(10)	(60)
Material Consumed	930	1,390

(i) Material Price Variance:

Actual Quantity (Std. Price – Actual Price) = AQ × SP – AQ × AP

$$\begin{aligned} \text{Material A} &= (930 \text{ kg} \times ₹40) - \{(40 \text{ kg} \times ₹40) + (890 \text{ kg} \times ₹42.50)\} \\ &= ₹37,200 - (₹1,600 + ₹37,825) = ₹2,225 \text{ (A)} \end{aligned}$$

$$\begin{aligned} \text{Material B} &= (1,390 \text{ kg} \times ₹30) - \{(50 \text{ kg} \times ₹30) + (1,340 \text{ kg} \times ₹25)\} \\ &= ₹41,700 - (₹1,500 + ₹33,500) = ₹6,700 \text{ (F)} \end{aligned}$$

(ii) Material Usage Variance = Std. Price (Std. Quantity - Actual Quantity)

$$\begin{aligned} \text{Material A} &= ₹40 \left\{ \left(\frac{40\% \text{ of } 2,000}{0.85} \right) - 930 \text{ kg} \right\} \\ &= ₹40 (941.18 \text{ kg.} - 930 \text{ kg}) = ₹447 \text{ (F)} \end{aligned}$$

$$\text{Material B} = ₹30 \left\{ \left(\frac{60\% \text{ of } 2,000}{0.85} \right) - 1,390 \text{ kg} \right\}$$

$$= ₹30 (1,411.76 \text{ kg.} - 1,390 \text{ kg}) = ₹653 \text{ (F)}$$

(iii) Material Mix Variance = Std. Price (Revised Std. Quantity – Actual Quantity)

$$\text{Material A} = ₹40 \{ (40\% \text{ of } 2,320) - 930 \text{ kg} \} = ₹80 \text{ (A)}$$

$$\text{Material B} = ₹30 \{ (60\% \text{ of } 2,320) - 1,390 \text{ kg} \} = ₹60 \text{ (F)}$$

(iv) Material Yield Variance = Std. Price (Std. Quantity – Revised Std. Quantity)

$$\text{Material A} = ₹40 \left\{ \left(\frac{40\% \text{ of } 2,000}{0.85} \right) - (40\% \text{ of } 2,320) \right\}$$

$$= ₹40 \{ 941.18 \text{ kg.} - 928 \text{ kg.} \} = 527 \text{ (F)}$$

$$\text{Material B} = ₹30 \left\{ \left(\frac{60\% \text{ of } 2,000}{0.85} \right) - (60\% \text{ of } 2,320) \right\}$$

$$= ₹30 \{ 1,411.76 \text{ kg.} - 1,392 \text{ kg.} \} = 593 \text{ (F)}$$

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

$$\text{Material A} = \left[\{ ₹40 \times \left(\frac{40\% \text{ of } 2,000}{0.85} \right) \} - \{ (40 \text{ kg} \times ₹40) + (890 \text{ kg} \times ₹42.50) \} \right]$$

$$= \{ ₹40 \times 941.18 \text{ kg.} \} - \{ ₹1,600 + ₹37,825 \}$$

$$= ₹37,647 - ₹39,425 = ₹1,778 \text{ (A)}$$

$$\text{Material B} = \left[\{ ₹30 \times \left(\frac{60\% \text{ of } 2,000}{0.85} \right) \} - \{ (50 \text{ kg} \times ₹30) + (1,340 \text{ kg} \times ₹25) \} \right]$$

$$= \{ ₹30 \times 1,411.76 \text{ kg.} \} - \{ ₹1,500 + ₹33,500 \}$$

$$= ₹42,353 - ₹35,000 = ₹7,353 \text{ (F)}$$

$$\begin{aligned} 9. \quad (i) \quad \text{Total Fixed Cost} &= ₹6,00,000 + ₹20,00,000 + ₹8,00,000 + ₹2,00,000 \\ &= ₹36,00,000 \end{aligned}$$

$$\text{Contribution per unit} = ₹600 - ₹470 = ₹130$$

$$\text{P/V Ratio} = \frac{\text{Contribution per unit}}{\text{Selling Price}} \times 100 = \frac{₹130}{₹600} \times 100 = 21.67\%$$

$$\text{Break-even Point} = \frac{\text{Total Fixed Cost}}{\text{Contribution per unit}} \times 100$$

$$= \frac{₹36,00,000}{₹130} = 27,692.31 \text{ or } 27,693 \text{ units}$$

$$\text{Break-even Sales} = \frac{\text{Total Fixed Cost}}{P/V \text{ Ratio}} = \frac{\text{₹}36,00,000}{21.67\%} = \text{₹}1,66,12,829$$

Calculation of Profit/ (loss):

Total Contribution (₹130 × 35,000 units) = ₹45,50,000

Less: Fixed Cost = ₹36,00,000

Profit = ₹ 9,50,000

(ii) Revised Selling Price = ₹600 – 5% of ₹600 = ₹570

Revised Variable cost = ₹410

Revised Contribution = ₹570 – ₹410 = ₹160

Break-even Point = $\frac{\text{₹}36,00,000 + \text{₹}9,00,000}{\text{₹}160} = 28,125 \text{ units}$

(iii) Revised Selling Price = ₹600 + 5% of ₹600 = ₹630

Revised Variable cost = ₹470 + ₹5 = ₹475

Revised Contribution = ₹630 – ₹475 = ₹155

Break-even Point = $\frac{\text{₹}36,00,000}{\text{₹}155} = 23,225.81 \text{ or } 23,226 \text{ units}$

10. (a) Production Budget (in units)

	Product- K (units)	Product- H (units)
Expected sales	8,000	4,200
Add: Closing stock	1,000	2,100
Less: Opening stock	(800)	(1,600)
Units to be produced	8,200	4,700

(b) Material Purchase Budget

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

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

(c) Direct Labour Budget

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

PART II: FINANCIAL MANAGEMENT
QUESTIONS

Time Value of Money

1. Mr. X wish to get her daughter admitted into a medical college after 15 years from now. He will be required total ₹ 25,00,000 to get admission into the college. For this he has identified a fund, which pays interest @ 9% p.a. In this regard he wanted to know the amount to be invested in each of the following situations:
- If he decides to make annual payment into the fund at the end of each year;
 - If he decides to invest a lump sum in the fund at the end of the year;
 - If he decides to make annual payment into the fund at the beginning of each year.
- (FVIF/ CVF_(15, 0.09) = 3.642, FVIFA/ CVFA_(15, 0.09) = 29.361, PVIF/ PVF_(15, 0.09) = 0.275 and PVIFA/ PVFA_(15, 0.09) = 8.061).

Ratio Analysis

2. Assuming the current ratio of a Company is 2, state in each of the following cases whether the ratio will improve or decline or will have no change:
- Payment of current liability
 - Purchase of fixed assets by cash
 - Cash collected from Customers
 - Bills receivable dishonoured
 - Issue of new shares.

Fund Flow Analysis

3. Balance Sheets of RST Limited as on March 31, 20X8 and March 31, 20X9 are as under:

Liabilities	31.3.20X8 (₹)	31.3.20X9 (₹)	Assets	31.3.20X8 (₹)	31.3.20X9 (₹)
Equity Share Capital (₹10 face value per share)	10,00,000	12,00,000	Land & Building	6,00,000	7,00,000
General Reserve	3,50,000	2,00,000	Plant & Machinery	9,00,000	11,00,000
9% Preference Share Capital	3,00,000	5,00,000	Investments (Long-term)	2,50,000	2,50,000
Share Premium A/c	25,000	4,000	Stock	3,60,000	3,50,000
Profit & Loss A/c	2,00,000	3,00,000	Debtors	3,00,000	3,90,000
8% Debentures	3,00,000	1,00,000	Cash & Bank	1,00,000	95,000

Creditors	2,05,000	3,00,000	Prepaid Expenses	15,000	20,000
Bills Payable	45,000	81,000	Advance Tax Payment	80,000	1,05,000
Provision for Tax	70,000	1,00,000	Preliminary Expenses	40,000	35,000
Proposed Dividend	1,50,000	2,60,000			
	26,45,000	30,45,000		26,45,000	30,45,000

Additional information:

- (i) Depreciation charged on building and plant and machinery during the year 20X8-X9 were ₹ 50,000 and ₹ 1,20,000 respectively.
- (ii) During the year an old machine costing ₹ 1,50,000 was sold for ₹ 32,000. Its written down value was ₹ 40,000 on date of sale.
- (iii) During the year, income tax for the year 20X7-X8 was assessed at ₹76,000. A cheque of ₹ 4,000 was received along with the assessment order towards refund of income tax paid in excess, by way of advance tax in earlier years.
- (iv) Proposed dividend for 20X7-X8 was paid during the year 20X8-X9.
- (v) 9% Preference shares of ₹ 3,00,000, which were due for redemption, were redeemed during the year 20X8-X9 at a premium of 5%, out of the proceeds of fresh issue of 9% Preference shares.
- (vi) Bonus shares were issued to the existing equity shareholders at the rate of one share for every five shares held on 31.3.20X8 out of general reserves.
- (vii) Debentures were redeemed at the beginning of the year at a premium of 3%.
- (viii) Interim dividend paid during the year 20X8-X9 was ₹ 50,000.

Required:

- (a) Schedule of Changes in Working Capital; and
- (b) Fund Flow Statement for the year ended March 31, 20X9.

Cost of Capital

4. M/s. Sensation Corporation has a capital structure of 40% debt and 60% equity. The company is presently considering several alternative investment proposals costing less than ₹ 20 lakhs. The corporation always raises the required funds without disturbing its present debt equity ratio.

The cost of raising the debt and equity are as under:

Project cost	Cost of debt	Cost of equity
Upto ₹ 2 lakhs	10%	12%
Above ₹ 2 lakhs & upto to ₹ 5 lakhs	11%	13%

Above ₹ 5 lakhs & upto ₹10 lakhs	12%	14%
Above ₹10 lakhs & upto ₹ 20 lakhs	13%	14.5%

Assuming the tax rate at 50% calculate:-

- (i) Cost of capital of two projects X and Y whose fund requirements are ₹ 6.5 lakhs and ₹ 14 lakhs respectively.
- (ii) If a project is expected to give after tax return of 10% determine under what conditions it would be acceptable?

Capital Structure

5. J Ltd. is an all equity financed company with a market value of ₹ 25,00,000 and cost of equity (K_e) 21%. The company wants to buyback equity shares worth ₹5,00,000 by issuing and raising 15% perpetual debt of the same amount. Rate of tax may be taken as 30%. After the capital restructuring and applying MM Model (with taxes), you are required to calculate:
 - (i) Market value of J Ltd.
 - (ii) Cost of Equity (K_e)
 - (iii) Weighted average cost of capital (using market weights) and comment on it.

Leverage

6. The capital structure of the Shiva Ltd. consists of equity share capital of ₹ 10,00,000 (shares of ₹ 100 per value) and ₹ 10,00,000 of 10% Debentures, sales increased by 20% from 1,00,000 units to 1,20,000 units, the selling price is ₹ 10 per unit: variable costs amount to ₹ 6 per unit and fixed expenses amount to ₹ 2,00,000. The income-tax rate is assumed to be 50%.
 - (a) You are required to calculate the following:
 - (i) The percentage increase in earnings per share;
 - (ii) Financial leverage at 1,00,000 units and 1,20,000 units.
 - (iii) Operating leverage at 1,00,000 units and 1,20,000 units.
 - (b) Comment on the behaviour of Operating and Financial leverages in relation to increase in production from 1,00,000 units to 1,20,000 units.

Capital Budgeting

7. A Ltd. an existing profit-making company, is planning to introduce a new product with a projected life of 8 years. Initial equipment cost will be ₹ 150 lakhs and additional equipment costing ₹ 10 lakhs will be needed at the beginning of third year. At the end of the 8 years, the original equipment will have resale value equivalent to the cost of removal, but the additional equipment would be sold for ₹ 1 lakh. Working capital of ₹ 25

lakhs will be needed. The 100% capacity of the plant is of 4,00,000 units per annum, but the production and sales-volume expected are as under:

Year	Capacity in percentage
1	20
2	30
3 - 5	75
6 - 8	50

A sale price of ₹100 per unit with a profit volume ratio of 60% is likely to be obtained. Fixed Operating Cash Costs are likely to be ₹16 lakhs per annum. In addition to this the advertisement expenditure will have to be incurred as under:

Year	1	2	3 - 5	6 - 8
Expenditure each year (₹ in lakhs)	30	15	10	4

The company is subjected to 50% tax, straight-line method of depreciation, (permissible for tax purposes also) and taking 12% as appropriate after tax cost of Capital, should the project be accepted?

Working Capital Management

8. The following information has been extracted from the records of a Company:

Product Cost Sheet	₹ / unit
Raw materials	45
Direct labour	20
Overheads	40
Total	105
Profit	15
Selling price	120

- Raw materials are in stock on an average of two months.
- The materials are in process on an average for 4 weeks. The degree of completion is 50%.
- Finished goods stock on an average is for one month.
- Time lag in payment of wages and overheads is 1½ weeks.
- Time lag in receipt of proceeds from debtors is 2 months.
- Credit allowed by suppliers is one month.

- 20% of the output is sold against cash.
- The company expects to keep a Cash balance of ₹ 1,00,000.
- Take 52 weeks per annum.

The Company is poised for a manufacture of 1,44,000 units in the year.

You are required to prepare a statement showing the Working Capital requirements of the Company.

Receivable Management

9. Tony Limited manufacturers of Colour TV sets are considering the liberalization of existing credit terms to three of their large customers A, B and C. The credit period and likely quantity of TV sets that will be sold to the customers in addition to the other sales are as follows:

Quantity sold (No. of TV Sets)

Credit Period (Days)	A	B	C
0	1,000	1,000	-
30	1,000	1,500	-
60	1,000	2,000	1,000
90	1,000	2,500	1,500

The selling price per TV set is ₹ 9,000. The expected contribution is 20% of the selling price. The cost of carrying receivable averages 20% per annum.

You are required:-

- (a) Determine the credit period to be allowed to each customer.
(Assume 360 days in a year for calculation purposes).
- (b) What other problems the company might face in allowing the credit period as determined in (a) above?

Miscellaneous

10. (a) What is debt securitisation? Explain the basics of debt securitisation process.
- (b) "The profit maximization is not an operationally feasible criterion." Comment on it.

SUGGESTED HINTS/ANSWERS

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

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

$$\text{Future Value} = ₹25,00,000$$

$$\text{Interest (i)} = 9\% \text{ p.a.}$$

$$\text{Period (n)} = 15 \text{ years}$$

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

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

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

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

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

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

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

$$₹ 25,00,000 = A (\text{FVIFA}_{15, 0.09}) \times 1.09$$

$$₹ 25,00,000 = A (29.361 \times 1.09)$$

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

2. Current Ratio = $\frac{\text{Current Assets(CA)}}{\text{Current Liabilities(CL)}} = 2 \text{ i.e. } 2 : 1$

S. No.	Situation	Improve/ Decline/ No Change	Reason
(i)	Payment of	Current Ratio will	let us assume CA is ₹ 2 lakhs & CL is

	Current liability	improve	₹1 lakh. If payment of Current Liability = ₹10,000 then, CA = 1, 90,000 CL = 90,000. Current Ratio = $\frac{1,90,000}{90,000}$ = 2.11 : 1. When Current Ratio is 2:1 Payment of Current liability will reduce the same amount in the numerator and denominator. Hence, the ratio will improve.
(ii)	Purchase of Fixed Assets by cash	Current Ratio will decline	Since cash will be reduced, Current Asset will decrease and current ratio will fall.
(iii)	Cash collected from Customers	Current Ratio will not change	Cash will increase and Debtors will reduce. Hence No Change in Current Asset.
(iv)	Bills Receivable dishonoured	Current Ratio will not change	Bills Receivable will come down and debtors will increase. Hence no change in Current Assets.
(v)	Issue of New Shares	Current Ratio will improve	As Cash will increase, Current Assets will increase and current ratio will increase.

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

Particulars	31st March		Working Capital	
	20X8 (₹)	20X9 (₹)	Increase (₹)	Decrease (₹)
A. Current Assets:				
Stock	3,60,000	3,50,000	--	10,000
Sundry Debtors	3,00,000	3,90,000	90,000	--
Prepaid expenses	15,000	20,000	5,000	--
Cash and Bank	1,00,000	95,000	--	5,000
Total (A)	7,75,000	8,55,000		
B. Current Liabilities:				
Sundry Creditors	2,05,000	3,00,000	--	95,000
Bills Payables	45,000	81,000	--	36,000
Total (B)	2,50,000	3,81,000		

Working Capital (A – B)	5,25,000	4,74,000		
Decrease in Working Capital		51,000	51,000	
Total	5,25,000	5,25,000	1,46,000	1,46,000

(b) **Funds Flow Statement for the year ending 31st March, 20X9**

	(₹)
A. Sources of Funds:	
(i) Fund from Business Operations	7,49,000
(ii) Proceeds from issue of 9% Preference shares	5,00,000
(iii) Proceeds from sale of Plant & Machinery	32,000
(iv) Income tax refund	4,000
Total sources	12,85,000
B. Application of Funds:	
(i) Purchase of Land and Building	1,50,000
(ii) Purchase of Plant and Machinery	3,60,000
(iii) Redemption of 8% Debentures	2,06,000
(iv) Redemption of 9% Preference shares	3,15,000
(v) Payment of income tax assessed	1,05,000
(vi) Payment of Interim dividend	50,000
(vii) Payment of dividend	1,50,000
Total uses	13,36,000
Net Decrease in Working Capital (A – B)	51,000

Working Notes:**(1) Computation of Funds from Business Operation**

	(₹)
Profit & Loss as on March 31, 20X9	3,00,000
<i>Add:</i> Depreciation on Land and Building	50,000
Depreciation on Plant and Machinery	1,20,000
Loss on sale of Plant and Machinery	8,000
Preliminary expenses written off	5,000
Transfer to General Reserve	50,000

Proposed dividend	2,60,000
Provision for tax	1,06,000
Interim dividend paid	50,000
	9,49,000
Less: Profit and loss as on March 31, 20X8	2,00,000
Fund from Operations	7,49,000

(2) Plant & Machinery A/c

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

(3) Land and Building A/c

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

(4) Advance Tax Payment A/c

	(₹)		(₹)
To Balance b/d	80,000	By Provision for taxation A/c	76,000
To Bank (paid for 08-09)	1,05,000	By Bank (Refund of tax)	4,000
		By Balance c/d	1,05,000
	1,85,000		1,85,000

(5) Provision for Taxation A/c

	(₹)		(₹)
To Advance tax payment A/c	76,000	By Balance b/d	70,000
To Balance c/d	1,00,000	By P/L A/c (additional provision for 20X7-X8)	6,000
		By P/L A/c (Provision for X8-X9)	1,00,000
	1,76,000		1,76,000

(6) 8% Debentures A/c

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

(7) 9% Preference Share Capital A/c

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

(8) Securities Premium A/c

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

(9) General Reserve A/c

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

Provision for tax and Advance tax may be taken as current liability and current assets respectively.

4. (i) Statement of Weighted Average Cost of Capital

Project cost	Financing	Proportion of capital Structure	After tax cost (1-Tax 50%)	Weighted average cost (%)
Upto ₹ 2 Lakhs	Debt	0.4	10% (1 - 0.5) = 5%	0.4 × 5 = 2.0
	Equity	0.6	12%	0.6 × 12 = <u>7.2</u>
				<u>9.2</u>
Above ₹ 2 lakhs & upto to ₹ 5 Lakhs	Debt	0.4	11% (1 - 0.5) = 5.5%	0.4 × 5.5 = 2.2
	Equity	0.6	13%	0.6 × 13 = <u>7.8</u>
				<u>10.0%</u>
Above ₹ 5 lakhs & upto ₹ 10 lakhs	Debt	0.4	12% (1 - 0.5) = 6%	0.4 × 6 = 2.4
	Equity	0.6	14%	0.6 × 14 = <u>8.4</u>
				<u>10.8%</u>
Above ₹ 10 lakhs & upto ₹ 20 lakhs	Debt	0.4	13% (1 - 0.5) = 6.5%	0.4 × 6.5 = 2.6
	Equity	0.6	14.5%	0.6 × 14.5 = <u>8.7</u>
				<u>11.3%</u>

Project	Fund requirement	Cost of capital
X	₹6.5 lakhs	10.8% (from the above table)
Y	₹14 lakhs	11.3% (from the above table)

(ii) If a Project is expected to give after tax return of 10%, it would be acceptable provided its project cost does not exceed ₹5 lakhs or, after tax return should be more than or at least equal to the weighted average cost of capital.

5. Value of a company (V) = Value of equity (S) + Value of debt (D)

$$₹ 25,00,000 = \frac{\text{Net Income (NI)}}{K_e} + ₹ 5,00,000$$

$$\text{Or, Net Income (NI)} = 0.21 (\text{₹}25,00,000 - \text{₹}5,00,000)$$

$$\text{Market Value of Equity} = ₹25,00,000$$

$$K_e = 21\%$$

$$\frac{\text{Net income (NI) for equity - holders}}{K_e} = \text{Market Value of Equity}$$

$$\frac{\text{Net income (NI) for equity holders}}{0.21} = 25,00,000$$

$$\text{Net income for equity holders} = 5,25,000$$

$$\text{EBIT} = 5,25,000 / 0.7 = 7,50,000$$

	All Equity	Debt and Equity
EBIT	7,50,000	7,50,000
Interest to debt-holders	-	(75,000)
EBT	7,50,000	6,75,000
Taxes (30%)	(2,25,000)	(2,02,500)
Income available to equity shareholders	5,25,000	4,72,500
Income to debt holders plus income available to shareholders	5,25,000	5,47,500

$$\text{Present value of tax-shield benefits} = ₹ 5,00,000 \times 0.30 = ₹ 1,50,000$$

(i) **Value of Restructured firm**

$$= ₹ 25,00,000 + ₹ 1,50,000 = ₹ 26,50,000$$

(ii) **Cost of Equity (K_e)**

$$\text{Total Value} = ₹ 26,50,000$$

$$\text{Less: Value of Debt} = ₹ 5,00,000$$

$$\text{Value of Equity} = ₹ 21,50,000$$

$$K_e = \frac{4,72,500}{21,50,000} = 0.219 = 21.98\%$$

(iii) **WACC (on market value weight)**

$$\text{Cost of Debt (after tax)} = 15\% (1 - 0.3) = 0.15 (0.70) = 0.105 = 10.5\%$$

Components of Costs	Amount	Cost of Capital (%)	Weight	WACC (%)
Equity	21,50,000	21.98	0.81	17.80
Debt	5,00,000	10.50	0.19	2.00
	26,50,000			19.80

Comment: At present the company is all equity financed. So, $K_e = K_o$ i.e. 21%. However after restructuring, the K_o would be reduced to 19.80% and K_e would increase from 21% to 21.98%.

6. (a) Comparative Statement of EPS, Financial & Operating Leverage

Particulars	1,00,000 units (₹)	1,20,000 units (₹)
Sales at ₹ 10 per unit	10,00,000	12,00,000
Less: Variable costs at ₹ 6 per unit	6,00,000	7,20,000
Contribution (C) at ₹ 4 per unit	4,00,000	4,80,000
Less: Fixed expenses	2,00,000	2,00,000
Operating Profit or EBIT	2,00,000	2,80,000
Less Interest on Debentures (10% on ₹ 10 Lakhs)	1,00,000	1,00,000
Profit before tax (PBT)	1,00,000	1,80,000
Less Tax at 50%	50,000	90,000
Profit after tax (PAT) or net profit	50,000	90,000
(i) Earnings per Share (EPS) [10,000 equity shares]	$\frac{50,000}{10,000} = ₹ 5$	$\frac{90,000}{10,000} = ₹ 9$
% increase in EPS	$\left(\frac{9-5}{5} \times 100\right) = 80\%$	
(ii) Financial leverage $\left(\frac{\text{EBIT}}{\text{PBT}}\right)$	$\frac{2,00,000}{1,00,000} = 2$	$\frac{2,80,000}{1,80,000} = 1.56$
(iii) Operating leverage $\left(\frac{\text{Contribution}}{\text{EBIT}}\right)$	$\frac{4,00,000}{2,00,000} = 2$	$\frac{4,80,000}{2,80,000} = 1.714$

(b) In relation to increase in Production & Sales of 1,00,000 units to 1,20,000 units (20% increase), EPS has gone from ₹ 5 to ₹ 9 i.e. increased by 80%. But both the Financial Leverage and Operating Leverage have decreased with increase in sales. Due to this reduction, both the risks i.e. business risk & financial risks of the business are reduced.

7. Computation of initial cash outlay

	(₹ in lakhs)
Equipment Cost	150
Working Capital	25
	175

Calculation of Cash Inflows:

Years	1	2	3 - 5	6 - 8
Sales in units	80,000	1,20,000	3,00,000	2,00,000
	(₹)	(₹)	(₹)	(₹)
Contribution @ ₹ 60 p.u.	48,00,000	72,00,000	1,80,00,000	1,20,00,000
Fixed cost	16,00,000	16,00,000	16,00,000	16,00,000
Advertisement	30,00,000	15,00,000	10,00,000	4,00,000
Depreciation	15,00,000	15,00,000	16,50,000	16,50,000
Profit/(loss)	(13,00,000)	26,00,000	1,37,50,000	83,50,000
Tax @ 50%	NIL	13,00,000	68,75,000	41,75,000
Profit/(Loss) after tax	(13,00,000)	13,00,000	68,75,000	41,75,000
Add: Depreciation	15,00,000	15,00,000	16,50,000	16,50,000
Cash inflow	2,00,000	28,00,000	85,25,000	58,25,000

Computation of PV of Cash Inflow

Year	Cash Inflow (₹)	PV Factor @ 12%	(₹)
1	2,00,000	0.893	1,78,600
2	28,00,000	0.797	22,31,600
3	85,25,000	0.712	60,69,800
4	85,25,000	0.636	54,21,900
5	85,25,000	0.567	48,33,675
6	58,25,000	0.507	29,53,275
7	58,25,000	0.452	26,32,900
8	58,25,000	0.404	23,53,300
Working Capital	15,00,000	0.404	6,06,000
Scrap Value	1,00,000	0.404	40,400
(A)			2,73,21,450
Cash Outflow:			
Initial Cash Outlay	1,75,00,000	1.000	1,75,00,000
Additional Investment	10,00,000	0.797	7,97,000
(B)			1,82,97,000
Net Present Value (NPV) (A – B)			90,24,450

Recommendation: Accept the project in view of positive NPV.

8. Statement showing the Working Capital Requirement of the Company

A. Current Assets (CA)	(₹)
Stock of raw materials [₹ 64,80,000 / 12 months] × 2 months]	10,80,000
Work-in-progress [(₹ 1,51,20,000 × 4) / 52 months] × 50%	5,81,538
Finished goods (₹ 1,51,20,000 / 12 months)	12,60,000
Debtors (₹ 28,80,000 × 80%) (Refer to Working note 2)	23,04,000
Cash balances	1,00,000
	53,25,538
B. Current Liabilities (CL)	
Creditors of raw materials (₹ 64,80,000 / 12 months)	5,40,000
Creditors for wages & overheads $\left(\frac{28,80,000 + 57,60,000}{52 \text{ weeks}} \times 1.5 \text{ weeks} \right)$	2,49,231
	7,89,231
Net Working Capital (CA – CL)	45,36,307

Working Notes:	(₹)
1. Annual raw materials requirements (1,44,000 units × ₹ 45)	64,80,000
Annual direct labour cost (1,44,000 units × ₹ 20)	28,80,000
Annual overhead costs (1,44,000 units × ₹ 40)	57,60,000
Total Cost (Rs.)	1,51,20,000
2. Total Sales (1,44,000 units × ₹ 120)	1,72,80,000
Two months sales (₹ 1,72,80,000 / 6 months)	28,80,000

9. (a) In case of customer A, there is no increase in sales even if the credit is given. Hence comparative statement for B & C is given below:

Particulars	Customer B				Customer C			
	0	30	60	90	0	30	60	90
1. Credit period (days)	0	30	60	90	0	30	60	90
2. Sales Units	1,000	1,500	2,000	2,500	-	-	1,000	1,500
	₹ in lakhs				₹ in lakhs			
3. Sales Value	90	135	180	225	-	-	90	135
4. Contribution at 20% (A)	18	27	36	45	-	-	18	27
5. Receivables:- <u>Credit Period × Sales</u> 360	-	11.25	30	56.25	-	-	15	33.75
6. Debtors at cost i.e. 80% of 11.25	-	9	24	45	-	-	12	27
7. Cost of carrying debtors at 20% (B)	-	1.8	4.8	9	-	-	2.4	5.4
8. Excess of contributions over cost of carrying debtors (A – B)	18	25.2	31.2	36	-	-	15.6	21.6

The excess of contribution over cost of carrying Debtors is highest in case of credit period of 90 days in respect of both the customers B and C. Hence, credit period of 90 days should be allowed to B and C.

(b) **Problem:-**

- (i) Customer A is taking 1000 TV sets whether credit is given or not. Customer C is taking 1000 TV sets at credit for 60 days. Hence A also may demand credit for 60 days compulsorily.
- (ii) B will take 2500 TV sets at credit for 90 days whereas C would lift 1500 sets only. In such case B will demand further relaxation in credit period i.e. B may ask for 120 days credit.
10. (a) **Debt Securitisation:** It is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this asset pool, market securities can be issued, e.g. housing finance, auto loans, and credit card receivables.

Process of Debt Securitisation

- (i) *The origination function* – A borrower seeks a loan from a finance company or bank. The credit worthiness of borrower is evaluated and a contract is entered into with repayment schedule structure over the life of the loan.
- (ii) *The pooling function* – Similar loans on receivables are clubbed together to create an underlying pool of assets. The pool is transferred in favour of Special Purpose Vehicle (SPV), which acts as a trustee for investors.
- (iii) *The securitisation function* – The SPV structure and issue securities on the basis of these assets pool. The securities carry a coupon and expected maturity which can be asset-based/mortgage based. These are generally sold to investors through merchant bankers. Investors may be a pension funds, mutual funds, insurance funds.

The process of securitization is generally without recourse i.e. investors bear the credit risk and issuer is under an obligation to pay to investors only if the cash flows are received by him from the collateral. The benefits to the originator are that assets are shifted off the balance sheet, thus giving the originator recourse to off-balance sheet funding.

- (b) “The profit maximisation is not an operationally feasible criterion.” This statement is true because profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:
 - (i) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?
 - (ii) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.
 - (iii) It ignores the risk factor.
 - (iv) The term maximization is also vague.

PAPER – 4: TAXATION

PART – I: STATUTORY UPDATE

**Significant Notifications and Circulars in income-tax and indirect taxes
issued between 1st May, 2015 and 30th April, 2016**

A. INCOME TAX

I. NOTIFICATIONS

1. Notification of Cost Inflation Index for Financial Year 2015-16 [Notification No. 60/2015, dated 24.7.2015]

Clause (v) of Explanation to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette, specify in this behalf, having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the **financial year 2015-16 as 1081**.

S. No.	Financial Year	Cost Inflation Index	S. No.	Financial Year	Cost Inflation Index
1.	1981-82	100	19.	1999-2000	389
2.	1982-83	109	20.	2000-01	406
3.	1983-84	116	21.	2001-02	426
4.	1984-85	125	22.	2002-03	447
5.	1985-86	133	23.	2003-04	463
6.	1986-87	140	24.	2004-05	480
7.	1987-88	150	25.	2005-06	497
8.	1988-89	161	26.	2006-07	519
9.	1989-90	172	27.	2007-08	551
10.	1990-91	182	28.	2008-09	582
11.	1991-92	199	29.	2009-10	632
12.	1992-93	223	30.	2010-11	711
13.	1993-94	244	31.	2011-12	785
14.	1994-95	259	32.	2012-13	852
15.	1995-96	281	33.	2013-14	939
16.	1996-97	305	34.	2014-15	1024
17.	1997-98	331	35.	2015-16	1081
18.	1998-99	351			

2. **Basis for determining the period of stay in India for an Indian citizen, being a member of the crew of a foreign bound ship leaving India [Notification No. 70/2015, dated 17.8.2015]**

Section 6(1) of the Income-tax Act, 1961 provides that an individual is said to be resident in India in any previous year, if he—

- (a) is in India in that year for a period or periods amounting in all to 182 days or more; or
- (c) having within the four years preceding that year been in India for a period or periods amounting in all to 365 days or more, is in India for a period or periods amounting in all to 60 days or more in that year.

However, where an Indian citizen leaves India as a member of crew of an Indian ship or for the purpose of employment outside India, he will be resident only if he stayed in India for 182 days during the previous year.

Thus, under section 6(1), the conditions to be satisfied by an individual to be a resident in India are provided. The residential status is determined on the basis of the **number of days of his stay in India** during a previous year.

However, in case of foreign bound ships where the destination of the voyage is outside India, there is uncertainty regarding the manner and the basis of determining the period of stay in India for an Indian citizen, being a crew member.

To remove this uncertainty, **Explanation 2 has been inserted to section 6(1)** to provide that in the case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the **period or periods of stay in India** shall, in respect of such voyage, be determined in the **prescribed manner** and subject to the prescribed conditions.

Accordingly, the CBDT has, in exercise of the powers conferred by Explanation 2 to section 6(1) read with section 295, vide this notification, with retrospective effect from 1st April, 2015, inserted Rule 126 in the Income-tax Rules, 1962, to compute the period of stay in such cases.

According to Rule 126, in case of an individual, being a citizen of India and a member of the crew of a ship, the **period or periods of stay in India** shall, in respect of an eligible voyage, **not include** the period **commencing from the date** entered into the Continuous Discharge Certificate in respect of **joining the ship** by the said individual for the eligible voyage and **ending on the date** entered into the Continuous Discharge Certificate in respect of **signing off by that individual from the ship** in respect of such voyage.

The Explanation to this Rule defines the meaning of the following terms:

Terms	Meaning
Continuous Discharge Certificate	This term has the meaning assigned to it in the Merchant Shipping (Continuous Discharge Certificate-cum-Seafarer's Identity Document) Rules, 2001 made under the Merchant Shipping Act, 1958.

Eligible voyage	A voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where- (i) for the voyage having originated from any port in India, has as its destination any port outside India; and (ii) for the voyage having originated from any port outside India, has as its destination any port in India.
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3. Certain districts of Bihar notified as backward areas under the first proviso to section 32(1)(iia) and section 32AD(1) [Notification No. 71/2015, dated 17.8.2015]

In order to encourage the setting up of industrial undertakings in the backward areas of the States of Andhra Pradesh, Bihar, Telangana and West Bengal, section 32AD(1) provides for a deduction of an amount equal to 15% of the actual cost of new plant and machinery acquired and installed in the assessment year relevant to the previous year in which such plant and machinery is installed, if the following conditions are satisfied by the assessee—

- (a) the assessee sets up an undertaking or enterprise for manufacture or production of any article or thing on or after 1st April, 2015 in any backward area notified by the Central Government in the State of Andhra Pradesh or Bihar or Telangana or West Bengal; and
- (b) the assessee acquires and installs new plant and machinery for the purposes of the said undertaking or enterprise during the period between 1st April, 2015 and 31st March, 2020 in the said backward areas.

Further, in order to encourage acquisition and installation of plant and machinery for setting up of manufacturing units in the notified backward areas of the States of Andhra Pradesh, Bihar, Telangana and West Bengal, first proviso has been inserted to section 32(1)(iia) to allow higher additional depreciation at the rate of 35% (instead of 20%) in respect of the actual cost of new machinery or plant (other than a ship and aircraft) acquired and installed during the period between 1st April, 2015 and 31st March, 2020 by a manufacturing undertaking or enterprise which is set up in the notified backward areas of these specified States on or after 1st April, 2015.

Accordingly, the Central Government has, vide this notification, notified the following **21 districts of the State of Bihar** as backward areas under the first proviso to section 32(1)(iia) and section 32AD(1).

S. No.	District	S. No.	District
1.	Patna	12.	Samastipur
2.	Nalanda	13.	Darbhanga
3.	Bhojpur	14.	Madhubani
4.	Rohtas	15.	Purnea

5.	Kaimur	16.	Katihar
6.	Gaya	17.	Araria
7.	Jehanabad	18.	Jamui
8.	Aurangabad	19.	Lakhisarai
9.	Nawada	20.	Supaul
10.	Vaishali	21.	M uzaffarpur
11.	Sheohar		

4. News agency notified for the purpose of section 10(22B) [Notification No. 72/2015, dated 24.8.2015]

Section 10(22B) provides that any income of a news agency set up in India solely for collection and distribution of news as the Central Government may notify shall be exempt, subject to the condition that such news agency applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members.

Accordingly, the Central Government has, through this notification, specified the **Press Trust of India Limited, New Delhi** as a news agency set up in India solely for collection and distribution of news, for the purpose of section 10(22B) for three assessment years 2016-17 to 2018-19. The income of such news agency will not be included in computing the total income of a previous year of such agency, for three years, provided it applies its income or accumulates it for application solely for collection and distribution of news and does not distribute its income in any manner to its members.

5. Exemption in respect of transport allowance under Rule 2BB extended to deaf and dumb employees [Notification No. 75/2015, dated 23.09.2015]

The CBDT has, in exercise of the powers conferred by section 295 read with section 10(14), amended Rule 2BB which, *inter alia*, provides the limit of exemption of up to ₹ 1,600 p.m., in respect of transport allowance granted to an employee and up to ₹ 3,200 p.m., for an employee who is blind or orthopedically handicapped, with disability of lower extremities, to meet his expenditure incurred thereof, for the purpose of commuting between the place of his residence and the place of his duty.

Consequent to the amendment made vide this notification, the exemption up to ₹ 3,200 p.m. in respect of transport allowance can be claimed by a blind **or deaf and dumb** or orthopedically handicapped employee with disability of lower extremities to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty.

6. Monetary limits of specified transactions which require quoting of PAN enhanced with effect from 1st January, 2016 [Notification No. 95/2015, dated 30-12-2015]

The Government is committed to curbing the circulation of black money and widening of tax base. To collect information of certain types of transactions from third parties in a non-intrusive manner, it is mandatory under Rule 114B of the Income-tax Rules to quote PAN where the transactions exceed a specified limit. To bring a balance between burden of compliance on legitimate transactions and the need to capture information relating to transactions of higher value, Rule 114B has been substituted to enhance the monetary limits of certain transactions which require quoting of PAN.

S. No.	Nature of transaction	Value of transaction
1.	Sale or purchase of a motor vehicle or vehicle, as defined in the Motor Vehicles Act, 1988 which requires registration by a registering authority under that Act, other than two wheeled vehicles.	All such transactions
2.	Opening an account [other than a time-deposit referred to at Sl. No.12 and a Basic Savings Bank Deposit Account] with a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act).	All such transactions
3.	Making an application to any banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution, for issue of a credit or debit card.	All such transactions
4.	Opening of a demat account with a depository, participant, custodian of securities or any other person registered under section 12(1A) of the Securities and Exchange Board of India Act, 1992.	All such transactions
5.	Payment to a hotel or restaurant against a bill or bills at any one time.	Payment in cash of an amount exceeding ₹ 50,000.
6.	Payment in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.	Payment in cash of an amount exceeding ₹ 50,000.
7.	Payment to a Mutual Fund for purchase of its units	Amount exceeding ₹ 50,000.
8.	Payment to a company or an institution for	Amount exceeding ₹ 50,000.

	acquiring debentures or bonds issued by it.	
9.	Payment to the Reserve Bank of India for acquiring bonds issued by it.	Amount exceeding ₹ 50,000.
10.	Deposit with a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act).	Deposits in cash exceeding ₹ 50,000 during any one day.
11.	Purchase of bank drafts or pay orders or banker's cheques from a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act).	Payment in cash of an amount exceeding ₹ 50,000 during any one day.
12.	A time deposit with, - (i) a banking company or a co-operative bank to which the Banking Regulation Act, 1949 applies (including any bank or banking institution referred to in section 51 of that Act); (ii) a Post Office; (iii) a Nidhi referred to in section 406 of the Companies Act, 2013; or (iv) a non-banking financial company which holds a certificate of registration under section 45-IA of the Reserve Bank of India Act, 1934, to hold or accept deposit from public.	Amount exceeding ₹ 50,000 or aggregating to more than ₹ 5 lakh during a financial year.
13.	Payment for one or more pre-paid payment instruments, as defined in the policy guidelines for issuance and operation of pre-paid payment instruments issued by Reserve Bank of India under the Payment and Settlement Systems Act, 2007, to a banking company or a co-operative bank to which the Banking Regulation Act, 1949, applies (including any bank or banking institution referred to in section 51 of that Act) or to any other company or institution.	Payment in cash or by way of a bank draft or pay order or banker's cheque of an amount aggregating to more than ₹ 50,000 in a financial year.
14.	Payment as life insurance premium to an insurer as defined in the Insurance Act, 1938.	Amount aggregating to more than ₹ 50,000 in a financial year.
15.	A contract for sale or purchase of securities	Amount exceeding ₹ 1 lakh

	(other than shares) as defined in section 2(h) of the Securities Contracts (Regulation) Act, 1956.	per transaction
16.	Sale or purchase, by any person, of shares of a company not listed in a recognised stock exchange.	Amount exceeding ₹ 1 lakh per transaction.
17.	Sale or purchase of any immovable property.	Amount exceeding ₹ 10 lakh or valued by stamp valuation authority referred to in section 50C of the Act at an amount exceeding ₹ 10 lakh
18.	Sale or purchase, by any person, of goods or services of any nature other than those specified at Sl. No. 1 to 17 of this Table, if any.	Amount exceeding ₹ 2 lakh per transaction:

Minor to quote PAN of parent or guardian

However, where a person, entering into any transaction referred to in this rule, is a minor and who does not have any income chargeable to income-tax, he shall quote the PAN of his father or mother or guardian, as the case may be, in the document pertaining to the said transaction.

Declaration by a person not having PAN

Further, any person who does not have a PAN and who enters into any transaction specified in this rule, shall make a declaration in Form No.60 giving therein the particulars of such transaction.

Non-applicability of Rule 114B

Also, the provisions of this rule shall not apply to the following class or classes of persons, namely:-

- (i) the Central Government, the State Governments and the Consular Offices;
- (ii) the non-residents referred to in section 2(30) in respect of the transactions other than a transaction referred to at Sl. No. 1 or 2 or 4 or 7 or 8 or 10 or 12 or 14 or 15 or 16 or 17 of the Table.

Meaning of the following phrases

	Phrase	Inclusion
(1)	Payment in connection with travel	Payment towards fare, or to a travel agent or a tour operator, or to an authorised person as defined in section 2(c) of the Foreign Exchange Management Act, 1999

(2)	Travel agent or tour operator	A person who makes arrangements for air, surface or maritime travel or provides services relating to accommodation, tours, entertainment, passport, visa, foreign exchange, travel related insurance or other travel related services either severally or in package
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7. 'Atal Pension Yojna' notified under section 80CCD(1) [Notification No. 7/2016 dated 19-02-2016]

Section 80CCD(1) empowers the Central Government to notify a pension scheme, contribution to which would qualify for deduction in the hands of an individual assessee.

Accordingly, in exercise of the powers conferred by section 80CCD(1), the Central Government has notified the 'Atal Pension Yojana (APY)' as published in the Gazette of India, Extraordinary, Part I, Section 1, vide number F. No. 16/1/2015-PR dated the 16th October, 2015 as a pension scheme, contribution to which would qualify for deduction under section 80CCD in the hands of the individual.

8. Oil wells included in New Appendix I under Mineral Oil concerns under "III. Plant and Machinery" to be eligible for depreciation@15% [Notification No. 13/2016 dated 03-03-2016]

The CBDT has, vide this notification, included Oil wells as entry (c) under sub-item (xii) "Mineral Oil concerns" under item (8) of sub-heading III "Plant and Machinery" in new Appendix I.

The rate of depreciation for oil-wells included as entry (c) is 15%.

The amendment shall come into force on 1st April, 2016.

9. Method of determination of period of holding of capital assets in certain cases [Notification No. 18/2016, dated 17-03-2016]

Section 2(42A) provides for the meaning of the term "short-term capital asset" as a capital asset held by an assessee for not more than thirty-six months immediately preceding the date of its transfer. Clause (i) of Explanation 1 to section 2(42A) provides for inclusion/ exclusion of certain periods in respect of specified transactions listed thereunder for the purpose of determination of the period of holding of asset. Clause (ii) of Explanation 1 to section 2(42A) provides that in respect of capital assets, other than those mentioned in clause (i), the period for which the capital asset is held by the assessee shall be determined subject to rules made in this behalf by the CBDT.

Accordingly, the CBDT has inserted new Rule 8AA in the Income-tax Rules, 1962 to provide for method of determination of period of holding of capital assets, other than the capital assets mentioned in clause (i) of the Explanation 1 to section 2(42A). Specifically, in the case of a capital asset, being a share or debenture of a company, which becomes

the property of the assessee in the circumstances mentioned in section 47(x), there shall be included the period for which the bond, debenture, debenture-stock or deposit certificate, as the case may be, was held by the assessee prior to the conversion. The said rule shall come into force with effect from 01-04-2016.

Note: Section 47(x) provides that any transfer by way of conversion of bonds or debentures, debenture-stock or deposit certificates in any form, of a company into shares or debentures of that company shall not be regarded as transfer for the purposes of levy of capital gains tax.

10. Investment in Stock certificate as defined in the Sovereign Gold Bonds Scheme, 2015 notified as eligible form of investment by a charitable trust [Notification No. 21/2016, dated 23-03-2016]

Section 11(2)(b) provides that where 85% of the income is not applied, or is not deemed to have been applied, to charitable or religious purposes in India during the previous year but is accumulated or set apart, either in whole or in part, for application to such purposes in India, such income so accumulated or set apart shall not be included in the total income of the previous year of the person in receipt of the income, provided, inter alia, the money so accumulated or set apart is invested or deposited in the forms or modes as specified in section 11(5).

Rule 17C provides for the various forms or modes of investment or deposits by a charitable or religious trust or institution. The CBDT has, vide this notification, amended Rule 17C to include Investment in "Stock Certificate" [as defined in clause (c) of paragraph 2 of the Sovereign Gold Bonds Scheme, 2015, published in the Official Gazette vide notification number G.S.R. 827(E), dated 30th October, 2015] as an eligible form/mode of investment.

II. CIRCULARS

1. Tax not to be deducted from payments made to Corporations whose income is exempt under section 10(26BBB) [Circular No. 7/2015, dated 23-04-2015]

The CBDT had earlier issued Circular No. 4/2002 dated 16.07.2002 which laid down that there would be no requirement for tax deduction at source from payments made to such entities, whose income is unconditionally exempt under section 10 and who are statutorily not required to file return of income as per the section 139.

Section 10(26BBB), inserted by the Finance Act, 2003 w.e.f. 01.04.2004, exempts any income of a corporation established by a Central, State or Provincial Act for the welfare and economic up liftment of ex-service-men being the citizen of India. The corporations covered under section 10(26BBB) are also statutorily not required to file return of income as per the section 139.

Now, the CBDT has, vide this circular, clarified that since corporations covered under section 10(26BBB) satisfy the two conditions of Circular No. 4/2002 i.e., unconditional exemption of income under section 10 and no statutory liability to file return of income under section 139, they would also be entitled for the benefit of the said circular.

Hence, there would be no requirement for tax deduction at source from the payments made to such corporations since their income is anyway exempt under section 10.

2. Deduction in respect of cost of production allowable under section 37 in the case of Abandoned Feature Films [Circular No. 16/2015, dated 6.10.2015]

The deduction in respect of the cost of production of a feature film certified for release by the Board of Film Censors in a previous year is provided in Rule 9A.

In the case of abandoned films, however, since certificate of Board of Film Censors is not received, in some cases no deduction was allowed by applying Rule 9A of the Rules or by treating the expenditure as capital expenditure.

The CBDT has examined the matter in light of judicial decisions on this subject. The order of the Hon'ble Bombay High Court dated 28.1.2015 in ITA 310 of 2013 in the case of *Venus Records and Tapes Pvt. Ltd.* on this issue has been accepted and the aforesaid disputed issue has not been further contested.

Consequently, it is clarified that Rule 9A does not apply to abandoned feature films and that the expenditure incurred on such abandoned feature films is not to be treated as a capital expenditure. **The cost of production of an abandoned feature film is to be treated as revenue expenditure and allowed as per the provisions of section 37 of the Income-tax Act, 1961.**

3. Interest from non-SLR Securities of Banks: Whether chargeable under the head "Profits and gains of business or profession" or "Income from other sources"? [Circular No. 18, dated 2.11.2015]

The issue addressed by this circular is whether in the case of banks, expenses relating to investment in non-SLR securities need to be disallowed under section 57(i), by considering interest on non-SLR securities as "Income from other sources."

Section 56(1)(id) provides that income by way of interest on securities shall be chargeable to income-tax under the head "Income from Other Sources", if the income is not chargeable to income-tax under the head "Profits and Gains of Business and Profession".

The CBDT has examined the matter in light of the judicial decisions on this issue. In the case of *CIT v. Nawanshahar Central Cooperative Bank Ltd.* [2007] 160 Taxman 48 (SC), the Apex Court held that the **investments made by a banking concern are part of the**

business of banking. Therefore, the income arising from such investments is attributable to the business of banking falling under the head "Profits and Gains of Business and Profession".

4. Allowability of Employer's Contribution to funds for welfare of employees paid after the due date under the relevant Act but before the due date of filing of return of income under section 139(1) [Circular No.22/2015 dated 17-12-2015]

Under section 43B of the Income-tax Act, 1961, certain deductions are admissible only on payment basis. The CBDT has observed that some field officers disallow employer's contributions to provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, by invoking the provisions of section 43B, if it has been paid after the 'due dates' as per the relevant Acts.

The CBDT has examined the matter in light of the judicial decisions on this issue. In the case of *Commissioner vs. Alom Extrusions Ltd*, [2009] 185 Taxman 416, the Apex Court held that the deduction is allowable to the employer assessee if he deposits the contributions to welfare funds on or before the 'due date' of filing of return of income.

Accordingly, the settled position is that ***if the assessee deposits any sum payable by it by way of tax, duty, cess or fee, by whatever name called, under any law for the time being in force, or any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees, on or before the 'due date' applicable in his case for furnishing the return of income under section 139(1) of the Act, no disallowance can be made under section 43B of the Act.***

It is further clarified that this Circular does not apply to claim of deduction relating to employee's contribution to welfare funds which are governed by section 36(1)(va) of the Income-tax Act, 1961.

5. Applicability of provisions for deduction of tax at source under section 194A on interest on fixed deposit made in the name of the Registrar General of Court or the depositor of the Fund on directions of Courts [Circular No.23/2015, dated 28-12-2015]

Section 194A stipulates deduction of tax at source (TDS) on interest other than interest on securities if the aggregate of amount of such interest credited or paid to the account of the payee during the financial year exceeds the specified amount.

In the case of UCO Bank in Writ Petition No. 3563 of 2012 and CM No. 7517/2012 vide judgment dated 11/11/2014, the Hon'ble Delhi High Court has held that the provisions of section 194A do not apply to fixed deposits made in the name of Registrar General of the Court on the directions of the Court during the pendency of proceedings before the Court. In such cases, till the Court passes the appropriate orders in the matter, it is not known who the beneficiary of the fixed deposits will be. Amount and year of receipt is also unascertainable. The Delhi High Court, thus, held that the person who is ultimately granted the funds would be determined by orders that are passed subsequently. At that

stage, undisputedly, tax would be required to be deducted at source to the credit of the recipient. The High Court has also quashed Circular No.8/2011.

The CBDT has accepted the aforesaid judgment. Accordingly, it is clarified that interest on FDRs made in the name of Registrar General of the Court or the depositor of the fund on the directions of the Court, will not be subject to TDS till the matter is decided by the Court. However, once the Court decides the ownership of the money lying in the fixed deposit, the provisions of section 194A will apply to the recipient of the income.

6. Applicability of TDS provisions on payments by broadcasters or Television Channels to production houses for production of content or programme for telecasting [Circular No. 04/2016, dated 29-2-2016]

The issue of applicability of TDS provisions on payments made by broadcasters/telecasters to production houses for production of content or programme for broadcasting/ telecasting has been examined by CBDT.

The issue under consideration is whether payments made by the broadcaster/telecaster to production houses for production of content/programme are payments under a 'work contract' liable for tax deduction at source under section 194C or a contract for 'professional or technical services' liable for tax deduction at source under section 194J of the Income-tax Act, 1961.

In this regard, the CBDT has clarified that while applying the relevant provisions of TDS on a contract for content production, a distinction is required to be made between:

- (i) a payment for production of content/programme as per the specifications of the broadcaster/telecaster; and
- (ii) a payment for acquisition of broadcasting/ telecasting rights of the content already produced by the production house.

In the first situation where the content is produced as per the specifications provided by the broadcaster/ telecaster and the copyright of the content/programme also gets transferred to the telecaster/ broadcaster, such contract is covered by the definition of the term 'work' in section 194C and, therefore, subject to TDS under that section. This position clearly flows from the definition of 'work' given in clause (iv)(b) of the *Explanation* to section 194C and the same has also been clarified vide Q. No. 3 of Circular No. 715 dated 8.8.1995.

However, in a case where the telecaster/broadcaster acquires only the telecasting/ broadcasting rights of the content already produced by the production house, there is no contract for "carrying out any work", as required in section 194C(1). Therefore, such payments are not liable for TDS under section 194C. However, payments of this nature may be liable for TDS under other sections of Chapter XVII-B of the Act.

7. Applicability of TDS provisions on payments by television channels and publishing houses to advertisement companies for procuring or canvassing for advertisements [Circular No. 05/2016, dated 29-2-2016]

The issue of applicability of TDS provisions on payments made by television channels or media houses publishing newspapers or magazines to advertising agencies for procuring and canvassing for advertisements has been examined by the CBDT.

The CBDT noted that there are two types of payments involved in the advertising business:

- (i) Payment by client to the advertising agency, and
- (ii) Payment by advertising agency to the television channel/newspaper company

The applicability of TDS on these payments has already been dealt with in Circular No. 715 dated 8-8-1995, where it has been clarified in Question Nos. 1 & 2 that while TDS under section 194C (as work contract) will be applicable on the first type of payment, there will be no TDS under section 194C on the second type of payment e.g. payment by advertising agency to the media company.

However, another issue has been raised in various cases as to whether the fees/charges taken or retained by advertising companies from media companies for canvassing/booking advertisements (typically 15% of the billing) is 'commission' or 'discount'. It has been argued by the assesseees that since the relationship between the media company and the advertising company is on a principal-to-principal basis, such payments are in the nature of trade discount and not commission and, therefore, outside the purview of TDS under section 194H. The Department, on the other hand, has taken a stand in some cases that since the advertising agencies act on behalf of the media companies for procuring advertisements, the margin retained by the former amounts to constructive payment of commission and, accordingly, TDS under section 194H is attracted.

The issue has been examined by the Allahabad High Court in the case of *Jagran Prakashan Ltd.* and Delhi High Court in the matter of *Living Media Limited* and it was held in both the cases that the relationship between the media company and the advertising agency is that of a 'principal-to-principal' and, therefore, not liable for TDS under section 194H. The SLPs filed by the Department in the matter of *Living Media Ltd.* and *Jagran Prakashan Ltd.* have been dismissed by the Supreme Court *vide* order dated 11-12-2009 and order dated 5-5-2014, respectively. Though these decisions are in respect of print media, the ratio is also applicable to electronic media/television advertising as the broad nature of the activities involved is similar.

In view of the above, the CBDT has clarified that no TDS is attracted on payments made by television channels/newspaper companies to the advertising agency for booking or procuring of or canvassing for advertisements. It is also further clarified that 'commission' referred to in Question No.27 of the CBDT's Circular No. 715 dated 8-8-1995 does not refer to payments by media companies to advertising companies for booking of advertisements but to payments for engagement of models, artists, photographers, sportspersons, etc. and, therefore, is not relevant to the issue of TDS referred to in this Circular.

8. Surplus on sale of shares and securities - whether taxable as capital gains or business income? [Circular No. 06/2016, dated 29-2-2016]

Section 2(14) defines the term "capital asset" to include property of any kind held by an assessee, whether or not connected with his business or profession, but does not include any stock-in-trade or personal assets subject to certain exceptions. As regards shares and other securities, the same can be held either as capital assets or stock-in-trade/trading assets or both.

Determination of the character of a particular investment in shares or other securities, whether the same is in the nature of a capital asset or stock-in-trade, is essentially a fact-specific determination and has led to a lot of uncertainty and litigation in the past.

Parameters laid down by CBDT and Courts to distinguish shares held as investments and shares held as stock in trade

Over the years, the courts have laid down different parameters to distinguish the shares held as investments from the shares held as stock-in-trade. The CBDT has also, through Instruction No. 1827, dated August 31, 1989 and Circular No. 4 of 2007 dated June 15, 2007, summarized the said principles for guidance of the field formations.

Principles to determine whether gains on sale of listed shares and other securities would constitute capital gains or business income

Disputes, however, continue to exist on the application of these principles to the facts of an individual case since the taxpayers find it difficult to prove the intention in acquiring such shares/securities. In this background, while recognizing that no universal principle in absolute terms can be laid down to decide the character of income from sale of shares and securities (i.e. whether the same is in the nature of capital gain or business income), CBDT realizing that major part of shares/securities transactions takes place in respect of the listed ones and with a view to reduce litigation and uncertainty in the matter, in partial modification to the aforesaid Circulars, further instructs the Assessing Officers to take into account the following while deciding whether the surplus generated from sale of listed shares or other securities would be treated as Capital Gain or Business Income —

- a) **Where assessee opts to treat such shares and securities as stock-in-trade:**
Where the assessee itself, irrespective of the period of holding the listed shares and securities, opts to treat them as stock-in-trade, the income arising from transfer of such shares/securities would be treated as its business income,
- b) **Listed shares and securities held for a period of more than 12 months:** In respect of listed shares and securities held for a period of more than 12 months immediately preceding the date of its transfer, if the assessee desires to treat the income arising from the transfer thereof as Capital Gain, the same shall not be put to dispute by the Assessing Officer. However, this stand, once taken by the assessee in a particular Assessment Year, shall remain applicable in subsequent Assessment Years also and the taxpayers shall not be allowed to adopt a different/contrary stand in this regard in subsequent years;

- c) **Other cases:** In all other cases, the nature of transaction (i.e. whether the same is in the nature of capital gain or business income) shall continue to be decided keeping in view the aforesaid Circulars issued by the CBDT.

Principles listed above not to apply in case of sham transactions

It is, however, clarified that the above shall not apply in respect of such transactions in shares/securities where the genuineness of the transaction itself is questionable, such as bogus claims of Long Term Capital Gain/Short Term Capital Loss or any other sham transactions.

Objective of formulation of principles: Reducing litigation and ensuring consistency

It is reiterated that the above principles have been formulated with the sole objective of reducing litigation and maintaining consistency in approach on the issue of treatment of income derived from transfer of shares and securities. All the relevant provisions of the Act shall continue to apply on the transactions involving transfer of shares and securities.

B. INDIRECT TAXES

**Significant Notifications and Circulars
issued between 1st May, 2015 and 30th April, 2016¹**

Chapter-1: Basic Concepts of Indirect Taxes

Unit-2: Central Excise Duty

Following amendments have been made under the central excise law²

- Higher threshold exemption (SSI exemption) for jewellery manufacturers:** With effect from 01.03.2016, excise duty of 1% (without CENVAT credit) or 12.5% (with CENVAT credit) has been levied on articles of jewellery [excluding silver jewellery, other than studded with diamonds/other precious stones]. The SSI exemption for such jewellery manufacturers would be upto ₹ 6 crore in a year with an eligibility limit of ₹ 12 crore in the preceding year. Thus, a jewellery manufacturer will be eligible for exemption from excise duty on first clearances upto ₹ 6 crore during a financial year, if his aggregate domestic

¹ **Notification Nos. 13-16 ST all dated 19.05.2015** notifying June 1, 2015 as the effective date of certain amendments made by the Finance Act, 2015 and Budget 2015 Notifications have already been included in the Supplementary Study Paper-2015 as also incorporated in the November, 2015 Edition of the Study Material of Paper 8: Indirect Tax Laws. Therefore, the same have not been given again in this Statutory Update.

² It may be noted that the procedures under central excise have been discussed in detail at the Final level. At the level of Intermediate (IPC), only a bird's eye view of the significant procedures under central excise has been given to familiarize the students with the basic aspects of such procedures.

clearances during preceding financial year did not exceed ₹ 12 crore.

Notification No. 8/2003 CE dated 01.03.2003 has been amended vide **Notification No. 8/2016 CE dated 01.03.2016** to carry out the above amendment.

[Effective from 01.03.2016]

2. Where the duplicate copy of the invoice meant for transporter is digitally signed, a hard copy of the same which is self-attested by the manufacturer is used for transport of goods. Such manual attestation of the transporter's copy of invoice has been done away with vide **Notification No. 8/2016 CE (NT) dated 01.03.2016**.

[Effective from 01.03.2016]

3. In place of Annual Financial Information Statement [ER-4], an Annual Return will have to be filed by central excise assesseees by 30th November of the succeeding year [**Notification No. 8/2016 CE (NT) dated 01.03.2016**].

[Effective from 01.04.2016]

4. Interest payable on delayed payment of excise duty has been reduced from 18% to 15% vide **Notification No. 15/2016 CE (NT) dated 01.03.2016**.

[Effective from 01.04.2016]

5. It may be noted that last example on page 1.33 of the Study Material of Part-II: Indirect Taxes of Paper 4: Taxation [September, 2015 Edition] would be read as under:-

The Central Government has fixed tariff values for readymade garments under Chapter 61 and 62 as 60% of the retail sale price of the readymade garments.

Chapter-2: Basic Concepts of Service Tax

1. **0.5% Swachh Bharat Cess to be levied on value of all or any of taxable services from November 15, 2015 [Section 119 of the Finance Act, 2015]**

Section 119 of the Finance Act, 2015 empowered the Central Government to impose a Swachh Bharat Cess (SBC) on all or any of the taxable services at a rate of 2% on the value of such taxable services. This cess was to be levied from such date as may be notified by the Central Government.

The following amendments have been made in this regard:

- (i) The levy of SBC has become effective from **15th November, 2015 [Notification No. 21/2015 ST dated 06.11.2015]**.
- (ii) W.e.f. 15.11.2015, all taxable services have been exempted from payment of such amount of SBC, which is in excess of SBC calculated at the rate of 0.5% of the value of taxable services. Thus, effectively, the rate of SBC becomes 0.5% and new rate of service tax plus SBC becomes 14.5%.

SBC will not be leviable on services which are exempt from service tax under sub-section (1) of section 93 of the Finance Act, 1994 (general exemption) or sub-section (2) of section 93 of Finance Act, 1994 (special order)³ or otherwise not leviable to service tax under section 66B of the Finance Act, 1994 [**Notification No. 22/2015 ST dated 06.11.2015**].

- (iii) Value of taxable services for the purposes of SBC will be the value as determined in accordance with the Service Tax (Determination of Value) Rules, 2006. Further, the same will be leviable only on the abated value of taxable service as per *Notification No. 26/2012 ST dated 20.06.2012* [**Notification No. 22/2015 ST dated 06.11.2015 amended by Notification No. 23/2015 ST dated 12.11.2015**].
 - (iv) Provisions of reverse charge as contained in *Notification No. 30/2012 ST dated 20.06.2012* will be applicable for the purposes of SBC *mutatis mutandis* [**Notification No. 24/2015 ST dated 12.11.2015**].
 - (v) W.e.f. 15.11.2015, alternative rate for payment of SBC in case of air travel agents, life insurance, foreign exchange and lottery will be service tax liability multiplied by 0.5 divided by 14. This has been done by inserting a new sub-rule (7D) in rule 6 of the Service Tax Rules, 1994 – *Discussed in detail in Chapter 6: Service Tax Procedures*.
 - (vi) SBC paid on specified services used in an SEZ will be entitled for refund under *Notification No. 12/2013 ST dated 01.07.2013* – *Discussed in detail in Chapter 5: Exemptions and Abatements*.
 - (vii) SBC paid on all services used in providing services which are exported in terms of rule 6A of the Service Tax Rules, 1994 will be entitled for rebate under *Notification No. 39/2012 dated 20.06.2012* – *Discussed in detail in Chapter 2: Place of Provision of Services*.
 - (viii) Separate Accounting Codes have been allotted for SBC vide **Circular No. 188/7/2015 ST dated 16.11.2015**.
- 2. Any service provided by the Government or local authority to a business entity taxable from April 1, 2016 [Section 66D(a)(iv)& 65B(49)]**
- (i) Services provided by Government or a local authority, excluding certain services, were covered in the Negative List of services vide clause (a) of section 66D. The excluded services were specified under sub-clauses (i) to (iv) of clause (a).
 - (ii) Sub-clause (iv) covered support services provided by the Government or local authority to business entities thereby making the same liable to service tax.
 - (iii) The Finance Act, 2015 had amended the said sub-clause (iv) by substituting the words **“support services”** with the words **“any service”** to exclude all services

³ inserted by **Notification No. 05/2016 ST dated 17.02.2016**

provided by the Government or local authority to a business entity from the Negative List.

- (iv) Consequently, the definition of “support service” as provided under section 65B(49) had also been omitted vide the Finance Act, 2015.
- (v) The said amendments, however, did not become effective with the enforcement of the Finance Act, 2015 and were to become effective from a date to be notified later on.
- (vi) Now, the effective date has been notified as **1st April, 2016** vide **Notification Nos. 6/2016 ST dated 18.02.2016 & 15/2016 ST dated 01.03.2016**. Therefore, from 01.04.2016, all the services provided by Government or Local Authority to a business entity have become taxable.
- (vii) Further, service tax on these services was made payable under reverse charge. The said amendment has also become effective from 01.04.2016 - *Discussed in detail in Chapter 6: Service Tax Procedures.*
- (viii) Simultaneously, services provided by Government or a local authority to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year have been exempted from service tax. *[Amendments in exemptions have been discussed in detail in Chapter 5: Exemptions and Abatements.]*

[Effective from 01.04.2016]

- (ix) CBEC has issued *Circular No. 192/02/2016 ST dated 13.04.2016* to clarify the following aspects pertaining to the taxation of services provided by Government to business entities:

Sl. No.	Issue	Clarification
1.	Services provided by Government or a local authority to another Government or a local authority	Such services have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i> . However, the said exemption does not cover services specified in sub-clauses (i), (ii) and (iii) of clause (a) of section 66D of the Finance Act, 1994.
2.	Services provided by Government or a local authority to an individual who may be carrying out a profession or business	<ol style="list-style-type: none"> 1. Services by way of grant of passport, visa, driving license, birth or death certificates have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i>. 2. Further, for services provided upto a

		taxable value of ₹ 5000/-, Sl. No. 5 below may please be seen.
3.	Service tax on taxes, cesses or duties	Taxes, cesses or duties levied are not consideration for any particular service as such and hence not leviable to service tax. These taxes, cesses or duties include excise duty, customs duty, service tax, State VAT, CST, income tax, wealth tax, stamp duty, taxes on professions, trades, callings or employment, octroi, entertainment tax, luxury tax and property tax.
4.	Service tax on fines and penalties	<ol style="list-style-type: none"> 1. It is clarified that fines and penalty chargeable by Government or a local authority imposed for <u>violation of a statute, bye-laws, rules or regulations</u> are not leviable to service tax. 2. Fines and liquidated damages payable to Government or a local authority for non-performance of contract entered into with Government or local authority have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i>.
5.	Services provided in lieu of fee charged by Government or a local authority	<ol style="list-style-type: none"> 1. It is clarified that any activity undertaken by Government or a local authority against a consideration constitutes a service and the amount charged for performing such activities is liable to service tax. It is immaterial whether such activities are undertaken as a statutory or mandatory requirement under the law and irrespective of whether the amount charged for such service is laid down in a statute or not. As long as the payment is made (or fee charged) for getting a service in return (i.e., as a <i>quid pro quo</i> for the service received), it has to be regarded as a consideration for that service and taxable irrespective of by what name such payment is called. It is also clarified that service tax is leviable on any payment, in lieu of any permission or

		<p>license granted by the Government or a local authority.</p> <p>2. However, services provided by the Government or a local authority by way of:</p> <p>(i) registration required under the law;</p> <p>(ii) testing, calibration, safety check or certification relating to protection or safety of workers, consumers or public at large, required under the law,</p> <p>have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i>.</p> <p>3. Further, services provided by Government or a local authority where the gross amount charged for such service does not exceed ₹ 5000/- have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i>. However, the said exemption does not cover services specified in sub-clauses (i), (ii) and (iii) of clause (a) of section 66D of the Finance Act, 1994. Further, in case of continuous service, the exemption shall be applicable where the gross amount charged for such service does not exceed ₹ 5000/- in a financial year.</p>
6.	Services in the nature of allocation of natural resources by Government or a local authority to individual farmers	Services by way of allocation of natural resources to an individual farmer for the purposes of agriculture have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i> . Such allocations/auctions to categories of persons other than individual farmers would be leviable to service tax.
7.	Services in the nature of change of land use, commercial building approval, utility services	Regulation of land-use, construction of buildings and other services listed in the Twelfth Schedule to the Constitution which have been entrusted to Municipalities under

	provided by Government or a local authority	<p>Article 243W of the Constitution, when provided by Governmental authority are already exempt under <i>Notification No. 25/2012 ST dated 20.6.2012</i>.</p> <p>The said services when provided by Government or a local authority have also been exempted from service tax vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i>.</p>
8.	Services provided by Government, a local authority or a governmental authority by way of any activity in relation to any function entrusted to a Panchayat under Article 243G of the Constitution	Such services have been exempted vide <i>Notification No. 25/2012 ST dated 20.6.2012</i> as amended by <i>Notification No. 22/2016 ST dated 13.4.2016</i> .
9.	When does the liability to pay service tax arise upon assignment of right to use natural resource where the payment of auction price is made in 10 (or any number of) yearly (or periodic) instalments under deferred payment option for rights assigned after 01.4.2016?	<p>Rule 7 of the Point of Taxation Rules, 2011 has been amended vide <i>Notification No. 24/2016 ST dated 13.04.2016</i> to provide that in case of services provided by Government or a local authority to any business entity, the point of taxation shall be the earlier of the dates on which:</p> <p>(a) any payment, part or full, in respect of such service becomes due, as indicated in the invoice, bill, challan, or any other document issued by Government or a local authority demanding such payment; or</p> <p>(b) such payment is made.</p> <p>Thus, the point of taxation in case of the services of the assignment of right to use natural resources by the Government to a business entity shall be the date on which any payment, including deferred payments, in respect of such assignment becomes due or when such payment is made, whichever is earlier. Therefore, if the assignee/allottee opts for full upfront payment then service tax would</p>

		be payable on the full value upfront. However, if the assignee opts for part upfront and remainder under deferred payment option, then service tax would be payable as and when the payments are due or made, whichever is earlier.
10.	How to determine the date on which payment in respect of any service provided by Government or a local authority becomes due for determination of point of taxation?	The date on which such payment becomes due shall be determined on the basis of invoice, bill, challan, or any other document issued by the Government or a local authority demanding such payment [Point of Taxation Rules, 2011 as amended by <i>Notification No. 24/2016 ST dated 13.4.2016</i>].
11.	Whether service tax is payable on the interest charged by Government or a local authority where the payment for assignment of natural resources is allowed to be made under deferred payment option?	Rule 6(2)(iv) of the Service Tax (Determination of Value) Rules, 2006 has been amended vide <i>Notification No. 23/2016 ST dated 13.4.2016</i> so as to provide that interest chargeable on deferred payment in case of any service provided by Government or a local authority to a business entity, where payment for such service is allowed to be deferred on payment of interest, shall be included in the value of the taxable service.
12.	When and how will the allottee of the right to use natural resource be entitled to take CENVAT credit of service tax paid for such assignment of right?	The CENVAT Credit Rules, 2004 have been amended vide <i>Notification No. 24/2016 CE(NT) dated 13.4.2016</i> . Consequently, the CENVAT credit of the service tax on one time charges (whether paid upfront or in installments) paid in a year, may be allowed to be taken evenly over a period of 3 (three) years [Rule 4(7) of CENVAT Credit Rules, 2004 as amended]. Service tax paid on royalty in respect of natural resources and any periodic payments shall be available as credit in the year in which the same is paid. Amendments have also been made in CENVAT Credit Rules, 2004 so as to allow CENVAT credit to be taken on the basis of the documents specified in sub-rule (1) of rule 9 of CENVAT Credit Rules, 2004 even after the period of 1 year from the date of issue of such a document in case of services provided by the

		Government or a local authority or any other person by way of assignment of right to use any natural resource [Fifth Proviso to sub-rule (7) of rule 4 of CENVAT Credit Rules, 2004].
13.	On basis of which documents can CENVAT credit be availed in respect of services provided by Government or a local authority?	CENVAT credit may be availed on the basis of challan evidencing payment of service tax by the service recipient [Clause (e) of sub-rule (1) of rule 9 of CENVAT Credit Rules, 2004].

Note: Amendments relating to point of taxation, valuation of taxable service, exemptions and CENVAT credit referred to in the above table have been discussed in detail in Chapter 3: Point of Taxation, Chapter 4: Valuation of Taxable Service, Chapter 5: Exemptions and Abatements and Chapter 7: CENVAT Credit respectively.

3. All testing and ancillary activities to testing rendered during testing of seeds are covered in the negative list and are thus, not liable to service tax

Issue: Whether all activities incidental to seed testing are leviable to service tax and only the activity in so far it relates to actual testing has been exempted in the negative list under section 66D(i) of the Finance Act, 1994?

Clarification: Seed is not covered under the definition of agriculture produce. All services relating to agriculture by way of agriculture operations directly relating to production of agriculture produce including testing are covered in section 66D(i). Testing and certification can be done as per the Act and rules made thereunder in this regard. Testing cannot stand in isolation of certification and other ancillary activities. Testing cannot be random; somebody has to register for testing. If certificate is not received and seeds are not tagged, testing is irrelevant. Therefore, all processes are a part of the composite process and cannot be separated from testing.

Agricultural operations have not been defined in the Chapter V of the Finance Act, 1994 but an inclusive and indicative list of such operations has been given in section 66D(i) namely, cultivation, harvesting, threshing, plant protection or testing. The exemption is thus, not limited to only these specified operations. The word 'seed' from testing in agricultural operations was deleted vide the Finance Act, 2013 so as to broaden the scope of coverage of the negative list entry and to cover any testing in agricultural operations in negative list, which are directly linked to production of agriculture produce and not to limit its scope only to seeds.

In view of the above, it has been clarified that all testing and ancillary activities to testing such as seed certification, technical inspection, technical testing, analysis, tagging of seeds, rendered during testing of seeds, are covered within the meaning of 'testing' as

mentioned in section 66D(d)(i) of the Finance Act, 1994. Therefore, such services are not liable to service tax under section 66B of the Finance Act, 1994.

[Circular No.189/8/2015 ST dated 26.11.2015]

4. **Applicability of service tax on the services received by apparel exporters in relation to fabrication of garments: The terms of agreement and scope of activity undertaken by the service provider would determine the nature of service being provided which would vary from case to case.**

Issue: Whether services received by apparel exporters from third party on job work is a service of manpower supply, which neither falls under the negative list nor is specifically exempt and thus, liable to service tax?

OR

Whether services received by them is of job work involving a process amounting to manufacture or production of goods, and thus, would fall under negative list and hence would not attract service tax?

Clarification: The CBEC has clarified as under:

Manpower supply service: The nature of manpower supply service is quite distinct from the service of job work. The essential characteristics of manpower supply service are that the supplier provides manpower which is at the disposal and temporarily under effective control of the service recipient during the period of contract. Service provider's accountability is only to the extent and quality of manpower. Deployment of manpower normally rests with the service recipient. The value of service has a direct correlation to manpower deployed, i.e., manpower deployed multiplied by the rate. In other words, manpower supplier will charge for supply of manpower even if manpower remains idle.

Job work: On the other hand, the essential characteristics of job work service are that service provider is assigned a job e.g. fabrication/stitching, labeling etc. of garments in case of apparel. Service provider is accountable for the job he undertakes. It is for the service provider to decide how he deploys and uses his manpower. Service recipient is concerned only as regard the job work. In other words service receiver is not concerned about the manpower. The value of service is function of quantum of job work undertaken, i.e. number of pieces fabricated etc. It is immaterial as to whether the job worker undertakes job work in his premises or in the premises of service receiver.

Therefore, the exact nature of service needs to be determined on the facts of each case which would vary from case to case. The terms of agreement and scope of activity undertaken by the service provider would determine the nature of service being provided.

It may be noted that every job work is not covered under the negative list. Only if the job work involves a process on which duties of excise are leviable under section 3 of the Central Excise Act, 1944, would it be covered under negative list in terms of Section 66D(f) read with section 65B(40) of the Finance Act, 1994.

The issue of applicability of service tax will accordingly be decided taking into account the nature of agreement/contract and the service being provided.

[Circular No.190/9/2015 ST dated 15.12.2015]

5. Incentives received by air travel agents from computer reservation system companies (CCRS) are liable to service tax

Air travel agents (ATA) receive incentives from the companies providing computer reservation system (CCRS) like Galileo, Amadeus, etc. The CCRS do not charge any amount for providing access to their internet system for booking of air tickets by the ATAs. Rather, the CCRS are providing certain incentives either for achieving the targeted booking of air tickets or for loyalty for booking of air tickets using their software system.

It has been clarified that incentives received by the ATAs from the companies providing computer reservation system (CCRS) are for using the software and platform provided by the CCRS like Galileo, Amadeus, etc. The CCRS are providing these incentives either for achieving the targeted booking of air tickets or for loyalty for booking of air tickets using their software system. Thus, the service provided by CCRS is to the Airlines and ATA is promoting the service provided by CCRS to Airlines. Thus, the service provided by the ATAs to CCRS is neither covered in the negative list (section 66D of the Finance Act, 1994) nor exempt by a notification. Therefore, service tax is leviable on the same.

[DOF No. 334/8/2016 TRU dated 29.02.2016]

6. Services provided by Institutes of Language Management (ILMs) are liable to service tax

Institutes of Language Management (ILMs) are engaged by various schools/institutions to develop knowledge and language skills of students. The services provided by the ILMs are not covered by section 66D (I) of the Finance Act, 1994 or Entry 9 of *Notification No. 25/2012 ST* as they are not providing pre-school education or education up to higher secondary school (or equivalent) or education for obtaining a qualification recognized by law. It is the schools/colleges/institutions (in which the students take admissions) which provide such education. The ILMs provides services to such educational institutions, which helps such educational institutions in providing services specified in the negative list. Thus, it is clarified that services provided by ILMs are not eligible for exemption under section 66D (I) of the Finance Act, 1994 or under Sl. No. 9 of *Notification No. 25/2012 ST*.

[DOF No. 334/8/2016 TRU dated 29.02.2016]

Chapter-3: Point of Taxation

- (i) **When there is a change in the service tax liability or extent of liability of the service recipient, date of issuance of invoice to be the POT under rule 7, if service has been provided and the invoice issued before date of such change, but payment has**

not been made as on such date [Rule 7]

A third proviso has been inserted in rule 7 vide **Notification No 21/2016 ST dated 30.03.2016**. The new proviso lays down that where there is change in the liability or extent of liability of a person required to pay tax as recipient of service notified under section 68(2) of the Finance Act, 1994, in case service has been provided and the invoice issued before the date of such change, but payment has not been made as on such date, the point of taxation shall be the date of issuance of invoice.

[Effective from 30.03.2016]

- (ii) **In case of services provided by Government to business entities, POT under rule 7 will be the date on which payment becomes due or the date when payment is made, whichever is earlier [Rule 7]**

A fourth proviso has been inserted after third proviso in rule 7 vide **Notification No. 24/2016 ST dated 13.04.2016** to lay down that in case of services provided by the Government or local authority to any business entity, the point of taxation will be the earlier of the dates on which, -

- (a) any payment, part or full, in respect of such service becomes due, as specified in the invoice, bill, challan or any other document issued by the Government or local authority demanding such payment; or
- (b) payment for such services is made.

[Effective from 13.04.2016]

Chapter-4: Valuation of Taxable Service

1. **In case of service provided by Government to a business entity, interest chargeable on deferred payment to be included in the value of the taxable service [Rule 6(2)(iv) of the Service Tax Determination of Value Rules, 2006]**

Rule 6(2) of the Service Tax (Determination of Value) Rules, 2006 enlists the various costs/payments etc. that are not included in the value of any taxable service. Interest on delayed payment of any consideration for the provision of services or sale of property, whether movable or immovable is one such payment which is not included in the value of the taxable service in terms of clause (iv) of the sub-rule (2) of rule 6.

A proviso has been inserted in rule 6(2)(iv) vide **Notification No. 23/2016 ST dated 13.4.2016** to lay down that the said clause will not apply to any service provided by Government or a local authority to a business entity where payment for such service is allowed to be deferred on payment of interest or any other consideration. In other words, the interest chargeable on deferred payment in case of any service provided by Government or a local authority to a business entity, where payment for such service is allowed to be deferred on payment of interest or any other consideration, will be included in the value of the taxable service.

[Effective from 13.04.2016]

Chapter-5: Exemptions and Abatements

Exemptions

I. MEGA EXEMPTION NOTIFICATION AMENDED

Mega Exemption Notification No. 25/2012 ST dated 20.06.2012 has been amended vide **Notification No. 9/2016 ST dated 01.03.2016, unless specified otherwise.** The amendments are discussed in the following two broad categories:

- (A) New exemptions/scope of existing exemptions enhanced
- (B) Exemptions withdrawn/restricted

(A) NEW EXEMPTIONS/SCOPE OF EXISTING EXEMPTIONS ENHANCED

(i) Specified services provided by the Indian Institutes of Management (IIM) exempted

Ministry of Human Resource Development (MHRD), vested with the power to recognise educational courses for the purpose of recruitment to posts under Government of India, has clarified that the Post Graduate Programmes in Management and Fellowship Programmes conducted by IIMs are equivalent to MBA and Ph.D degrees, respectively, (as also clarified by associations like Association of Indian Universities, Inter-University Board of India etc.).

In view of this, a new entry 9B has been inserted to the mega exemption notification exempting the services provided by the Indian Institutes of Management (IIM), as per the guidelines of the Central Government, to their students, by way of the following educational programmes, except Executive Development Programme:

- (a) two year full time residential Post Graduate Programmes in Management for the Post Graduate Diploma in Management, to which admissions are made on the basis of Common Admission Test (CAT), conducted by IIM;
- (b) fellow programme in Management;
- (c) five year integrated programme in Management.

CBEC has clarified vide *DOF No. 334/8/2016-TRU dated 29.02.2016* that since exemption given to the above programmes of IIMs is clarificatory in nature, liability to pay service tax in respect of the said programmes for the past period will also become infructuous.

[Effective from 01.03.2016]

(ii) Services by assessing bodies empanelled centrally by DGT, Ministry of Skill Development & Entrepreneurship under SDI scheme exempted

A new Entry 9C has been inserted to exempt the services of assessing bodies empanelled centrally by Directorate General of Training (DGT), Ministry of Skill Development and Entrepreneurship (MSDE) by way of assessments under Skill Development Initiative (SDI) Scheme.

Ministry of Skill Development & Entrepreneurship (MSDE) coordinates the various skill development efforts fragmented across the country, for building the vocational and technical training framework, skill up-gradation, building of new skills, and innovative thinking not only for existing jobs but also jobs that are to be created. SDI Scheme is launched by MSDE.

DGT, MSDE empanels **assessing bodies** to assess the competencies of the persons trained under SDI Scheme. Such assessment is done by assessors of high competence, repute and integrity – sector wise and area wise.

[Effective from 01.04.2016]

(iii) Services provided by way of skill/vocational training by DDU-GKY training providers exempted

A new Entry 9D has been inserted to exempt the services provided by training providers (Project implementation agencies) under Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) under the Ministry of Rural Development (MoRD) by way of offering skill or vocational training courses certified by National Council For Vocational Training.

Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDU-GKY) is the skilling and placement initiative of the Ministry of Rural Development (MoRD), Government of India, for poor and disadvantaged rural youth. The skill training is imparted under said program by the **Project Implementation Agencies** which are organisations from specific sector industries, education and training or NGOs who have a reputation in delivering skilling, training and development programs. They are responsible for carrying out skill gap assessment, enrollment, training, counselling, placement, post placement support, career progression and other services.

[Effective from 01.04.2016]

(iv) Threshold limit of consideration charged per performance in folk or classical art forms of music/ dance/ theatre raised from ₹ 1,00,000 to ₹ 1,50,000

Earlier, exemption granted vide Entry 16 to services provided by a performing artist in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, was available only where amount charged was upto ₹ 1,00,000 for a performance.

With effect from 01.04.2016, the threshold exemption limit of consideration charged for services provided by a performing artist in folk or classical art forms of music, dance or theatre, has been increased from ₹ 1,00,000 to ₹ 1,50,000 per performance.

It may be noted that said services provided by an artist as brand ambassador will continue to remain taxable as before.

[Effective from 01.04.2016]

(v) General insurance provided under Niramaya Health Insurance Scheme exempted

Entry 26 exempts services of general insurance business provided under specified schemes.

A new clause (q) has been inserted in the said entry to exempt services of general insurance business provided under Niramaya Health Insurance Scheme implemented by National Trust*

**a Trust constituted under the provisions of the National Trust for the Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999.*

Niramaya Health Insurance Scheme: In order to provide an affordable health insurance facility to persons with developmental disabilities viz, autism, cerebral palsy, mental retardation & multiple disabilities, Niramaya Health Insurance Scheme is launched by National Trust, in collaboration with private/ public insurance companies.

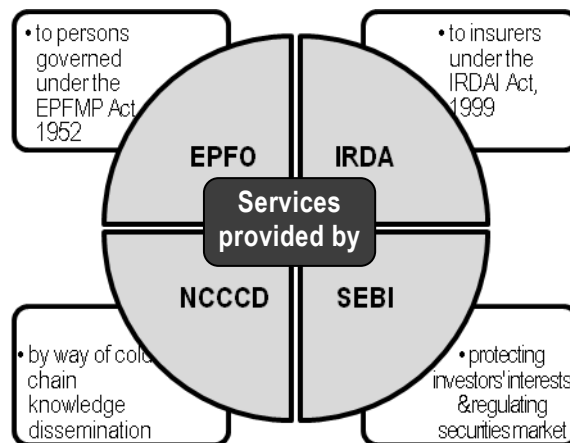
[Effective from 01.04.2016]

(vi) Annuity under the National Pension System (NPS) exempted

A new Entry 26C has been inserted to exempt the services of life insurance business provided by way of annuity under the NPS regulated by Pension Fund Regulatory and Development Authority of India (PFRDA) under the Pension Fund Regulatory and Development Authority Act, 2013.

[Effective from 01.04.2016]

(vii) Services by specified bodies exempted



New Entries 49 to 52 have been inserted to exempt the services provided by the following bodies:

- (a) Services provided by Employees Provident Fund Organisation (EPFO) to persons governed under the Employees Provident Funds and Miscellaneous Provisions (EPFMP) Act, 1952.
- (b) Services provided by Insurance Regulatory and Development Authority of India (IRDA) to insurers under the Insurance Regulatory and Development Authority of India (IRDAI) Act, 1999.
- (c) Services provided by Securities and Exchange Board of India (SEBI) set up under the Securities and Exchange Board of India Act, 1992 by way of protecting the

interests of investors in securities and to promote the development of, and to regulate, the securities market.

- (d) Services provided by National Centre for Cold Chain Development (NCCCD) under Ministry of Agriculture, Cooperation and Farmer's Welfare by way of cold chain knowledge dissemination.

[Effective from 01.04.2016]

(viii) Yoga included in the definition of charitable activities

Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from service tax vide Entry 4.

The definition of 'charitable activities', *inter alia*, includes activities relating to advancement of religion or spirituality. Now yoga has also been included therein vide **Notification No. 20/2015 ST dated 21.10.2015**. Thus, services relating to advancement of yoga provided by charitable entities registered under section 12AA of the Income-tax Act, 1961 will not be liable to service tax e.g., service tax will not be payable on fee charged for yoga camps conducted by charitable trusts.

[Effective from 21.10.2015]

(ix) Services provided by (i) business facilitator/business correspondent with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana and (ii) an intermediary to business facilitator/business correspondent with respect to such services, exempt from service tax

With a view to promote financial inclusion, Entry 29 has been amended vide **Notification No. 20/2015 ST dated 21.10.2015** to exempt the services provided by a business facilitator or a business correspondent to a banking company with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana (PMJDY) by way of account opening, cash deposits, cash withdrawals, obtaining e-life certificates and Aadhar seeding, in the rural area branches of banking companies, from service tax. Further, the services provided by any person as an intermediary to a business facilitator or a business correspondent with respect to the above mentioned services, have also been exempted from service tax.

For this purpose, Basic Savings Bank Deposit Account has been defined to mean a Basic Savings Bank Deposit Account opened under the guidelines issued by Reserve Bank of India relating thereto.

[Effective from 21.10.2015]

Business facilitator/Business correspondent/Bank mitras

Business facilitator or Business correspondent popularly known as Bank Mitra represents a bank. It enables a bank to expand its outreach and offer limited range of banking services at low cost, particularly where setting up a brick and mortar branch is not viable.

Scope of activities of Bank Mitra include creating awareness about savings and other products and education and advice on managing money and debt counselling, identification of potential customers, collection and preliminary processing of various forms for deposits including verification of primary information/ data, filling of applications/ account opening forms, collection and payment of small value deposits and withdrawals, receipt and delivery of small value remittances/ other payment instructions, furnishing of mini account statements and other account information, etc.

(x) Services provided by Government or a local authority to a business entity with a turnover up to ₹ 10 lakh in preceding FY exempted

A new entry 48 has been inserted vide **Notification No. 07/2016 ST dated 18.02.2016** to exempt the services provided by Government or a local authority to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year.

[Effective from 01.04.2016]

(xi) Specified services provided by Government or a local authority exempted

The following services rendered by Government or a local authority have been exempted vide **Notification No. 22/2016 ST dated 13.04.2016**:

1. Services in relation to any function entrusted to a municipality under article 243W of the Constitution

Hitherto, services by a Governmental authority by way of any activity in relation to any function entrusted to a municipality under article 243W of the Constitution were exempt from service tax vide Entry 39.

The aforesaid entry has been amended to extend the said exemption to services provided by the Government or a local authority too.

[Effective from 13.04.2016]

2. Services provided to another Government or local authority

A new entry 54 has been inserted to exempt the services provided by Government or a local authority to another Government or local authority.

Exemption not available with respect to specified services provided by Department of Posts, services in relation to an aircraft or a vessel and, transport of passengers or goods

However, the exemption is not available with respect to following services provided by Government or a local authority as specified in sub-clauses (i),(ii) and (iii) of clause (a) of section 66D of the Finance Act, 1994:

- (i) services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than Government;
- (ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;

(iii) transport of goods or passengers.

[Effective from 13.04.2016]

3. Services provided by way of issuance of passport, visa, driving licence, birth certificate or death certificate

A new entry 55 has been inserted to exempt the services provided by Government or a local authority by way of issuance of passport, visa, driving licence, birth certificate or death certificate.

[Effective from 13.04.2016]

4. Services where gross amount charged does not exceed ₹ 5000

A new entry 56 has been inserted to exempt the services provided by Government or a local authority where the gross amount charged for such services does not exceed ₹ 5000/-.

Threshold limit not applicable to specified services provided by Department of Posts, services in relation to an aircraft or a vessel and transport of passengers or goods.

However, aforesaid threshold limit of ₹ 5000/- will not be applicable with respect to following services provided by Government or a local authority, as specified in sub-clauses (i),(ii) and (iii) of clause (a) of section 66D of the Finance Act, 1994:

- (i) services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than Government;
- (ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;
- (iii) transport of goods or passengers.

Threshold limit in case of continuous supply of services

In case where continuous supply of service* is provided by the Government or a local authority, the exemption shall apply only where the gross amount charged for such service does not exceed ₹ 5000/- in a financial year.

**as defined in clause rule 2(c) of the Point of Taxation Rules, 2011*

[Effective from 13.04.2016]

5. Services by way of tolerating non-performance of a contract

A new entry 57 has been inserted to exempt the services provided by Government or a local authority by way of tolerating non-performance of a contract for which consideration in the form of fines or liquidated damages is payable to the Government or the local authority under such contract.

[Effective from 13.04.2016]

6. Services of registration, testing, calibration, safety check/certification relating to protection/safety of workers, consumers or public at large, required under any law

A new entry 58 has been inserted to exempt the services provided by Government or a local authority by way of-

- (a) registration required under any law for the time being in force;
- (b) testing, calibration, safety check or certification relating to protection or safety of workers, consumers or public at large, required under any law for the time being in force.

[Effective from 13.04.2016]

7. Right to use natural resources assigned before 1st April, 2016

A new entry 61 has been inserted to clarify that services provided by Government or a local authority by way of assignment of right to use any natural resource where such right to use was assigned by the Government or the local authority before 1st April, 2016 are exempt from service tax.

However, said exemption shall apply only to service tax payable on one time charge payable, in full upfront or in installments, for assignment of right to use such natural resource.

Assignment of right to use natural resources to an individual farmer for the purposes of agriculture exempt

Services provided by Government or a local authority by way of assignment of right to use natural resources to an individual farmer for the purposes of agriculture are exempted from service tax, even when assigned on or after 1st April, 2016. This exemption has been granted by inserting a new entry 59.

[Effective from 13.04.2016]

8. Services in relation to any function entrusted to a Panchayat under article 243G of the Constitution

A new entry 60 has been inserted to exempt the services by Government, a local authority or a governmental authority by way of any activity in relation to any function entrusted to a Panchayat under article 243G of the Constitution.

[Effective from 13.04.2016]

9. Services of inspection, container stuffing etc. in relation to import export cargo after office hours or on holidays

A new entry 63 has been inserted to exempt the services provided by Government by way of deputing officers after office hours or on holidays for inspection or

container stuffing or such other duties in relation to import export cargo on payment of Merchant Overtime charges (MOT).

[Effective from 13.04.2016]

(B) EXEMPTIONS WITHDRAWN/RESTRICTED

(i) Exemption in respect of services provided by a senior advocate to an advocate or partnership firm of advocates and person represented on an arbitral tribunal to an arbitral tribunal withdrawn

With effect from 01.04.2016, clause (b) and clause (c) of Entry 6 have been substituted to withdraw the exemption hitherto available in respect of the services provided by a senior advocate to an advocate or partnership firm of advocates & to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year and services provided by a person represented on an arbitral tribunal to an arbitral tribunal.

Senior advocate has the meaning assigned to it in section 16 of the Advocates Act, 1961 which, *inter alia*, provides that an advocate may, with his consent, be designated as senior advocate if the Supreme Court or a High Court is of opinion that by virtue of his ability standing at the Bar or special knowledge or experience in law he is deserving of such distinction. Senior advocates shall, in the matter of their practice, be subject to such restrictions as the Bar Council of India may, in the interest of the legal profession, prescribe.

The comparative position prior to and post amendment in Entry 6 has been illustrated in the following table:

Services provided by	Whether exempted from service tax?	
	Prior to amendment	Post amendment
An arbitral tribunal to - (i) any person other than a business entity; or (ii) a business entity with a turnover up to ₹ 10 lakh in the preceding financial year.	✓	✓
A partnership firm of advocates or an individual advocate other than senior advocate by way of legal services to- (i) an advocate or partnership firm of advocates providing legal services ; (ii) any person other than a business entity; or (iii) a business entity with a turnover up to ₹ 10 lakh in the preceding financial year.	✓	✓

A senior advocate by way of legal services to an advocate or partnership firm of advocates providing legal services.	✓	✗
A senior advocate by way of legal services to a person other than business entity, i.e. a person ordinarily carrying out any activity relating to industry, commerce or any other business or profession.	✓	✓
A senior advocate by way of legal services to a business entity with a turnover up to ₹ 10 lakh in the preceding financial year.	✓	✗
A person represented on an arbitral tribunal to an arbitral tribunal.	✓	✗

[Effective from 01.04.2016]

(ii) **Exemption to transportation of passengers by ropeway, cable car or aerial tramway withdrawn**

With effect from 01.04.2016, clause (c) to Entry 23 has been omitted to withdraw the exemption hitherto available to transportation of passengers, with or without accompanied belongings by ropeway, cable car or aerial tramway.

[Effective from 01.04.2016]

II. OTHER EXEMPTIONS

1. Services provided by BIRAC approved bio-incubators to incubatees also exempted

Notification No. 32/2012 ST dated 20.06.2012 exempts all taxable services provided by TBI/ STEP recognised by NSTEED, Department of Science & Technology from service tax provided such TBI/ STEP have fulfilled the conditions prescribed in the said notification.

With effect from 01.04.2016, such exemption has also been extended to all taxable services provided by **bio-incubators recognized by the BIRAC, under Department of Biotechnology, Government of India** provided such bio-incubators have also fulfilled the aforesaid conditions. This amendment has been made vide **Notification No. 12/2016 ST dated 01.03.2016**.

TBI stands for Technology Business Incubators

STEP stands for Science and Technology Entrepreneurship Parks

NSTEBD stands for National Science and Technology Entrepreneurship Development Board

BIRAC stands for Biotechnology Industry Research Assistance Council

[Effective from 01.04.2016]

2. Refund of Swachh Bharat Cess to SEZ units/developers

Notification No. 12/2013 ST dated 01.07.2013 exempts services received by a unit located in Special Economic Zone (SEZ) or a Developer of SEZ - which are used for the authorized operations - from whole of service tax leviable thereon. Exemption is *ab-initio* where services are used exclusively for the authorized operations and exemption is claimed. However, where *ab-initio* exemption is admissible but not claimed, refund of service tax is allowed. **Notification No. 02/2016 ST dated 03.02.2016** has amended the said notification to provide that alongwith service tax, refund of Swachh Bharat Cess is also available in such case.

Further, *Notification No. 12/2013 ST* provides that refund of service tax is also allowed in case where specified services are not exclusively used for the authorized operations. Service tax paid on the specified services that are common to the authorised operation in an SEZ and the operation in domestic tariff area [DTA unit(s)] is distributed amongst the SEZ Unit/Developer and the DTA unit(s) in the manner as prescribed in rule 7 of the CENVAT Credit Rules, 2004. The amount of service tax so distributed to SEZ Unit/Developer is available as refund [hereinafter referred as (A)]. *Notification No. 02/2016* has amended the said notification to provide that refund of Swachh Bharat Cess in such case will be determined as follows:

$$= \frac{(A) \times \text{Effective rate of Swachh Bharat Cess}}{\text{Rate of service tax}}$$

$$= \left(\frac{(A) \times 0.5}{14} \right) \%$$

[Effective from 03.02.2016]

3. Definition of specified services under *Notification No. 41/2012 ST dated 29.06.2012* amended

Notification No. 41/2012 ST dated 29.06.2012 grants rebate of service tax to the exporters of goods, on the “**specified services**” used in the export of such goods. Clause (i) of definition of specified services has been amended vide **Notification No. 01/2016 ST dated 03.02.2016** in the following manner:

Prior to Amendment	After the Amendment
“Specified services” means- (i) in the case of excisable	“Specified services” means- (i) in the case of excisable goods, taxable

goods, taxable services that have been used beyond the place of removal , for the export of said goods.	services that have been used beyond factory or any other place or premises of production or manufacture of the said goods , for their export.
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Consequently, definition of 'place of removal' has been omitted in the said notification.

[Effective from 03.02.2016]

4. Services provided under the Power System Development Fund Scheme of the Ministry of Power exempted from service tax

Exemption from service tax has been granted vide **Notification No. 17/2015 ST dated 19.05.2015** to taxable services provided under the Power System Development Fund Scheme of the Ministry of Power by way of-

- (A) re-gasification of Liquefied Natural Gas (LNG)* imported by the Gas Authority of India Limited (GAIL);
- (B) transportation of the incremental Re-gasified Liquefied Natural Gas (RLNG) (e-bid RLNG) to specified power generating companies or plants

subject to fulfillment of certain conditions prescribed in the exemption notification.

However, the exemption shall not be available if such RLNG and LNG are used for generation of electrical energy by captive generating plant as defined in section 2(8) of the Electricity Act, 2003.

Further, the exemption shall be valid only till 31.03.2017.

[Effective from 19.05.2015]

**Re-gasification is a process of converting Liquefied Natural Gas (LNG) back to natural gas at atmospheric temperature. Generally, natural gas is liquefied for ease of transportation.*

Abatements

1. Abatement Notification No. 26/2012 ST dated 20.06.2012 has been amended vide **Notification No. 8/2016 ST dated 01.03.2016 unless otherwise provided** as under:

Description of taxable service	% of abatement		Effective date	Change in conditions, if any
	Prior	After		
Transport by rail or vessel				
Transport of <u>goods</u> by rail* (other than service specified below)	70	70	01.04.2016	Condition providing that for claiming the abatement, CENVAT credit on input services
Transport of <u>goods</u> in	70	60	01.04.2016	

containers by rail by any person other than Indian Railways				used for providing the taxable service should not have been taken under the provisions of CENVAT Credit Rules, 2004, has been done away with. Thus, now CENVAT credit on input services can be taken alongwith the abatement benefit.
Transport of <u>passengers</u> , with or without accompanied belongings by rail	70	70	01.04.2016	
Transport of goods in a vessel	70	70	01.04.2016	
Services of Goods Transport Agency				
Services of goods transport agency in relation to transportation of goods other than used household goods	70	70	01.04.2016	Condition for availing abatement is unchanged whether the GTA service has been provided in relation to transportation of used household goods or any goods other than the same.
Services of goods transport agency in relation to transportation of used household goods	70	60	01.04.2016	
Other Services				
Services provided by a foreman of chit fund in relation to chit	Nil	30	01.04.2016	CENVAT credit on inputs, capital goods and input services, used for providing the taxable service has not been taken under the provisions of the CENVAT Credit Rules, 2004
Services by a tour operator in relation to,- (i) a tour, only for the purpose of arranging or booking accommodation for any person	90	90	01.04.2016	No change in conditions

(ii) a tour other than (i) above**	75/60	70	01.04.2016	No change in conditions
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Note – The amendments made in the abatement notification are given in bold.

**DOF No. 334/8/2016 TRU dated 29.02.2016 has clarified that service provided by the Indian Railways to Container Train Operators (CTOs) of haulage of their container train (rake of wagons with containers) is a service of "Transport of Goods by Rail" and is, therefore, eligible for abatement and tax treatment accordingly, that is, for abatement at the rate of 70% with credit of input services.*

***Consequently, with effect from 01.04.2016, definition of 'package tour' has been omitted.*

Cost of fuel to be included in consideration charged, for availing abatement for renting of motor cab service

For the purposes of abatement with respect to renting of motor cab service, the amount charged shall be the sum total of the amount charged for the service including the **fair market value of all goods (including fuel)** and services supplied by the recipient(s) in or in relation to the service, whether or not supplied under the same contract or any other contract.

However, the fair market value of goods and services so supplied may be determined in accordance with the generally accepted accounting principles.

[Effective from 01.04.2016]

2. 70% abatement available on ancillary services provided by a GTA in the course of transportation of goods

It has been clarified that ancillary services such as loading/ unloading, packing/unpacking, transshipment, temporary storage etc., would form part of the goods transport agency's (GTA) service if such services are provided by a GTA in the course of transportation of goods and the charges for such services are included in the invoice issued by the GTA, and not by any other person. Thus, abatement of 70%, applicable to GTA service, would also be available to the ancillary services. In other words, a single composite service need not be broken into its components and need not be considered as constituting separate services, if it is provided as such in the ordinary course of business. Thus, a composite service should be treated as a single service based on the main or principal service.

It has also been clarified that in cases where GTA undertakes to deliver goods at a destination within a stipulated time, it should be considered as services of GTA in relation to transportation of goods. Thus abatement of 70% will be applicable if the entire transportation of goods is by road and the GTA issues a consignment note, by whatever name called.

[Circular No. 186/5/2015 ST dated 05.10.2015]

Chapter-6: Service Tax Procedures

1. Following amendments have been made in Service Tax Rules, 1994 vide **Notification No. 19/2016 ST dated 01.03.2016, unless specified otherwise:**

- (i) **Service tax on legal services provided by senior advocate to be paid under forward charge [Rule 2(1)(d)(i)(D)(ii)]**

Prior to 01.04.2016, rule 2(1)(d)(i)(D)(II) laid down that in relation to service provided by an individual advocate or a firm of advocates by way of legal services, to any business entity located in the taxable territory, the recipient of such service is the person liable to pay service tax.

Rule 2(1)(d)(i)(D)(II) has been amended to provide that in relation to service provided by a firm of advocates or an individual advocate other than a senior advocate by way of legal services, the recipient of such service will be the person liable to pay service tax. Thus, in case of legal services provided by a senior advocate service tax would be payable under forward charge. It may be recalled that with effect from 01.04.2016, exemption available on services provided by a senior advocate to an advocate or partnership firm of advocates has been withdrawn [Refer Chapter 5: Exemptions and Abatements].

Consequential amendments have also been made under *Reverse Charge Notification No. 30/2012 ST dated 20.06.2012* vide **Notification No. 18/2016 ST dated 01.03.2016.**

[Effective from 01.04.2016]

- (ii) **Service tax levy shifted from reverse charge to forward charge in case of services provided by mutual fund agents/distributors to a mutual fund/asset management company [Rule 2(1)(d)(i)]**

In Union Budget, 2015, as a policy decision to prune exemptions, the exemption to services provided by mutual fund agents/distributors to a mutual fund or an asset management company was withdrawn. However, these services were put under reverse charge liability, i.e., the Mutual Fund or the Asset Management Company were made liable to pay service tax for the services received from such agents/distributors. Item (EEA) was inserted in rule 2(1)(d)(i) to provide that in relation to service provided by a mutual fund agent or distributor to a mutual fund or asset management company, the recipient of the service will be the person liable to pay service tax.

Rule 2(1)(d)(i)(EEA), however, has been deleted this year to the effect that such services have now been put under forward charge, i.e. the mutual fund agents/distributors (service provider) have been made liable to pay service tax. The small sub-agents down the distribution chain will still be eligible for small service provider exemption [threshold turnover of ₹ 10 lakh/year].

Consequential amendment has also been made under *Reverse Charge Notification No. 30/2012 ST dated 20.06.2012* vide **Notification No. 18/2016 ST dated 01.03.2016.**

[Effective from 01.04.2016]

- (iii) **Facility of (a) quarterly payment of service tax and payment of service tax on receipt basis extended to OPC having service turnover upto ₹ 50 lakh in the previous financial year and (b) quarterly payment of service tax extended to HUF [Rule 6(1)]**

The concept of One Person Company (OPC) in India was introduced through the Companies Act, 2013 to support entrepreneurs who on their own are capable of starting a venture by allowing them to create a single person economic entity with limited liability. OPC has been defined in section 2(62) of the Companies Act, 2013.

The benefits of quarterly payment of service tax and payment of service tax on receipt basis, which are available to individual and partnership firms, have been extended to OPC whose aggregate value of services provided from one or more premises is up to ₹ 50 lakh in the previous financial year.

Further, the benefit of quarterly payment of service tax has also been extended to HUF.

Rule 6 which deals with the payment of service tax and prescribes relaxation for individual or proprietary firm or partnership firm, has been amended accordingly.

[Effective from 01.04.2016]

- (iv) **Composition rate in case of single premium annuity policies to be 1.4% of the single premium charged [Rule 6(7A)]**

Sub-rule (7A) of rule 6 provides an option to an insurer carrying on life insurance business to pay tax:

- (i) on the gross premium charged from a policy holder reduced by the amount allocated for investment, or savings on behalf of policy holder, if such amount is intimated to the policy holder at the time of providing of service;
- (ii) in all other cases, 3.5% of the premium charged from policy holder in the first year and 1.75% of the premium charged from policy holder in the subsequent years;

towards the discharge of his service tax liability instead of paying service tax at the rate specified in section 66B of the Finance Act, 1994.

A new clause (ia) has been inserted in sub-rule (7A) of rule 6 to rationalise the service tax liability on single premium annuity (insurance) policies other than the ones covered in clause (i) above (i.e. in cases where the amount allocated for investment or savings in behalf of policy holder is not intimated to the policy holder at the time of providing of service). Now, the effective alternate service tax rate (composition rate) in case of such single premium annuity policies would be 1.4% of the single premium charged from the policy holder.

[Effective from 01.04.2016]

(v) **Composition rates fixed for swachh bharat cess for air travel agents, life insurance, foreign exchange and lottery [New sub-rule (7D) of rule 6]**

Sub-rules (7), (7A), (7B) and (7C) of rule 6, provide for alternative rates of service tax in case of four services namely, service of booking of tickets for travel by air provided by an air travel agent, life insurance service, purchase or sale of foreign currency including money changing and promotion, marketing, organising/assisting in organising lottery.

A new sub-rule (7D) has been inserted in rule 6 vide **Notification No. 25/2015 ST dated 12.11.2015** to fix the alternative rate for swachh bharat cess (SBC) for these services which is service tax liability computed on the basis of alternative rates provided under sub-rules (7), (7A), (7B) or (7C), as the case may be, multiplied by 0.5 and dividing the product by 14. The said option once exercised, will apply uniformly in respect of such services and cannot be changed during a financial year under any circumstances.

[Effective from 15.11.2015]

(vi) **Provisions introduced for filing of Annual Returns [Rule 7]**

Rule 7 prescribes the provisions for filing returns. The following amendments have been made in rule 7:

- (a) A new sub-rule (3A) has been inserted in rule 7 to provide that notwithstanding anything contained in sub-rule (1), every assessee will submit an annual return for the financial year to which the return relates by the 30th day of November of the succeeding financial year. The form and manner of filing the return will be specified in the notification by the CBEC.
- (b) Sub-rule (4) of rule 7, which empowers the CBEC to extend the due date for filing of ST-3 returns under circumstances of special nature, has been amended to provide that CBEC may also extend the due date for filing of such Annual Return under circumstances of special nature.
- (c) Another new sub-rule (3B) has been inserted in rule 7 to provide that the Central Government may, subject to such conditions or limitations, exempt an assessee or class of assessee from filing such annual return.

[Effective from 01.04.2016]

(vii) **Annual return filed by the due date may be revised within 1 month from the date of its submission [Rule 7B(2)]**

Rule 7B prescribes the provisions for revision of ST-3 returns. A new sub-rule (2) has been inserted in rule 7B to provide that an assessee who has filed the Annual Return under sub-rule (3A) of rule 7 by the due date may submit a revised return within a period of 1 month from the date of submission of the said annual return.

[Effective from 01.04.2016]

(viii) Delayed filing of Annual Return to attract a late fee of ₹ 100 per day for the period in default subject to a maximum of ₹ 20,000 [Rule 7C(2)]

Rule 7C prescribes the amount to be paid for delay in furnishing ST-3 returns. A new sub-rule (2) has been inserted in rule 7C to provide that where the Annual Return under sub-rule (3A) of rule 7 is filed by the assessee after the due date, the assessee will have to pay to the credit of the Central Government, an amount calculated at the rate of ₹ 100 per day for the period of delay in filing of such return, subject to a maximum of ₹ 20,000.

[Effective from 01.04.2016]

2. Service tax payable by the recipient of service in relation to ALL services provided by Government to business entities (except specified services) from April 1, 2016

In relation to certain **support services** provided or agreed to be provided by Government or local authority to any business entity located in the taxable territory, the person liable to pay service tax was the recipient of service.

However, consequent to the amendment made by the Finance Act, 2015 in section 66D(a)(iv) of Finance Act, 1994, all services provided by Government/local authority to a business entity had been removed from the negative list and not just support services. Therefore, rule 2(1)(d)(i)(E) had been amended to provide that in case of **all** taxable services (and not just support services) provided or agreed to be provided by Government/ local authority (excluding certain specified services) to any business entity located in the taxable territory, service tax would be payable by recipient of such service.

However, the amendment in the negative list did not become effective with the enforcement of the Finance Act, 2015 and was to become effective from a date to be notified later on. Thus, the amendment in rule 2(1)(d)(i)(E) was also not made effective.

Now, since the amendment in the negative list has become effective from 01.04.2016, the amendment in the rules has also become effective from 01.04.2016 vide **Notification No. 17/2016 ST dated 01.03.2016**.

Similarly, the amendment in the *Reverse Charge Notification No. 30/2012 ST dated 20.06.2012* has also become effective from 01.04.2016 vide **Notification No. 16/2016 ST dated 01.03.2016**. Further, a consequential amendment has also been made under the said notification vide **Notification No. 18/2016 ST dated 01.03.2016**.

[Effective from 01.04.2016]

3. Notification No. 24/2015 ST dated 12.11.2015 provides that provisions of reverse charge notification (i.e. *Notification No. 30/2012 ST dated 20.06.2012*) will be applicable for the purpose of SBC *mutatis mutandis*.

Chapter 7: CENVAT credit

1. The following amendments have been made in CENVAT Credit Rules, 2004 [CCR] vide Notification No. 13/2016 CE (NT) dated 01.03.2016 unless specified otherwise:

(i) Scope of definition of capital goods widened [Rule 2(a)]

The scope of definition of capital goods has been widened to include within its ambit the following goods:

- (a) Wagons falling under sub-heading 8606 92 of the Central Excise Tariff**
- (b) Equipment or appliance used in an office located within a factory** - It may be noted that CENVAT credit will be allowed only on those equipment or appliance which are used in an office located within the factory and not outside the factory.
- (c) Capital goods used outside the factory of the manufacturer of the final products for pumping of water, for captive use within the factory.**

[Effective from 01.04.2016]

(ii) Scope of definition of inputs widened [Rule 2(k)]

The scope of definition of inputs has been widened to include within its ambit the following goods:

- (a) All goods used for pumping of water for captive use.**
- (b) All capital goods which have a value up to ₹ 10,000 per piece** – Thus, on such capital goods, whole credit can be taken in the same year in which they are received. Consequential amendment has been made in the definition [item (C)] to provide that input excludes those capital goods whose value exceeds ₹ 10,000 per piece.

[Effective from 01.04.2016]

(iii) Services by way of sale of dutiable goods on commission basis is sales promotion and thus, an eligible input service [Rule 2(l)]

Circular No. 943/04/2011 CX dated 29.04.2011 clarified that credit is admissible on the services of sale of dutiable goods on commission basis. Also, the Punjab and Haryana High Court in the case of *Commissioner v. Ambica Overseas 2012 (25) STR 348 (P&H)* held that credit would be allowed on sales commission. However, the Gujarat High Court in the case of *Commissioner v. M/s. Cadila Healthcare Ltd. 2013 (4) STR 3 (Guj.)* held that commission agent is directly concerned with the sales rather than sales promotion and as such the services provided by such commission agent would not fall within the purview of the main or inclusive part of the definition of input service as laid down in rule 2(l) of the Rules.

In order to settle the controversy, an explanation has been inserted in the definition of input service under rule 2(l) vide **Notification No. 2/2016 CE (NT) dated 03.02.2016** to clarify that sales promotion includes services by way of sale of dutiable goods on commission basis.

[Effective from 03.02.2016]

(iv) **Restriction on ship breaking units to avail only 85% CENVAT credit of CVD done away with [Rule 3(1)(vii)]**

Proviso to clause (vii) of rule 3(1) restricted CENVAT credit of CVD (leviable under section 3(1) of the Customs Tariff Act) paid on ships, boats and other floating structures for breaking up [Entry 8908 00 00 of the Customs Tariff], to the extent of 85%.

The said proviso has been omitted vide **Notification No. 1/2016 CE (NT) dated 01.02.2016** with retrospective effect from 01.03.2015. Thus, ship breaking units would be entitled to avail 100% credit of the CVD paid with effect from 01.03.2015.

[Effective from 01.03.2015]

The rationale of the amendment has been explained in **Circular No. 1014/2/2016 CX dated 01.02.2016**. In order to understand the reason for deletion of the proviso, it is necessary to first understand the rationale behind its inclusion.

Proviso to rule 3(1)(vii) was inserted vide *Notification No. 3/2011 CE (NT) dated 01.03.2011*. In the breaking of ships, products of section XV (base metals and articles of base metal) are obtained which are deemed to be manufactured as provided in section note 9 of Section XV of the First Schedule to the Central Excise Tariff Act, 1985. On the other hand, a number of used serviceable articles such as pumps, air conditioners, furniture, kitchen equipment, wooden panels etc. are also generated. These are generally sold as second hand goods by ship breaking units but no excise duty is payable as they do not emerge from a manufacturing process. At the same time, ship breaking units were allowed to avail full credit of additional duty of customs paid on the ship when it was imported for breaking. This anomaly was resulting in excess utilization of CENVAT credit. Rule 3 was accordingly amended to prescribe that CENVAT credit shall not be allowed in excess of 85% of the additional duty of customs paid on ships, boats etc. imported for breaking.

Further, amendment in rule 6 was carried out in Budget of 2015, to provide that credit would be required to be reversed even for non-excisable goods produced as by-products in the process of manufacture of excisable goods. This amendment brought non-excisable goods and exempt goods at par and no credit is now available on either of them.

Thus, there arose a conflict regarding reversal of credit in relation to non-excisable goods which emerge during breaking of ship viz. whether restriction/reversal of credit needs to be done under proviso to rule 3(i)(vii) or under rule 6. To resolve the conflict, the provision restricting CENVAT credit to 85% under proviso to rule 3(i)(vii) has been deleted.

Consequently, ship breaking units would be entitled to avail 100% credit of the CVD paid with effect from 01.03.2015 but would also be required to follow provisions of rule 6 with effect from 01.03.2015. This beneficial amendment of deleting proviso to rule

3(i)(vii) has been done retrospectively with effect from 01.03.2015, that is the date from which reversal of CENVAT credit for non-excisable goods was provided in rule 6.

(v) Swachh Bharat Cess cannot be paid by utilizing CENVAT credit of any other duty

A proviso has been inserted in rule 3(4) vide **Notification No. 2/2016 CE (NT) dated 03.02.2016** to lay down that the CENVAT credit of any duty specified in rule 3(1) will not be utilised for payment of the Swachh Bharat Cess.

[Effective from 03.02.2016]

(vi) CENVAT credit of only NCCD to be utilised for payment of the NCCD payable on all goods [Rule 3(4)]

National Calamity Contingent duty (NCCD) is presently leviable under section 136 of the Finance Act, 2001 on pan masala, tobacco products, crude petroleum, mobile phones and motor vehicles. Rule 3(4) allows credit of only NCCD to be utilised for payment of the NCCD payable on tariff items 8517 12 10 and 8517 12 90 [mobile phones]. Thus, there was no restriction on utilization of credit of other duties allowable under rule 3(1) for payment of NCCD levied on other goods, namely, pan masala, tobacco products, crude petroleum, and motor vehicles.

However, with effect from 01.03.2016, rule 3(4) has been amended to provide that CENVAT credit of any duty specified in sub-rule (1), except NCCD, cannot be utilized for payment of NCCD leviable under section 136 of the Finance Act, 2001 **on any product.**

[Effective from 01.03.2016]

(vii) Jewellery manufacturer (excluding manufacturer of plain silver jewellery) with turnover upto ₹ 12 crore in preceding year eligible to avail 100% CENVAT credit on capital goods in the year of purchase [Rule 4(2)(a)]

As per explanation to rule 4(2)(a) read with third proviso to the said rule, an assessee whose aggregate value of clearances of all excisable goods for home consumption in the preceding financial year does not exceed ₹ 4 crores (computed in accordance with SSI notification), can take 100% CENVAT credit on capital goods in the financial year when the same are received by him.

With effect from 01.03.2016, excise duty has been imposed on articles of jewellery [excluding silver jewellery, other than studded with diamonds/ ruby/ emerald/ sapphire] with a higher threshold exemption upto ₹ 6 crore in a year and eligibility limit of ₹ 12 crore. Consequently, the explanation to rule 4(2)(a) has been amended to provide that a manufacturer of such jewellery will be allowed to take 100% CENVAT credit on capital goods in the year of purchase, if his aggregate value of clearances of all excisable goods for home consumption in the preceding financial year, did not exceed ₹ 12 crore.

[Effective from 01.03.2016]

(viii) CENVAT credit allowed on tools of Chapter 82 of the Central Excise Tariff sent to another manufacturer or job-worker for production of goods [Rule 4(5)(b)]

Earlier, rule 4(5)(b) extended the CENVAT credit in respect of jigs, fixtures, moulds and dies sent by manufacturer of final products to:-

- (a) another manufacturer for the production of goods, or
- (b) a job worker for the production of goods on his behalf

according to his specifications.

Rule 4(5)(b) has now been amended to allow a manufacturer of final products to take CENVAT credit on tools of Chapter 82 of the Central Excise Tariff in addition to credit on jigs, fixtures, moulds and dies, when the same are sent to another manufacturer or a job-worker for production of goods as per his specifications.

A manufacturer has also been allowed to take credit on such goods when the same are sent directly to the premises of another manufacturer or job-worker without bringing them to his own premises.

[Effective from 01.04.2016]

(ix) Permission given for sending inputs/partially processed inputs outside factory to a job-worker and clearance therefrom on payment of duty to be valid for 3 financial years [Rule 4(6)]

Earlier, under rule 4(6), the permission given by an Assistant/Deputy Commissioner to a manufacturer of the final products for sending inputs or partially processed inputs outside his factory to a job-worker and clearance therefrom on payment of duty was valid for a financial year.

Sub-rule (6) of rule 4 has been amended to provide that the said permission would be valid for three financial years.

[Effective from 01.04.2016]

(x) Service tax paid on assignment charges of a natural resource to be allowed as CENVAT credit spread over the time for which the rights have been assigned [Rule 4(7)]

- (1) Time limit of one year for availing credit on input service not to apply in case of services provided by way of assignment of right to use any natural resource:** Rule 4(7) has been amended to provide that in case of services provided by the Government or a local authority or any other person by way of assignment of right to use any natural resource, CENVAT credit can be taken on the basis of the documents specified in rule 9(1) even after the period of 1 year from the date of issue of such a document ***[Notification No. 24/2016 CE (NT) dated 13.04.2016]***.

[Effective from 13.04.2016]

(2) **Notification No. 24/2016 CE (NT) dated 13.04.2016** has inserted two provisos in rule 4(7) as under:

(a) CENVAT credit of service tax paid in a financial year, on the onetime charges payable in full upfront or in instalments, for the service of assignment of the right to use any natural resource by the Government, local authority or any other person, will be spread evenly over a period of three years.

(b) Where the manufacturer of goods or output service provider, as the case may be, further assigns such right assigned to him by the Government or any other person, in any financial year, to another person against consideration, such amount of balance CENVAT credit as does not exceed the service tax payable on the consideration charged by him for such further assignment, shall be allowed in the same financial year.

[Effective from 13.04.2016]

(xi) **Rule 6 simplified and rationalized [Rule 6]**

Significant amendments have been made in rule 6 by re-drafting sub-rules (1), (2), (3), (3A), (3B) and (4), inserting new sub-rules (3AA) and (3AB) and amending sub-rule (7). Each of such amendments is discussed hereunder:

Substituted sub-rule (1)

(1) **No CENVAT credit allowed on inputs/input services used in manufacture of exempted goods/for provision of exempted services:** CENVAT credit will not be allowed on:-

(i) such quantity of input used in or in relation to the manufacture of exempted goods or for provision of exempted services

or

(ii) input service used in or in relation to the manufacture of exempted goods and their clearance upto the place of removal or for provision of exempted services

The credit which is not allowed will be calculated and paid in terms of the provisions of sub-rule (2) or sub-rule (3), as the case may be.

Exception - Jewellery job-worker: CENVAT credit on inputs will not be denied to a job worker referred to in rule 12AA of the Central Excise Rules, 2002 (jewellery job worker), on the ground that the said inputs are used in the manufacture of goods cleared without payment of duty under the provisions of that rule [Proviso to sub-rule (1)].

Since, as per rule 12AA, the liability of payment of duty has been cast on the principal manufacturer, goods are cleared by a job-worker without payment of

duty. However, CENVAT credit on the inputs used in the manufacture of such goods is not denied by virtue of the proviso to rule 6(1) mentioned above.

- (2) **Exempted goods/final products include non-excisable goods:** For the purposes of this rule, exempted goods or final products as defined in clauses (d) and (h) of rule 2 include non-excisable goods cleared for a consideration from the factory [Explanation 1].

Value of non –excisable goods for the purpose of this rule, will be the invoice value. If such invoice value is not available, the value will be determined by using reasonable means consistent with the principles of valuation contained in the Central Excise Act, 1944 and the rules made thereunder [Explanation 2].

It is to be noted that the above explanations are applicable only to rule 6. By virtue of the said Explanation, inputs and input services used in the manufacture of non-excisable goods also attract the reversal provisions under rule 6. To illustrate, if a manufacturer uses common inputs and input services to manufacture dutiable and non-excisable goods, credit on input or input services used in the manufacture of non-excisable goods will have to be reversed in accordance with the provisions of rule 6.

- (3) **Exempted service includes an activity which is not a service:** For the purposes of this rule, exempted services as defined in clause (e) of rule 2 include an activity, which is not a 'service' as defined in section 65B(44) of the Finance Act, 1994 [provided that such activity has used inputs or input services]⁴ [Explanation 3].

Value of such an activity as specified above in Explanation 3, will be the invoice/agreement/contract value. If such value is not available, the value will be determined by using reasonable means consistent with the principles of valuation contained in the Finance Act, 1994 and the rules made thereunder [Explanation 4].

It is to be noted that the above explanations are applicable only to rule 6. By virtue of the Explanation 3, inputs and input services used in the provision of any activity which is not a service under 65B(44) of Finance Act, 1994 (e.g. providing service without any consideration) will also attract the reversal provisions under rule 6. For example, if a service provider uses common inputs and input services for provision of a taxable service and an activity which is not a service, credit on input and input services used in the provision of the activity not amounting to service will have to be reversed in accordance with the provisions of rule 6.

⁴ inserted vide **Notification No. 24/2016 CE (NT) dated 13.04.2016**

It is worthwhile to note here that since exempted service *inter alia* means services on which no service tax is leviable under section 66B of Finance Act, 1994, credit on inputs or input services used in provision of non-taxable services is also required to be reversed under rule 6.

[Effective from 01.04.2016]

Substituted sub-rule (2)

CENVAT credit on inputs/input services used exclusively in manufacture of exempted goods/provision of exempted services to be reversed: A manufacturer who exclusively manufactures exempted goods for their clearance upto the place of removal or a service provider who exclusively provides exempted services has to pay (i.e. reverse) the whole amount of credit of input and input services. Thus, in effect, such manufacturer or service provider will not be eligible for credit of any inputs and input services.

[Effective from 01.04.2016]

Substituted sub-rule (3)

(1) Option to pay 6% of the value of exempted goods or 7% of exempted services or reverse proportionate credit

(a) A manufacturer who manufactures two classes of goods, namely:

- (i) non-exempted goods removed;
- (ii) exempted goods removed,

or

(b) an output service provider who provides two classes of services, namely:

- (i) non-exempted services;
- (ii) exempted services,

has to follow any one of the following options applicable to him, namely :-

- (i) pay an amount equal to 6% of value of the exempted goods and 7% of value of the exempted services⁵ subject to a maximum of the sum total of opening balance of the credit of input and input services available at the beginning of the period to which the payment relates and the credit of input and input services taken during that period **[Notification No. 13/2016 CE (NT) dated 01.03.2016 read with Notification No. 23/2016 CE (NT) dated 01.04.2016];**

⁵ Pursuant to the increase in service tax rate from 12% to 14% from June 1, 2015, rate of reversal for exempted services under erstwhile rule 6(3) had also been increased from 6% to 7% from 01.06.2015 vide **Notification No. 14/201 CE (NT) dated 19.05.2015.**

OR

- (ii) pay an amount as determined under sub-rule (3A).
- (2) **Duty paid on exempted goods to be reduced from 6% amount:** If any duty of excise is paid on the exempted goods, the same will be reduced from the amount payable under clause (i). For example, goods cleared under *Notification No. 1/2011 CE dated 01.03.2011* are exempted goods in terms of rule 2(d) of CCR and excise duty @ 2% is paid on such goods. Therefore, such 2% duty will be reduced from 6% amount [First proviso to sub-rule (3)].
- (3) **Amount payable to be 7% of the exempted value of taxable service in case of partial exemption on the condition of non-availment of credit:** If any part of the value of a taxable service has been exempted on the condition that no CENVAT credit of inputs and input services, used for providing such taxable service, will be taken then the amount specified in clause (i) will be 7% of the value so exempted. For example, 60% abatement is available on radio taxi services if CENVAT credit on inputs, input services and capital goods, used for providing the said taxable service, is not taken. Therefore, 7% amount will be payable on the value of exempted service i.e., 60% of the gross amount charged for the said service. In other words, the amount required to be paid shall be 4.2% (7% of 60) of the full value of the radio taxi service [Second proviso to sub-rule (3)].
- (4) **Amount payable to be 2% of the exempted value in case of transport of goods/passengers by rail:** In case of transportation of goods or passengers by rail, the amount required to be paid under clause (i) will be an amount equal to 2% of value of the exempted services [Third proviso to sub-rule (3)].
- (5) **Option exercised applicable for all exempted goods or exempted services and whole financial year:** If the manufacturer of goods or the output service provider, avails any of the option under this sub-rule, he will have to exercise such option for all exempted goods manufactured by him or, as the case may be, all exempted services provided by him, and such option cannot be withdrawn during the remaining part of the financial year [Explanation 1].
- (6) No CENVAT credit can be taken on the duty or tax paid on any goods and services that are not inputs or input services [Explanation 2].
- (7) As per Explanation 3, for the purposes of this sub-rule and sub-rule (3A)-
- (a) **Non-exempted goods removed** means the final products excluding exempted goods manufactured and cleared upto the place of removal.
- (b) **Exempted goods removed** means the exempted goods manufactured and cleared upto the place of removal.

- (c) **Non-exempted services** means the output services excluding exempted services.

[Effective from 01.04.2016]

Substituted sub-rule (3A)

There had been a controversy with respect to the expression “Total CENVAT credit taken on input services” (denoted as P or G) used in the formula prescribed under erstwhile sub-rule (3A) of rule 6. The Department was of the opinion that since the rule uses the term “total CENVAT credit taken on input services”, entire CENVAT credit (including the CENVAT credit on input services which are used exclusively in the manufacture of dutiable goods or provision of taxable output services) taken by the assessee need to be considered for the purpose of reversal. Assessee on the other hand contended that the reversal formula would cover only the CENVAT credit on common input services for which separate accounts cannot be maintained. Department’s stand led to far more reversal of CENVAT credit than the credit attributable to the input services used in exempted services or exempted goods.

There were divergent views of the various Benches of CESTAT on this issue. The Chennai Bench of CESTAT while delivering an interim stay order in the case of *Sify Technologies 2014-TIOL-60-CESTAT-MAD* took a *prima-facie* pro-assessee view and granted stay against the recovery of demand. Tribunal held that the formula as prescribed needs to be applied only to CENVAT credit availed on common input services. However, Mumbai Bench of CESTAT while passing stay order in the case of *Thyssenkrupp Industries (I) Pvt. Ltd. vs. CCE, Pune 2014 (310) ELT 317 (Tri.-Mumbai)* took a *prima facie* view that the prescribed formula in rule 6(3A) for reversal needs to be applied to CENVAT credit on all the input services taken during the year by the assessee and not to the CENVAT credit of only common input services availed by him.

A new formula has now been prescribed under the amended sub-rule (3A) to rectify the above-mentioned anomaly. The new formula is in line with the overall objective of rule 6 which seeks to disallow the credit on inputs and input services used exclusively in the manufacture of exempted goods or provision of exempted services and does not envisage reversal of credit taken on inputs or input services which are used exclusively in manufacture of dutiable goods or provision of taxable services. Thus, the new formula requires reversal of credit only in respect of common inputs and input services which are used in manufacture of both dutiable and exempted goods or for provision of taxable and exempted services.

The provisions of the new sub-rule (3A) are discussed hereunder:

Procedures and conditions for reversing proportionate credit For determination of amount required to be paid under clause (ii) of sub-rule (3), the

manufacturer of goods or the output service provider will follow the following procedure and conditions, namely :-

- (a) the manufacturer of goods or the provider of output service shall intimate in writing to the Superintendent of Central Excise giving the following particulars, namely :-
 - (i) name, address and registration number of the manufacturer of goods or provider of output service;
 - (ii) date from which the option under this clause is exercised or proposed to be exercised;
 - (iii) description of inputs and input services used exclusively in or in relation to the manufacture of exempted goods removed or for provision of exempted services and description of such exempted goods removed and such exempted services provided;
 - (iv) description of inputs and input services used exclusively in or in relation to the manufacture of non-exempted goods removed or for the provision of non-exempted services and description of such non-exempted goods removed and non-exempted services provided;
 - (v) CENVAT credit of inputs and input services lying in balance as on the date of exercising the option under this condition;

Formula to determine amount to be reversed proportionately

- (b) The manufacturer or the output service provider will determine the credit required to be paid, out of the total credit of inputs and input services taken during the month, denoted as **T**, in the following sequential steps and provisionally pay every month, the amounts determined under sub-clauses (i) and (iv), namely:-
 - (i) the amount of CENVAT credit attributable to inputs and input services used exclusively in or in relation to the manufacture of exempted goods removed or for provision of exempted services shall be called ineligible credit, denoted as **A**, and shall be paid;
 - (ii) the amount of CENVAT credit attributable to inputs and input services used exclusively in or in relation to the manufacture of non-exempted goods removed or for the provision of non-exempted services shall be called eligible credit, denoted as **B**, and shall not be required to be paid;
 - (iii) credit left after attribution of credit under sub-clauses (i) and (ii) shall be called common credit, denoted as **C** and calculated as,-

$$\mathbf{C = T - (A + B)}$$

Explanation.-Where the entire credit has been attributed under sub-clauses (i) and (ii), namely ineligible credit or eligible credit, there shall be left no common credit for further attribution.

- (iv) the amount of common credit attributable towards exempted goods removed or for provision of exempted services shall be called ineligible common credit, denoted as **D** and calculated as follows and shall be paid-

$$\mathbf{D = (E/F) \times C}$$

Where **E** is the sum total of –

- (a) value of exempted services provided; and
 (b) value of exempted goods removed,
 during the preceding financial year.

Where **F** is the sum total of-

- (a) value of non-exempted services provided,
 (b) value of exempted services provided,
 (c) value of non-exempted goods removed, and
 (d) value of exempted goods removed,
 during the preceding financial year.

However, where no final products were manufactured or no output service was provided in the preceding financial year, the CENVAT credit attributable to ineligible common credit shall be deemed to be **50%** the common credit;

- (v) remainder of the common credit shall be called eligible common credit and denoted as **G**, where,-

$$\mathbf{G = C - D}$$

Explanation.- For the removal of doubts, it is hereby declared that out of the total credit T, which is sum total of A, B, D, and G, the manufacturer or the provider of the output service shall be able to attribute provisionally and retain credit of B and G, namely, eligible credit and eligible common credit and shall provisionally pay the amount of credit of A and D, namely, ineligible credit and ineligible common credit.

- (vi) where manufacturer or the provider of the output service fails to pay the amount determined under sub-clause (i) or sub-clause (iv), he shall be liable to pay the **interest** from the due date of payment till the date of payment of such amount, at the rate of **15% per annum**;

(c) The manufacturer or the output service provider will determine the amount of CENVAT credit attributable to exempted goods removed and provision of exempted services for the whole of financial year, out of the total credit denoted as **T (Annual)** taken during the whole of financial year in the following manner, namely :-

- (i) the CENVAT credit attributable to inputs and input services used exclusively in or in relation to the manufacture of exempted goods removed or for provision of exempted services on the basis of inputs and input services actually so used during the financial year, shall be called Annual ineligible credit and denoted as **A (Annual)**;
- (ii) the CENVAT credit attributable to inputs and input services used exclusively in or in relation to the manufacture of non-exempted goods removed or for the provision of non-exempted services on the basis of inputs and input services actually so used shall be called Annual eligible credit and denoted as **B (Annual)**;
- (iii) common credit left for further attribution shall be denoted as **C (Annual)** and calculated as-

$$\mathbf{C (Annual) = T (Annual) - [A (Annual) + B (Annual)]}$$

- (iv) common credit attributable towards exempted goods removed or for provision of exempted services shall be called Annual ineligible common credit, denoted by **D (Annual)** and shall be calculated as, -

$$\mathbf{D (Annual) = (H/I) \times C (Annual)}$$

Where **H** is sum total of-

- (a) value of exempted services provided; and
 - (b) value of exempted goods removed;
- during the financial year.

Where **I** is sum total of

- (a) value of non-exempted services provided,
 - (b) value of exempted services provided,
 - (c) value of non-exempted goods removed; and
 - (d) value of exempted goods removed;
- during the financial year.

(d) The manufacturer or the output service provider shall pay on or before the 30th June of the succeeding financial year, an amount equal to difference between the total of the amount of Annual ineligible credit and Annual ineligible common credit and the aggregate amount of ineligible credit and ineligible

common credit for the period of whole year, namely, $[\{A \text{ (Annual)} + D \text{ (Annual)}\} - \{(A+D) \text{ aggregated for the whole year}\}]$, where the former of the two amounts is greater than the later.

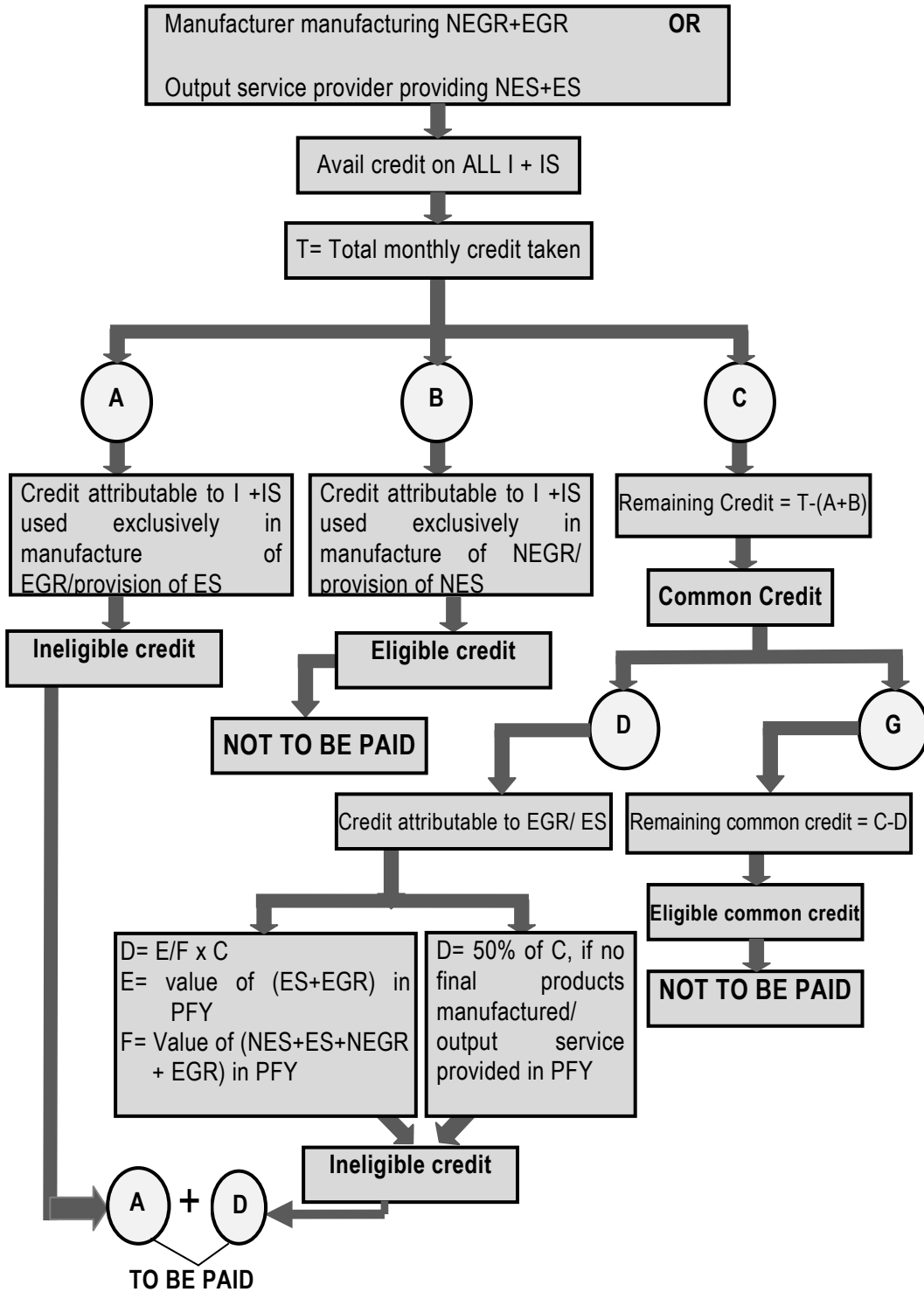
- (e) Where the amount under clause (d) is not paid by the 30th June of the succeeding financial year, the manufacturer of goods or the provider of output service, shall, in addition to the amount of credit so paid under clause (d), be liable to pay on such amount an **interest at the rate of 15% per annum**, from the 30th June of the succeeding financial year till the date of payment of such amount.
- (f) The manufacturer or the provider of output service, shall at the end of the financial year, take credit of amount equal to difference between the total of the amount of the aggregate of ineligible credit and ineligible common credit paid during the whole year and the total of the amount of annual ineligible credit and annual ineligible common credit, namely, $[\{(A+D) \text{ aggregated for the whole year}\} - \{A \text{ (Annual)} + D \text{ (Annual)}\}]$, where the former of the two amounts is greater than the later.

Other conditions

- (g) The manufacturer of the goods or the provider of output service shall intimate to the jurisdictional Superintendent of Central Excise, within a period of 15 days from the date of payment or adjustment, as per the provisions of clauses (d), (e) and (f), the following particulars, namely :-
- (i) details of credit attributed towards eligible credit, ineligible credit, eligible common credit and ineligible common credit, month-wise, for the whole financial year, determined as per the provisions of clause (b);
 - (ii) CENVAT credit annually attributed to eligible credit, ineligible credit, eligible common credit and ineligible common credit for the whole of financial year, determined as per the provisions of clause (c);
 - (iii) amount determined and paid as per the provisions of clause (d), if any, with the date of payment of the amount;
 - (iv) interest payable and paid, if any, determined as per the provisions of clause (e); and
 - (v) credit determined and taken as per the provisions of clause (f), if any, with the date of taking the credit.

[Effective from 01.04.2016]

The above provisions of sub-rule (3A) have been summarised in the following diagram:



At the end of the year actual amounts of A + D will be computed for the whole year in the similar manner as described above by taking annual figures of T B & C and H [value of ES + EGR during the FY] & I [Value of NES + ES + NEGR + EGR during the FY] in place of E & F.

Shortfall, if any, will be paid by 30th June of the SFY failing which interest @ 15% will be payable from 30th June of SFY till the date of payment of such amount.

Excess amount paid, if any, can be taken as credit. If the amount to be paid provisionally is not paid by the due date of payment, interest @ 15% will be payable from the due date of payment till the date of payment of such amount.

NEGR	:	Non exempted goods removed
EGR	:	Exempted goods removed
NES	:	Non exempted services
ES	:	Exempted service
I	:	Inputs
IS	:	Input Services
PFY	:	Preceding Financial Year
FY	:	Financial Year
SFY	:	Succeeding Financial Year

New sub-rule (3AA)

Central Excise Officer can allow proportionate reversal of CENVAT credit under sub-rule (3)(ii) even if prior intimation not given: A manufacturer or an output service provider who has failed to exercise the option under sub-rule (3) and follow the procedure of giving prior intimation provided under sub-rule (3A), may be allowed by a Central Excise Officer, competent to adjudicate such case, to follow the procedure and pay the amount under sub-rule (3)(ii). The amount will be calculated for each of the months, *mutatis-mutandis* in terms of sub-rule (3A)(c), with interest calculated at the rate of 15% per annum from the due date for payment of amount for each of the month, till the date of payment thereof.

[Effective from 01.04.2016]

New sub-rule (3AB)

Transitional provision: Sub-rule (3AB) has been inserted as a transitional provision to provide that the existing rule 6 of CCR would continue to be in

operation upto 30.06.2016, for the units who are required to discharge the obligation in respect of financial year 2015-16.

[Effective from 01.04.2016]

Substituted sub-rule (3B)

Banks/other financial institutions can either reverse CENVAT credit in terms of sub-rules (1), (2) or (3) OR reverse 50% of the credit availed every month: A banking company and a financial institution including a non-banking financial company, engaged in providing services by way of extending deposits, loans or advances, in addition to options given in sub-rules (1), (2) and (3), will have the option to pay for every month an amount equal to 50% of the CENVAT credit availed on inputs and input services in that month.

Therefore, the new sub-rule allows banks and other financial institutions to reverse credit in respect of exempted services on actual basis **in addition** to the only option of 50% reversal which was available earlier.

[Effective from 01.04.2016]

Substituted sub-rule (4)

CENVAT credit not allowed on capital goods used exclusively in manufacture of exempted goods/provision of exempted services for 2 years from commencement of commercial production/provision of services: No CENVAT credit will be allowed on capital goods used exclusively in the manufacture of exempted goods or in providing exempted services for a period of two years from the date of commencement of the commercial production or provision of services, as the case may be.

Where capital goods are received after the date of commencement of commercial production or provision of services, as the case may be, the period of two years will be computed from the date of installation of such capital goods.

However, this provision does not apply to capital goods used in the manufacture of final products or in providing output services which are exempt on the basis of the value or quantity of clearances made or services provided in a financial year.

[Effective from 01.04.2016]

(xii) Reversal of credit not required in case of ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 [Rule 6(6)]

The provisions of sub-rules (1), (2), (3) and (4) of rule 6 would not apply to ethanol produced from molasses generated from cane crushed in the sugar season 2015-16 i.e. 1st October, 2015 onwards, for supply to the public sector oil marketing companies, namely, Indian Oil Corporation Ltd., Hindustan Petroleum Corporation Ltd. or Bharat Petroleum Corporation Ltd., for the purposes of blending with petrol,

under *Notification No.12/2012 CE dated 17.03.2012*. This has been done by inserting clause (ix) in sub-rule (6).

In case of such removal, though ethanol is removed without payment of duty, CENVAT credit on inputs/capital goods/input services used in the manufacture of ethanol can be availed. Further, where common inputs/input services are used to manufacture ethanol and other dutiable final product, reversal of credit or payment of amount on removal of ethanol will not be required.

The above amendment has been made vide ***Notification No. 21/2015 CE (NT) dated 07.10.2015***.

[Effective from 01.10.2015]

(xiii) Manner of distribution of credit by input service distributor [Substituted rule 7]

Rule 7 dealing with distribution of credit on input services by an Input Service Distributor has been completely rewritten to allow an Input Service Distributor to distribute the input service credit to an outsourced manufacturing unit also in addition to its own manufacturing units. Consequential amendment has also been made in the definition of input service distributor in rule 2(m).

The provisions of amended rule 7 are explained hereunder:

The input service distributor shall distribute the CENVAT credit in respect of the service tax paid on the input service to its manufacturing units or unit providing output service or an outsourced manufacturing units subject to the following conditions, namely :—

- (a) the credit distributed against a document referred to in rule 9 does not exceed the amount of service tax paid thereon
- (b) the credit of service tax attributable as input service to a particular unit shall be distributed only to that unit
- (c) the credit of service tax attributable as input service to more than one unit but not to all the units shall be distributed only amongst such units to which the input service is attributable and such distribution shall be *pro rata* on the basis of the turnover of such units, during the relevant period, to the total turnover of all such units to which such input service is attributable and which are operational in the current year, during the said relevant period
- (d) the credit of service tax attributable as input service to all the units shall be distributed to all the units *pro rata* on the basis of the turnover of such units during the relevant period to the total turnover of all the units, which are operational in the current year, during the said relevant period

- (e) outsourced manufacturing unit shall maintain separate account for input service credit received from each of the input service distributors and shall use it only for payment of duty on goods manufactured for the input service distributor concerned
- (f) credit of service tax paid on input services, available with the input service distributor, as on the 31st of March, 2016, shall not be transferred to any outsourced manufacturing unit and such credit shall be distributed amongst the units excluding the outsourced manufacturing units

The provision of this clause will, *mutatis-mutandis*, apply to any outsourced manufacturer commencing production of goods on or after the 1st of April, 2016.

- (g) provisions of rule 6 will apply to the units manufacturing goods or provider of output service and will not apply to the input service distributor.

For the purposes of this rule –

- (i) **“Unit”** includes the premises of a provider of output service or the premises of a manufacturer including the factory, whether registered or otherwise or the premises of an outsourced manufacturing unit [Explanation 1].
- (ii) **Total turnover** will be determined in the same manner as determined under rule 5. The turnover of an outsourced manufacturing unit shall be the turnover of goods manufactured by such outsourced manufacturing unit for the input service distributor [Explanation 2].
- (iii) **“Relevant period”** shall be -
 - (a) if the assessee has turnover in the financial year preceding to the year during which credit is to be distributed for month or quarter, as the case may be, the said financial year; or;
 - (b) if the assessee does not have turnover for some or all the units in the preceding financial year, the last quarter for which details of turnover of all the units are available, previous to the month or quarter for which credit is to be distributed [Explanation 3].
- (iv) **“Outsourced manufacturing unit”** means a job-worker who is liable to pay duty on the value determined under rule 10A of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 on the goods manufactured for the input service distributor or a manufacturer who manufactures goods, for the input service distributor under a contract, bearing the brand name of such input service distributor and is liable to pay duty on the value determined under section 4A of the Central Excise Act, 1944 [Explanation 4].

[Effective from 01.04.2016]

(xiv) Manufacturers with multiple manufacturing units enabled to maintain a common warehouse for inputs and distribute inputs with credits to the individual manufacturing units [New rule 7B]

A new rule 7B has been inserted to prescribe the provisions relating to “Distribution of credit on inputs by warehouse of manufacturer”.

The new rule lays down that a manufacturer having one or more factories, will be allowed to take credit on inputs received under the cover of an invoice issued by a warehouse of the said manufacturer, who receives inputs under cover of documents specified under rule 9, towards the purchase of such inputs. Procedures applicable to a first stage dealer or a second stage dealer would apply, *mutatis mutandis*, to such a warehouse of the manufacturer **[Notification No. 13/2016 CE (NT) dated 01.03.2016 read with Notification No. 23/2016 CE (NT) dated 01.04.2016]**.

[Effective from 01.04.2016]

(xv) Invoice issued by a service provider for clearance of inputs/capital goods also to be an eligible document under rule 9 [Rule 9(1)(a)(i)]

Prior to 01.04.2016, only an invoice issued by a manufacturer for clearance of inputs or capitals goods could be a valid document for availing CENVAT credit under rule 9(1)(a)(i). Rule 9(1)(a)(i) has been amended to provide that an invoice issued by a service provider for clearance of inputs or capitals goods will also be a valid document for availing CENVAT credit.

[Effective from 01.04.2016]

(xvi) Certificate issued by an Appraiser of Customs to be a valid document under rule 9 for goods imported through authorised courier [Rule 9(1)(d)]

Prior to 31.12.2015, certificate issued by an appraiser of customs was a valid document for availing credit in respect of goods imported through a Foreign Post Office in terms of rule 9(1)(d).

Clause (d) of sub-rule (1) of rule 9 has been amended vide **Notification No. 27/2015 CE (NT) dated 31.12.2015** to provide that a certificate issued by an appraiser of customs will also be a valid document for availing CENVAT credit in respect of goods imported through an authorized courier registered with the Principal Commissioner of Customs or the Commissioner of Customs in-charge of the customs airport.

[Effective from 31.12.2015]

- 2. Refund application for CENVAT credit under rule 5 in case of export of services to be filed within 1 year from the date of (a) receipt of payment, if provision of service has been completed prior to receipt of such payment or (b) issue of invoice, if payment has been received in advance prior to the date of issue of the invoice [Notification No. 27/2012 CE (NT) dated 18.06.2012]**

Rule 5 of CENVAT Credit Rules, 2004 allows refund of CENVAT credit subject to the procedure, safeguards, conditions and limitations prescribed under *Notification No. 27/2012 CE (NT) dated 18.06.2012*

The said notification has been amended vide ***Notification No. 14/2016 CE (NT) dated 01.03.2016*** to provide that the refund application in the Form A along with the documents specified therein and enclosures relating to the quarter for which refund is being claimed will be filed as under:

- (i) in case of manufacturer, before the expiry of the period specified in section 11B of the Central Excise Act, 1944;
- (ii) in case of service provider, before the expiry of one year from the date of –
 - (a) receipt of payment in convertible foreign exchange, where provision of service had been completed prior to receipt of such payment; or
 - (b) issue of invoice, where payment for the service had been received in advance prior to the date of issue of the invoice.

[Effective from 01.03.2016]

3. No refund of CENVAT credit under rule 5B to service providers providing manpower supply/ security services - *Notification No. 12/2014 CE (NT) dated 03.03.2014*

Rule 5B of the CENVAT Credit Rules, 2004 provides that service providers, rendering notified reverse charge services, being unable to utilise the CENVAT credit availed on inputs and input services for payment of service tax on such output services, shall be allowed refund of such unutilised CENVAT credit.

In this regard, earlier following partial reverse charge services were notified vide ***Notification No. 12/2014 CE (NT) dated 03.03.2014***:

- (i) renting of a motor vehicle designed to carry passengers on non-abated value, to any person who is not engaged in a similar business;
- (ii) supply of manpower for any purpose or security services; or
- (iii) service portion in the execution of a works contract

Since with effect from 01.04.2015, service tax with respect to supply of manpower for any purpose or security services is payable on the basis full reverse charge, service providers of said services will no longer be eligible for refund of CENVAT credit. Further, application in Form A for claiming refund has also been suitably modified.

The above amendment has been made vide ***Notification No. 15/2015 CE (NT) dated 19.05.2015***.

[Effective from 01.04.2015]

4. Withdrawal of Circulars/Instruction on excisability of bagasse, aluminium/ zinc dross

Circular No. 904/24/09 CX dated 28.10.2009 clarified that in case the rate of duty in respect of bagasse, aluminium/zinc dross and other waste products arising during the course of manufacture and capable of being sold is NIL in the tariff or they are exempt from duty in terms of any exemption notification, and if CENVAT credit has been taken on the inputs which are used for manufacture of dutiable and exempted goods, then in terms of rule 6 of the CENVAT Credit Rules, 2004, the assessee is required to reverse the proportionate credit or pay 6% amount. The said circular has been withdrawn in the light of certain recent legal judgments.

It may also be noted that rule 6 of the CENVAT Credit Rule (CCR), 2004 was amended with effect from 01.03.2015 by inserting explanation 1 and explanation 2 in sub-rule (1) of rule 6. These explanations continue in the present rule 6 also. Consequently, bagasse, dross and skimmings of non-ferrous metals or any such by product or waste, which are non-excisable goods and are cleared for a consideration from the factory need to be treated like exempted goods for the purpose of reversal of credit of input and input services, in terms of rule 6 of the CENVAT Credit Rules, 2004.

[Circular No. 1027/15/2016 CX dated 25.04.2016]

Students may note that for November, 2016 examinations, notification/circulars issued till 30.04.2016 are relevant. Given above are the notifications/circulars issued between 01.05.2015 and 30.04.2016 which are relevant for November, 2016 examination. Students are required to go through these notifications/circulars carefully as they need to be applied while answering the questions in November, 2016 examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Residential Status and Scope of total income

1. (a) Mr. Alok is an Indian citizen and a member of the crew of a Singapore bound Indian ship engaged in carriage of passengers in international traffic departing from Mumbai port on 6th June, 2015. From the following details for the P.Y.2015-16, determine the residential status of Mr. Alok for A.Y.2016-17, assuming that his stay in India in the last 4 previous years (preceding P.Y.2015-16) is 400 days and last seven previous years (preceding P.Y.2015-16) is 750 days:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Alok	6 th June, 2015

Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Alok	9 th December, 2015
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- (b) Mr. Shravan, a citizen of India and an employee of Central Government, left India for the first time on 11.02.2015 due to his transfer to Australia for an assignment. He did not visit India any time during the previous year 2015-16. From the following particulars of his income for the Financial Year 2015-16, compute his gross total income for A.Y. 2016-17:

S.No.	Particulars	₹
(i)	Salary	6,10,000
(ii)	Foreign Allowance (paid by the Government for rendering services in Australia)	4,55,000
(iii)	Interest on fixed deposit from bank in India	1,10,000
(iv)	Income from agriculture in Malaysia	3,50,000
(v)	Income from house property in Malaysia	2,25,000

Income which do not form part of total income

2. Discuss the taxability or otherwise of the following under the Income-tax Act, 1961:
- Agricultural income of ₹ 2, 00,000 earned by Ms. Dolly, a non-resident from land in Kanchipuram, Tamil Nadu.
 - Amount of ₹ 5,00,000 withdrawn by Mr. Rajesh, a resident individual, from Public Provident Fund as per relevant rules.
 - Mr. Abhi received ₹ 1,30,000 on 31.03.2016 towards maturity proceeds of life insurance policy issued on 1.4.2012. The annual premium and capital sum assured are ₹ 23,000 and ₹ 1,20,000, respectively.
 - Mr. Dinesh received ₹ 5,60,000 as partner share in the income of limited liability partnership.
 - ₹ 3,50,000, received by Mr. Rohan from Central Government as compensation on account of disaster.

Income from Salaries

3. State the taxability or otherwise of the following perquisites and compute the total value of taxable perquisites, in the hands of Mr. Sarthak, employed with Assam Tea Limited as Chief Compliance Officer, for the previous year 2015-16, assuming that his basic salary is ₹ 60,000 p.m.
- Mr. Sarthak paid ₹ 6,000 p.m. to his domestic servant, which is entirely reimbursed by his employer.

- (ii) Air-conditioner purchased 3 years back for ₹ 50,000 has been given to the servant of Mr. Sarthak free of cost.
- (iii) The estimated value of medical facility given to his family in a hospital maintained by the company is ₹ 85,000.
- (iv) Free education was provided to his two children Avani and Aarav in a school maintained and owned by the company. The cost of such education for Avani is computed at ₹ 950 per month and for Aarav at ₹ 1,250 per month. No amount was recovered by the company for such education facility from Mr. Sarthak.
- (v) Telephone provided at the residence of Mr. Sarthak and the bill aggregating to ₹ 27,000 paid by the employer.

Income from house property

4. Mrs. Lalita, a resident individual, owns a house in San Diego, U.S.A and a two storey house in Lucknow. Compute her income from house property from the following details for the previous year 2015-16:

I. House at San Diego

- Rent @ \$ 3,500 per month.
- Municipal taxes paid \$ 2,100

The value of one dollar is to be taken as ₹ 65.

II. House at Lucknow:

- Ground floor is used for her residence
- First floor is let out at a monthly rent of ₹ 13,500.
- Standard rent for each floor is ₹ 15,000 per month
- Fair rent for each floor is ₹ 12,500 per month.
- Municipal taxes paid ₹ 8,000.
- Repayment of housing loan of ₹ 85,000 including interest of ₹ 40,000.

Profits and gains of business or profession

5. (a) Mr. Varun is engaged in the business of manufacturing of spare parts. From the following details, compute the depreciation allowable as per the provisions of the Income-tax Act, 1961 for the assessment year 2016-17:

	(₹ in lacs)
(i) Opening WDV of block (15% rate)	49
(ii) New machinery purchased on 18-11-2015	18
(iii) Machinery imported from California on 21-5-2015.	12
This machine had been used only in California earlier and	

the assessee is the first user in India.

- (iv) New computer installed in manufacturing unit on 15-7-2015 6
- (b) Discuss the deductibility or otherwise of the following expenditure incurred by Purnit Agro Industries, while computing its business income for the year ended 31-03-2016:
- (i) Revenue expenditure of ₹ 5,65,000 on scientific research related to its business.
- (ii) Land & Building acquired for scientific research (cost of land is ₹ 9,50,000) in September 2015 for ₹ 22,00,000.
- (iii) Contribution to the account of employees as per pension scheme referred to in section 80CCD amounted to ₹ 45,00,000. Amount above 10% of the salary of employees is ₹ 6,80,000.
- (iv) Tax on non-monetary perquisites provided to the employees, borne by the employer ₹ 5,50,000.

Capital Gains

6. Mr. Sutanu is a proprietor of Purple Enterprises, which has two units, X and Y. The Balance Sheet as on 31.3.2015 is as under:

Liabilities	Unit X (₹)	Unit Y (₹)	Assets	Unit X (₹)	Unit Y (₹)
Own Capital	25,72,500	10,27,500	Building	22,00,000	11,00,000
Revaluation Reserve	5,00,000	-	Machinery	5,00,000	6,00,000
Bank loan	4,40,000	8,60,000	Debtors	3,25,000	2,40,000
Trade creditors	<u>1,37,500</u>	<u>4,12,500</u>	Other assets	<u>6,25,000</u>	<u>3,60,000</u>
Total	<u>36,50,000</u>	<u>23,00,000</u>	Total	<u>36,50,000</u>	<u>23,00,000</u>

He transferred on 1.4.2015 his Unit X by way of slump sale for a total consideration of ₹ 50 lacs. Unit X was started in the year 2005-06. The expenses incurred for this transfer were ₹ 68,000.

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of Unit X.
- (ii) No individual value of any asset is considered in the transfer deed.
- (iii) Other assets of Unit X include patents acquired on 13.5.2013 for ₹ 2,50,000 on which no depreciation has been charged.

Cost Inflation Index: F.Y. 2005-06: 497, F.Y. 2015-16: 1081

Compute the capital gain for the assessment year 2016-17.

Income from Other Sources

7. Mrs. Rupali, has furnished the following information pertaining to the year ended 31.3.2016:
- (i) She bought 100 equity shares of a listed company from a friend for ₹ 80,000. The value of shares in the stock exchange on the date of purchase was ₹ 1,55,000.
 - (ii) On her 25th wedding anniversary, she received cash gift of ₹ 1,01,000 from her friend Ms. Anjali.
 - (iii) On the above occasion, she also received a platinum ring worth ₹ 2,50,000 from her brother living in Singapore.
 - (iv) She got cash gifts in aggregate of ₹ 25,000 from her four friends on the occasion of her daughter's wedding on 11.11.2015.
 - (v) She also received ₹ 49,000 as gift by way of cheque from her maternal uncle, on her daughter's wedding.

Determine the amount chargeable to tax in the hands of Mr. Rupali under the head "Income from other Sources" for the A.Y. 2016-17.

Income of Other Persons included in assessee's Total Income

8. The following are the details of the transactions pertaining to Mr. Sangram, Mrs. Sangeeta (wife) and their two minor sons Master Aayu and Avi for the previous year 2015-16.
- (a) Master Aayu earned ₹ 51,000 by investing ₹ 3,25,000 in a business. The said amount i.e., ₹ 3,25,000, was received as a gift from his father Mr. Sangram.
 - (b) Mr. Sangram had a fixed deposit of ₹ 2,00,000 in Canara Bank. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2015 to 31-3-2016 to the savings bank account of Mr. Babloo, son of his brother, to help him in his education.
 - (c) Master Avi derived an income of ₹ 35,000 through an activity involving application of his skill and talent.
 - (d) Mr. Sangram gifted a flat to Mrs. Sangeeta on April 1, 2015. During the previous year 2015-16, Mrs. Sangeeta "Income from house property" (computed) was ₹ 5,12,000.
 - (e) Mr. Sangram holds 75% share in a partnership firm. Mrs. Sangeeta received a remuneration of ₹ 32,500 from the firm for designing the webpage of the firm. Mrs. Sangeeta possesses no technical or professional qualification.

During the year, Mr. Sangram got a monthly pension of ₹ 50,000. He had no other income. Mrs. Sangeeta received salary of ₹ 12,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. Sangram, Mrs. Sangeeta and their minor sons.

Set off and Carry Forward of Losses

9. Compute the Gross Total Income of Mr. Hariharan for the assessment year 2016-17 from the following particulars:

Particulars	Amount (₹)
Income from business before adjusting the following items:	3,45,000
(a) Business loss brought forward from assessment year 2013-14	65,000
(b) Current depreciation	32,500
(c) Unabsorbed depreciation of earlier year	1,95,000
Income from house property (Gross Annual Value)	5,23,000
Municipal taxes paid	28,000
Mr. Hariharan sold a plot at Kanpur on 30th October, 2015 for a consideration of ₹ 9,32,000, which had been purchased by him on 25th November, 2012 at a cost of ₹ 7,18,000	
Long-term capital loss on sale of shares sold through recognized stock exchange (STT paid)	58,000
Long-term capital gain on sale of debentures	88,000
Dividend on shares held as stock in trade	28,000
Dividend from a company carrying on agri business	25,000
During the previous year 2015-16, Mr. Hariharan has repaid ₹ 3,46,000 towards housing loan from a scheduled bank. Out of ₹ 3,46,000, ₹ 2,16,000 was towards payment of interest and rest towards principal payment.	
Cost inflation indices: F.Y. 2012-13: 852 & F.Y.2015-16: 1081.	

Deductions from Gross Total Income

10. Compute the total income of Mr. Chankaya for the assessment year 2016-17 from the followings details of payments/investments he made during the financial year 2015-16:
- Payment made towards mediclaim premium of ₹ 21,000 to insure his health and ₹ 24,000 to insure the health of his father, aged 65 years, not dependent on him, by a mode other than cash.
 - He spent ₹ 5,000 for the preventive health-check up of his wife and ₹ 5,000 for the preventive check up of his father.
 - He has incurred an expenditure of ₹ 80,000 for the medical treatment of his mother, being a person with severe disability.
 - Deposit of ₹ 1,00,000 in public provident fund.
 - Deposited ₹ 80,000 in tax saver deposit in the name of major son in a nationalized bank.

- (v) Contributed ₹ 1,50,000 to the National Pension System of the Central Government.
- (vi) Paid ₹ 45,000 towards premium on life insurance policy of his married daughter (Sum Assured ₹ 5,50,000). The policy was taken on 01.05.2012.
- (iii) Contributed ₹ 12,000 to Prime Minister's National Relief Fund.
- (iv) Donated ₹ 22,000 to a Government recognized institution for scientific research by a cheque.

His gross total income is ₹ 8,40,000 for the previous year 2015-16. Assume that the gross total income of Mr. Chankaya comprises of only income under the head 'Income from house property' and interest on bank fixed deposit.

Computation of Total Income of an individual

11. CA Suraj Chawla (resident in India) aged 53 years is a practicing member. He maintains his accounts on cash basis. His income and expenditure account for the year ended March 31, 2016 reads as follows:

Expenditure	₹	Income	₹	₹
Salary to staff	8,05,000	Fees earned:		
Stipend to articled assistants	33,000	Audit	8,85,200	
Incentive to articled assistants	10,000	Taxation services	6,28,800	
Office rent	94,000	Consultancy	<u>5,22,000</u>	20,36,000
Printing and stationery	4,200	Dividend on shares of Indian companies (gross)		10,155
Meeting, seminar and conference	28,400	Income from Unit Trust of India		8,400
Repairs, maintenance and petrol of car	26,600	Profit on sale of shares (STT paid)		25,200
Subscription and periodicals	25,000	Honorarium received from various institutions for valuation of answer papers		26,300
Postage, telegram and fax	22,000	Rent received from residential flat let out		1,04,000
Depreciation	31,500			
Travelling expenses	50,500			
Municipal tax paid in respect of house	1,800			

property			
Net profit	<u>10,78,055</u>		<u>22,10,055</u>
	<u>22,10,055</u>		<u>22,10,055</u>

Other information:

- (i) Depreciation debited to income and expenditure account is as per the rates of Income-tax Rules, 1962.
- (ii) ₹ 2,050, interest paid on loan taken from LIC on the security of his Life Insurance Policy and utilised for repair of computer, has been debited to the drawing account of Mr. Suraj.
- (iii) Repairs and maintenance of car includes ₹ 1,900 for the period from 1.10.2015 to 30.09.2016.
- (iv) Salary include ₹ 33,000 to a computer specialist in cash for assisting Mr. Suraj in one professional assignment.
- (v) Incentive to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (vi) Medical Insurance Premium on the health of self, wife, married daughter and dependent brother of ₹ 15,000, 11,000, 12,000 & 8,000, respectively. He also incurred medical expenditure of ₹ 80,000 on health of father, 82 years old. He made all these payments in a mode other than cash except medical premium of his wife.
- (vii) The period of holding of shares is 6 months from the date of acquisition.
- (viii) The travelling expenses includes expenditure incurred on foreign tour of ₹ 25,000 which was within the RBI norms.

Compute the total income and tax liability of CA. Suraj Chawla for the Assessment year 2016-17.

Provisions concerning Advance Tax and Tax Deducted at source

12. State in brief the applicability of tax deduction at source provisions, the rate and amount of tax deduction in the following cases for the financial year 2015-16:
 - (a) Rent of ₹ 1,65,000 paid by a partnership firm having sales turnover of ₹ 25,00,000 and net loss of ₹ 15,000 for use of plant and machinery.
 - (b) Payment of ₹ 59,000 made by an Indian newspaper agency on 21-09-2015 to Chris Gayle, a West Indies cricket player non-resident in India, for contribution of articles in relation to the sport of cricket.
 - (c) Winnings by way of jackpot in a horse race ₹ 1,80,000 paid to Mr. Ramesh, a resident.

- (d) Two individual payments of ₹ 28,000 (on 1.6.2015) and ₹ 37,000 (on 21.9.2015) made towards advertisement to X Ltd.

Provisions for filing of Return of Income

13. State whether filing of income-tax return is mandatory for the assessment year 2016-17 in respect of the following cases:
- (a) A university have total income of ₹ 35 lacs without giving effect to exemption under section 10(23C). Its total income is, however, nil.
- (b) A Limited Liability Partnership (LLP) having business loss of ₹ 1,30,000.

Computation of excise duty

14. Tirupati Ltd. sold a special machine, manufactured by it to Gupta Ltd. at a price of ₹ 5,00,000 (excluding taxes and duties). Further, cash discount @ 2% on price of machinery (viz. ₹ 5,00,000) has been allowed to the customer. Following additional amounts were also charged from Gupta Ltd.:

S.No.	Particulars	₹
(i)	Transit insurance shown separately in the invoice	9,500
(ii)	Outward freight beyond place of removal	17,000
(iii)	Packing charges	5,000
(iv)	Extra charges for designing the machine	45,000

Calculate assessable value of the machine and excise duty payable thereon if excise duty rate and State VAT rate is 12.5% and 5% respectively.

Computation of export duty

15. Lalit Export House exported some goods to Germany. The assessable value of the goods exported is ₹ 80,00,000. The shipping bill was presented electronically on 20.03.2016. However, the proper officer passed order permitting clearance and loading of goods for export on 09.04.2016. Compute the export duty payable by it if the rate of export duty was 10% on 20.03.2016 and 8% on 09.04.2016.

Computation of central sales tax

16. Bajrangi Ltd.'s total inter-State sales for the financial year 2015-16 is ₹ 40,00,000 (inclusive of central sales tax). In this regard following additional information is available:

S. No.	Particulars	₹
(i)	Freight (₹ 50,000 is not shown separately on invoices)	2,00,000
(ii)	Goods sold to Mr. Vibishan on 05.05.2015 and returned on 22.10.2015.	35,000
(iii)	Mr. Bharat, a buyer to whom goods were dispatched on	40,000

	04.04.2015, rejected such goods. The said goods were received back on 24.11.2015.	
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Determine the taxable turnover and CST payable by Bajrangi Ltd. for financial year 2015-16, assuming that all the transactions were covered by valid "C" forms and sales tax rate within the State is 5%.

Computation of VAT liability

17. Ashish Manufacturers purchased raw material in Delhi worth ₹ 1,00,00,000 (excluding VAT) and manufactured finished goods worth ₹ 1,80,00,000 from such raw material in the month of January, 2016. It transferred these finished goods to its branch in Haryana on February 15, 2016 so that the goods can be sold from there. Thereafter, it received an order from Mr. A for the said finished goods in Haryana on February 20, 2016 and hence sold the said goods to Mr. A from Haryana branch. Compute:
- amount of input tax credit available for the month of February, 2016
 - net VAT payable for the month of February, 2016, and
 - balance input tax credit carried forward to next month, if any.
- Input VAT rate is 12.5% and output VAT rate is 4%.

Basic concepts of service tax

18. With reference to service tax law as contained in Finance Act, 1994, discuss whether any 'consideration' is involved in following cases:
- Gifts received from friends at the time of farewell party.
 - Grant given to a researcher to carry out any research of his choice. However, the researcher will have to provide IPR rights of the outcome of such research activity.
 - Donations given to a charitable trust with the condition that in every program organized by such trust, the name of the donor will be displayed on the stage.
 - Services are provided by X to Y. However, payment for the services is made by Z, a debtor of Y, on the instructions of Y.

Point of taxation

19. Mr. Rohan provides the following details relating to taxable service provided by him in the current financial year 2015-16. The aggregate value of services provided by Mr. Rohan in the preceding financial year was ₹ 80 lakh.

S. No.	Particulars	Date
(i)	Date of completion of service	05.06.2015
(ii)	Date of issue of invoice	01.07.2015
(iii)	Receipt of payment	20.08.2015

Determine the point of taxation in the above case.

Will your answer be different if the aggregate value of services provided by Mr. Rohan in the preceding financial year was ₹ 40 lakh?

Computation of service tax liability

20. Determine the service tax liability with respect to each of the following independent services provided:

Particulars	₹
Fees charged for yoga camp conducted by a charitable trust	5,00,000
Amount charged by Bank Mitrs for the services provided to a bank with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana (PMJDY)	1,00,000
Amount charged by cord blood banks by way of preservation of stem cells	50,000
Service provided by commentators to a recognized sports body	5,20,000

Note: Ignore the small service provider's exemption under *Notification No. 33/2012 ST dated 20.06.2012* while computing service tax liability and service tax has been charged separately, wherever applicable.

21. Chirag Ltd. furnishes the following details pertaining to January, 2016:
- Collected ₹ 1,00,000 from clients for pre-recruitment screening.
 - Arranged domestic help for friends & relatives, free of cost. The value of similar services when provided to other customers is ₹ 80,000.
 - Collected ₹ 10,00,000 from a warehouse of agricultural produce for labour provided for loading and unloading.
 - Advance amounting to ₹ 3,00,000 received from prospective employers for conducting campus interviews in colleges to be held in February, 2016. However, such campus interviews could not be conducted due to student's strike in those colleges. Hence, the advance received was later on returned to the employers.

Notes:

- Chirag Ltd. is not eligible for the small service provider's exemption.
- All above amounts are inclusive of service tax, wherever applicable.

Compute the value of taxable services rendered and the total service tax payable.

Exemptions under service tax

22. Universal Techo Ltd. imported a taxable service involving transfer of technology for ₹ 10,00,000 (exclusive of service tax and R & D cess) from USA in the month of

December, 2015. The exporter raised an invoice for the same on 01.01.2016. Universal Techo Ltd. paid the said amount on 28.02.2016. The Research and Development cess (R & D cess) of ₹ 50,000 leviable on such import of technology was paid by Universal Techo Ltd. on 22.02.2016. Universal Techo Ltd. has maintained proper records which show the linkage between the invoice raised for the service and R&D cess payment challan.

Briefly answer the following with respect to the abovementioned details:

- (i) Who is liable to pay service tax?
- (ii) What is the point of taxation?
- (ii) What is the amount of service tax that is payable on the said taxable service?

Payment of service tax at alternative rates

23. XYZ Ltd. is engaged in providing services of booking of tickets for travel by air. It discharges its service tax liability at special rates provided under rule 6(7) of the Service Tax Rules, 1994. Compute its service tax liability for the month of January, 2016 with the help of following particulars furnished by it:

Particulars	Basic fare as per rule 6(7) of Service Tax Rules, 1994 (₹)	Other charges and fee (₹)	Taxes (₹)	Total value of tickets (₹)
Domestic Bookings	1,15,400	11,200	5,260	1,31,860
International Bookings	4,00,200	22,150	13,380	4,35,730

XYZ Ltd. wants to pay service tax at the general rate in respect of bookings done by it during February. Can it do so? Explain.

Registration under service tax

24. ABC Designers Ltd., a company providing architectural services, has its branches in various cities across the country from where architectural services are provided to the clients. Its Head Office is located at New Delhi. ABC Designers Ltd. wants to apply for service tax registration. In what ways can ABC Designers Ltd. obtain registration? Explain.

CENVAT credit

25. ABC Co. Ltd. is engaged in the manufacture of excisable goods. It procured the following items during the month of February, 2016. Determine the amount of CENVAT credit available by giving necessary explanations for treatment of various items.

Items	Excise duty paid (₹)
Electrical transformers falling under Chapter 85 of the Excise Tariff	22,000
Moulds and dies	1,30,000
Pollution control equipment	20,000
Trucks used for the transport of raw material falling under tariff heading 8704	54,000
Capital goods used outside the factory for generation of electricity for captive use within the factory	20,000
Refractories	5,000

SUGGESTED ANSWERS/HINTS

1. (a) As per section 6, an individual is treated as resident if:
- he has stayed for 182 days in India during the previous year or
 - he has stayed for 60 days in the current previous year and 365 days in total during the four preceding previous years.

However, where an Indian citizen leaves India as a member of crew of an Indian ship or for the purpose of employment outside India, he will be resident only if he stayed for 182 days during the previous year.

Explanation 2 has been inserted by the Finance Act, 2015 in section 6(1) to provide that in the case of an Individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of such voyage, be determined in the prescribed manner and subject to the prescribed conditions.

Accordingly, the CBDT has prescribed the manner of determination of period of stay. For the purposes of section 6(1), in case of an individual, being a citizen of India and a member of the crew of a ship, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period -

- beginning on the date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage and
- ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage refers to a voyage undertaken by a ship engaged in the carriage of passengers or freight in international traffic where –

- (i) for the voyage having originated from any port in India, has as its destination any port outside India; and
- (ii) for the voyage having originated from any port outside India, has as its destination any port in India.

In this case, the voyage is undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Mumbai port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage for the purposes of section 6(1).

Therefore, the period beginning from 6th June, 2015 and ending on 9th December, 2015, being the dates entered into the Continuous Discharge Certificate in respect of joining the ship and signing off from the ship by Mr. Alok, an Indian citizen who is a member of the crew of the ship, has to be excluded for computing the period of his stay in India.

Accordingly, 187 days [25+31+31+30+31+30+9] have to be excluded from the period of his stay in India. Consequently, Mr. Alok's period of stay in India during the P.Y.2015-16 would be 179 days [i.e., 366 days – 187 days]. Since his period of stay in India during the P.Y.2015-16 is less than 182 days, he is a non-resident for A.Y.2016-17.

Note - Since the residential status of Mr. Alok is "non-resident" for A.Y.2016-17 consequent to his number of days of stay in P.Y.2015-16 being less than 182 days, his period of stay in the earlier previous years become irrelevant.

- (b) As per section 6(1), Mr. Shravan is a non-resident for the A.Y. 2016-17, since he was not present in India at any time during the previous year 2015-16.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

- (i) Income received or deemed to be received in India; and
- (ii) Income accruing or arising or which is deemed to accrue or arise in India.

In view of the above provisions, income from agriculture in Malaysia and income from house property in Malaysia would not be chargeable to tax in the hands of Mr. Shravan, assuming that the same were received in Malaysia.

Income from 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India as per section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Shravan, an Indian citizen, even though he is a non-resident.

However, allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7). Hence, foreign allowance of ₹ 4,55,000 is exempt under section 10(7).

Gross Total Income of Mr. Shravan for A.Y. 2016-17

Particulars	₹
Salaries	6,10,000
Income from other sources (Interest on fixed deposit in India)	<u>1,10,000</u>
Gross Total Income	<u>7,20,000</u>

2. (i) Agriculture Income from land situated in India is exempt under section 10(1), both in the case of residents and non-residents. Therefore, agriculture income of ₹ 2,00,000 from land in Kanchipuram, Tamil Nadu would be exempt in the hands of Ms. Dolly, a non-resident.
- (ii) Amount withdrawn from Public Provident Fund is exempt under section 10(11). Therefore, amount of ₹ 5,00,000 withdrawn by Mr. Rajesh from Public Provident Fund in accordance with rules would not be chargeable to tax.
- (iii) Section 10(10D)(d) exempts, any sum received under a life insurance policy, other than any sum received under an insurance policy issued on or after 1.4.2012 in respect of which the premium payable for any of the years during the term of the policy exceeds 10% of the capital sum assured.
- Therefore, ₹ 1,30,000 received by Mr. Abhi towards maturity proceeds of the life insurance policy would be chargeable to tax, since ₹ 23,000, being the amount of annual premium exceeds ₹ 12,000, being 10% of capital sum assured i.e., ₹ 1,20,000.
- (iv) Section 10(2A) provides that partner's share in the total income of a firm is exempt in his hands. The term "firm" includes a limited liability partnership and "partner" includes a partner of a limited liability partnership.
- Therefore, ₹ 5,60,000, being Dinesh's share of profit in the limited liability partnership would not be chargeable to tax in his hands.
- (v) As per section 10(10BC), any amount received or receivable as compensation by an individual or his/her legal heir on account of any disaster from the Central Government, State Government or a local authority is exempt from tax, except to the extent such individual or legal heir has already been allowed a deduction under this Act on account of such loss or damage caused by such disaster.

Thus, ₹ 3,50,000, being the amount of compensation received from Central Government on account of disaster would be exempt under section 10(10BC) in the hands of Mr. Rohan, assuming that the same has not been allowed as deduction under any other provision of the Act.

3. Computation of value and taxability of perquisites provided by Assam Tea Limited to Mr. Sarthak

S. No.	Particulars	Value of Taxable perquisite (₹)								
(i)	<p>Any sum paid by the employer in respect of any expenditure actually incurred by the employee in respect of any obligation which but for such payment, would have been payable by the assessee, would be chargeable to tax as perquisite [Section 17(2)(iv)].</p> <p>Thus, in this case, since it becomes an obligation on Mr. Sarthak to pay salary to his servant even if it is not reimbursed by his employer, ₹ 72,000 (₹ 6,000 x 12), being the amount of salary of servant reimbursed by his employer would be chargeable to tax in his hands.</p>	72,000								
(ii)	<p>The value of benefit to the employee arising from the transfer of any movable asset (air conditioner, in this case) belonging to the employer directly or indirectly to the employee or any member of the household shall be actual cost to the employer as reduced by 10% of such cost for each completed year during which such asset was put to use by the employer and as further reduced by the amount, if any paid or recovered from the employee, being the consideration for such transfer⁶.</p> <p>“Member of household” shall include spouse, children and their spouses, parents, servants and dependents⁷.</p> <p>Computation of value of perquisite</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Particulars</th> <th style="text-align: center;">₹</th> </tr> </thead> <tbody> <tr> <td>Original cost</td> <td style="text-align: center;">50,000</td> </tr> <tr> <td>Depreciation on SLM basis for 3 years @10% i.e. ₹ 50,000 x 10% x 3</td> <td style="text-align: center;"><u>15,000</u></td> </tr> <tr> <td>Perquisite value</td> <td style="text-align: center;">35,000</td> </tr> </tbody> </table>	Particulars	₹	Original cost	50,000	Depreciation on SLM basis for 3 years @10% i.e. ₹ 50,000 x 10% x 3	<u>15,000</u>	Perquisite value	35,000	35,000
Particulars	₹									
Original cost	50,000									
Depreciation on SLM basis for 3 years @10% i.e. ₹ 50,000 x 10% x 3	<u>15,000</u>									
Perquisite value	35,000									

⁶ Rule 3(7)(viii)

⁷ Explanation to Rule 3

	Thus, ₹ 35,000, being the value of perquisite of transferred movable asset i.e., air-conditioner to the servant of Mr. Sarthak would be chargeable to tax in his hands.	
(iii)	Medical facility to employee's family in a hospital maintained by the employer is not a taxable perquisite. Regardless of the estimated value of benefit arising from such facility to the employee, it is exempt from tax ⁸ . Therefore, the value of perquisite is Nil.	Nil
(iv)	Where the educational institution is owned by the employer, the value of perquisite in respect of free education facility shall be determined with reference to the reasonable cost of such education in a similar institution in or near the locality. However, there would be no perquisite if the cost of such education per child does not exceed ₹ 1,000 per month ⁹ . Therefore, there would be no perquisite in respect of cost of free education provided to his child Avani, since the cost does not exceed ₹ 1,000 per month. However, the cost of free education provided to his child Aarav would be taxable, since the cost exceeds ₹ 1,000 per month. The taxable perquisite value would be ₹ 15,000 (₹ 1,250 × 12). Note – An alternate view possible is that only the sum in excess of ₹ 1,000 per month is taxable. In such a case, the value of perquisite would be ₹ 3,000.	15,000
(v)	Telephone provided at the residence of the employee and payment of bill by the employer is a tax free perquisite ¹⁰ .	Nil
Total Value of Perquisite		1,22,000

4. Computation of Income from House Property of Mrs. Lalita for the A.Y. 2016-17

Particulars	₹	₹
I. House property in San Diego		
GAV– Rent received ¹¹ (\$ 3,500 p.m. x ₹ 65 per USD x 12 months)	27,30,000	
Less: Municipal taxes paid (\$ 2,100 x ₹ 65 per USD)	1,36,500	
Net Annual Value (NAV)	25,93,500	

⁸ Clause (i) of first proviso to section 17(2)

⁹ Rule 3(5)

¹⁰ Proviso to Rule 3(7)(ix)

¹¹ Rent received taken as GAV in the absence of other information

Less: Deduction under section 24			
- 30% of NAV		7,78,050	18,15,450
II. House property in Lucknow (Let-out portion - First Floor)			
Expected rent (lower of standard rent and fair rent)			
Standard Rent (₹ 15,000 x 12)	₹ 1,80,000		
Fair rent (₹ 12,500 x 12)	₹ 1,50,000	1,50,000	
Actual rent received (13,500 × 12)		1,62,000	
Gross Annual Value (higher of Expected rent and actual rent)		1,62,000	
Less: Municipal taxes paid (50% of ₹ 8,000)		4,000	
Net Annual Value (NAV)		1,58,000	
Less: Deduction under section 24			
30% of NAV	₹ 47,400		
Interest on housing loan (50% of ₹ 40,000)	₹ 20,000	67,400	90,600
Income from House property in Lucknow (Self-occupied portion - Ground Floor)			
Annual Value		Nil	
Less: Deduction under section 24			
Interest on housing loan (50% of ₹ 40,000)		20,000	(-) 20,000
Income from house property			18,86,050

5. (a) Computation of depreciation under section 32 for A.Y.2016-17

Particulars	₹	₹
Normal Depreciation		
Depreciation@15% on ₹ 61,00,000, being machinery (put to use for more than 180 days) [Opening WDV of ₹ 49,00,000 + Purchase cost of imported machinery of ₹ 12,00,000]	9,15,000	
Depreciation @7.5% on ₹ 18,00,000, being new machinery put to use for less than 180 days	1,35,000	
	10,50,000	
Depreciation@ 60% on computers purchased ₹ 6,00,000	3,60,000	14,10,000

Additional Depreciation (Refer Note below)		
Additional Depreciation@10% of ₹ 18,00,000 [being actual cost of new machinery purchased on 18-11-2015]	1,80,000	
Additional Depreciation@20% on new computer installed in manufacturing unit [20% of ₹ 6,00,000]	<u>1,20,000</u>	<u>3,00,000</u>
Total Depreciation		<u>17,10,000</u>

Note:-

The benefit of additional depreciation is available to new plant and machinery acquired and installed in manufacturing undertakings. Accordingly, additional depreciation is allowable in the case of any new machinery or plant acquired and installed by an assessee engaged, *inter alia*, in the business of manufacturing of spare parts, at the rate of 20% of the actual cost of such machinery or plant.

Therefore, new computer installed in manufacturing unit is eligible for additional depreciation@20%.

Since the new machinery was purchased only on 18.11.2015, it was put to use for less than 180 days during the previous year, and hence, only 10% (i.e., 50% of 20%) is allowable as additional depreciation in the A.Y. 2016-17. The balance additional depreciation would be allowed in the next year.

However, additional depreciation shall not be allowed in respect of, *inter alia*, any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person. Therefore, additional depreciation is not allowable in respect of imported machinery, since it was used in California, before its installation by Mr. Varun

- (b) (i) The entire revenue expenditure of ₹ 5,65,000 on scientific research related to the business of the company qualifies for deduction under section 35(1)(i).
- (ii) As per section 35(1)(iv) read with section 35(2), if any capital expenditure (other than expenditure on acquisition of land) is incurred on scientific research related to the business carried on by the assessee, the whole of such capital expenditure is allowable as deduction in the previous year in which it is incurred. Therefore, ₹ 12,50,000 (i.e. ₹ 22,00,000 – ₹ 9,50,000, being the cost of land) is allowable as deduction for the A.Y.2016-17. It is assumed that the scientific research is related to the business of Purnit Agro Industries.
- (iii) The employer's contribution to the account of an employee under a pension scheme referred to in section 80CCD, upto 10% of salary of the employee in the previous year, is allowable as deduction under section 36(1)(iva) while computing business income.

Disallowance under section 40A(9) would be attracted only in respect of the

amount in excess of 10% of salary. Accordingly, ₹ 38,20,000 would be allowed as deduction under section 36(1)(iva) and ₹ 6,80,000 would be disallowed as per section 40A(9).

- (iv) The tax of ₹ 5,50,000 borne by the employer on non-monetary perquisites provided to the employees is disallowed under section 40(a)(v).

6. **Computation of capital gains on slump sale of Unit X**

Particulars	₹
Sale value	50,00,000
Less: Expenses on sale	<u>68,000</u>
Net sale consideration	49,32,000
Less: Net worth (See Note 1 below)	<u>24,63,125</u>
Long-term capital gain	<u>24,68,875</u>

Notes:

1. **Computation of net worth of Unit X of Purple Enterprises**

Particulars	₹	₹
Building (excluding ₹ 5 lakhs on account of revaluation)		17,00,000
Machinery		5,00,000
Debtors		3,25,000
Patents (See Note 2 below)		1,40,625
Other assets (₹ 6,25,000 – ₹ 2,50,000)		<u>3,75,000</u>
Total assets		30,40,625
Less: Creditors	1,37,500	
Bank Loan	<u>4,40,000</u>	<u>5,77,500</u>
Net worth		<u>24,63,125</u>

2. **Written down value of patents as on 1.4.2015**

Value of patents:	₹
Cost as on 13.5.2013	2,50,000
Less: Depreciation @ 25% for Financial Year 2013-14	<u>62,500</u>
WDV as on 1.4.2014	1,87,500
Less: Depreciation for Financial Year 2014-15	<u>46,875</u>
WDV as on 1.4.2015	<u>1,40,625</u>

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of ₹ 5 lakh and

₹ 17 lakh (₹ 22 lakh – ₹ 5 lakh) represent the written down value of machinery and building, respectively, of Unit X determined as per section 43(6).

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

7. Computation of amount chargeable to tax under the head “Income from other sources” in the hands of Mrs. Rupali for A.Y. 2016-17

	Particulars	₹
(i)	Since shares are included in the definition of “property” and difference between the purchase value and fair market value of shares exceeds ₹ 50,000 i.e., ₹ 75,000 (₹ 1,55,000 – ₹ 80,000), the difference would be chargeable to tax under section 56(2)(vii)	75,000
(ii)	Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received on the occasion of wedding anniversary. The gift of ₹ 1,01,000 received from a non-relative is, therefore, chargeable to tax under section 56(2)(vii) in the hands of Mrs. Rupali.	1,01,000
(iii)	The provisions of section 56(2)(vii) are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of platinum ring received from her brother is not taxable under section 56(2)(vii), even though jewellery falls within the definition of “property”.	Nil
(iv)	To be exempt from applicability of section 56(2)(vii), the property should be received on the occasion of the marriage of the individual, not that of the individual’s son or daughter. Therefore, this exemption provision is not attracted in this case. Any sum of money received without consideration by an individual is chargeable to tax under section 56(2)(vii), if the aggregate value exceeds ₹ 50,000 in a year. Since, the aggregate value of cash gifts received by Mrs. Rupali exceeds ₹ 50,000 during the previous year 2015-16, the cash gifts aggregating ₹ 25,000 received from her four friends would be chargeable to tax in her hands.	25,000
(v)	The provisions of section 56(2)(vii) are not attracted in respect of any sum of money or property received from a relative. Since maternal uncle is a relative, the amount of ₹ 49,000 received by way of cheque from him would not be chargeable to tax in her hands.	Nil
Amount chargeable to tax under the head “Income from other Sources”		2,01,000

8. **Computation of total income of Mr. Sangram, Mrs. Sangeeta and their minor son for the A.Y. 2016-17**

Particulars	Mr. Sangram (₹)		Mrs. Sangeeta (₹)	Master Avi (₹)
Salary income (of Mrs. Sangeeta)		-	1,44,000	-
Pension income (of Mr. Sangram) (₹ 50,000×12)		6,00,000		
Income from House Property [See Note (3) below]		5,12,000	-	-
Income from other sources				
Interest on Mr. Sangram's fixed deposit with Canara Bank (₹ 2,00,000×9%) [See Note (1) below]	18,000		-	-
Remuneration received by Mrs. Sangeeta from a partnership firm, in which Mr. Sangram has substantial interest [See Note (2) below]	<u>32,500</u>	50,500	-	-
Income before including income of minor son under section 64(1A)		11,62,500	1,44,000	-
Income of the Master Aayu from the investment made in the business out of the amount gifted by Mr. Sangram [See Note (4) below]		49,500	-	-
Income of the Master Avi through an activity involving application of his skill and talent [See Note (5) below]		-	-	35,000
Total Income		12,12,000	1,44,000	35,000

Notes:

- (1) As per section 60, in case there is a transfer of income without transfer of asset from which such income is derived, such income shall be treated as income of the transferor. Therefore, the fixed deposit interest of ₹ 18,000 transferred by Mr. Sangram to Mr. Babloo shall be included in the total income of Mr. Sangram.
- (2) As per section 64(1)(ii), in case the spouse of the individual receives any amount by way of income from any concern in which the individual has substantial interest (i.e. holding shares carrying at least 20% voting power or entitled to at least 20% of the profits of the concern), then, such income shall be included in the total income of

the individual. The only exception is in a case where the spouse possesses any technical or professional qualifications and the income earned is solely attributable to the application of her technical or professional knowledge and experience, in which case, the clubbing provisions would not apply.

In this case, the remuneration of ₹ 32,500 received by Mrs. Sangeeta from the partnership firm has to be included in the total income of Mr. Sangram, as his wife does not possess any technical or professional qualification for earning such remuneration and Mr. Sangram has substantial interest in the partnership firm as he holds 75% share in the firm.

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

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

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

Therefore, the income of ₹ 51,000 received by Master Aayu from the investment made out of the sum gifted by Mr. Sangram shall, after providing for exemption of ₹ 1,500 under section 10(32), be included in the income of Mr. Sangram, since Mr. Sangram's income of ₹ 11,62,500 (before including the income of the minor child) is greater than Mrs. Sangeeta's income of ₹ 1,44,000. Therefore, ₹ 49,500 (i.e., ₹ 51,000 – ₹ 1,500) shall be included in Mr. Sangram's income. It is assumed that this is the first year in which clubbing provisions are attracted.

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

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

Therefore, the income of ₹ 35,000 derived by Master Avi through an activity involving application of his skill and talent shall not be clubbed in the hands of the parent. Such income shall be taxable in the hands of the minor son.

9. **Computation of Gross total income of Mr. Hariharan for the A.Y 2016-17**

	Particulars	₹	₹
I.	Income from house property		
	Gross Annual Value	5,23,000	
	Less: Municipal taxes paid	<u>28,000</u>	
	Net Annual Value (NAV)	4,95,000	
	Less: Deductions under section 24		
	(a) 30% of NAV	1,48,500	
	(b) Interest on housing loan (whole of the amount paid towards interest allowed as deduction, since property is let-out)	<u>2,16,000</u>	1,30,500
II.	Income from business		
	Income from business	3,45,000	
	Less : Current year depreciation under section 32(1)	<u>32,500</u>	
		3,12,500	
	Less: Set-off of brought forward business loss of A.Y. 2013-14 under section 72	<u>65,000</u>	
		2,47,500	
	Less: Unabsorbed depreciation set-off [See Note 3]	<u>1,07,000</u>	1,40,500
III	Capital gains		
	Long term capital gain on sale of debentures	88,000	
	Less: Unabsorbed depreciation set-off [See Note 3]	<u>88,000</u>	Nil
	Short term capital gain on sale of land [See Note 2]	2,14,000	2,14,000
IV	Income from other sources		
	Dividend on shares (whether held as stock-in-trade or from a company carrying on agricultural operations) – exempt under section 10(34)	-	<u>Nil</u>
	Gross total income		4,85,000

Notes:

- (1) Loss from an exempt source cannot be set-off against gains from a taxable source. Since long-term capital gains on sale of listed equity shares through a recognized

stock exchange is eligible for exemption under section 10(38), consequently, long-term capital loss on sale of listed equity shares, being loss from an exempt source, cannot be set-off against long-term capital gains on sale of debentures.

- (2) Since land is held for a period of less than 36 months, the gain of ₹ 2,14,000 arising from sale of such land is a short-term capital gain.
- (3) Brought forward unabsorbed depreciation can be adjusted against any head of income except salaries. However, it is more beneficial to set-off unabsorbed depreciation first against long-term capital gains, since it is taxable at a higher rate of 20% (the other income of the assessee falling in the 10% slab rate). Therefore, unabsorbed depreciation is first set-off against long-term capital gains to the extent of ₹ 88,000. The remaining unabsorbed depreciation is adjusted against business income to the extent of ₹ 1,07,000.

In the alternative, the balance of unabsorbed depreciation ₹ 1,07,000 may also be set-off against income from house property or short-term capital gain, in which case, the net income from house property would be ₹ 23,500 or short-term capital gain would be ₹ 1,07,000. The gross total income would, however, remain unchanged.

10. Computation of total income of Mr. Chankaya for the A.Y.2016-17

Particulars	₹
Gross total income	8,40,000
Less: Deductions under Chapter VI-A (See Working Note below)	<u>4,09,000</u>
Total Income	<u>4,31,000</u>

Working Note:

Computation of Deductions under Chapter VI-A

Particulars	₹	₹
(i) Deduction under section 80C		
- Deposit in public provident fund	1,00,000	
- Deposit of ₹ 80,000 in tax saver deposit in the name of major son in a nationalized bank – Fixed deposit in the name of son does not qualify for deduction under section 80C	-	
Premium on life insurance policy of his married daughter – Full amount is eligible for deduction under section 80C (since premium paid does not exceed 10% of sum assured)	<u>45,000</u>	
	1,45,000	

<p>(ii) Deduction under section 80CCD(1) Contribution to NPS of the Central Government, ₹ 1,00,000 [₹ 1,50,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to ₹ 84,000 being 10% of Gross total Income i.e., ₹ 8,40,000</p>	<p style="text-align: right;"><u>84,000</u> <u>2,29,000</u></p>	
<p>As per section 80CCE, aggregate deduction under section 80C and 80CCD(1) cannot exceed</p>		1,50,000
<p>(iii) Deduction under section 80CCD(1B) The deduction under section 80CCD(1B) would not be subject to overall limit of ₹ 1.50 lakh under section 80CCE. Therefore, it is more beneficial for Mr. Chankaya to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,00,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of Gross Total Income i.e. ₹ 84,000.</p>		50,000
<p>(iv) Deduction under section 80D</p>		
<p>(i) (a) Medical insurance premium for self</p> <p>(b) Preventive health check up ₹ 5,000 for wife restricted to ₹ 4,000 (₹ 25,000 - ₹ 21,000, since maximum allowable deduction is ₹ 25,000)</p>	<p>21,000</p> <p style="text-align: right;"><u>4,000</u> <u>25,000</u></p>	
<p>(ii) (a) Health Insurance premium for his father</p> <p>(b) Preventive health check up ₹ 5,000 restricted to ₹ 1,000 (₹ 5,000 - ₹ 4,000), since maximum allowable deduction in respect of preventive health check up under section 80D is ₹ 5,000¹². Whole of the amount of ₹ 25,000 allowed as deduction, since maximum allowable deduction is ₹ 30,000, where the parent is a senior citizen.</p>	<p>24,000</p> <p style="text-align: right;"><u>1,000</u> <u>25,000</u></p>	
<p>Total of (i) and (ii)</p>		50,000

¹² In the alternative, preventive health check-up of ₹ 5,000 of his father can be claimed, in which case, no deduction would be allowed in respect of the expenses on preventive health check-up of wife, since the aggregate deduction for preventive health check-up cannot exceed ₹5,000. In such case also, the total deduction under section 80D would be ₹ 50,000

(v) Deduction under section 80DD Deduction of ₹ 1,25,000 in respect of expenditure on medical treatment of his mother, being a person with severe disability would be allowed irrespective of the fact that amount of expenditure incurred is ₹ 80,000		1,25,000
(vi) Deduction under section 80G Contribution of ₹ 12,000 to PM's National Relief Fund, eligible for 100% deduction		12,000
(vii) Deduction under section 80GGA Payment of ₹ 22,000 to a Government recognized institution for scientific research - Eligible for deduction under section 80GGA since the payment is made by way of cheque		<u>22,000</u>
Total Deductions under Chapter VI-A		<u>4,09,000</u>

11. **Computation of Total Income and tax liability of CA. Suraj Chawla for Assessment Year 2016-17**

Particulars	Working Note Nos.	₹
Income from House Property	1	71,540
Profit and gains of Business or Profession	2	9,36,750
Short-term capital gains	3	25,200
Income from other sources	4	<u>26,300</u>
Gross Total Income		10,59,790
Less: Deduction under Chapter VI-A	5	<u>45,000</u>
Total Income		<u>10,14,790</u>
Tax on total income		
Total Income		10,14,790
Less: Short-term capital gains (See Note 9 below)		<u>25,200</u>
Normal Income		<u>9,89,590</u>
Tax on normal income		1,22,918
Tax on short-term capital gains @15%		<u>3,780</u>
		1,26,698
Add: Education cess @ 2% and SHEC @ 1%		<u>3,801</u>
Total tax liability		<u>1,30,499</u>
Total tax liability (rounded off)		1,30,500

Notes :

	₹	₹
(1) Income from House Property		
Gross Annual Value	1,04,000	
Less: Municipal taxes paid by owner	<u>1,800</u>	
Net Annual Value (NAV)	1,02,200	
Less: Deduction under section 24 @ 30% of NAV	<u>30,660</u>	71,540
Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.		
(2) Income under the head "Profits & Gains of Business or Profession"		
Net profit as per Profit & Loss Account		10,78,055
Add: Expenses debited to the Profit & Loss Account but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds ₹ 20,000	33,000	
(ii) Municipal Taxes paid in respect of residential flat let out	<u>1,800</u>	<u>34,800</u>
		11,12,855
Less: Expenses allowable but not debited to profit and loss account		
Interest paid on loan taken from LIC used for repair of computer		<u>2,050</u>
		11,10,805
Less: Income credited to Profit & Loss Account but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,155	
(ii) Income from UTI	8,400	
(iii) Profit on sale of shares	25,200	
(iv) Honorarium for valuation of answer papers	26,300	
(v) Rent received from letting out of residential flat	<u>1,04,000</u>	<u>1,74,055</u>
		9,36,750
(3) Capital gains:		
Short term capital gain on sale of shares		25,200
(4) Income from other sources:		
Dividend on shares of Indian companies	10,155	

(5)	Less: Exempt under section 10(34)	<u>10,155</u>	Nil	26,300
	Income from UTI	8,400		
	Less: Exempt under section 10(35)	<u>8,400</u>	Nil	
	Honorarium for valuation of answer papers		<u>26,300</u>	
	Deductions under Chapter VI-A :			
Deduction under section 80D (Medical Insurance Premium)				
	Policy holder	Amount of Premium (₹)	Amount eligible for deduction (₹)	
	Self	15,000	15,000	
	Wife (See note below)	11,000	Nil	
	Married daughter (See note below)	12,000	Nil	
	Dependent brother (See note below)	<u>8,000</u>	<u>Nil</u>	
			<u>15,000</u>	15,000
	Deduction under section 80D (Medical Expenditure)			
	Medical expenditure incurred on the health of Father is allowed as deduction to the maximum of ₹ 30,000, since he is a very senior citizen.			30,000
	It is assumed that father is resident in India and no payment has been made to keep in force an insurance on his health.			
	Total deduction under Chapter VI-A			<u>45,000</u>
	Note – Premium paid to insure the health of brother is not eligible for deduction under section 80D, since brother is not included in the definition of family. Premium paid to insure the health of wife is not eligible for deduction since payment is made in cash. Premium paid to insure the health of married daughter is not eligible for deduction as she is not dependent on Mr. Suraj.			

- (6) ₹ 25,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with his professional work. Therefore, it requires no further treatment, since the same has already been debited to Income & Expenditure A/c.
- (7) Incentive to articled assistants passing IPCC examination in their first attempt is deductible under section 37(1).
- (8) Repairs and maintenance paid in advance for the period 1.4.2016 to 30.9.2016 i.e. for 6 months amounting to ₹ 950 will be allowed since Mr. Suraj is following the cash system of accounting.

- (9) Since securities transaction tax has been paid on the shares and the period of holding of these shares is less than 12 months, the profit arising there from is a short-term capital gain chargeable to tax at 15% under section 111A.
- (10) Since depreciation debited to income and expenditure account is as per the Income-tax Rules, 1962, no adjustment for the same has been made.
12. (a) As per section 194-I, tax is to be deducted at source @ 2% on payment of rent for use of plant and machinery, only if the payment exceeds ₹ 1,80,000 during the financial year.
Since rent of ₹ 1,65,000 paid by a partnership firm does not exceed ₹1,80,000, **tax is not deductible.**
- (b) Section 194E provides that the person responsible for payment of any amount to a non-resident sportsman for contribution of articles relating to any game or sport in India in a newspaper **has to deduct tax at source @ 20%**. Further, since Chris Gayle, a cricket player of West Indies team is a non-resident, education cess @2% and secondary and higher education cess @1% on TDS should also be added.
Therefore, tax to be deducted = ₹ 59,000 x 20.60% = ₹ 12,154.
- (c) Under section 194BB, tax is to be deducted at source, if the income arising by way of winning a jackpot in horse races exceeds ₹ 5,000. The **rate of deduction of tax at source is 30%**. Since, the winnings are paid to a resident, education cess@2% and secondary and higher education cess@1% has not been added to the tax rate of 30%.
Hence, tax to be deducted = ₹ 1,80,000 x 30% = ₹ 54,000.
- (d) Advertising is included in the definition of “work” under section 194C. Under section 194C, the provisions for tax deduction at source would not be attracted if the amount paid to a contractor does not exceed ₹ 30,000 in a single payment or ₹ 75,000 in the aggregate during the financial year.
Therefore, provisions for deduction of tax at source under section 194C are not attracted in respect of payment of ₹ 28,000 on 1.6.2015 to X Ltd. However, payment of ₹ 37,000 on 21.9.2015 to X Ltd. would attract TDS @2%, since it exceeds ₹ 30,000.
Hence, tax to be deducted = ₹ 37,000 x 2% = ₹ 740
13. (a) As per section 139(4C), a university referred to in section 10(23C), should file the return of income if its total income exceeds the basic exemption limit without giving effect to the provisions of section 10.
Since the total income of the university before giving effect to the exemption under section 10, exceeds the basic exemption limit of ₹ 2,50,000, it has to file its return of income for the A.Y. 2016-17.

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

14. **Computation of assessable value and excise duty payable**

Particulars	₹
Price of machinery	5,00,000
Add: Packing charges [Note 1(i)]	5,000
Extra design charges [Note 1(i)]	<u>45,000</u>
Total	5,50,000
Less : 2% cash discount on price of machinery [₹ 5,00,000 x 2%] [Note 1(iv)]	<u>10,000</u>
Assessable value	5,40,000
Excise duty @ 12.5%	67,500

Notes:

- While computing assessable value:-
 - packing charges and extra designing charges have been included as such payments are ‘in connection with sale’.
 - transit insurance shown separately in the invoice has not been included as it is a part of transportation cost.
 - outward freight has not been included as it is incurred for transporting the goods beyond the place of removal.
 - cash discount has been allowed as deduction as it has been passed on to the buyer.
- State VAT does not affect excise duty payable.

15. **Computation of export duty**

Particulars	Amount (₹)
Assessable value of the export goods	80,00,000
Export duty @ 8% [Refer Note below]	6,40,000

Note: In case of goods entered for export, the rate of duty shall be the rate in force on the date on which the proper officer makes an order permitting clearance and loading of the goods for exportation.

16. Computation of Bajrangi Ltd.'s taxable turnover and CST payable

Particulars	₹	₹
Total inter-State sales		40,00,000
Less: Freight shown separately in the invoices [Freight not shown separately in invoices is not deductible]	1,50,000	
Goods returned by Mr. Vibishan [deductible as returned within 6 months]	35,000	
Goods rejected by Mr. Bharat after 6 months [deductible although returned after 6 months, as it is a case of an un-fructified sale]		
	<u>40,000</u>	<u>2,25,000</u>
Turnover (including CST)		37,75,000
Taxable turnover (rounded off) [₹ 37,75,000 × 100/102]		37,00,980
CST @ 2% [₹ 37,75,000 × 2/102]		
Since transactions are covered by valid 'C' Form, CST is 2% or sales tax rate within the State (5%), whichever is lower, i.e., 2%		
CST payable (rounded off)		74,020

17. Computation of VAT payable and input tax credit for February, 2016

Particulars	₹
Output VAT payable (Note-1)	Nil
Less: Input tax credit $\left[1,00,00,000 \times \frac{(12.5 - 2)}{100} \right]$ (Note-2)	<u>10,50,000</u>
Net VAT payable	<u>Nil</u>
Balance input tax credit carried forward to next month	10,50,000

Notes:

- Inter-State stock transfers do not involve sale and, therefore they are not subject to VAT. Further, CST is not payable as there was no pre-existing agreement for the sale of the goods so transferred.
 - In case of stock transfer of finished goods, input tax paid (on inputs used in manufacture of such finished goods) in excess of 2% is available as input tax credit.
18. 'Consideration' means everything received or recoverable in return for a provision of service. It includes monetary payment and any consideration of non-monetary nature or deferred consideration as well as recharges between establishments located in a non-taxable territory and taxable territory. In the backdrop of this definition, given situations are examined hereunder:
- No, as in this case, gifts are given out of free will and not in lieu of any provision of service.

- (ii) Yes. Though grants given for a research where the researcher is under no obligation to carry out a particular research is not a consideration, grant given with counter obligation on the researcher to provide IPR rights on the outcome of research undertaken with the help of such grants is a consideration for the provision of service of research.
- (iii) Yes. Donations to a charitable organization are not consideration unless charity is obligated to provide something in return. Since in this case, donations are given to the charitable trust with the condition that in every program organized by such trust, the name of the donor will be displayed on the stage, the donations would amount to consideration.
- (iv) Yes. The consideration for a service may be provided by a person other than the person receiving the benefit of service as long as there is a link between the provision of service and the consideration. Since in the given case, payment for the service is made by Z, a debtor of service receiver Y, on the instructions of Y, the payment will be treated as consideration of service provided by X to Y.
19. As per rule 6 of the Service Tax Rules, 1994, in case of individuals and partnership firms whose aggregate value of taxable services provided from one or more premises is ₹ 50 lakh or less in the previous financial year, the service provider has the option to pay tax on taxable services provided or agreed to be provided by him upto a total of ₹ 50 lakh in the current financial year on receipt basis. Since in the present case, aggregate value of services provided by Mr. Rohan in the preceding financial year was ₹ 80 lakh, he cannot exercise the said option.

Resultantly, he is required to pay service tax in accordance with Point of Taxation Rules, 2011 (POTR). As per rule 3 of the POTR, if the invoice is issued within 30 days of the completion of the provision of the service, point of taxation is:-

- (i) date of issue of invoice (01.07.2015), or
 (ii) date of receipt of payment (20.08.2015),

whichever is earlier.

Thus, point of taxation, in the given case, is date of invoice, i.e., 01.07.2015.

However, if the aggregate value of services provided by Mr. Rohan in the preceding financial year was ₹ 40 lakh, he has the option to pay tax on taxable services provided or agreed to be provided by him upto a total of ₹ 50 lakh in the current financial year on receipt basis. In that case, point of taxation will be 20.08.2015.

20. Computation of service tax liability

Particulars	Amount charged (₹)	Service tax liability (₹)
Fees charged for yoga camp conducted by a charitable trust [Note-1]	Nil	Nil

Amount charged by Bank Mitrs for the services provided to a bank with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana (PMJDY) [Note-2]	Nil	Nil
Amount charged by cord blood banks by way of preservation of stem cells [Note-3]	Nil	Nil
Service provided by commentators to a recognized sports body [Note-4]	5,20,000	5,20,000×14.5% =75,400

Notes:

As per Mega Exemption Notification No. 25/2012 ST dated 20.06.2012:

- Services by an entity registered under section 12AA of the Income-tax Act, 1961 by way of charitable activities are exempt from service tax. Activities relating to advancement of yoga are, *inter alia*, included in the definition of charitable activities.
- Services provided by a business facilitator/a business correspondent (popularly known as Bank Mitrs) to a banking company with respect to Basic Savings Bank Deposit Accounts covered by Pradhan Mantri Jan Dhan Yojana (PMJDY) are exempt from service tax.
- Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are exempt from service tax.
- Services provided to a recognized sports body by an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body are exempt from service tax. Thus, services provided by commentators are taxable.

21. Computation of value of taxable service and service tax payable by Chirag Ltd. for January, 2016

Particulars	₹
Amounts collected from clients for pre-recruitment screening	1,00,000
Domestic helps arranged for friends & relative for free [Note-1]	Nil
Amount collected from a warehouse of agricultural produce for labour provided for loading and unloading [Note-2]	10,00,000
Advances received from prospective employers for conducting campus interviews in colleges to be held in February, 2016 [Note-3]	<u>3,00,000</u>
Value of taxable service including service tax	14,00,000
Value of taxable service (₹ 14,00,000 × 100/114.5) [rounded off]	12,22,707
Service tax (₹ 12,22,707 × 14.5/100) [rounded off]	1,77,293

Notes:

- Free services are not liable to service tax as there is no consideration involved.

2. Since labour supplied to a warehouse for loading and unloading of agricultural produce can neither be considered as supply of farm labour nor loading, unloading of agricultural produce, such service is not covered in the negative list of services and hence, is taxable [Section 66D of the Finance Act, 1994].
3. Since services agreed to be provided are also chargeable to service tax, advance received will also be liable to service tax. Such advance received from prospective employers will be taxable at the time when it is received irrespective of the fact that no campus interviews were subsequently conducted and advances received were returned to employers.
22. (i) In case where the taxable services are provided by any person located in a non-taxable territory and are received by any person located in the taxable territory, person liable to pay service tax is the recipient of such service under reverse charge mechanism. Thus, in the given case, Universal Techo Ltd. is liable to pay service tax on the taxable service imported by it.
- (ii) As per the Point of Taxation Rules, 2011, the point of taxation in respect of the persons required to pay tax under reverse charge mechanism is the date on which payment is made provided payment is made within a period of 3 months of the date of invoice. However, if the payment is not made within a period of three months of the date of invoice, point of taxation will be the first day that occurs immediately after the expiry of said three months.
- Since in the given case, Universal Techo Ltd. has made the payment within 3 months from the date of the invoice, the point of taxation is the date of payment i.e., 28.02.2016.
- (iii) The amount of R&D cess payable is allowed as a deduction from the service tax payable on the taxable service involving the import of technology provided:-
- (i) said amount of R&D cess is paid at the time or before the payment for the service subject to a maximum of 6 months from the date of invoice and
- (ii) records of R&D cess are maintained for establishing the linkage between the invoice and the R&D cess payment challan.

Since both the aforesaid conditions are fulfilled, Universal Techo Ltd. is eligible for said exemption. Therefore, service tax payable by Universal Techo Ltd. would be computed as under:

Particulars	(₹)
Service tax (₹ 10,00,000 × 14.5%)	1,45,000
Less: Research and development cess paid	<u>50,000</u>
Net service tax liability	<u>95,000</u>

23. Computation of service tax liability of XYZ Ltd. for January, 2016:

Particulars	₹
Basic fare in case of domestic bookings	1,15,400
Service tax @ 0.7% [A] Refer Note 1	807.80
Basic fare in case of international bookings	4,00,200
Service tax @ 1.4% [B] Refer Note 1	5,602.8
Total service tax [A] + [B] (rounded off)	6,411
Add: Swachh Bharat Cess (₹6,411 × 0.5/14) [rounded off]	229
Total Service tax payable	6,640

Notes:

- Rule 6(7) of Service Tax Rules, 1994 provides an option to an air travel agent to pay service tax at special rates of 0.7% and 1.4% of 'basic fare' in case of domestic and international bookings for air travel respectively.
- Since the given basic fare is in terms of rule 6(7) of Service Tax rules, 1994, service tax has been computed as a percentage of such basic fare only and other charges, fee and taxes have been ignored.

The option once exercised, applies uniformly in respect of all the bookings for air travel made by the air travel agent and cannot be changed during a financial year under any circumstances. Therefore, XYZ Ltd. cannot pay service tax @ 14.5% for the month of February, 2016 and will have to discharge its service tax liability for the said month by paying service tax at the special rates mentioned above. However, it can change the option and pay service tax at the general rate from the next financial year.

- As per rule 4 of Service Tax Rules, 1994, where a person, liable for paying service tax on a taxable service provides such service from more than one premises or offices and has centralised billing/accounting system in respect of such service, and such centralised billing/accounting systems are located in one or more premises, he may, at his option, register such premises or offices from where centralised billing/accounting systems are located.

However, if such assessee does not have any centralized billing/accounting systems, he shall make separate applications for registration in respect of each of such premises or offices to the jurisdictional Superintendent of Central Excise. It may be noted that registration for a single premises is applied by making an online application at ACES website of CBEC.

Therefore, since ABC Designers Ltd. provides architectural services from different branches spread across the country, it can opt for centralized registration if it has centralized billing/accounting system located at one or more of its centres. However, if it

does not have any centralized billing/accounting systems, it shall have to obtain separate registration for each of its centres.

25. Computation of CENVAT credit available to ABC Co. Ltd.

Particulars	₹
Electrical transformers falling under Chapter 85 of Excise Tariff (Note-1)	22,000
Moulds and dies (Note-1)	1,30,000
Pollution control equipment (Note-1)	20,000
Trucks used for the transport of raw material falling under tariff heading 8704 (Note-2)	Nil
Capital goods used outside the factory for generation of electricity for captive use within the factory (Note-1)	20,000
Refractories (Note-1)	<u>5,000</u>
Total excise duty paid on the eligible capital goods	<u>1,97,000</u>
CENVAT credit available = 50% of excise duty paid on capital goods (Note-3)	98,500

Notes:

- As per the definition of capital goods following goods are, *inter alia*, eligible capital goods for the purposes of claiming CENVAT credit:-
 - all goods falling under Chapter 85,
 - moulds and dies,
 - pollution control equipment,
 - refractories
 - capital goods used outside the factory of the manufacturer of the final products for generation of electricity for captive use within the factory.
- Motor vehicles used in the factory of the manufacturer are eligible as capital goods provided they do not fall under tariff headings 8702, 8703, 8704 and 8711. Therefore, the trucks used for the transport of raw material falling under tariff heading 8704 are not eligible capital goods.
- CENVAT credit of only upto 50% of the excise duty paid is available in respect of the eligible capital goods in the year of purchase.