REVISION TEST PAPERS

COMMON FOR

INTERMEDIATE (IPC) COURSE GROUP – I

(UNDER OLD SCHEME)

&

ACCOUNTING TECHNICIAN COURSE

MAY, 2019

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

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Revision Test Paper, May 2019 – Objective & Approach

(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)

I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

(i) Planning and preparing for examination

(ii) Subject-wise guidance – An overview

(iii) Updates applicable for a particular exam in the relevant subjects

(iv) Topic-wise questions and detailed answers thereof in respect of each paper

(v) Relevant publications/announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials, solved the questions given in the Practice Manual and gone through the Suggested Answers of the earlier examinations. It is important to remember that there can be large number of other complex questions which are not covered in the RTP. In fact, questions contained herein are only illustrative in nature.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website *www.icai.org* under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when you receive the RTP, you should have completed the entire syllabus of all the subjects at least once. RTP is an effective tool to revise and refresh your concepts and knowledge gained through the first round of study of the whole course. When the RTP reaches your hand, your study plan should have been completed as under:

❖ *Study Materials*

You must have finished reading the relevant Study Materials of all the subjects. Make sure you go through the Study Material as they cover the syllabus comprehensively.

❖ *Practice Manuals*

Practice Manuals are an excellent medium of understanding the practical aspects of the various provisions learnt through the Study Materials. Solving the Practice Manual at least once before proceeding to the RTP will ensure that you have a grasp of the application and computational aspect of the syllabus as well.

❖ *Suggested Answers*

Giving an honest attempt to solve the previous attempts suggested answers on your own, will give you a flavour of the pattern of question paper and type of questions which are being asked in the examination.

After completing the above process, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTPs are provided to you to check your preparation standards and hence it must be solved on your own in a time-bound manner.

The stratagem and the fine points requiring careful consideration in respect of preparation for the CA examinations are explained in comprehensive details in BOS' publication "How to face CA Examinations? A Matrix of Winning Strategies". The publication may be referred to when you start preparing for a subject.

Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answer as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.
- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview

PAPER – 1 : ACCOUNTING

The Revisionary Test Paper (RTP) of Accounting is divided into two parts viz Part I - Relevant announcement for May, 2019 examination and Part II – Questions and Answers.

It may be noted that the July, 2015* edition of the Study Material and April, 2016 edition of Practice Manual is relevant for May, 2019 Examination.

Part I of the Revisionary Test Paper consists of the relevant Notifications and information applicable and not applicable for May 2019 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for May 2019 examination. The brief summary of the same has been given as under:

A. Applicable for May, 2019 examination:

I Amendments in Schedule III (Division I) to the Companies Act, 2013

II Amendments in Schedule V to the Companies Act, 2013

III Notification dated 13th June, 2017 to exempt start-up private companies from preparation of Cash Flow Statement

IV Amendments made by MCA in Companies (Accounting Standards) Rules, 2006.

B. Not applicable for May, 2019 examination:

Ind ASs issued by the Ministry of Corporate Affairs.

Part II of the Revisionary Test Paper consists of twenty questions together with their answers. First sixteen questions are based on different topics discussed in the study material. Last 4 questions of this RTP are based on Accounting Standards. For easy reference the topic / accounting standard name and number on which the question is based has been quoted at the top of each question. The details of topics, on which questions in the RTP are based, are as under:

Question No.	Topic
1 and 2	Financial Statements of Companies
3	Profit /Loss prior to Incorporation
4	Accounting for Bonus Issue
5	Internal Reconstruction of a Company

** The students are advised to access revised chapters 1,2 and 6 web hosted at the BoS knowledge portal.*

6	Amalgamation of Companies
7	Average Due Date
8	Account Current
9	Self-Balancing Ledgers
10	Financial Statements of Not-For-Profit Organizations
11	Accounts from Incomplete Records
12	Hire purchase Transactions
13	Investment Accounts
14	Insurance Claim for Loss of Stock or profit
15	Issues in Partnership Accounts
16	Accounting in Computerized Environment
17-20	Accounting Standards

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

In the paper of Business Law, Ethics and Communication the objective is to gain knowledge of those branches of law relating to business transactions, certain corporate bodies and related matters and their application to practical commercial situations, students need to prepare on these lines. Students should also give importance to the terms/definitions for proper conceptualization of the answers. Students have to focus their study based on the major legal provisions, case laws, if any, and understand their practical implications. Also, Language is an important point of concern. This problem among many of the candidates can be overcome by way of practice writing and also undertaking self-examination by going through Revisionary Test Papers (RTP).

RTP gives an idea to the student attempting law paper to give the answer of any practical oriented questions by pinpointing the legal points or issues involved in any statement, problem or situation given in the question, explaining the relevant legal provisions clearly, co-relating the legal provisions to the given statement or problem or situation and cite the relevant case law in support of their reasoning for reflecting on the quality of the answer. For the theoretical question, the answer should be laid down by highlighting the main points with brief description and example, particularly in Ethics and Communication part.

Generally, the RTP is divided into two parts -

Part I: Containing the relevant legislative amendments which are applicable/ non-applicable for May, 2019 examinations.

It consists of the relevant Notifications and information applicable for May, 2019 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for May, 2019 examinations.

Part II: Topic wise questions with detailed answers

It constitutes of two divisions – Division A (Multiple Choice Question) and Division B (Details Questions). The questions in Division B are in the following sequences:

QUESTION NO.	ABOUT THE QUESTION
1 & 2	Deals with the Indian Contract Act, 1872.
3	Deals with the Negotiable Instruments Act,1881
4	Related with the Payment of Bonus Act,1965
5	Related to the EPF and Miscellaneous Provisions Act, 1952.
6	Problem related with the Payment of Gratuity Act, 1972.
7 to 9	Based on the Companies Act, 2013
10 - 12	Related to Ethics
13 - 15	Related to Communication

Guidance on the citation of the Case Laws and Section

Students may kindly note that in view of various Acts covered under Business Laws, you may find it difficult to remember various sections of the law and related case laws on the matter. Case laws and citing of the Sections reflects on the quality of your preparation for the examination and making yourself set to become a perfect professional. The answers that are reflected here have reference to sections and case laws wherever applicable. It may kindly be noted that these are given for knowledge and to mainly inculcate such a habit. However, at this level it may not affect on the scoring of the marks.

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

The Revision Test Paper (RTP) of Cost Accounting and Financial Management comprises of twenty-two questions – twelve questions each from Cost Accounting part and ten questions from Financial Management part – for full coverage of the syllabus. Theoretical questions alongwith computational problems have also been incorporated so that you are able to give emphasis to the theoretical portion of the syllabus as well. Since this paper's inclination is more towards numerical-oriented questions which involve mathematical calculations, therefore, it is very important that you have thoroughly studied the theoretical aspects of the subject and are also clear about the concepts and logic behind the mathematical workings and formulae.

A summary of the questions both theoretical and computational has been given for your reference:

Part I : Cost Accounting

Qs No.	Topic	About the Problem
1.	Material	Calculation of Economic Order Quantity (EOQ), Level of Inventory.
2.	Labour	Calculation of wages.
3.	Overheads	Distribution of Overheads
4.	Non-integrated Accounting	Preparation of Costing Profit and Loss Account indicating the net profits. Reconciliation of profit calculated under both the system.
5.	Contract Costing	Preparation of contract Account.
6.	Operating Costing	Preparation of statement of cost of operating a vehicle.
7.	Process Costing	Preparation of equivalent production and Process Account.
8.	Joint Products & By Products	Preparation of statement showing the apportionment of joint costs.
9.	Standard Costing	Computation of Material Variances.
10.	Marginal Costing	Calculation of BEP, P/V ratio.
11	Budget and Budgetary Control	Preparation of production budget, Purchase budget and Direct labour Budget.
12(a)	Cost Concepts	Difference between Cost Control and Control Reduction.
12(b)	Labour	Accounting treatment of Idle time and overtime wages.
12(c)	Cost Concepts	Cost classification based on variability and Controllability.

Part II: Financial Management

Qs. No.	Topic	About the Problem
1.	Time Value of Money	Compound Interest
2.	Ratio Analysis	Comment on Ratios.
3.	Fund Flow Analysis	Preparation Fund flow statement.
4.	Cost of Capital	Determination of the weighted average cost of

		capital of the company using book value weights and market value weights.
5.	Capital Structure	Ascertainment of the probable price of share
6.	Leverage	Calculation of leverages.
7.	Investment Decisions/ Capital Budgeting	Capital Budgeting decisions.
8.	Financing of Working Capital	Working Capital Investment and its financing.
9.	Financing of Working Capital.	Estimation of Working Capital Requirement.
10 (a).	Scope and Objective of Financial Management	Functions of Finance Manager.
10 (b).	Scope and Objective of Financial Management	Inter relationship between investment, financing and dividend decisions
10 (c).	Types of Financing	Debt securitisation

PAPER 4: TAXATION

Section A : Income-tax (50 Marks)

The provisions of Income-tax law, as amended by the Finance Act, 2018, and significant notifications, circulars and other legislative amendments upto 31.10.2018 are relevant for May, 2019 Examination. The relevant assessment year for May, 2019 examination is A.Y.2019-20.

The July 2018 edition of the Study Material for new Intermediate Course Paper 4: Taxation, Section A: Income-tax Law [Modules 1 to 3] is also applicable for IIPCC Paper 4: Taxation Section A: Income-tax with the exception of the following topics discussed under the following headings -

- "8. Tax Collection at Source – Basic Concept [Section 206C]" in pages 9.66 to 9.72 in Chapter 9.

- "18. Self-Assessment" in page 10.30 in Chapter 10.

Consequently, the summary of the above two topics forming part of "Let us recapitulate" at the end of these chapters is also not relevant for IIPCC Paper 4A: Income-tax.

Further, a list of topic-wise exclusions from the syllabus has been specified in the above study material by way of **"Study Guidelines"**. The same is also given as part of

"Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2019 – Intermediate (IPC) Examination" appended at the end of this Revision Test Paper.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments by the Finance Act, 2018 and latest circulars and notifications are given in *italics*/***bold italics***. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your level of understanding.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

Before you work out the questions in Part II of the RTP, do read the Statutory Update given in Part I.

Section B: Indirect Taxes (50 Marks)

For Section B: Indirect Taxes of Paper 4: Taxation, provisions of CGST Act, 2017 and IGST Act, 2017, including significant circulars and notifications issued and other legislative amendments made upto 31st October, 2018 are applicable for May, 2019 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines for May, 2019 Examination"**. The same is given as part of "Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2019 Examination" appended at the end of this Revision Test Paper.

The September, 2018 edition of the Study Material for New Intermediate Course Paper 4: Taxation, Section B: Indirect Taxes is also applicable for IIPCC Paper 4: Taxation Section B: Indirect Taxes. The Study Material has been divided into two modules for ease of handling by students.

Study Material is based on the provisions of the Central Goods and Services Tax Act, 2017 and Integrated Goods and Services Act, 2017 as amended upto 25.09.2018.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your knowledge.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

It may be noted that the Statutory Update comprising of the significant legislative developments by way of notifications/circulars issued from 26.09.2018 to 31.10.2018 has been web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR MAY 2019 EXAMINATION

A. <u>Applicable for May, 2019 examination</u>

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013), the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

(A) under the heading "II Assets", under sub-heading "Non-current assets", for the words "Fixed assets", the words "Property, Plant and Equipment" shall be substituted;

(B) in the "Notes", under the heading "General Instructions for preparation of Balance Sheet", in paragraph 6,-

(I) under the heading "B. Reserves and Surplus", in item (i), in sub- item (c), the word "Reserve" shall be omitted;

(II) in clause W., for the words "fixed assets", the words "Property, Plant and Equipment" shall be substituted.

II. Amendments in Schedule V to the Companies Act, 2013

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading "REMUNERATION", in Section II - ,

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in the first para, the words "without Central Government approval" shall be omitted;

(c) in item (A), in the proviso, for the words "Provided that the above limits shall be doubled" the words "Provided that the remuneration in excess of above limits may be paid" shall be substituted;

(d) in item (B), for the words "no approval of Central Government is required" the words "remuneration as per item (A) may be paid" shall be substituted;

(e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-

"(ii) the company has not committed any default in payment of dues to any bank or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

(f) in item (B), in second proviso, in clause (iii), the words "the limits laid down in" shall be omitted;

In PART II, under the heading "REMUNERATION", in Section III, –

(a) in the heading, the words "without Central Government approval" shall be omitted;

(b) in first para, the words "without the Central Government approval" shall be omitted;

(c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted;

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

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

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

IV. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarises the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant and equipment as per AS 10, Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading)	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said

		spares, and loose tools.	(e) Stores and spares (f) Loose tools (g) Others (specify nature)".	paragraph i.e. 'Others'.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property, Plant and equipment (2016) given in the Annexure. The Annexure is given at the end of Accounting Part II Suggested Answers.
AS 13	20	The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying	An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is	Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.

		amount of the investment property.	directly related to the right to hold the investment property, is added to the carrying amount of the investment property.	
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item.	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be

		Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	presented as a separate line item since there is not sub-heading like 'Miscellaneous expenditure' in Schedule III to the Companies Act, 2013

B. <u>Not applicable for May, 2019 examination</u>

Non-Applicability of Ind ASs for May, 2019 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2019 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

1. (a) Shweta Ltd. has the Authorised Capital of ₹ 15,00,000 consisting of 6,000 6% Preference shares of ₹ 100 each and 90,000 equity Shares of ₹10 each. The following was the Trial Balance of the Company as on 31st March, 2018

Particulars	Dr.	Cr.
Investment in Shares at cost	1,50,000	
Purchases	14,71,500	

Selling Expenses	2,37,300	
Inventory as at the beginning of the year	4,35,600	
Salaries and Wages	1,56,000	
Cash on Hand	36,000	
Interim Preference dividend for the half year to 30th September	18,000	
Bills Receivable	1,24,500	
Interest on Bank overdraft	29,400	
Interest on Debentures upto 30th Sep (1st half year)	11,250	
Debtors	1,50,300	
Trade payables		2,63,550
Freehold property at cost	10,50,000	
Furniture at cost less depreciation of ₹ 45,000	1,05,000	
6% Preference share capital		6,00,000
Equity share capital fully paid up		6,00,000
5% mortgage debentures secured on Freehold properties		4,50,000
Income tax paid in advance for the current year	30,000	
Dividends		12,750
Profit and Loss A/c (opening balance)		85,500
Sales (Net)		20,11,050
Bank overdraft secured by hypothecation of stocks and receivables		4,50,000
Technical knowhow fees at cost paid during the year	4,50,000	
Audit fees	18,000	
Total	**44,72,850**	**44,72,850**

You are required to prepare the Profit and Loss Statement for the year ended 31st March, 2018 and the Balance Sheet as on 31st March, 2018 as per Schedule III of the Companies Act, 2013 after taking into account the following –

1. Closing Stock was valued at ₹ 4,27,500.
2. Purchases include ₹ 15,000 worth of goods and articles distributed among valued customers.
3. Salaries and Wages include ₹ 6,000 being Wages incurred for installation of Electrical Fittings which were recorded under "Furniture".

4. Bills Receivable include ₹ 4,500 being dishonoured bills. 50% of which had been considered irrecoverable.
5. Bills Receivable of ₹ 6,000 maturing after 31st March were discounted.
6. Depreciation on Furniture to be charged at 10% on Written Down Value.
7. Investment in shares is to be treated as non-current investments.
8. Interest on Debentures for the half year ending on 31st March was due on that date.
9. Provide Provision for taxation ₹12,000.
10. Technical Knowhow Fees is to be written off over a period of 10 years.
11. Salaries and Wages include ₹ 30,000 being Director's Remuneration.
12. Trade receivables include ₹ 18,000 due for more than six months.

Managerial Remuneration – Effective Capital

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

Balance Sheet (Extract) as on 31st March, 2018

Liabilities	₹
Authorised capital:	
90,000, 14% preference shares of ₹ 100	90,00,000
9,00,000 Equity shares of ₹100 each	9,00,00,000
	9,90,00,000
Issued and subscribed capital:	
67,500, 14% preference shares of ₹ 100 each fully paid	67,50,000
5,40,000 Equity shares of ₹ 100 each, ₹ 80 paid-up	4,32,00,000
Share suspense account	90,00,000
Reserves and surplus	
Capital reserves (₹ 6,75,000 is revaluation reserve)	8,77,500
Securities premium	2,25,000
Secured loans:	
15% Debentures	2,92,50,000
Unsecured loans:	
Public deposits	16,65,000
Cash credit loan from SBI (short term)	5,92,500
Current Liabilities:	

Trade Payables	15,52,500
Assets:	
Investment in shares, debentures, etc.	3,37,50,000
Profit and Loss account (Dr. balance)	68,62,500

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 Gaurav Ltd.is an investment company?

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

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

(ii) Share option outstanding account.

(iii) Unpaid matured debenture and interest accrued thereon.

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

(v) Calls unpaid.

Cash flow statement

2. Preet Ltd. presents you the following information for the year ended 31st March, 2019:

		(₹ in lacs)
(i)	Net profit before tax provision	72,000
(ii)	Dividend paid	20,404
(iii)	Income-tax paid	10,200
(iv)	Book value of assets sold	444
	Loss on sale of asset	96
(v)	Depreciation debited to P & L account	48,000
(vi)	Capital grant received - amortized to P & L A/c	20
(vii)	Book value of investment sold	66,636
	Profit on sale of investment	240
(viii)	Interest income from investment credited to P & L A/c	6,000
(ix)	Interest expenditure debited to P & L A/c	24,000
(x)	Interest actually paid (Financing activity)	26,084
(xi)	Increase in working capital [Excluding cash and bank balance]	1,34,580
(xii)	Purchase of fixed assets	44,184

(xiii)	Expenditure on construction work	83,376
(xiv)	Grant received for capital projects	36
(xv)	Long term borrowings from banks	1,11,732
(xvi)	Provision for Income-tax debited to P & L A/c	12,000
	Cash and bank balance on 1.4.2018	12,000
	Cash and bank balance on 31.3.2019	16,000

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

Profit/Loss prior to Incorporation

3. Lotus Ltd. was incorporated on 1st July, 2017 to acquire a running business of Feel goods with effect from 1st April, 2017. During the year 2017-18, 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, 2018.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Xeta Ltd. as at 31st March, 2017

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	45,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000

Securities premium	1,00,000
Profit and Loss Account	6,00,000

On 1st April, 2017, the Company has made final call @ ₹ 2 each on 2,70,000 equity shares. The call money was received by 20th April, 2017. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held.

Show necessary journal entries in the books of the company and prepare the extract of the balance sheet as on 30th April, 2017 after bonus issue.

Internal Reconstruction of a Company

5. Kishor Limited decided to reconstruct its business as it has accumulated huge losses. The following is the Balance Sheet of the company as on 31.03.2018 before reconstruction:

Balance Sheet as on 31.03.2018

Particulars	₹	Particulars	₹
6,00,000 Equity shares of ₹ 10		Patents	3,00,000
each fully paid up	60,00,000	Land & building	34,00,000
3,20,000, 6% Preference shares		Plant & machinery	4,00,000
of ₹ 10 each fully paid up	32,00,000	Investments (at cost)	4,40,000
6% Debentures (secured against		Trade receivables	34,80,000
land & building)	30,00,000	Inventory	34,00,000
Bank overdraft	11,60,000	Profit & loss A/c	47,40,000
Trade payables	24,00,000		
Provision for income tax	4,00,000		
	1,61,60,000		1,61,60,000

Following scheme of reconstruction is approved by all interested parties and the Court:

(1) All equity shares are reduced to ₹ 3 each and preference shares to ₹ 7 each.

(2) Debentureholders agreed to take over a part of land and building, book value of which is ₹ 14,00,000, towards their 50% claim. Rate of interest of balance 50% debentures will be increased to 9%.

(3) Patent will be written off.

(4) 10% of Trade receivables to be provided for bad debts.

(5) Inventory to be written off by ₹ 5,20,000.

(6) 50% of balance Land & Building sold for ₹ 12,00,000 and remaining Land & Building valued at ₹ 12,00,000.

(7) Investments to be sold for ₹ 4,00,000.

(8) The income tax liability of the company is settled at ₹ 4,50,000. Provision for income tax will be raised accordingly.

(9) 1/3 of trade payables decided to forgo their claim.

(10) After making all the above adjustments, balance amount available through scheme, will be utilized to write off the value of plant & machinery to that extent.

You are required to pass the necessary Journal Entries.

Amalgamation of Companies

6. Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The summarized balance sheets of both the companies were as under:

Super Express Ltd.

Balance Sheet as at 31st December, 20X1

	₹		₹
20,000 Equity shares of ₹100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Trade Payables	60,000	Inventory	3,00,000
Insurance reserve	1,00,000	Trade receivables	2,40,000
		Cash at bank	2,20,000
		Cash in hand	1,00,000
	22,60,000		22,60,000

Fast Express Ltd.

Balance Sheet as at 31st December, 20X1

	₹		₹
10,000 Equity shares of ₹100 each	10,00,000	Buildings	7,00,000
Trade Payables	40,000	Machinery	5,00,000
Reserve	1,00,000	Inventory	40,000
Surplus	1,60,000	Trade receivables	40,000
		Cash at bank	10,000
		Cash in hand	10,000
	13,00,000		13,00,000

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to ₹ 30,000 (20,000 for Super Fast Express Ltd and 10,000 for Fast Express Ltd.).

Prepare opening balance sheet of Super Fast Express Ltd considering pooling method.

Average Due Date

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

   (i) ₹ 5,000 due on 5.3.2017

   (ii) ₹ 7,500 due on 7.4.2017

   (iii) ₹ 6,000 due on 17.7.2017

   (iv) ₹ 8,000 due on 14.9.2017

Account Current

8. The following transactions took place between A and B for the three months ending 31st March 2017:

Books of A		
Date	Particulars	₹
1.1.2017	B 's Opening balance	1,00,000
10.1.2017	Sold goods to B	2,00,000
15.1.2017	Cash received from B	2,00,000
15.2.2017	Sold goods to B	2,00,000
1.3.2017	Cash received from B	1,00,000

You are required to calculate the amount of interest to be paid by one party to the other at 10% per annum using Epoque Method. Also prepare Account current of Mr. B with Mr. A. (1 year =365 days)

Self – Balancing Ledgers

9. The following particulars are obtained from books of Prime Ltd. for the year ended 31st March, 2018:

	₹		₹
Cash Sales	50,000	Bills Receivable dishonoured	5,000
Credit Purchases	5,60,000	Return Inward	17,000
Collection from Debtors	8,50,000	Payment to creditors	3,24,000
Bills Receivable drawn	40,000	Discount allowed	6,000

Discount Received	5,000	Debtor's cheque returned dishonoured	15,000
Cash Purchases	24,000	Credit Sales	9,80,000
Bills Payable Paid	13,000	Bills Receivable Collected	20,000
Recovery of Bad Debts	3,000	Return Outward	7,400
Bills receivable discounted with Bank	16,000	Bills Receivable endorsed to Creditors	15,800
Interest charged on overdue customer's A/c	2,400	Overpayment refunded by Suppliers	1,200
Endorsed Bills Receivable dishonoured (noting charges ₹ 150)	11,000	Bad debts Opening Balances: Sundry Debtors	2,000 1,56,000
Bills payable accepted	32,000	Sundry Creditors	1,70,000

You are required to prepare the Total Debtors Account and Total Creditors Account.

Financial Statements of Not-For-Profit Organizations

10. The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payment Account for the year ending 31st March, 2018:

Receipts	₹	Payments	₹
Opening Balance:		Honoraria to Secretary	19,200
Cash & Bank	33,520	Misc. expenses	6,120
Subscription	42,840	Rates & Taxes	5,040
Sale of Old Magazines	9,600	Ground man's wages	3,360
Entertainment Fees	17,080	Printing & Stationary	1,880
Bank Interest	920	Payment for bar purchases	23,080
Bar Receipts	29,800	Repairs	1,280
		Telephone expenses	9,560
		New car (less sale proceeds of old car ₹ 12,000) (Old car was sold on 1.4.2017)	50,400
		Closing Balance:	
		Cash & Bank	13,840
	1,33,760		1,33,760

Additional Information

	1.4.2017 (₹)	31.3.2018 (₹)
Subscription due (not received)	4,800	3,920
Cheque issued, but not presented (payment of printing expenses)	360	120
Club premises at cost	1,16,000	-
Depreciation on club premises provided so far	75,200	-
Car at cost	48,760	-
Depreciation on car provided so far	41,160	-
Value of Bar stock	2,840	3,480
Amount unpaid for bar purchases	2,360	1,720

Depreciation is to be provided @ 5% p.a. on written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an Income & Expenditure Account of Retreat & Refresh Club for the year ending 31st March, 2018 and Balance Sheet as on that date.

Accounts from Incomplete Records

11. From the following information in respect of Mr. Preet, prepare Trading and Profit and Loss Account for the year ended 31st March, 2018 and a Balance Sheet as at that date:

		31-03-2017	31-03-2018
(1)	Liabilities and Assets	₹	₹
	Stock in trade	1,60,000	1,40,000
	Debtors for sales	3,20,000	?
	Bills receivable	-	?
	Creditors for purchases	2,20,000	3,00,000
	Furniture at written down value	1,20,000	1,27,000
	Expenses outstanding	40,000	36,000
	Prepaid expenses	12,000	14,000
	Cash on hand	4,000	3,000
	Bank Balance	20,000	1,500
(2)	Receipts and Payments during 2017-2018:		
	Collections from Debtors		
	(after allowing 2-1/2% discount)		11,70,000
	Payments to Creditors		
	(after receiving 2% discount)		7,84,000

	Proceeds of Bills receivable discounted at 2%)		1,22,500
	Proprietor's drawings		1,40,000
	Purchase of furniture on 30.09.2017		20,000
	12% Government securities purchased on 1-10-2017		2,00,000
	Expenses		3,50,000
	Miscellaneous Income		10,000
(3)	Sales are effected so as to realize a gross profit of 50% on the cost.		
(4)	Capital introduced during the year by the proprietor by cheques was omitted to be recorded in the Cash Book, though the bank balance on 31st March, 2018 (as shown above), is after taking the same into account.		
(5)	Purchases and Sales are made only on credit.		
(6)	During the year, Bills Receivable of ₹ 2,00,000 were drawn on debtors. out of these, Bills amount to ₹ 40,000 were endorsed in favour of creditors. Out of this latter amount, a Bill for ₹ 8,000 was dishonoured by the debtor.		

Hire Purchase Transactions

12. The following particulars relate to hire purchase transactions:

(a) X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000.

(b) The hire purchaser charged depreciation @ 20% on diminishing balance method.

(c) Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under it diminishing balance method.

(d) The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute:

(i) Agreed value of two cars taken back by the hire vendor.

(ii) Book value of car left with the hire purchaser.

(iii) Profit or loss to hire purchaser on two cars taken back by their hire vendor.

(iv) Profit or loss of cars repossessed, when sold by the hire vendor.

Investment Accounts

13. A Ltd. purchased on 1st April, 2018 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 2018 A Ltd. purchased another ₹ 1,00,000 debenture @ ₹ 112 cum interest.

On 1st October, 2018 ₹ 80,000 debenture was sold @ ₹ 108. On 1st December, 2018, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. receive 5,000 equity share in C Ltd. in conversion of 25% debenture held on that date. The market price of debenture and equity share in C Ltd. at the end of year 2018 is ₹ 110 and ₹ 15 respectively.

Interest on debenture is payable each year on 31st March, and 30th September.

The accounting year of A Ltd. is calendar year.

Prepare investment account in the books of A Ltd. on average cost basis.

Insurance Claim for loss of stock or profit

14. A fire engulfed the premises of a business of M/s Preet on the morning of 1st July 2018. The building, equipment and stock were destroyed and the salvage recorded the following:

    Building – ₹ 4,000; Equipment – ₹ 2,500; Stock – ₹ 20,000. The following other information was obtained from the records saved for the period from 1st January to 30th June 2018:

	₹
Sales	11,50,000
Sales Returns	40,000
Purchases	9,50,000
Purchases Returns	12,500
Cartage inward	17,500
Wages	7,500
Stock in hand on 31st December, 2017	1,50,000
Building (value on 31st December, 2017)	3,75,000
Equipment (value on 31st December, 2017)	75,000
Depreciation provision till 31st December, 2017 on:	
Building	1,25,000
Equipment	22,500

No depreciation has been provided since December 31st 2017. The latest rate of depreciation is 5% p.a. on building and 15% p.a. on equipment by straight line method.

Normally business makes a profit of 25% on net sales. You are required to prepare the statement of claim for submission to the Insurance Company.

Issues in Partnership Accounts

15. Ajay, Vijay and Sanjay are partners sharing Profit & Loss in the ratio of 2:3:1. The Balance Sheet of the firm as on 31.03.2018 is as follows:

Liabilities	₹	Assets	₹
Capital A/c:		Furniture & Fixture	30,000
Vijay's Capital	85,000	Office equipment	20,000
Sanjay's Capital	68,000	Motor Car	60,000
General Reserve A/c	30,000	Stock	40,000
Sundry Creditors	25,000	Sundry Debtors	20,000
		Cash at Bank	18,000
		Ajay's Capital	20,000
	2,08,000		2,08,000

Kamal is admitted as a new partner with effect from 1st April, 2018 by receiving 1/4 share in the profit & loss of the firm. The profit or loss sharing ratios between other partners remain same as before. It was agreed that Kamal would bring some private furniture worth ₹ 3,000 and private stock worth ₹ 5,000 and balance in cash towards his capital.

The following adjustments are to be made prior to Kamal admission:

1. Goodwill of the firm is to be valued at 2 years purchase of the average profit of last 3 years. The profits for the last 3 years were ₹ 35,900, ₹ 38,200 and ₹ 31,500. However on checking of the past records it was noticed that on 01.04.14 a new furniture costing, ₹ 8,000 was purchased but wrongly debited to revenue and also in year 2015-16, a purchase invoice for ₹ 4,000 has been omitted in the book. The firm charged depreciation on furniture @ 10% on original cost. Your calculation of goodwill is to be made on the basis of correct profits. It is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only up to value of ₹ 42,000.
2. Motor Car is taken over by Vijay at ₹ 70,000.
3. Office equipment is revalued at ₹ 25,000.
4. Expenses incurred but not paid of ₹ 6,500 are provided for.
5. Value of the stock is to be reduced by 5%.
6. Kamal is to bring proportionate capital. Capital of Vijay, Ajay and Sanjay are also to be adjusted in profit sharing ratio.

Assuming the above mentioned adjustments are duly carried out, show the revaluation account, partner's capital accounts and the Balance Sheet of the firm after Kamal's admission.

Accounting in Computerized Environment

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. What are the basis on which choice of such third party made?

Applicability of Accounting Standards

17. (a) XYZ Ltd., (a corporate entity) with a turnover of ₹ 35 lakhs and borrowings of ₹ 10 lakhs during any time in the previous year, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2017. Advise the management on the exemptions that are available as per the Companies (AS) Rules, 2006.

    If XYZ is a partnership firm is there any other exemptions additionally available.

AS 1 Disclosure of Accounting Policies

(b) 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 GST 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 3 Cash flow Statements

18. (a) Explain the meaning of the terms 'cash' and 'cash equivalent' for the purpose of Cash Flow Statement as per AS-3.

    Ruby Exports had a bank balance of USD 25,000, stated in books at ₹ 16,76,250 using the rate of exchange ₹ 67.05 per USD prevailing on the date of receipt of dollars. However, on the balance sheet date, the closing rate of exchange was ₹ 67.80 and the bank balance had to be restated at ₹ 16,95,000.

    Comment on the effect of change in bank balance due to exchange rate fluctuation and also discuss how it will be disclosed in Cash Flow Statement of Ruby Exports with reference to AS-3.

(b) Money Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.

    (i) Loans and Advances given to the following and interest earned on them:

        (1) to suppliers

        (2) to employees

        (3) to its subsidiaries companies

    (ii) Investment made in subsidiary Smart Ltd. and dividend received

    (iii) Dividend paid for the year

(iv) TDS on interest income earned on investments made

(v) TDS on interest earned on advance given to suppliers

Discuss in the context of AS 3 Cash Flow Statement.

AS 7 Construction Contracts

19. (a) GTI Ltd. negotiates with Bharat Oil Corporation Ltd. (BOCL), for construction of "Retail Petrol & Diesel Outlet Stations". Based on proposals submitted to different Regional Offices of BOCL, the final approval for one outlet each in Region X, Region Y, Region Z is awarded to GTI Ltd. A single agreement is entered into between two. The agreement lays down values for each of the three outlets i.e. ₹ 102 lacs, ₹ 150 lacs, ₹ 130 lacs for Region X, Region Y, Region Z respectively. Agreement also lays down completion time for each Region.

Comment whether GTI Ltd. will treat it as single contract or three separate contracts with reference to AS-7?

AS 9 Revenue Recognition

(b) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account.

Comment upon the above treatment by Raj Ltd. with reference to the provision of AS-9.

AS 10 Property, Plant and Equipment

20. (a) Preet Ltd. is installing a new plant at its production facility. It has incurred these costs:

1.	Cost of the plant (cost per supplier's invoice plus taxes)	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000
4.	Consultants used for advice on the acquisition of the plant	₹ 14,00,000
5.	Interest charges paid to supplier of plant for deferred credit	₹ 4,00,000
6.	Estimated dismantling costs to be incurred after 7 years	₹ 6,00,000
7.	Operating losses before commercial production	₹ 8,00,000

Please advise Preet Ltd. on the costs that can be capitalised in accordance with AS 10 (Revised).

AS 13 Accounting for Investments

(b) Paridhi Electronics Ltd. has current investment (X Ltd.'s shares) purchased for ₹ 5 lakhs, which the company want to reclassify as long term investment on 31.3.2018. The market value of these investments as on date of Balance Sheet was ₹ 2.5 lakhs. How will you deal with this as on 31.3.18 with reference to AS-13?

SUGGESTED ANSWERS/HINTS

1. (a) Statement of Profit and Loss of Shweta Ltd. for the year ended 31st March, 2018

	Particulars	*Note*	₹
I	Revenue from Operations		20,11,050
II	Other income (Divided income)		12,750
III	Total Revenue (I &+ II)		20,23,800
IV	Expenses:		
	(a) Purchases (14,71,500 – Advertisement Expenses 15,000)		14,56,500
	(b) Changes in Inventories of finished Goods / Work in progress (4,35,600 – 4,27,500)		8,100
	(c) Employee Benefits expense	**9**	1,20,000
	(d) Finance costs	**10**	51,900
	(e) Depreciation & Amortization Expenses [10% of (1,05,000 + 6,000)]		11,100
	(f) Other Expenses	**11**	3,47,550
	Total Expenses		19,95,150
V	Profit before exceptional, extraordinary items and tax (III-IV)		28,650
VI	Exceptional items		-
VII	Profit before extra ordinary items and tax (V-IV)		28,650
VIII	Extraordinary items		-
IX	Profit before tax (VII-VIII)		28,650
X	Tax expense: Current Tax		12,000
XI	Profit/Loss for the period (after tax)		16,650

Balance sheet of Shweta Ltd. as on 31st March, 2018

	Particulars as on 31st March	*Note*	
I			
(1)	**Shareholders' funds:**		
	(a) Share capital	**1**	12,00,000
	(b) Reserves and surplus	**2**	66,150
(2)	**Non current liabilities:**		
	Long term borrowings	**3**	4,50,000
(3)	**Current liabilities:**		
	(a) Short term borrowings	**4**	4,50,000
	(b) Trade payables		2,63,550
	(c) Other current liabilities	**5**	29,250
	Total		24,58,950
II	**ASSETS**		
(1)	(a) **Non-current Assets:**		
	Property, Plant & Equipment		
	(i) Tangible assets	**6**	11,49,900
	(ii) Intangible assets	**7**	4,05,000
	(b) Non current investments (Shares at cost)		1,50,000
	Current Assets:		
	(a) Inventories		4,27,500
	(b) Trade receivables	**8**	2,72,550
	(c) Cash and Cash equivalents – Cash on hand		36,000
	(d) Short term loans and advances –Income tax (paid 30,000-Provision 12,000)		18,000
	Total		24,58,950

Note: There is a Contingent liability for Bills receivable discounted with Bank ₹ 6,000.

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized		
	90,000 Equity Shares of ₹ 10 each	9,00,000	
	6,000 6% Preference shares of ₹ 100 each	6,00,000	15,00,000
	Issued, subscribed & called up		
	60,000, Equity Shares of ₹ 10 each	6,00,000	

	6,000 6% Redeemable Preference Shares of 100 each	6,00,000	12,00,000
2.	**Reserves and Surplus**		
	Balance as on 1st April, 2017	85,500	
	Add: Surplus for current year	16,650	1,02,150
	Less: Preference Dividend		36,000
	Balance as on 31st March, 2018		66,150
3.	**Long Term Borrowings**		
	5% Mortgage Debentures (Secured against Freehold Properties)		4,50,000
4.	**Short Term Borrowings**		
	Secured Borrowings: Loans Repayable on Demand Overdraft from Banks (Secured by Hypothecation of Stocks & Receivables)		4,50,000
5.	**Other Current liabilities**		
	Interest Accrued and due on Borrowings (5% Debentures)	11,250	
	Unpaid Preference Dividends	18,000	29,250
6.	**Tangible Fixed assets**		
	Furniture		
	Furniture at Cost Less depreciation ₹ 45,000 (as given in Trial Balance)	1,05,000	
	Add: Depreciation	45,000	
	Cost of Furniture	1,50,000	
	Add: Installation charge of Electrical Fittings wrongly included under the heading Salaries and Wages	6,000	
	Total Gross block of Furniture A/c	1,56,000	
	Accumulated Depreciation Account: Opening Balance-given in Trial Balance 45,000		
	Depreciation for the year:		
	On Opening WDV at 10% i.e. (10% x 1,05,000) 10,500		
	On additional purchase during the year at 10% i.e. (10% x 6,000) 600		
	Less: Accumulated Depreciation	56,100	99,900
	Freehold property (at cost)		10,50,000
			11,49,900

7.	**Intangible Fixed Assets**		
	Technical knowhow	4,50,000	
	Less: Written off	45,000	4,05,000
8.	**Trade Receivables**		
	Sundry Debtors (a) Debt outstanding for more than six months	18,000	
	(b) Other Debts (refer Working Note)	1,34,550	
	Bills Receivable (1,24,500 -4,500)	1,20,000	2,72,550
9.	**Employee benefit expenses**		
	Amount as per Trial Balance	1,56,000	
	Less: Wages incurred for installation of electrical fittings to be capitalised	6,000	
	Less: Directors' Remuneration shown separately	30,000	
	Balance amount		1,20,000
10.	**Finance Costs**		
	Interest on bank overdraft	29,400	
	Interest on debentures	22,500	51,900
11.	**Other Expenses**		
	Payment to the auditors	18,000	
	Director's remuneration	30,000	
	Selling expenses	2,37,300	
	Technical knowhow written of (4,50,000/10)	45,000	
	Advertisement (Goods and Articles Distributed)	15,000	
	Bad Debts (4,500 x50%)	2,250	3,47,550

Working Note:

Calculation of Sundry Debtors-Other Debts

Sundry Debtors as given in Trial Balance	1,50,300
Add Back: Bills Receivables Dishonoured	4,500
	1,54,800
Less: Bad Debts written off – 50% ₹ 4,500	(2,250)
Adjusted Sundry Debtors	1,52,550
Less: Debts due for more than 6 months (as per information given)	(18,000)
Total of other Debtors i.e. Debtors outstanding for less than 6 months	1,34,550

(b) Computation of effective capital:

	Where Gaurav Ltd.is a non-investment company	*Where Gaurav Ltd.is is an investment company*
Paid-up share capital —		
67,500, 14% Preference shares	67,50,000	67,50,000
5,40,000 Equity shares	4,32,00,000	4,32,00,000
Capital reserves	2,02,500	2,02,500
Securities premium	2,25,000	2,25,000
15% Debentures	2,92,50,000	2,92,50,000
Public Deposits	16,65,000	16,65,000
(A)	8,12,92,500	8,12,92,500
Investments	3,37,50,000	-
Profit and Loss account (Dr. balance)	68,62,500	68,62,500
(B)	4,06,12,500	68,62,500
Effective capital (A–B)	4,06,80,000	7,44,30,000

(c) (i) Current Liabilities/ Other Current Liabilities

(ii) Shareholders' Fund / Reserve & Surplus

(iii) Current liabilities/Other Current Liabilities

(iv) Contingent Liabilities and Commitments

(v) Shareholders' Fund / Share Capital

2. Cash Flow Statement as per AS 3

Cash flows from operating activities:		*₹ in lacs*
Net profit before tax provision		72,000
Add: Non cash expenditures:		
Depreciation	48,000	
Loss on sale of assets	96	
Interest expenditure (non-operating activity)	24,000	72,096
		1,44,096
Less: Non cash income		
Amortisation of capital grant received	(20)	

Profit on sale of investments (non-operating income)	(240)	
Interest income from investments (non-operating income)	(6,000)	6,260
Operating profit		1,37,836
Less: Increase in working capital		(1,34,580)
Cash from operations		3,256
Less: Income tax paid		(10,200)
Net cash generated from operating activities		(6,944)
Cash flows from investing activities:		
Sale of assets (444 – 96)	348	
Sale of investments (66,636+240)	66,876	
Interest income from investments	6,000	
Purchase of fixed assets	(44,184)	
Expenditure on construction work	(83,376)	
Net cash used in investing activities		(54,336)
Cash flows from financing activities:		
Grants for capital projects	36	
Long term borrowings	1,11,732	
Interest paid	(26,084)	
Dividend paid	(20,404)	
Net cash from financing activities		65,280
Net increase in cash		4,000
Add: Cash and bank balance as on 1.4.2018		12,000
Cash and bank balance as on 31.3.2019		16,000

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

For the year ended 31st March, 2018

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		720	3,62,480

Working Notes:

1. **Sales ratio**

Particulars	₹
Sales for period up to 30.06.2017 (9,60,000 x 3/6)	4,80,000
Sales for period from 01.07.2017 to 31.03.2018 (48,00,000 – 4,80,000)	43,20,000

Thus, Sales Ratio = 1 : 9

2. **Time ratio**

1st April, 2017 to 30 June, 2017: 1st July, 2017 to 31st March, 2018

= 3 months: 9 months = 1: 3

Thus, Time Ratio is 1: 3

4. **Journal Entries in the books of Xeta Ltd.**

			₹	₹
1-4-2017	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….)			
20-4-2017	Bank A/c	Dr.	5,40,000	
	To Equity share final call A/c			5,40,000
	(For final call money on 2,70,000 equity shares received)			
	Securities Premium A/c	Dr.	1,00,000	
	General Reserve A/c	Dr.	3,60,000	
	Profit and Loss A/c	Dr.	2,15,000	
	To Bonus to shareholders A/c			6,75,000
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	6,75,000	
	To Equity share capital A/c			6,75,000
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2017 (after bonus issue)

	₹
Authorised Capital	
50,000 12% Preference shares of ₹10 each	5,00,000
4,00,000 Equity shares of ₹10 each	40,00,000
Issued and subscribed capital	
24,000 12% Preference shares of ₹10 each, fully paid	2,40,000
3,37,500 Equity shares of ₹10 each, fully paid	33,75,000
(Out of above, 67,500 equity shares @ ₹10 each were issued by way of bonus)	
Reserves and surplus	
Profit and Loss Account	3,85,000

5. Journal Entries in the books of Kishor Limited

			Dr. (₹)	Cr. (₹)
1.	Equity share capital A/c (₹ 10)	Dr.	60,00,000	
	To Equity share capital A/c (₹ 3)			18,00,000
	To Capital reduction A/c			42,00,000
	(Reduction of equity share of ₹ 10 each to shares of ₹ 3 each as per the reconstruction scheme)			
2.	6% Preference share capital A/c (₹ 10)	Dr.	32,00,000	
	To 6% Preference share capital A/c (₹ 7)			22,40,000
	To Capital reduction A/c			9,60,000
	(Reduction of preference share of ₹ 10 each to shares of ₹ 7 each as per the reconstruction scheme)			
3.	6 % Debentures A/c	Dr.	30,00,000	
	To Land & building A/c			14,00,000
	To 9% Debentures A/c			15,00,000
	To Capital reduction A/c			1,00,000
	(50% claim of debentureholders discharged by transfer of a part of land & building having book value ₹ 14,00,000 and rate of interest of balance 50% debentures increased to 9% as per the reconstruction scheme).			
4.	Bank A/c	Dr.	12,00,000	
	To Land & building A/c			10,00,000

	To Capital reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000 sold as per the reconstruction scheme)			
5.	Land & building A/c	Dr.	2,00,000	
	To Capital Reduction A/c			2,00,000
	(50% of balance land & building having book value ₹ 10,00,000, valued at ₹ 12,00,000, as per the reconstruction scheme)			
6.	Bank A/c	Dr.	4,00,000	
	Capital reduction A/c	Dr.	40,000	
	To Investment A/c			4,40,000
	(All the investment sold as per the reconstruction scheme)			
7.	Trade payables A/c	Dr.	8,00,000	
	To Capital reduction A/c			8,00,000
	(1/3 of Trade payables decided to forgo their claim as per the reconstruction scheme)			
8.	Capital reduction A/c	Dr.	61,58,000	
	To Patents A/c			3,00,000
	To Provision of doubtful debts A/c			3,48,000
	To Inventory A/c			5,20,000
	To Provision for income tax A/c			50,000
	To Profit & loss A/c			47,40,000
	To Plant & machinery A/c (Bal. fig.)			2,00,000
	(Written off patent, profit & loss, part value of stock, plant & machinery, and provision made for doubtful debts, income tax, as per the reconstruction scheme)			

6. **Balance Sheet of Super Fast Express Ltd**

as at 1st Jan., 20X2

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	3,60,000
2		Non-current liabilities		

	a	Long-term provisions	3	1,00,000
3		Current liabilities		
	a	Trade Payables		1,00,000
		Total-		35,60,000
		Assets		
1		Non-current assets		
	a	Property, plant & Equipment		
		Tangible assets	4	26,00,000
2		Current assets		
		Inventories		3,40,000
		Trade receivables		2,80,000
		Cash and cash equivalents	5	3,40,000
		Total		35,60,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of ₹ 100 each	30,00,000
	Total	30,00,000
2	Reserves and Surplus	
	Reserve	1,00,000
	Surplus	1,60,000
	Insurance reserve	1,00,000
	Total	3,60,000
3	Long-term provisions	
	Provident fund	1,00,000
	Total	1,00,000
4	Tangible assets	
	Buildings	17,00,000
	Machinery	9,00,000
	Total	26,00,000

5	Cash and cash equivalents	
	Balances with banks	2,30,000
	Cash on hand	1,10,000
	Total	3,40,000

7. Calculation of number of days from the base date

Due date	*Amount (₹)*	*No. of days from 5.3.17*	*Product*
5.3.2017	5,000	0	0
7.4.2017	7,500	33	2,47,500
17.7.2017	6,000	134	8,04,000
14.9.2017	8,000	193	15,44,000
	26,500		25,95,500

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

$$= 5.3.2017 + \frac{25{,}95{,}500}{26{,}500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e.11.6.2017. So on 11th June, 2017, all bills will be settled by a single cheque payment.

8. Mr. B in Account Current with Mr. A (Books of A - Interest to 31st March 2017 @ 10% p.a.)

Date	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*	*Date*	*Particulars*	*Due date*	*Amt. ₹*	*Days*	*Product ₹*
01.01.17	To Balance b/d		1,00,000			15.1.17	By Cash A/c	15.1.17	2,00,000	15	30,00,000
10.1.17	To Sales A/c	10.1.17	2,00,000	10	20,00,000	1.3.17	By Cash A/c	1.3.17	1,00,000	60	60,00,000
15.2.17	To Sales A/c	15.2.17	2,00,000	46	92,00,000						
31.3.17	To Balance of Products				1,58,00,000						
31.3.17	To Interest on Balance for 1 day @ 10% $\left[\frac{1,58,00,000\times10\times1}{100\times365}\right]$		4,329			31.3.17	By Balance of Products [2,00,000 x 90]				1,80,00,000
			———		———	31.3.17	By Balance c/d		2,04,329		———
			5,04,329		2,70,00,000				5,04,329		2,70,00,000

Note: While counting the number of days for closing balances, the opening date as well as date upto which the account is prepared, has been considered.

9 **In the books of Prime Ltd.**

Total Debtors Account

		₹			₹
To	Balance b/d	1,56,000	By	Cash	8,50,000
To	Bank (Cheque dishonoured)	15,000	By	Discount Allowed	6,000
To	Bill Receivables (Dishonoured)	5,000	By	Bill Receivables	40,000
To	Interest	2,400	By	Returns Inward	17,000
To	Sales	9,80,000	By	Bad Debts	2,000
To	Sundry Creditors (endorsed bill dishonoured with noting charges)	11,150	By	Balance c/d	2,54,550
		11,69,550			11,69,550

Total Creditors Account

		₹			₹
To	Cash	3,24,000	By	Balance b/d	1,70,000
To	B/R (endorsed)	15,800	By	Purchases	5,60,000
To	Discount received	5,000	By	Sundry Debtors A/c (endorsed Bill Receivables dishonoured with noting charges)	11,150
To	Bills Payable	32,000			
To	Return outward	7,400	By	Cash (over payments refunded)	1,200
To	Balance c/d	3,58,150			
		7,42,350			7,42,350

Note: Transactions relating to cash sales or purchases; honour of bills receivable or payable; recovery of bad debts and discount or endorsement of bill will not be entered in Total Debtors and Total Creditors Accounts.

10. **Income and Expenditure Account of Retreat & Refresh Club for the year ended 31st March, 2018**

Expenditure		*Amount*	*Income*	*Amount*
		₹		₹
To Honoraria to secretary		19,200	By Subscriptions (W.N.3)	41,960
To Misc. expenses		6,120	By Sale of old magazines	9,600
To Rates and taxes		5,040	By Entertainment fees	17,080

To Groundman's wages		3,360	By Bank interest	920
To Printing and stationary		1,880	By Bar receipts	29,800
To Telephone expenses		9,560	By Profit on sale of car (W.N.5)	4,400
To Bar expenses:				
Opening bar stock	2,840			
Add: Purchases (W.N.2)	22,440			
	25,280			
Less: Closing bar stock	(3,480)	21,800		
To Repairs		1,280		
To Depreciation				
Club premises (W.N.4)	2,040			
Car (W.N. 6)	9,360	11,400		
To Excess of income over expenditure transferred to capital fund		24,120		
		1,03,760		1,03,760

Balance Sheet of Retreat & Refresh Club as on 31st March, 2018

Liabilities		*Amount*	*Assets*	*Amount*
		₹		₹
Capital fund (W.N. 1)	87,200		Club Premises	38,760
Add: Excess of income over expenditure	24,120	1,11,320	Car	53,040
			Bar stock	3,480
Outstanding liabilities for bar purchases		1,720	Outstanding subscription	3,920
			Cash and bank	13,840
		1,13,040		1,13,040

Working Notes:

1. **Balance Sheet of Retreat & Refresh Club as on 1st April, 2017**

Liabilities	*Amount*	*Assets*		*Amount*
	₹			₹
Amount due for bar purchases	2,360	Club premises	1,16,000	
		Less: Depreciation	(75,200)	40,800

Capital fund on 1.4.2017 (balancing figure)	87,200	Car	48,760	
		Less: Depreciation	(41,160)	7,600
		Bar stock		2,840
		Outstanding subscription		4,800
		Cash at bank		33,520
	89,560			89,560

2. Calculation of bar purchases for the year

	₹
Bar payments as per receipts and payments account	23,080
Add: Amount due on 31st March, 2018	1,720
	24,800
Less: Amount due on 1st April, 2017	(2,360)
	22,440

3. Calculation of subscriptions earned during the year

	₹
Subscriptions received as per receipts and payments account	42,840
Add: Outstanding on 31st March, 2018	3,920
	46,760
Less: Outstanding on 1st April, 2017	(4,800)
	41,960

4. Depreciation on club premises and its written down value on 31st March, 2018

	₹
Written down value on 1st April, 2017 (1,16,000- 75,200)	40,800
Less: Depreciation for the year @ 5% p.a.	(2,040)
	38,760

5. Calculation of profit on sale of car

		₹
Sale proceeds of old car		12,000
Less: Written down value of old car:		
Cost of car on 1st April, 2017	48,760	
Less: Depreciation upto 1st April, 2017	(41,160)	(7,600)
		4,400

6. **Depreciation on car and its written down value on 31st March, 2018**

	₹
Cost of new car purchased (50,400 + 12,000)	62,400
Less: Depreciation for the year @ 15% p.a.	(9,360)
Written down value on 31st March, 2018	53,040

Note: The opening and closing balance of cash and bank shown in the Receipts and Payments Account (given in the question), include the bank balance as per cash book. Therefore, no adjustment has been made in the above solution on account of cheques issued, but not presented for payment of printing expenses.

11. **Trading and Profit and Loss Account of Mr. Preet**

for the year ended 31st March, 2018

	Amount		Amount
	₹		₹
To Opening stock	1,60,000	By Sales	13,98,000
To Purchases (W.N.5)	9,12,000	By Closing stock	1,40,000
To Gross profit c/d (Bal.fig.)	4,66,000		
	15,38,000		15,38,000
To Expenses (W.N.7)	3,44,000	By Gross profit b/d	4,66,000
To Discount allowed (W.N.9)	32,500	By Discount received (W.N.10)	16,000
To Depreciation on furniture (W.N.1)	13,000	By Interest on Govt. Securities (W.N.8)	12,000
To Net profit	1,14,500	By Miscellaneous income	10,000
	5,04,000		5,04,000

Balance Sheet of Mr. Preet as on 31st March, 2018

Liabilities		*Amount* ₹	*Assets*	*Amount* ₹
Capital (W.N.6)	3,76,000		Furniture	1,27,000
Add: Additional capital (W.N.2)	1,72,000		12% Government Securities	2,00,000
Add: Profit during the year	1,14,500		Accrued interest on Govt. securities (W.N.8)	12,000
	6,62,500		Debtors (W.N.3)	3,26,000

Less: Drawings	(1,40,000)	5,22,500	Bills Receivable (W.N.4)	35,000
Creditors		3,00,000	Stock	1,40,000
Outstanding expenses		36,000	Prepaid expenses	14,000
			Cash on hand	3,000
			Bank balance	1,500
		8,58,500		8,58,500

Working Notes:

1. Furniture account

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

2. Cash and Bank account

	₹		₹
To Balance b/d		By Creditors	7,84,000
Cash	4,000	By Drawings	1,40,000
Bank	20,000	By Furniture	20,000
To Debtors	11,70,000	By 12% Govt. securities	2,00,000
To Bill Receivable	1,22,500	By Expenses	3,50,000
To Miscellaneous income	10,000	By Balance c/d	
To Additional Capital (bal.fig.)	1,72,000	Cash	3,000
		Bank	1,500
	14,98,500		14,98,500

3. Debtors account

	₹		₹
To Balance b/d	3,20,000	By Cash and Bank	11,70,000
To Creditors (Bills receivable dishonoured)	8,000	By Discount	30,000
To Sales (W.N.11)	13,98,000	By Bills Receivable	2,00,000
		By Balance c/d (bal.fig.)	3,26,000
	17,26,000		17,26,000

4. **Bills Receivable account**

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

5. **Creditors account**

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

6. **Balance Sheet as on 1st April, 2017**

Liabilities	₹	*Assets*	₹
Creditors	2,20,000	Furniture	1,20,000
Outstanding expenses	40,000	Debtors	3,20,000
Capital (balancing figure)	3,76,000	Stock	1,60,000
		Prepaid expenses	12,000
		Cash	4,000
		Bank balance	20,000
	6,36,000		6,36,000

7. **Expenses incurred during the year**

		₹
Expenses paid during the year		3,50,000
Add: Outstanding expenses as on 31.3.2018	36,000	
Prepaid expenses as on 31.3.2017	12,000	48,000
		3,98,000
Less: Outstanding expenses as on 31.3.2017	40,000	
Prepaid expenses as on 31.3.2018	14,000	(54,000)
Expenses incurred during the year		3,44,000

8. Interest on Government securities

2,00,000 x 12% x 6/12= ₹ 12,000

Interest on Government securities receivables for 6 months = ₹ 12,000

9. Discount allowed

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

10. Discount received

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

11. Credit sales

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

= ₹ 1,60,000 + ₹ 9,12,000 – ₹ 1,40,000

= ₹ 9,32,000

Sale price = ₹ 9,32,000 + 50% of 9,32,000 = ₹ 13,98,000

12.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000

	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which cars were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

13. Investment Account for the year ending on 31st December, 2018

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹	Cost (₹)
1.4.18	To Bank A/c	2,00,000	-	2,16,000	30.09.18	By Bank A/c	-	12,000	-
1.7.18	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.18	To P & L A/c	-	14,033	-	1.10.18	By Bank A/c	80,000		84,000
	[Interest]				1.10.18	By P&L A/c (loss) (W.N.1)			2,933
					1.12.18	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	
					1.12.18	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.18	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.18	To 8 % debentures	59,767	31.12.18	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹1,12,000 – ₹2,000 (Interest)

= ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹2,16,000 + ₹1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹2,933

Nominal value of debentures converted into equity shares =₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000

= ₹ 59,767

(v) Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000

= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost being lower than the market value i.e. ₹ 1,81,500 (₹ 1,65,000 @ ₹ 110)

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

14. Memorandum Trading Account for the Period from 1.1.2018 to 30.6.2018

		₹			₹
To Opening Stock (1.1.2018)		1,50,000	By Sales	11,50,000	
To Purchases	9,50,000		*Less:* Sales		
Less: Returns	(12,500)	9,37,500	Returns	(40,000)	11,10,000
To Cartage Inwards		17,500	By Closing Stock		2,80,000
To Wages		7,500	(Bal. Fig.)		
To Gross Profit		2,77,500			
(25% of ₹ 11,10,000)					
		13,90,000			13,90,000

Stock Destroyed Account

	₹		₹
To Trading Account	2,80,000	By Stock Salvaged Account	20,000
		By Balance c/d (For Claim)	2,60,000
	2,80,000		2,80,000

Statement of Claim

Items	*Cost (₹)*	*Depreciation (₹)*	*Salvage (₹)*	*Claim (₹)*
A	*B*	*C*	*D*	*(E=B-C-D)*
Stock	2,80,000		20,000	2,60,000
Buildings	3,75,000	1,25,000 + 9,375	4,000	2,36,625
Equipment	75,000	22,500 + 5,625	2,500	44,375
				5,41,000

15.

Revaluation Account

		₹		₹
To Stock		2,000	By Motor car	10,000
To Expenses		6,500	By Office equipment	5,000
To Purchases Omitted		4,000		
To Capital A/c				
Ajay	833			
Vijay	1,250			
Sanjay	417	2,500		
		15,000		15,000

Partners' Capital Accounts

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Particulars*	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Before admission									
To Balance b/d	20,000	-	-	-	By bal b/d	-	85,000	68,000	-
To Motor Car	-	70,000	-	-	By Reserve	10,000	15,000	5,000	
To Balance c/d	16,087	69,130	81,127	-	By Furniture	1,600	2,400	800	
					By Revaluation A/c	833	1,250	417	-
					By Goodwill	23,654	35,480	7,000	-
Total	36,087	1,39,130	81,217			36,087	1,39,130	81,217	

At the time of admission									
To Goodwill	17,395	26,094	5,250	17,395	By Balance b/d	16,087	69,130	81,127	-
To Balance c/d	-	43,036	75,967	-	By assets	-	-	-	8,000
					By bal c/d	1,308	-	-	9,395
Total	17,395	69,130	81,217	17,395		17,395	69,130	81,217	17,395
Adjustments to make Capital proportionate									
To balance b/d	1,308	-	-	9,395	By bal b/d	-	43,036	75,967	-
To Bank (bal. fig.)	-	-	56,351	-					
To balance c/d (WN 4)	39,232	58,847	19,616	39,232	By Bank (bal. fig.)	40,540	15,811	-	48,627
Total	40,540	58,847	75,967	48,627		40,540	58,847	75,967	48,627

Balance Sheet of the Firm (after Kamal's admission)

Equity & Liabilities	₹	*Assets*	₹
Capital Account:		Furniture& fixture	37,800
Ajay	39,232	(30,000 +3,000+4,800)	
Vijay	58,847	Office equipment	25,000
Sanjay	19,616	Stock (38,000 +5,000)	43,000
Kamal	39,232	Debtors	20,000
Creditors (25,000 +4,000)	29,000	Cash at Bank (W. N. 5)	66,627
Outstanding Expenses	6,500		
	1,92,427		1,92,427

Working Notes:

1. Computation of New Profit sharing ratio

Since Kamal's Share= 1/4th, Balance 3/4th to be shared by Ajay, Vijay and Sanjay in the ratio 2:3:1

	Ajay	*Vijay*	*Sanjay*	*Kamal Total*	
New Ratio	$\frac{2}{6}\times\frac{3}{4}=\frac{2}{8}$	$\frac{3}{6}\times\frac{3}{4}=\frac{3}{8}$	$\frac{1}{6}\times\frac{3}{4}=\frac{1}{8}$	$\frac{1}{4}=\frac{2}{8}$	2:3:1:2

2. Computation of Goodwill

Year	*1*	*2*	*3*	*Total*
Profit	35,900	38,200	31,500	
Less: Depreciation	(800)	(800)	(800)	

Purchase invoice omitted	(4,000)			
	31,100	37,400	30,700	99,200
Average Profit		99,200/3		₹ 33,067
Goodwill at 2 years purchase		₹ 33,067 × 2		₹ 66,134

3. (i) Goodwill to be credited to Ajay, Vijay and Sanjay

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Total*
First – ₹ 42,000 to be distributed among all the Partners in the ratio of 2:3:1	14,000	21,000	7,000	42,000
Balance - ₹ 24,134 to be distributed between Ajay and Vijay in the ratio 2:3	9,654	14,480	-	24,134
Total	23,654	35,480	7,000	66,134

(ii) Writing off Goodwill

Particulars	*Ajay*	*Vijay*	*Sanjay*	*Kamal*	*Total*
First – ₹ 42,000 to be debited among all the Partners in the ratio of 2:3:1:2	10,500	15,750	5,250	10,500	42,000
Balance- ₹ 24,134 to be distributed between Ajay,Vijay and Kamal in the ratio 2:3:2	6,895	10,344	-	6,895	24,134
Total	17,395	26,094	5,250	17,395	66,134

4. Computation of proportionate Capital of Partners

	₹
Combined Capital of Ajay, Vijay, Sanjay (Existing partners) – as per balance derived in partners' Capital Account = ₹ 43,036+ ₹ 75,967 -1,308= 1,17,695	1,17,695
Share of Ajay, Vijay and Sanjay in the new firm after deducting Kamal's 1/4th share	3/4th
Total Capital of the Firm after Kamal's admission = ₹ 1,17,695÷ 3/4th	1,56,927

Apportionment of Capital in New Profit Sharing Ratio i.e. Proportionate Capital of partners

Partners	*Ajay*	*Vijay*	*Sanjay*	*Kamal*
Ratio	2	3	1	2
Proportionate Capital of partners (1,56,927)	39,232	58,847	19,616	39,232

5. **Cash at Bank**

= Given ₹ 18,000 +40,540+ 15,811+ 48,627– 56,351 = ₹ 66,627

Note:

1. In the above solution, adjustment of furniture for ₹ 4,800 has been routed through Partners' capital accounts. Alternatively, it may also be routed through Revaluation A/c.
2. Since goodwill is not a purchased goodwill, it has been written off in the above solution, in accordance with the AS 10.
3. As per the requirement given in the question, it is agreed among existing partners that Sanjay's interest in the goodwill of the firm is only upto the value of ₹ 42,000. It has been assumed in the above solution that Sanjay is credited at the time of raising of goodwill as well as debited only to the extent of ₹ 42,000 at the time of writing off of goodwill.

16. Recently a growing trend has developed for outsourcing the accounting function to a third party. The consideration for doing this is to save cost and to utilise the expertise of the outsourced party. The third party maintains the accounting software and the client data, does the processing and hands over the report from time to time.

The choice of outsourcing vendor is made on the basis of the proposals received from these vendors. The proposals are evaluated and the decision is often taken based on the following criteria:

1. The type of services provided and whether the same matches with the requirements,
2. The reputation and background of the vendor,
3. The comparative costs of the various propositions,
4. The assurance of quality.

17. (a) The question deals with the issue of Applicability of Accounting Standards for corporate &non-corporate entities.

The companies can be classified under two categories viz SMCs and Non SMCs under the Companies (AS) Rules, 2006.

As per the Companies (AS) Rules, 2006, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

(i) whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;

(ii) which is not a bank, financial institution or an insurance company;

(iii) whose turnover (excluding other income) does not exceed rupees fifty crore in the immediately preceding accounting year;

(iv) which does not have borrowings (including public deposits) in excess of rupees ten crore at any time during the immediately preceding accounting year; and

(v) which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover of ₹ 35 lakhs does not exceed ₹ 50 crores & borrowings of ₹ 10 lakhs is less than ₹ 10 crores, it is a small and medium sized company

The following relaxations and exemptions are available to XYZ Ltd.

1. AS 3 "Cash Flow Statements" is not mandatory.
2. AS 17 "Segment Reporting" is not mandatory.
3. SMEs are exempt from some paragraphs of AS 19 "Leases".
4. SMEs are exempt from disclosures of diluted EPS (both including and excluding extraordinary items).
5. SMEs are allowed to measure the 'value in use' on the basis of reasonable estimate thereof instead of computing the value in use by present value technique under AS 28 "Impairment of Assets".
6. SMEs are exempt from certain disclosure requirements of AS 29 (Revised) "Provisions, Contingent Liabilities and Contingent Assets".
7. SMEs are exempt from certain requirements of AS 15 "Employee Benefits".
8. Accounting Standards 21, 23, 27 are not applicable to SMEs.

(b) 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.

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.

18. (a) Cash flow statement consists of:(a) Cash in hand and deposits repayable on demand with any bank or other financial institutions and (b) Cash equivalents, which are short term, highly liquid investments that are readily convertible into known amounts of cash and are subject to insignificant risk or change in value.

Cash flows are inflows (i.e. receipts) and outflows (i.e. payments) of cash and cash equivalents. *Any transaction, which does not result in cash flow, should not be reported in the cash flow statement.* Movements within cash or cash equivalents are not cash flows because they do not change cash as defined by AS 3 "Cash Flow Statements" which is sum of cash, bank and cash equivalents.

In the given case, due to increase in rate of foreign exchange by 75 paise, there is increase (change) in bank balance. This increase of ₹ 18,750 (25,000 x 0.75) is not a cash flow because neither there is any cash inflow nor there is any cash outflow. Therefore, this change in bank balance amounting ₹ 18,750 need not be disclosed in Cash Flow Statement of Ruby exports.

The net increase/decrease in Cash/Cash equivalents in the Cash Flow Statements are stated exclusive of exchange gains and losses. The resultant difference between Cash and Cash Equivalents as per the Cash flow statement and that recognized in the balance sheet is reconciled in the note on cash flow statements.

(b) Treatment as per AS 3 'Cash Flow Statement'

(i) Loans and advances given and interest earned

(1)	to suppliers	Cash flows from operating activities
(2)	to employees	Cash flows from operating activities
(3)	to its subsidiary companies	Cash flows from investing activities

(ii) Investment made in subsidiary company and dividend received

Cash flows from investing activities

(iii) Dividend paid for the year

Cash flows from financing activities

(iv) TDS on interest income earned on investments made

Cash flows from investing activities

(v) TDS on interest earned on advance given to suppliers

Cash flows from operating activities

19. (a) As per AS 7 'Construction Contracts', when a contract covers 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 Offices, 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 single agreement for contracts.

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

(b) As per AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

20. (a) According to AS 10 (Revised), these costs can be capitalised:

1.	Cost of the plant	₹ 50,00,000
2.	Initial delivery and handling costs	₹ 4,00,000
3.	Cost of site preparation	₹ 12,00,000
4.	Consultants' fees	₹14,00,000
5.	Estimated dismantling costs to be incurred after 7 years	₹ 6,00,000
		₹ 86,00,000

Note: Interest charges paid on "Deferred credit terms" to the supplier of the plant (not a qualifying asset) of ₹ 4,00,000 and operating losses before commercial production amounting to ₹ 8,00,000 are not regarded as directly attributable costs and thus cannot be capitalised. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) As per AS 13 'Accounting for Investments', where investments are reclassified from current to long-term, transfers are made at the lower of cost or fair value at the date of transfer.

In the given case, the market value of the investment (X Ltd. shares) is ₹ 2.50 lakhs, which is lower than its cost i.e. ₹ 5 lakhs. Therefore, the transfer to long term investments should be made at cost of ₹ 2.50 lakhs. The loss of ₹ 2.50 lakhs should be charged to profit and loss account.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR MAY, 2019 EXAMINATIONS

Applicability for May, 2019 examinations

The Study Material (July 2015 edition), along with the "Supplementary Study Paper for May 2019 examination and onwards" is relevant for May 2019 examinations.

Supplementary Study Paper contains the relevant amendments in the subject pertaining to business law for the period 1st May 2015 to 30th April, 2018. Further, Chapter 6 – The Companies Act, 2013, has been fully revised as per amendments upto 30th April, 2018. Hence, the students are advised that Module-2 (which is comprised of Chapter 6) of this paper is now to be read from this supplementary study paper.

Further, all relevant amendments/ circulars/ notifications etc. in the Business Law and Company law part for the period 1st May 2018 to 31st October, 2018 are mentioned below:

Relevant Legislative amendments from 1st May 2018 to 31st October, 2018			
The Companies Act, 2013/ Corporate Laws			
Sl. No.	**Amendments related to**	**Relevant Amendments**	**Page no. #**
I.	Companies (Amendment) Act, 2017	Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Act, 2017 via Notifications: S.O. 1833 (E) dated 7th May, 2018; S.O. 2422(E) dated 13th June, 2018; SO. 3299(E) dated 5th July, 2018; S.O. 3300(E) dated 5th July, 2018; S.O. 3684(E) dated 27th July, 2018; S.O. 3838(E) dated 31st July, 2018; S.O. 3921(E) dated 7th August, 2018 and S.O. 4907(E) dated 19th September, 2018.	
		1. In **section 2** of the Companies Act, 2013 (hereinafter referred to as the principal Act)-	
		(i) in **clause (6)**, for the Explanation, the following Explanation shall be substituted, namely:— '*Explanation*.—For the purpose of this clause,— (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement;	Pg 12 of SSP

		(b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;'; **Enforcement Date: 7th May, 2018**	
		(ii) in **clause (87)**, in sub-clause (ii), for the words "total share capital", the words "total voting power" shall be substituted; **Enforcement Date: 7th May, 2018**	Pg 28 of SSP
		2. In **section 7** of the principal Act, in sub-section (1), in item (c), for the words "an affidavit", the words "a declaration" shall be substituted. **Enforcement Date: 27th July, 2018**	Pg 61 of SSP
		3. In **section 12** of the principal Act,— **(i)** in sub-section (1), for the words "on and from the fifteenth day of its incorporation", the words "within thirty days of its incorporation" shall be substituted; **(ii)** in sub-section (4), for the words "within fifteen days", the words "within thirty days" shall be substituted. **Enforcement Date: 27th July, 2018**	Pg 65 of SSP
		4. In **section 26** of the principal Act, in sub-section (1),— **(i)** after the words "signed and shall", the following shall be inserted, namely:— "state such information and set out such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government: Provided that until the Securities and Exchange Board specifies the information and reports on financial information under this sub-section, the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, in respect of such financial	Pg 84 of SSP

		information or reports on financial information shall apply."; **(ii)** clauses (a), (b) and (d) shall be omitted. **Enforcement Date: 7th May, 2018**	Pg 84, 85 & 86 of SSP
		5. For **section 42** of the principal Act, the following section shall be substituted, namely:— '42. (1) A company may, subject to the provisions of this section, make a private placement of securities. (2) A private placement shall be made only to a select group of persons who have been identified by the Board (herein referred to as "identified persons"), whose number shall not exceed fifty or such higher number as may be prescribed [excluding the qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option in terms of provisions of clause (b) of sub-section (1) of section 62], in a financial year subject to such conditions as may be prescribed. (3) A company making private placement shall issue private placement offer and application in such form and manner as may be prescribed to identified persons, whose names and addresses are recorded by the company in such manner as may be prescribed: Provided that the private placement offer and application shall not carry any right of renunciation. Explanation I.—"private placement" means any offer or invitation to subscribe or issue of securities to a select group of persons by a company (other than by way of public offer) through private placement offer-cum-application, which satisfies the conditions specified in this section. Explanation II.—"qualified institutional buyer" means the qualified institutional buyer as defined in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements)	Pg 107, 108, 109, 110 & 111 of SSP

		Regulations, 2009, as amended from time to time, made under the Securities and Exchange Board of India Act, 1992. *Explanation III.*—If a company, listed or unlisted, makes an offer to allot or invites subscription, or allots, or enters into an agreement to allot, securities to more than the prescribed number of persons, whether the payment for the securities has been received or not or whether the company intends to list its securities or not on any recognised stock exchange in or outside India, the same shall be deemed to be an offer to the public and shall accordingly be governed by the provisions of Part I of this Chapter. (4) Every identified person willing to subscribe to the private placement issue shall apply in the private placement and application issued to such person alongwith subscription money paid either by cheque or demand draft or other banking channel and not by cash: Provided that a company shall not utilise monies raised through private placement unless allotment is made and the return of allotment is filed with the Registrar in accordance with sub-section (8). (5) No fresh offer or invitation under this section shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company: Provided that, subject to the maximum number of identified persons under sub-section (*2*), a company may, at any time, make more than one issue of securities to such class of identified persons as may be prescribed. (6) A company making an offer or invitation under this section shall allot its securities within sixty days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within fifteen days from the expiry of	

		sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent. per annum from the expiry of the sixtieth day: Provided that monies received on application under this section shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than— (a) for adjustment against allotment of securities; or (b) for the repayment of monies where the company is unable to allot securities. (7) No company issuing securities under this section shall release any public advertisements or utilise any media, marketing or distribution channels or agents to inform the public at large about such an issue. (8) A company making any allotment of securities under this section, shall file with the Registrar a return of allotment within fifteen days from the date of the allotment in such manner as may be prescribed, including a complete list of all allottees, with their full names, addresses, number of securities allotted and such other relevant information as may be prescribed. (9) If a company defaults in filing the return of allotment within the period prescribed under sub-section (8), the company, its promoters and directors shall be liable to a penalty for each default of one thousand rupees for each day during which such default continues but not exceeding twenty-five lakh rupees. (10) Subject to sub-section (11), if a company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount raised through the private placement or two crore rupees, whichever is lower, and the company shall also refund all monies with interest as	

		specified in sub-section (*6*) to subscribers within a period of thirty days of the order imposing the penalty. (11) Notwithstanding anything contained in sub-section (*9*) and sub-section (*10*), any private placement issue not made in compliance of the provisions of sub-section (*2*) shall be deemed to be a public offer and all the provisions of this Act and the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 shall be applicable.'. **Enforcement Date: 7th August, 2018**	
		6. In **section 54**, in sub-section (*1*), clause (*c*) shall be omitted. **Enforcement Date: 7th May, 2018**	Pg 123 of SSP
		7. In **section 73** of the principal Act, in sub-section (*2*),— **(*i*)** for clause (*c*), the following clause shall be substituted, namely:— "(*c*) depositing, on or before the thirtieth day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;"; **(ii)** clause (*d*) shall be omitted; **(iii)** in clause (*e*), for the words "such deposits;", the following shall be substituted, namely:— "such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default;". **Enforcement Date: 15th August, 2018**	Pg 153 of SSP

		8. In **section 74**, in sub-section (*1*), for clause (*b*), the following clause shall be substituted, namely:— "(*b*) repay within three years from such commencement or on or before expiry of the period for which the deposits were accepted, whichever is earlier: Provided that renewal of any such deposits shall be done in accordance with the provisions of Chapter V and the rules made thereunder.". **Enforcement Date: 15th August, 2018**	Pg 160 of SSP
		9. In **section 77** of the principal Act, in sub-section (*1*), after the third proviso, the following proviso shall be inserted, namely:— "Provided also that this section shall not apply to such charges as may be prescribed in consultation with the Reserve Bank of India.". **Enforcement Date: 7th May, 2018**	Pg 165 of SSP
		10. In **section 78** of the principal Act, for the words and figures "register the charge within the period specified in section 77", the words, brackets and figures "register the charge within the period of thirty days referred to in sub-section (*1*) of section 77" shall be substituted. **Enforcement Date : 7th May, 2018**	Pg 166 of SSP
		11. In **section 82** of the principal Act, in sub-section (*1*),— **(i)** the words, brackets and figures "and the provisions of sub-section (*1*) of section 77 shall, as far as may be, apply to an intimation given under this section" shall be omitted; **(ii)** the following proviso shall be inserted, namely:— "Provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to	Pg 169 of SSP

		be made within a period of three hundred days of such payment or satisfaction on payment of such additional fees as may be prescribed.". **Enforcement Date: : 5th July, 2018**	
		12. In **section 89** of the principal Act,— **(i)** in sub-section (*6*), the words and figures, "within the time specified under section 403" shall be omitted; **(ii)** in sub-section (*7*), for the words and figures, "under the first proviso to sub-section (*1*) of section 403", the word "therein", shall be substituted; **(iii)** after sub-section (*9*), the following sub-section shall be inserted, namely:— "(*10*) For the purposes of this section and section 90, beneficial interest in a share includes, directly or indirectly, through any contract, arrangement or otherwise, the right or entitlement of a person alone or together with any other person to— (i) exercise or cause to be exercised any or all of the rights attached to such share; or (ii) receive or participate in any dividend or other distribution in respect of such share.". **Enforcement Date: 7th May, 2018 [for (i) and (ii)]** **13th June, 2018 [for (iii)]**	Pg 182 of SSP
		13. For **section 90** of the principal Act, the following section shall be substituted, namely:— '(1) Every individual, who acting alone or together, or through one or more persons or trust, including a trust and persons resident outside India, holds beneficial interests, of not less than twenty-five per cent. or such other percentage as may be prescribed, in shares of a company or the	Pg 183 of SSP

		right to exercise, or the actual exercising of significant influence or control as defined in clause (27) of section 2, over the company (herein referred to as "significant beneficial owner"), shall make a declaration to the company, specifying the nature of his interest and other particulars, in such manner and within such period of acquisition of the beneficial interest or rights and any change thereof, as may be prescribed: Provided that the Central Government may prescribe a class or classes of persons who shall not be required to make declaration under this sub-section. (2) Every company shall maintain a register of the interest declared by individuals under sub-section (1) and changes therein which shall include the name of individual, his date of birth, address, details of ownership in the company and such other details as may be prescribed. (3) The register maintained under sub-section (2) shall be open to inspection by any member of the company on payment of such fees as may be prescribed. (4) Every company shall file a return of significant beneficial owners of the company and changes therein with the Registrar containing names, addresses and other details as may be prescribed within such time, in such form and manner as may be prescribed. (5) A company shall give notice, in the prescribed manner, to any person (whether or not a member of the company) whom the company knows or has reasonable cause to believe— (a) to be a significant beneficial owner of the company; (b) to be having knowledge of the identity of a significant beneficial owner or another person likely to have such knowledge; or (c) to have been a significant beneficial owner of the company at any time during the three years immediately preceding the date on which the notice is issued,	

		and who is not registered as a significant beneficial owner with the company as required under this section. (6) The information required by the notice under sub-section (5) shall be given by the concerned person within a period not exceeding thirty days of the date of the notice. (7) The company shall,— (a) where that person fails to give the company the information required by the notice within the time specified therein; or (b) where the information given is not satisfactory, apply to the Tribunal within a period of fifteen days of the expiry of the period specified in the notice, for an order directing that the shares in question be subject to restrictions with regard to transfer of interest, suspension of all rights attached to the shares and such other matters as may be prescribed. (8) On any application made under sub-section (7), the Tribunal may, after giving an opportunity of being heard to the parties concerned, make such order restricting the rights attached with the shares within a period of sixty days of receipt of application or such other period as may be prescribed. (9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8). (10) If any person fails to make a declaration as required under sub-section (1), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to ten lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues. (11) If a company, required to maintain register under sub-section (2) and file the information under sub-section (4), fails to do so or denies	

		inspection as provided therein, the company and every officer of the company who is in default shall be punishable with fine which shall not be less than ten lakh rupees but which may extend to fifty lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues. (12) If any person wilfully furnishes any false or incorrect information or suppresses any material information of which he is aware in the declaration made under this section, he shall be liable to action under section 447.'. **Enforcement Date: 13th June, 2018**	
		14. In **section 92** of the principal Act,— (*i*) in sub-section (*4*), the words and figures, "within the time as specified, under section 403" shall be omitted; (*ii*) in sub-section (*5*), for the words and figures, "under section 403 with additional fees" the word "therein" shall be substituted. **Enforcement Date: 7th May, 2018**	Pg 186 of SSP
		15. Section 93 of the principal Act shall be omitted. **Enforcement Date: 13th June, 2018**	Pg 187 of SSP
		16. In **section 94** of the principal Act,— **(i)** in sub-section (1), in the first proviso, the words "and the Registrar has been given a copy of the proposed special resolution in advance" shall be omitted; **(ii)** in sub-section (3), the following proviso shall be inserted, namely:— "Provided that such particulars of the register or index or return as may be prescribed shall not be available for inspection under sub-section (2) or	Pg 188 of SSP

		for taking extracts or copies under this sub-section.". **Enforcement Date: 13th June, 2018**	
		17. In **section 96** of the principal Act, in sub-section (2), in the proviso, for the words "Provided that", the following shall be substituted, namely:— "Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance: Provided further that". **Enforcement Date: 13th June, 2018**	Pg 227 of SSP
		18. In **section 117** of the principal Act,— **(i)** in sub-section (1), the words and figures "within the time specified under section 403" shall be omitted; **(ii)** in sub-section (2),— (a) for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted; (b) for the words "not be less than five lakh rupees", the words "not be less than one lakh rupees" shall be substituted; (c) for the words "one lakh rupees", the words "fifty thousand rupees" shall be substituted; **(iii)** in sub-section (3),— (a) clause (e) shall be omitted; (b) in clause (g), in the proviso, the word "and" shall be omitted and the following proviso shall be inserted, namely:— "Provided further that nothing contained in this clause shall apply to a banking company in respect of a resolution passed to grant loans, or give guarantee or provide security in respect of	Pg 220/221 of SSP

		loans under clause (f) of sub-section (3) of section 179 in the ordinary course of its business; and.". **Enforcement Date: 7th May, 2018**	
		19. In **section 121** of the principal Act,— **(i)** in sub-section (*2*), the words and figures "within the time as specified, under section 403" shall be omitted; **(ii)** in sub-section (*3*), for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted. **Enforcement Date: 7th May, 2018**	Pg 229 of SSP
II.	Notification G.S.R. 433(E) dated 7th May, 2018	The Central Government has amended the Companies (Specification of Definitions Details) Rules, 2014, by the Companies (Specification of Definitions Details) Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Specification of Definitions Details) Rules, 2014, in rule 2, in sub-rule (1), clause (r) shall be omitted. **Please note:** The said clause (r) deals with 'Total Share Capital'	Pg 12 & 28 of SSP
III.	Notification G.S.R. 434(E) dated 7th May, 2018	The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Second Amendment Rules, 2018. It shall come into force on 7th May, 2018. In the Companies (Share Capital and Debentures) Rules, 2014, in the principal rules, in rule 8, in sub-rule (1), in the Explanation, in clause (i) in sub-clause (a), the words "for at least last one year" shall be omitted.	Pg 124 of SSP
IV.	Notification G.S.R. 612 (E) dated 5th July, 2018	The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of	Pg 158 of SSP

		Deposits) Amendment Rules, 2018. It shall come into force on 15th August, 2018. In the Companies (Acceptance of Deposits) Rules, 2014 in rule 14, in sub-rule (1), clause (k) shall be omitted;	
V.	Notification G.S.R. 708(E) dated 27th July, 2018	The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Third Amendment Rules, 2018. It shall come into force on 27th July, 2018. In the Companies (Incorporation) Rules, 2014._ (a) in rule 3, for Explanation to sub-rule (1), the following shall be substituted, namely:- **"Explanation I.** - For the purposes of this rule, the term "resident in India" means a person who has stayed in India for a period of not less than one hundred and eighty two days during the immediately preceding financial year. **Explanation II.**- For the purposes of this rule, while counting the number of days of stay of a director in India for the financial year 2018-2019, any period of stay between 01.01.2018 till the date of notification of this rule shall also be counted";	Pg 47 of SSP
The Negotiable Instruments Act, 1881			
	Amendments to the Negotiable Instruments Act, 1881	The Ministry of Law and Justice has made amendments to the Negotiable Instruments Act, 1881 through the Negotiable Instruments (Amendment) Act, 2018. This Amendment Act received the assent of the President and published in the Official Gazette on 2nd August, 2018.	
		In the Negotiable Instruments Act, 1881 (hereinafter referred to as the principal Act), after section 143, the following section shall be inserted, namely:— "**143A. Power to direct interim compensation**. (1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, the Court trying an offence under section 138 may order the	- (The section is newly inserted)

		drawer of the cheque to pay interim compensation to the complainant— (a) in a summary trial or a summons case, where he pleads not guilty to the accusation made in the complaint; and (b) in any other case, upon framing of charge. (2) The interim compensation under sub-section (1) shall not exceed twenty per cent. of the amount of the cheque. (3) The interim compensation shall be paid within sixty days from the date of the order under sub-section (1), or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the drawer of the cheque. (4) If the drawer of the cheque is acquitted, the Court shall direct the complainant to repay to the drawer the amount of interim compensation, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant. (5) The interim compensation payable under this section may be recovered as if it were a fine under section 421 of the Code of Criminal Procedure, 1973. (6) The amount of fine imposed under section 138 or the amount of compensation awarded under section 357 of the Code of Criminal Procedure, 1973, shall be reduced by the amount paid or recovered as interim compensation under this section.''.	
		(2) In the principal Act, after section 147, the following section shall be inserted, namely:— ''**148. Power of Appellate Court to order payment pending appeal against conviction.** (*1*) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, in an appeal	- (The section is newly inserted)

		by the drawer against conviction under section 138, the Appellate Court may order the appellant to deposit such sum which shall be a minimum of twenty per cent. of the fine or compensation awarded by the trial Court: Provided that the amount payable under this sub-section shall be in addition to any interim compensation paid by the appellant under section 143A. (*2*) The amount referred to in sub-section (*1*) shall be deposited within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the appellant. (*3*) The Appellate Court may direct the release of the amount deposited by the appellant to the complainant at any time during the pendency of the appeal: Provided that if the appellant is acquitted, the Court shall direct the complainant to repay to the appellant the amount so released, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant.".	

 # Page number of the Study material (SM)/ Supplementary study paper (SSP) with reference of relevant provisions

Please note: The Ministry of Corporate Affairs has replaced Rule 14 of the Companies (Prospectus and Allotment of Securities) Rule, 2014 through Companies (Prospectus and Allotment of Securities) Second Rule, 2018. Hence, students are advised not to read the content related to Rule 14(2) of the Companies (Prospectus and Allotment of Securities) Rule, 2014 as contained on pages 110 and Page 111 of SSP. [For May 2019 examinations the said amended rule has not been made applicable for the students.]

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

DIVISION A - MULTIPLE CHOICE QUESTIONS

1. Rajesh has formed a 'One Person Company (OPC)' with his wife Roopali as nominee. For the last two years his wife Roopali is suffering from terminal illness and due to this hard fact he wants to change her as nominee. He has a trusted and experienced friend Ramnivas who could be made nominee or his (Rajesh) son Rakshak who is of seventeen years of age. Whom should he nominate as nominee in place of his wife?
   (a) Since blood relation can only be appointed as nominee in case of OPC, Rajesh needs to appoint his son Rakshak.
   (b) Rajesh can appoint his friend Ramnivas as nominee in his OPC
   (c) Roopali is not agreeable to the proposal of Rajesh and hence, Rajesh cannot change her as the nominee
   (d) Either Rakshak or Mr. Ramnivas can be appointed as nominee
2. A Company limited by shares can issue equity shares with differential voting rights. Which of the following is not a necessary condition to be fulfilled before issue of such shares:
   (a) The articles of association of the company shall authorize issue of shares with differential rights;
   (b) The issue of shares shall be authorized by an ordinary resolution passed at a general meeting of the shareholders;
   (c) The issue of shares shall be authorized by special resolution passed at a general meeting of the shareholders;
   (d) The company shall have consistent track record of distributable profits for the last three years;
3. A Ltd. is the holding company of B Ltd. Another company C Ltd. is the subsidiary company of B Ltd. Is there any relationship between A Ltd. and C Ltd.
   (a) There is no relationship between A Ltd. and C Ltd.
   (b) C Ltd. is deemed to be the subsidiary of A Ltd.
   (c) A Ltd. shall be deemed to be the holding company of C Ltd. provided A Ltd. acquires at least 10% stake in C Ltd.
   (d) C Ltd. shall be deemed to be the subsidiary of A Ltd. if the latter company acquires minimum 10% stake in the former company within six months after C Ltd. becomes subsidiary of B Ltd.

4. Shruti, a common friend of Suchitra and Sukanya, got incorporated OPC sometime before and during a chit-chat with her friends informed them that there is some limit on the maximum capital which her OPC can have and she would have to convert her OPC either into a private or public limited company if such limit exceeded. Suchitra and Sukanya who are desirous of forming a private limited company for carrying on textile trading business, are unsure about the maximum capital which a private limited company can have. Advise.
   (a) A private limited company can have maximum of ₹ One crore as share capital.
   (b) A private limited company can have maximum of ₹ Two crores as share capital.
   (c) A private limited company can have maximum of ₹ Five crores as share capital.
   (d) A private limited company can have unlimited share capital.
5. Vinay and Sanjay made a name reservation application accompanied by requisite fee to the Registrar for forming a new private company. The Registrar accorded its approval for reservation of most preferred name Vinanjay Softwares Private Ltd. on 7th July, 2018. By which date necessary documents for incorporation of the company must be submitted to the Registrar so that the reserved name does not get lapsed.
   (a) Latest by 20th July, 2018
   (b) Latest by 27th July, 2018
   (c) Latest by 4th August, 2018
   (d) Latest by 4th September, 2018
6. Aman contracts to indemnify Megha against the consequences of any proceedings which Chandar may take against Megha in respect of a sum of ₹ 15000/- advanced by Chandar to Megha. Now, Megha who is called upon to pay the sum of money to Chandar but she fails to do so. Now, as per the provisions of the Indian Contract Act, 1872, advise the future course of action to be taken by Chandar.
   (a) Chandar can recover the amount only from Megha
   (b) Chandar can recover the full amount from Aman
   (c) Chandar cannot recover the amount from Aman
   (d) Chandar can recover at least 10% of the total amount from Megha

DIVISION B - DETAILED QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act,1872

1. Mr. Pal, an old man, by a registered deed of gift, granted certain land property to Anisha, his daughter. By the terms of the deed, it was stipulated that an annuity of ₹ 20, 000 should be paid every year to B, who was the brother of Mr. Pal. On the same day Anisha made a promise to B and executed in his favour an agreement to give effect to the stipulation.

Anisha failed to pay the stipulated sum. In an action against her by B, she contended that since B had not furnished any consideration, he has no right of action.

Examining the provisions of the Indian Contract Act, 1872, decide, whether the contention of Anisha is valid?

2. Prem, aged 16 years, was studying in an engineering college. On 1st March, 2017 he took a loan of ₹ 1 lakh from Salim for the payment of his college fee and agreed to pay by 30th May, 2018. Prem possesses assets worth ₹ 10 lakhs. On due date Prem fails to pay back the loan to Salim. Salim now wants to recover the loan from Prem out of his assets. Whether Salim would succeed? Decide, referring to the provisions of the Indian Contract Act, 1872.

The Negotiable Instruments Act, 1881

3. Manoj owes money to Umesh. Therefore, he makes a promissory note for the amount in favour of Umesh, for safety of transmission he cuts the note in half and posts one half to Umesh. He then changes his mind and calls upon Umesh to return the half of the note which he had sent. Umesh requires Manoj to send the other half of the promissory note. Decide how a rights of the parties are to be adjusted.

   Give your answer in reference to the Provisions of Negotiable Instruments Act, 1881.

The Payment of Bonus Act, 1965

4. Mr. Navin joined as supervisor on monthly salary of ₹ 13,400 on 1. 02. 2018 and resigned from his job on 28.02.2018. The company declared a bonus of 20% to all eligible employees and paid it on time. Mr. Navin 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.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

5. 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.

The Payment of Gratuity Act, 1972

6. 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

7. MNO a One Person company (OPC) was incorporated during the year 2015-16 with an authorised capital of ₹ 45 lakhs (4.5 lakhs shares of ₹ 10 each). The capital was fully subscribed and paid up. Turnover of the company during 2015-16 and 2016-17 was ₹ 2

crores and ₹ 2.5 crores respectively. Promoter of the company seeks your advice in the following circumstances, whether MNO (OPC) can convert into any other kind of company during 2017-18. Please, advise with reference to relevant provisions of the Companies Act, 2013 in the below mentioned circumstances:

(i) If promoter increases the paid up capital of the company by ₹ 10 lakhs during 2017-18

(ii) If turnover of the company during 2017-18 was ₹ 3 crores.

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

9. Data Limited (listed on Stock Exchange) was incorporated on 1st October, 2018 with a paid-up share capital of ₹ 200 crores. Within this small time of 4 months it has earned huge profits and has topped the charts for its high employee friendly environment. The company wants to issue sweat equity to its employees. A friend of the CEO of the company has told him that they cannot issue sweat equity shares as 2 years have not elapsed since the time company has commenced its business. The CEO of the company has approached you to advise them about the essential conditions to fulfilled before the issue of sweat equity shares especially since their company is just a few months old.

PART – B: ETHICS

10. State the objectives of the Central Consumer Protection Council in India.

11. What reasons force a marketing executive to adopt ethical practices in marketing? Explain.

12. Write note on:

    (i) Harassment at workplace.

    (ii) Ecological ethics

PART – C: COMMUNICATION

13. Explain the functions of interpersonal communication.

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

15. The Board of Safe Gopal Ltd., appoint and authorize Mr. Shah 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".

SUGGESTED ANSWERS/HINTS

DIVISION A - ANSWER TO MULTIPLE CHOICE QUESTIONS

Question No.	1	2	3	4	5	6
Correct Option	(b)	(c)	(b)	(d)	(b)	(b)

DIVISION B - ANSWER TO DETAILES QUESTIONS

1. The problem as asked in the question is based on the provisions of the Indian Contract Act, 1872 as contained in section 2(d) and on the principle 'privity of consideration'. Consideration is one of the essential elements to make a contract valid and it can flow from the promisee or any other person. In view of the clear language used in definition of 'consideration' in Section 2(d) "…. the promisee or any other person…..", it is not necessary that consideration should be furnished by the promisee only. A promise is enforceable if there is some consideration for it and it is quite immaterial whether it moves from the promisee or any other person. The leading authority in the decision of the *Chinnaya Vs. Ramayya,* held that the consideration can legitimately move from a third party and it is an accepted principle of law in India.

In the given problem, Mr. Pal has entered into a contract with Anisha, but Mr. B has not given any consideration to Anisha but the consideration did flow from Mr. Pal to Anisha and such consideration from third party is sufficient to the enforce the promise of Anisha, the daughter, to pay an annuity to B. Further, the deed of gift and the promise made by Anisha to B to pay the annuity were executed simultaneously and therefore they should be regarded as one transaction and there was sufficient consideration for it.

Thus, a stranger to the contract cannot enforce the contract but a stranger to the consideration may enforce it.

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

3. The question arising in this problem is whether the making of promissory note is complete when one half of the note was delivered to Umesh. Under Section 46 of the Negotiable Instruments Act, 1881, the making of a promissory note is completed by delivery, actual or constructive. Delivery refers to the whole of the instrument and not merely a part of it. Delivery of half instrument cannot be treated as constructive delivery of the whole. So, the claim of Umesh to have the other half of the promissory note sent to him is not maintainable. Manoj is justified in demanding the return of the first half sent by him. He can change his mind and refuse to send the other half of the promissory note.

4. 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. Navin 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 28 days and hence will not be entitled to receive bonus.

5. 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.

6. **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),]*.

7. As per Rule 3 of *the Companies (Incorporation) Rules, 2014*, One Person Company (OPC) cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation, except where the paid up share capital is increased beyond fifty lakh rupees or its average annual turnover during the relevant period exceeds two crore rupees.

Besides, Section 18 of the Companies Act, 2013 provides that a company of any class registered under this Act may convert itself as a company of other class under this Act by alteration of memorandum and articles of the company in accordance with the provisions of the Chapter II of the Act.

According to the above provisions, following are the answers to the given circumstances:

(i) Where, if the promotors increases the paid up capital of the company by ₹ 10.00 lakh during 2017-2018 i.e., to ₹ 55 lakh (45+10= 55), MNO (OPC) may convert itself voluntarily into any other kind of company due to increase in the paid up share capital exceeding 50 lakh rupees. This could be done by MNO by alteration of memorandum and articles of the company in compliance with the Provisions of the Act.

(ii) Where if the turnover of the MNO during 2017-18 was ₹ 3.00 crore, there will be no change in the answer, as it meets up the requirement of minimum turnover i.e, ₹ 2 crore for voluntarily conversion of MNO (OPC) into any other kind of company.

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

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

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

Explanation.—For the purposes of this clause,—

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

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

In the present case, New Pvt. Ltd. and Ultra Pvt. Ltd. together hold less than one half of the total share capital i.e. less than one-half of total voting power. Hence, PQR Private Ltd. (holding of New Pvt. Ltd. and Ultra Pvt. Ltd) will not be a holding company of Altar Pvt. Ltd.

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

9. **Sweat equity shares of a class of shares already issued.**

According to section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

(i) the issue is **authorised by a special resolution** passed by the company;

(ii) the **resolution specifies** the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(iii) where the equity shares of the company are **listed on a recognised stock** exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as prescribed under Rule 8 of the *Companies (Share and Debentures) Rules, 2014.*

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *pari passu* with other equity shareholders.

Data Limited can issue Sweat equity shares by following the conditions as mentioned above. It does not make a difference that the company is just a few months old.

10. 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.

11. **Pragmatic reasons for maintaining ethical behaviour:** Marketing executives should practice ethical bahaviour 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.

12. (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. Thus, they are inter-dependent on each other.

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.

13. **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.

14. 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.

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

BY THIS POWER OF ATTORNEY, Gopal Ltd. (full details), the company hereby appoints Mr. Shah (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 at ……this……..day of……20……….

Witness:

1 _______

2 _______ Signature

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART-I: COST ACCOUNTING

QUESTIONS

Material

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

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

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

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

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

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

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

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

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

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

   (a) Re-order Quantity

   (b) Maximum Stock level

   (c) Minimum Stock level

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

   [Take 364 days for a year]

Labour

2. 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. The Unibion Ltd. has the following account balances and distribution of direct charges on 31st March, 2019.

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

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

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

	Floor Space	Radiator Section	No. of employees	Investment	H.P. hours
Machine Shop	2,000 Sq. ft.	45	20	8,00,000	3,500

Packing	800 Sq. ft.	90	12	2,40,000	500
General Plant	400 Sq. ft.	30	4	80,000	-
Stores & maintenance	1,600 Sq. ft.	60	8	1,60,000	1,000

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

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

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

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

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

Non-integrated Accounting

4. The following is the summarised Trading and Profit and Loss Account of XYZ Ltd. for the year ended 31st March 2019:

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 4,000	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:

(i) Costing Profit and Loss Account indicating the net profits,

(ii) A Statement showing reconciliation between profit as disclosed by the Cost Accounts and Financial Accounts.

Contract Costing

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

	HP-1 (₹)	HP-2 (₹)
Work in Progress on 1st April 2018	7,80,000	2,80,000
Materials Purchased	6,20,000	8,10,000
Land purchased near to the site to open an office	-	12,00,000
Brokerage and registration fee paid on the above purchase	-	60,000
Wages paid	85,000	62,000
Wages outstanding as on 31st March, 2019	12,000	8,400
Donation paid to local clubs	5,000	2,500
Plant hire charges paid for three years effecting from 1st April 2018	72,000	57,000
Value of materials at site as on 31st March, 2019	47,000	52,000
Contract price of the projects	48,00,000	36,00,000
Value of work certified	20,50,000	16,10,000
Work not certified	1,90,000	1,40,000

A concrete mixture machine was bought on 1st April 2018 for ₹8,20,000 and used for 180 days in HP-1 and for 100 days in HP-2. Depreciation is provided @ 15% p.a. (this machine can be used for any other projects)

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

Prepare contract account for the two housing projects showing the profit or loss on each project for the year ended 31st March, 2019.

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 20X9:

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 information is available regarding process A for the month of February, 20X9:

Production Record:

Units in process as on 01.02.20X9	4,000
(All materials used, 25% complete for labour and overhead)	
New units introduced	16,000
Units completed	14,000
Units in process as on 28.02.20X9	6,000
(All materials used, 33-1/3% complete for labour and overhead)	

Cost Records:

Work-in-process as on 01.02.20X9	(₹)
Materials	6,00,000
Labour	1,00,000
Overhead	1,00,000
	8,00,000
Cost during the month	
Materials	25,60,000

Labour	15,00,000
Overhead	15,00,000
	55,60,000

Presuming that average method of inventory is used, prepare:

(i) Statement of Equivalent Production.

(ii) Statement showing Cost for each element.

(iii) Statement of Apportionment of cost.

(iv) Process Cost Account for Process A.

Joint Product and By Product

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

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

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

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

Required:

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

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

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

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

Standard Costing

9. 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, 2018 the company produced 2,000 kg. of finished output.

The positions of stock and purchases for the month of July, 2018 are as under:

Material	Stock on 1st July 2018	Stock on 31st July 2018	Purchases during July 2018	
			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

10. MNP Ltd sold 2,75,000 units of its product at ₹ 375 per unit. Variable costs are ₹ 175 per unit (manufacturing costs of ₹140 and selling cost ₹ 35 per unit). Fixed costs are incurred uniformly throughout the year and amount to ₹ 3,50,00,000 (including depreciation of ₹ 1,50,00,000). there are no beginning or ending inventories.

    Required:

    (i) Compute breakeven sales level quantity and cash breakeven sales level quantity.

    (ii) Compute the P/V ratio.

    (iii) Compute the number of units that must be sold to earn an income (EBIT) of ₹ 25,00,000.

    (iv) Compute the sales level achieve an after-tax income (PAT) of ₹ 25,00,000. Assume 40% corporate Income Tax rate.

Budget and Budgetary Control

11. 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)
1st April, 2018		800	1,600
31st March, 2019		1,000	2,100
	Material-X (kg)	**Material-Y (kg)**	**Material-Z (ltr)**
1st April, 2018	25,000	30,000	14,000
31st March, 2019	30,000	18,000	7,500

Prepare the following budgets for next year:

(a) Production budget, in units;

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

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

Miscellaneous

12. (a) Distinguish between Cost Control and Cost Reduction.

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

(c) Discuss cost classification based on variability and controllability.

SUGGESTED HINTS/ANSWERS

1. **Working Notes:**

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

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

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

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

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

(iii) Re- Order level:

= (Maximum consumption per day × Maximum lead time)

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

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

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

Average Consumption per day = 50 Kg.

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

So Minimum consumption per day will be

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

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

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

(a) Re-order Quantity :

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

(b) Maximum Stock level:

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

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

= 1,560 kg. – 120 kg. = 1,440 kg.

(c) Minimum Stock level:

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

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

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

		When purchasing the ROQ	When purchasing the EOQ
I	Order quantity	1,000 kg.	1,200 kg.
II	No. of orders a year	$\frac{17{,}200 \text{ kg.}}{1{,}000 \text{ kg.}} = 17.2$ or 18 orders	$\frac{17{,}200 \text{ kg.}}{1{,}200 \text{ kg.}} = 14.33$ or 15 orders
III	Ordering Cost	18 orders × ₹ 720 = ₹12,960	15 orders × ₹ 720 = ₹10,800
IV	Average Inventory	$\frac{1{,}000 \text{ kg.}}{2} = 500$ kg.	$\frac{1{,}200 \text{ kg.}}{2} = 600$ kg.
V	Carrying Cost	500 kg. × ₹ 17.2 = ₹ 8,600	600 kg. × ₹ 17.2 = ₹ 10,320
VI	Total Cost	₹ 21,560	₹ 21,120

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

2. (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 (H ours)
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

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

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

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

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

3. (a) **Overhead Distribution Statement**

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

Schedule of Apportionment of Overheads

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

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

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

a = 1,25,775 + 0.3b ……………………………………(i)

b = 87,550 + 0.2a ……………………………………(ii)

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

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

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

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

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

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

Secondary Distribution Summary

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

4. (i) Costing Profit and Loss Account for the year ended 31st March 2019:

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	26,95,600		
Less: Finished stock	(1,68,475)		
Cost 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. Dr. **Contract Account for the year ended 31st March, 2019** Cr.

Particulars	HP-1 (₹)	HP-2 (₹)	Particulars	HP-1 (₹)	HP-2 (₹)
To Balance b/d: W-I-P	7,80,000	2,80,000	By Closing material at site	47,000	52,000
To Material purchased	6,20,000	8,10,000	By W-I-P:		
To Wages: (₹85,000+₹12,000) (₹62,000+₹8,400)	97,000	70,400	Value of work certified Cost of work not certified	20,50,000 1,90,000	16,10,000 1,40,000
To Donation to local club*	5,000	2,500			

To Plant hire charges: (₹72,000x1/3) (₹57,000x1/3)	24,000	19,000			
To Depreciation on concrete mixture**: (₹8,20,000x15% x180/365) (₹8,20,000x15% x100/365)	60,658	33,699			
To Notional profit (balance c/d)	7,00,342	5,86,401			
	22,87,000	18,02,000		22,87,000	18,02,000
To Costing P & L A/c (WN-2)	1,86,758	1,56,374	By Notional profit (balance b/d)	7,00,342	5,86,401
To Costing P& L Reserve A/c.	5,13,584	4,30,027			
	7,00,342	5,86,401		7,00,342	5,86,401

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

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

Working Notes:

1 Computation of Stage of completion of the projects:

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

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

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

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

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

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

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

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

6. (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
- Repairs & Maintenance	1,800
- Cost of tyres	880
- Depreciation	11,453
Total Running cost (A)	31,893
Fixed Costs:	
- Driver's salary	12,000
- 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)	23,050
Total cost {(A) + (B)}	54,943

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

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

7. (i) Statement of Equivalent Production (Average cost method)

Input (Units)	Particulars	Output Units	Equivalent Production					
			Materials		Labour		Overheads	
			(%*)	Units**	(%)*	Units**	(%)*	Units**
20,000	Completed	14,000	100	14,000	100	14,000	100	14,000
	WIP	6,000	100	6,000	33-1/3	2,000	33-1/3	2,000
20,000		20,000		20,000		16,000		16,000

*Percentage of completion ** Equivalent units

(ii) Statement showing Cost for each element

Particulars	Materials	Labour	Overhead	Total
Cost of opening work-in-progress (₹)	6,00,000	1,00,000	1,00,000	8,00,000
Cost incurred during the month (₹)	25,60,000	15,00,000	15,00,000	55,60,000
Total cost (₹) : (A)	31,60,000	16,00,000	16,00,000	63,60,000
Equivalent units : (B)	20,000	16,000	16,000	
Cost per equivalent unit (₹) : C = (A ÷ B)	158	100	100	358

(iii) Statement of Apportionment of cost

	(₹)	(₹)
Value of output transferred: (A) (14,000 units × ₹ 358)		50,12,000
Value of closing work-in-progress: (B)		
Material (6,000 units × ₹158)	9,48,000	
Labour (2,000 units × ₹ 100)	2,00,000	
Overhead (2,000 units × ₹ 100)	2,00,000	13,48,000
Total cost : (A + B)		63,60,000

(iv) Process- A Account

Particulars	Units	(₹)	Particulars	Units	(₹)
To Opening WIP	4,000	8,00,000	By Completed units	14,000	50,12,000

To Materials	16,000	25,60,000	By Closing WIP	6,000	13,48,000
To Labour		15,00,000			
To Overhead		15,00,000			
	20,000	63,60,000		20,000	63,60,000

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

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

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

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

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

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

Add: Further processing cost (₹)	1,80,000	1,50,000	1,08,000	
Total cost (₹)	8,10,000	4,30,000	4,86,000	17,26,000
Profit (₹)	4,59,000	35,000	3,96,000	8,90,000

Working Notes

1.

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

2. Valuation of closing stock:

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

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

(iv) Calculations for processing decision

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

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

9. 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

Material A= (930 kg × ₹40) - {(40 kg × ₹40) + (890 kg × ₹42.50)}

= ₹37,200 – (₹1,600 + ₹37,825) = ₹2,225 (A)

Material B = (1,390 kg × ₹30) - {(50 kg × ₹30) + (1,340 kg × ₹25)}

= ₹41,700 – (₹1,500 + ₹33,500) = ₹6,700 (F)

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

Material A $= ₹40 \{(\frac{40\% \text{ of } 2{,}000}{0.85}) - 930 \text{ kg}\}$

= ₹40 (941.18 kg. – 930 kg) = ₹447 (F)

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

= ₹30 (1,411.76 kg. – 1,390 kg) = ₹653 (F)

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

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

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

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

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

= ₹40 { 941.18 kg. – 928 kg.} = 527 (F)

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

= ₹30 {1,411.76 kg. – 1,392 kg.} = 593 (F)

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

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

= {₹40 × 941.18 kg.} – {₹1,600 + ₹37,825}

= ₹37,647 – ₹39,425 = ₹1,778 (A)

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

= {₹30 × 1,411.76 kg.} – {₹1,500 + ₹33,500}

= ₹42,353 – ₹35,000 = ₹7,353 (F)

10. (i) Contribution = ₹375 - ₹175 = ₹200 per unit.

Break even Sales Quantity $= \frac{\text{Fixed cost}}{\text{Contribution margin per unit}} = \frac{₹\ 3,50,00,000}{₹\ 200} = 1,75,000$ units

Cash Break even Sales Qty $= \frac{\text{Cash Fixed Cost}}{\text{Contribution margin per unit}} = \frac{₹2,00,00,000}{₹200} = 1,00,000$ units.

(ii) P/V ratio $= \frac{\text{Contribution / unit}}{\text{Selling Price / unit}} \times 100 = \frac{₹200}{₹375} \times 100 = 53.33\%$

(iii) No. of units that must be sold to earn an Income (EBIT) of ₹ 25,00,000

$$\frac{\text{Fixed cost} + \text{Desired EBIT level}}{\text{Contribution margin per unit}} = \frac{3,50,00,000 + 25,00,000}{200} = 1,87,500 \text{ units}$$

(iv) After Tax Income (PAT) = ₹25,00,000

Tax rate = 40%

Desired level of Profit before tax $= \frac{₹25,00,000}{60} \times 100 = ₹41,66,667$

Estimate Sales Level $= \frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{P / V ratio}}$

Or, $\left(\frac{\text{Fixed Cost} + \text{Desired Profit}}{\text{Contribution per unit}} \times \text{Selling Price per unit}\right)$

$= \frac{₹3,50,00,000 + ₹\ 41,66,667}{53.33\%} = ₹7,34,42,091$

11. (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×14ltr.)
Total	1,68,900	1,51,200	1,31,400
Add: Closing stock	30,000	18,000	7,500
Less: Opening stock	(25,000)	(30,000)	(14,000)
Quantity to be purchased	1,73,900	1,39,200	1,24,900
Rate	₹15 per kg.	₹16 per kg.	₹5 per ltr.
Purchase cost	₹ 26,08,500	₹ 22,27,200	₹ 6,24,500

(c) Direct Labour Budget

	Unskilled (hours)	Skilled (hours)
For Product K	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

12. (a) Difference between Cost Control and Cost Reduction

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.
3. In case of cost control, emphasis is on past and present	3. In case of cost reduction, it is on present and future.
4. Cost control is a preventive function	4. Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5. Cost control ends when targets are achieved.	5. Cost reduction has no visible end.

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

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

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

(c) Cost classification based on variability

(a) **Fixed Costs** – These are the costs which are incurred for a period, and which, within certain output and turnover limits, tend to be unaffected by fluctuations in the levels of activity (output or turnover). They do not tend to increase or decrease with the changes in output. For example, rent, insurance of factory building etc., remain the same for different levels of production.

(b) **Variable Costs** – These costs tend to vary with the volume of activity. Any increase in the activity results in an increase in the variable cost and vice-versa. For example, cost of direct labour, etc.

(c) **Semi-variable Costs** – These costs contain both fixed and variable components and are thus partly affected by fluctuations in the level of activity. Examples of semi variable costs are telephone bills, gas and electricity etc.

Cost classification based on controllability

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

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

PART-II: FINANCIAL MANAGEMENT

QUESTIONS

Time Value of Money

1. Calculate if ₹10,00,000 is invested at interest rate of 12% per annum, what is the amount after 3 years if the compounding of interest is done?
   (i) Annually
   (ii) Semi-annually
   (iii) Quarterly

Ratio Analysis

2. From the following table of financial ratios of R. Textiles Limited, comment on various ratios given at the end:

Ratios	2017	2018	Average of Textile Industry
Liquidity Ratios			
Current ratio	2.2	2.5	2.5
Quick ratio	1.5	2	1.5
Receivable turnover ratio	6	6	6
Inventory turnover	9	10	6
Receivables collection period	87 days	86 days	85 days
Operating profitability			
Operating income –ROI	25%	22%	15%
Operating profit margin	19%	19%	10%
Financing decisions			
Debt ratio	49.00%	48.00%	57%
Return			
Return on equity	24%	25%	15%

Comment on the following aspect of R. Textiles Limited
(i) Liquidity
(ii) Operating profits
(iii) Financing
(iv) Return to the shareholders

Fund Flow Analysis

3. The following are the Balance Sheets of Gama Limited for the year ending March 31, 20X8 and March 31, 20X9:

Balance Sheet as at March, 31

	20X9 (₹)	20X8 (₹)
Capital and Liabilities		
Share Capital	7,87,500	6,75,000
General Reserves	2,81,250	2,25,000
Capital Reserve (Profit on Sale of investment)	11,250	-
Profit & Loss Account	2,25,000	1,12,500
15% Debentures	2,25,000	3,37,500
Accrued Expenses	13,500	11,250
Creditors	2,81,250	1,80,000
Provision for Dividends	38,250	33,750
Provision for Taxation	85,500	78,750
Total	19,48,500	16,53,750
Assets		
Fixed Assets	13,50,000	11,25,000
Less: Accumulated depreciation	2,81,250	2,25,000
Net Fixed Assets	10,68,750	9,00,000
Long-term Investments (at cost)	2,02,500	2,02,500
Stock (at cost)	3,03,750	2,25,000
Debtors (net of provision for doubtful debts of ₹ 45,000 and ₹ 56,250 respectively for 20X8 and 20X9 respectively)	2,75,625	2,53,125
Bills receivables	73,125	45,000
Prepaid Expenses	13,500	11,250
Miscellaneous Expenditure	11,250	16,875
	19,48,500	16,53,750

Additional Information:

(i) During the year 20X8-X9, fixed assets with a net book value of ₹ 11,250 (accumulated depreciation, ₹ 33,750) was sold for ₹ 9,000.

(ii) During the year 20X8-X9, Investments costing ₹ 90,000 were sold, and also Investments costing ₹ 90,000 were purchased.

(iii) Debentures were retired at a Premium of 10%.

(iv) Tax of ₹ 61,875 was paid for 20X7-X8.

(v) During the year 20X8-X9, bad debts of ₹ 15,750 were written off against the provision for Doubtful Debt account.

(vi) The proposed dividend for 20X7-X8 was paid in 20X8-X9.

Required:

Prepare a Funds Flow Statement (Statement of changes in Financial Position on working capital basis) for the year ended March 31, 20X9.

Cost of Capital

4. As a financial analyst of a large electronics company, you are required to determine the weighted average cost of capital of the company using (a) book value weights and (b) market value weights. The following information is available for your perusal.

The Company's present book value capital structure is:

	(₹)
Debentures (₹100 per debenture)	8,00,000
Preference shares (₹100 per share)	2,00,000
Equity shares (₹10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are:

Debentures, ₹110 per debenture, Preference shares, ₹120 per share, and Equity shares, ₹ 22 per share

Anticipated external financing opportunities are:

(i) ₹ 100 per debenture redeemable at par; 10 year maturity, 11 per cent coupon rate, 4 per cent flotation costs, sale price, ₹ 100

(ii) ₹ 100 preference share redeemable at par; 10 year maturity, 12 per cent dividend rate, 5 per cent flotation costs, sale price, ₹100.

(iii) Equity shares: ₹ 2 per share flotation costs, sale price = ₹ 22.

In addition, the dividend expected on the equity share at the end of the year is ₹ 2 per share, the anticipated growth rate in dividends is 7 per cent and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35 per cent.

Capital Structure

5. Akash Limited provides you the following information:

	(₹)
Profit (EBIT)	2,80,000
Less: Interest on Debenture @ 10%	(40,000)
EBT	2,40,000
Less Income Tax @ 50%	(1,20,000)
	1,20,000
No. of Equity Shares (₹ 10 each)	30,000
Earnings per share (EPS)	4
Price /EPS (PE) Ratio	10

The company has reserves and surplus of ₹ 7,00,000 and required ₹ 4,00,000 further for modernisation. Return on Capital Employed (ROCE) is constant. Debt (Debt/ Debt + Equity) Ratio higher than 40% will bring the P/E Ratio down to 8 and increase the interest rate on additional debts to 12%. You are required to ascertain the probable price of the share.

(i) If the additional capital are raised as debt; and

(ii) If the amount is raised by issuing equity shares at ruling market price.

Leverage

6. A Company had the following Balance Sheet as on March 31, 2019:

Equity and Liabilities	(₹ in crore)	Assets	(₹ in crore)
Equity Share Capital (10 crore shares of ₹ 10 each)	100	Fixed Assets (Net)	250
Reserves and Surplus	20	Current Assets	150
15% Debentures	200		
Current Liabilities	80		
	400		400

The additional information given is as under:

Fixed Costs per annum (excluding interest)	₹ 80 crores
Variable operating costs ratio	65%
Total Assets turnover ratio	2.5
Income-tax rate	40%

Required:

Calculate the following and comment:

(i) Earnings per share

(ii) Operating Leverage

(iii) Financial Leverage

(iv) Combined Leverage.

Capital Budgeting

7. BT Pathology Lab Ltd. is using an X-ray machines which reached at the end of their useful lives. Following new X-ray machines are of two different brands with same features are available for the purchase.

Brand	Cost of Machine	Life of Machine	Maintenance Cost			Rate of Depreciation
			Year 1-5	Year 6-10	Year 11-15	
XYZ	₹6,00,000	15 years	₹ 20,000	₹ 28,000	₹ 39,000	4%
ABC	₹4,50,000	10 years	₹ 31,000	₹ 53,000	--	6%

Residual Value of both of above machines shall be dropped by 1/3 of Purchase price in the first year and thereafter shall be depreciated at the rate mentioned above.

Alternatively, the machine of Brand ABC can also be taken on rent to be returned back to the owner after use on the following terms and conditions:

- Annual Rent shall be paid in the beginning of each year and for first year it shall be ₹ 1,02,000.
- Annual Rent for the subsequent 4 years shall be ₹ 1,02,500.
- Annual Rent for the final 5 years shall be ₹ 1,09,950.
- The Rent Agreement can be terminated by BT Labs by making a payment of ₹ 1,00,000 as penalty. This penalty would be reduced by ₹ 10,000 each year of the period of rental agreement.

You are required to:

(a) Advise which brand of X-ray machine should be acquired assuming that the use of machine shall be continued for a period of 20 years.

(b) State which of the option is most economical if machine is likely to be used for a period of 5 years?

The cost of capital of BT Labs is 12%.

Working Capital Management

8. A company is considering its working capital investment and financial policies for the next year. Estimated fixed assets and current liabilities for the next year are ₹ 2.60 crores and ₹ 2.34 crores respectively. Estimated Sales and EBIT depend on current assets investment, particularly inventories and book-debts. The Financial Controller of the company is examining the following alternative Working Capital Policies:

(₹ in crore)

Working Capital Policy	Investment in Current Assets	Estimated Sales	EBIT
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the Financial Controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use ₹ 2.50 crores of the equity funds. The corporate tax rate is 35%. The company is considering the following debt alternatives.

(₹ in crore)

Financing Policy	Short-term Debt	Long-term Debt
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average	12%	16%

You are required to calculate the following:

(i) Working Capital Investment for each policy:

(a) Net Working Capital position

(b) Rate of Return

(c) Current ratio

(ii) Financing for each policy:

(a) Net Working Capital position.

(b) Rate of Return on Shareholders' equity.

(c) Current ratio.

Management of Working Capital

9. A proforma cost sheet of a company provides the following particulars:

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

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

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

The Company sells one-fifth of the output against cash and maintains cash-in-hand and at bank put together at ₹37,500.

Required:

Prepare a statement showing estimate of Working Capital needed to finance an activity level of 1,30,000 units of production. Assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. Work-in-progress stock is 80% complete in all respects.

Miscellaneous

10. Write short notes on the following:
    (a) Functions of Finance Manager.
    (b) Inter relationship between investment, financing and dividend decisions.
    (c) Debt securitisation

SUGGESTED HINTS/ANSWERS

1. Computation of future value

Principal (P_0) = ₹ 10,00,000

Rate of interest (i) = 12% p.a.

Time period (n) = 3 years

Amount if compounding is done:

(i) Annually

Future Value $= P(1+i)^n$

$= ₹10,00,000\ (1 + 0.12)^3$

$= ₹10,00,000 \times 1.404928$

$= ₹\ 14,04,928$

(ii) Semi Annually

Future Value $= ₹10,00,000 \left(1+\frac{12}{100\times 2}\right)^{3\times 2}$

$= ₹10,00,000\ (1 + 0.06)^6$

$= ₹10,00,000 \times 1.418519$

$= ₹\ 14,18,519$

(iii) Quarterly

Future Value $= ₹10,00,000 \left(1+\frac{12}{100\times 2}\right)^{3\times 4}$

$= ₹10,00,000\ (1 + 0.03)^{12}$

$= ₹10,00,000 \times 1.425761$

$= ₹14,25,761$

2.

Ratios	**Comment**
Liquidity	Current ratio has improved from last year and matching the industry average. Quick ratio also improved than last year and above the industry average. This may happen due to reduction in receivable collection period and quick inventory turnover. However, this also indicates idleness of funds. Overall it is reasonably good. All the liquidity ratios are either better or same in both the year compare to the Industry Average.
Operating Profits	Operating Income-ROI reduced from last year but Operating Profit Margin has been maintained. This may happen due to variability of cost on turnover. However, both the ratio are still higher than the industry average.

Financing	The company has reduced its debt capital by 1% and saved operating profit for equity shareholders. It also signifies that dependency on debt compared to other industry players (57%) is low.
Return to the shareholders	R's ROE is 24 per cent in 2017 and 25 per cent in 2018 compared to an industry average of 15 per cent. The ROE is stable and improved over the last year.

3. **Fund Flow Statement as at 31st March 20X9**

	(₹)
A. Sources of Funds:	
(i) Fund from Business Operations (W.N. 1)	3,16,125
(ii) Sale of Fixed Assets	9,000
(iii) Sale of Investments (₹ 90,000 + ₹ 11,250)	1,01,250
(iv) Issue of Shares (₹ 7,87,500 - ₹ 6,75,000)	1,12,500
Total sources	5,38,875
B. Application of Funds:	
(i) Purchase of Fixed Assets	2,70,000
(ii) Purchase of Investments	90,000
(iii) Payment to Debenture holders {(₹ 3,37,500 – ₹ 2,25,000) × 110%}	1,23,750
(iv) Payment of Dividends	33,750
Total uses	5,17,500
Increase in Working Capital (A - B)	21,375

Working Notes (W.N.):

1. **Computation of Funds from Business Operation**

		(₹)
	Profit and loss as on March 31, 20X9	2,25,000
Add:	Depreciation	90,000
	Loss on Sale of Asset	2,250
	Misc. Expenditure written off	5,625
	Transfer to Reserves	56,250
	Premium on Redemption of debentures	11,250
	Provision for Dividend	38,250

		4,28,625
Less:	Profit and loss as on March 31, 20X7	1,12,500
	Fund from Operations	3,16,125

2. **Accumulated Depreciation A/c**

To Fixed Asset A/c	33,750	By Balance b/d	2,25,000
To Balance c/d	2,81,250	By P/L A/c (Prov. for depreciation) (Bal. Fig.)	90,000
	3,15,000		3,15,000

3. **Fixed Assets A/c**

To Balance b/d	11,25,000	By Acc. Depreciation A/c	33,750
To Bank (Purchase of Fixed Asset) (Bal. fig.)	2,70,000	By Cash	9,000
		By P/L (Loss on sale)	2,250
		By Balance c/d	13,50,000
	13,95,000		13,95,000

4. **Statement of Changes in Working Capital**

	March 31, 20X8	March 31, 20X9	Change in Working Capital	
			Increase	Decrease
Current Assets				
Stock	2,25,000	3,03,750	78,750	--
Debtors	2,53,125	2,75,625	22,500	--
Bills Receivables	45,000	73,125	28,125	--
Prepaid Expenses	11,250	13,500	2,250	--
	5,34,375	6,66,000	--	--
Current Liabilities				
Accrued Expenses	11,250	13,500	--	2,250
Creditors	1,80,000	2,81,250	--	1,01,250
Provision for Taxation	78,750	85,500	--	6,750
	2,70,000	3,80,250	--	--
Working Capital	2,64,375	2,85,750	--	--
Increase in Working Capital	21,375	-	-	21,375
	2,85,750	2,85,750	1,31,625	1,31,625

4. Determination of specific costs:

(i) Cost Debt (K_d) = $\dfrac{\text{Interest}(1-t)+\dfrac{(RV-NP)}{N}}{\dfrac{(RV+NP)}{2}} = \dfrac{₹11(1-0.35)+\dfrac{(₹100-₹96)}{10\,\text{years}}}{\dfrac{(₹100+₹96)}{2}}$

$= \dfrac{₹7.15+₹0.4}{₹98}$ = 0.077 or 7.70%

(ii) Cost of Preference Shares (K_p) $= \dfrac{PD+\dfrac{(RV-NP)}{N}}{\dfrac{(RV+NP)}{2}} = \dfrac{₹12+\dfrac{(₹100-₹95)}{10\,\text{years}}}{\dfrac{(₹100+₹95)}{2}}$

$= \dfrac{₹12+₹0.5}{₹97.5}$ = 0.1282 or 12.82%

(iii) Cost of Equity shares (K_e) $= \dfrac{D_1}{P_0}+G = \dfrac{₹2}{₹22-₹2}+0.07$ = 0.17 or 17%

I – Interest, t – Tax, RV- Redeemable value, NP- Net proceeds, N- No. of years, PD- Preference dividend, D_1- Expected Dividend, P_0- Price of share (net)

Using these specific costs, we can calculate WACC on the basis of book value and market value weights as follows:

(a) Weighted Average Cost of Capital (K_0) based on Book value weights

Source of capital	Book value (₹)	Weights	Specific cost (%)	WACC (%)
Debentures	8,00,000	0.40	7.70	3.08
Preferences shares	2,00,000	0.10	12.82	1.28
Equity shares	10,00,000	0.50	17.00	8.50
	20,00,000	1.00		12.86

(b) Weighted Average Cost of Capital (K_0) based on market value weights:

Source of capital	Market value (₹)	Weights	Specific cost (%)	WACC (%)
Debentures	8,80,000	0.265	7.70	2.04

$\left(\frac{₹8,00,000}{₹100} \times ₹110\right)$				
Preferences shares $\left(\frac{₹2,00,000}{₹100} \times ₹120\right)$	2,40,000	0.072	12.82	0.92
Equity shares $\left(\frac{₹10,00,000}{₹10} \times ₹22\right)$	22,00,000	0.663	17.00	11.27
	33,20,000	1.000		14.23

5. Ascertainment of probable price of shares of Akash limited

Particulars	Plan-I If ₹ 4,00,000 is raised as debt (₹)	Plan-II If ₹ 4,00,000 is raised by issuing equity shares (₹)
Earnings Before Interest and Tax (EBIT) {20% of new capital i.e. 20% of (₹14,00,000 + ₹4,00,000)} (Refer working note1)	3,60,000	3,60,000
Less: Interest on old debentures (10% of ₹4,00,000)	(40,000)	(40,000)
Less: Interest on new debt (12% of ₹4,00,000)	(48,000)	--
Earnings Before Tax (EBT)	2,72,000	3,20,000
Less: Tax @ 50%	(1,36,000)	(1,60,000)
Earnings for equity shareholders (EAT)	1,36,000	1,60,000
No. of Equity Shares (refer working note 2)	30,000	40,000
Earnings per Share (EPS)	₹ 4.53	₹ 4.00
Price/ Earnings (P/E) Ratio (refer working note 3)	8	10
Probable Price Per Share (PE Ratio × EPS)	₹ 36.24	₹ 40

Working Notes:

1. Calculation of existing Return of Capital Employed (ROCE):

	(₹)
Equity Share capital (30,000 shares × ₹10)	3,00,000

10% Debentures $\left(₹40,000 \times \frac{100}{10}\right)$	4,00,000
Reserves and Surplus	7,00,000
Total Capital Employed	14,00,000
Earnings before interest and tax (EBIT) (given)	2,80,000
ROCE = $\frac{₹2,80,000}{₹14,00,000} \times 100$	20%

2. **Number of Equity Shares to be issued in Plan-II:**

$$= \frac{₹4,00,000}{₹40} = 10,000 \text{ shares}$$

Thus, after the issue total number of shares = 30,000+ 10,000 = 40,000 shares

3. **Debt/Equity Ratio if ₹ 4,00,000 is raised as debt:**

$$= \frac{₹8,00,000}{₹18,00,000} \times 100 = 44.44\%$$

As the debt equity ratio is more than 40% the P/E ratio will be brought down to 8 in Plan-I

6. Total Assets = ₹ 400 crores

Asset Turnover Ratio = 2.5

Hence, Total Sales = 400 × 2.5 = ₹ 1,000 crores

Computation of Profits after Tax (PAT)

	(₹ in crore)
Sales	1,000
Less: Variable operating cost (65% of ₹1,000 crore)	(650)
Contribution	350
Less: Fixed cost (other than Interest)	(80)
EBIT	270
Less: Interest on debentures (15% × ₹200 crore)	(30)
EBT	240
Less: Tax 40%	(96)
EAT (earnings available to equity share holders)	144

(i) Earnings per share (EPS)

$$\therefore \text{ EPS} = \frac{₹\ 144 \text{ crores}}{10 \text{ crore equity shares}} = ₹\ 14.40$$

(ii) Operating Leverage

$$\text{Operating leverage} = \frac{\text{Contribution}}{\text{EBIT}} = \frac{350}{270} = 1.296$$

It indicates sensitivity of earnings before interest and tax (EBIT) to change in sales at a particular level.

(iii) Financial Leverage

$$\text{Financial Leverage} = \frac{\text{EBIT}}{\text{EBT}} = \frac{270}{240} = 1.125$$

The financial leverage is very comfortable since the debt service obligation is small vis-à-vis EBIT.

(iv) Combined Leverage

$$\text{Combined Leverage} = \frac{\text{Contribution}}{\text{EBIT}} \times \frac{\text{EBIT}}{\text{EBT}}$$

Or, Operating Leverage × Financial Leverage = 1.296 × 1.125 = 1.458

The combined leverage studies the choice of fixed cost in cost structure and choice of debt in capital structure. It studies how sensitive the change in EPS is vis-à-vis change in sales.

7. Since the life span of each machine is different and time span exceeds the useful lives of each model, we shall use Equivalent Annual Cost method to decide which brand should be chosen.

(i) If machine is used for 20 years

Present Value (PV) of cost if machine of Brand XYZ is purchased

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	6,00,000	1.000	6,00,000
1-5	20,000	3.605	72,100
6-10	28,000	2.045	57,260
11-15	39,000	1.161	45,279
15	(64,000)	0.183	(11,712)
			7,62,927

PVAF for 1-15 years 6.811

Equivalent Annual Cost = $\frac{₹7,62,927}{6.811}$ = ₹ 1,12,014

Present Value (PV) of cost if machine of Brand ABC is purchased

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	4,50,000	1.000	4,50,000
1 - 5	31,000	3.605	1,11,755
6 -10	53,000	2.045	1,08,385
10	(57,000)	0.322	(18,354)
			6,51,786

PVAF for 1-10 years 5.65

Equivalent Annual Cost = $\frac{₹6,51,786}{5.65}$ = ₹ 1,15,360

Present Value (PV) of cost if machine of Brand ABC is taken on Rent

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	1,02,000	1.000	1,02,000
1 - 4	1,02,500	3.037	3,11,293
5-9	1,09,950	2.291	2,51,895
			6,65,188

PVAF for 1-10 years 5.65

Equivalent Annual Cost = $\frac{₹6,65,188}{5.65}$ = ₹ 1,17,732

Decision: Since Equivalent Annual Cash Outflow is least in case of purchase of Machine of brand XYZ the same should be purchased.

(ii) If machine is used for 5 years

(a) Scrap Value of Machine of Brand XYZ

= ₹ 6,00,000 – ₹ 2,00,000 – ₹ 6,00,000 × 0.04 × 4 = ₹ 3,04,000

(b) Scrap Value of Machine of Brand ABC

= ₹ 4,50,000 – ₹ 1,50,000 – ₹ 4,50,000 × 0.06 × 4 = ₹ 1,92,000

Present Value (PV) of cost if machine of Brand XYZ is purchased

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	6,00,000	1.000	6,00,000
1 - 5	20,000	3.605	72,100
5	(3,04,000)	0.567	(1,72,368)
			4,99,732

Present Value (PV) of cost if machine of Brand ABC is purchased

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	4,50,000	1.000	4,50,000
1-5	31,000	3.605	1,11,755
5	(1,92,000)	0.567	(1,08,864)
			4,52,891

Present Value (PV) of cost if machine of Brand ABC is taken on Rent

Period	Cash Outflow (₹)	PVF@12%	Present Value
0	1,02,000	1.000	1,02,000
1-4	1,02,500	3.037	3,11,293
5	50,000	0.567	28,350
			4,41,643

Decision: Since Cash Outflow is least in case of lease of Machine of brand ABC the same should be taken on rent.

8. (i) **Statement showing Working Capital Investment for each policy**

(₹ in crore)

	Working Capital Policy		
	Conservative	Moderate	Aggressive
Current Assets: (i)	4.50	3.90	2.60
Fixed Assets: (ii)	2.60	2.60	2.60
Total Assets: (iii)	7.10	6.50	5.20
Current liabilities: (iv)	2.34	2.34	2.34
Net Worth: (v) = (iii) - (iv)	4.76	4.16	2.86
Total liabilities: (iv) + (v)	7.10	6.50	5.20
Estimated Sales: (vi)	12.30	11.50	10.00

EBIT: (vii)	1.23	1.15	1.00
(a) Net working capital position: (i) - (iv)	2.16	1.56	0.26
(b) Rate of return: (vii) /(iii)	17.32%	17.69%	19.23%
(c) Current ratio: (i)/ (iv)	1.92	1.67	1.11

(ii) Statement Showing Effect of Alternative Financing Policy

(₹ in crore)

Financing Policy	Conservative	Moderate	Aggressive
Current Assets (i)	3.90	3.90	3.90
Fixed Assets (ii)	2.60	2.60	2.60
Total Assets (iii)	6.50	6.50	6.50
Current Liabilities (iv)	2.34	2.34	2.34
Short term Debt (v)	0.54	1.00	1.50
Total current liabilities (vi) = (iv) + (v)	2.88	3.34	3.84
Long term Debt (vii)	1.12	0.66	0.16
Equity Capital (viii)	2.50	2.50	2.50
Total liabilities (ix) = (vi)+(vii)+(viii)	6.50	6.50	6.50
Forecasted Sales	11.50	11.50	11.50
EBIT (x)	1.15	1.15	1.15
Less: Interest on short-term debt	0.06 (12% of ₹0.54)	0.12 (12% of ₹ 1)	0.18 (12% of ₹ 1.5)
Interest on long term debt	0.18 (16% of ₹1.12)	0.11 (16% of ₹0.66)	0.03 (16% of ₹0.16)
Earnings before tax (EBT) (xi)	0.91	0.92	0.94
Taxes @ 35% (xii)	0.32	0.32	0.33
Earnings after tax: (xiii) = (xi) – (xii)	0.59	0.60	0.61
(a) Net Working Capital Position: (i) - [(iv) + (v)]	1.02	0.56	0.06
(b) Rate of return on shareholders Equity capital: (xiii)/ (viii)	23.6%	24.0%	24.4%
(c) Current Ratio (i) / (vi)	1.35	1.17	1.02

9. Statement showing Estimate of Working Capital Needs

	(Amount in ₹)	(Amount in ₹)
A. Current Assets		
(i) Inventories:		
Raw material (1 month or 4 weeks) $\left(\frac{1,30,000 \text{ units} \times ₹100}{52 \text{ weeks}} \times 4 \text{ weeks}\right)$	10,00,000	
WIP Inventory (1 week) $\left(\frac{1,30,000 \text{ units} \times ₹212.50}{52 \text{ weeks}} \times 1 \text{ week}\right) \times 0.8$	4,25,000	
Finished goods inventory (2 weeks) $\left(\frac{1,30,000 \text{ units} \times ₹212.50}{52 \text{ weeks}} \times 2 \text{ weeks}\right)$	10,62,500	24,87,500
(ii) Receivables (Debtors) (4 weeks) $\left(\frac{1,30,000 \text{ units} \times ₹212.50}{52 \text{ weeks}} \times 4 \text{ weeks}\right) \times \frac{4}{5^{th}}$		17,00,000
(iii) Cash and bank balance		37,500
Total Current Assets		42,25,000
B. Current Liabilities:		
(i) Payables (Creditors) for materials (3 weeks) $\left(\frac{1,30,000 \text{ units} \times ₹100}{52 \text{ weeks}} \times 3 \text{ weeks}\right)$		7,50,000
(ii) Outstanding wages (1 week) $\left(\frac{1,30,000 \text{ units} \times ₹37.50}{52 \text{ weeks}} \times 1 \text{ week}\right)$		93,750
(iii) Outstanding overheads (2 weeks) $\left(\frac{1,30,000 \text{ units} \times ₹75}{52 \text{ weeks}} \times 2 \text{ weeks}\right)$		3,75,000
Total Current Liabilities		12,18,750
Net Working Capital Needs (A – B)		30,06,250

10. (a) Functions of Finance Manager

The Finance Manager's main objective is to manage funds in such a way so as to ensure their optimum utilisation and their procurement in a manner that the risk, cost and control considerations are properly balanced in a given situation. To achieve these objectives the Finance Manager performs the following functions:

(i) *Estimating the requirement of Funds:* Both for long-term purposes i.e. investment in fixed assets and for short-term i.e. for working capital. Forecasting the requirements of funds involves the use of techniques of budgetary control and long-range planning.

(ii) *Decision regarding Capital Structure:* Once the requirement of funds has been estimated, a decision regarding various sources from which these funds would be raised has to be taken. A proper balance has to be made between the loan funds and own funds. He has to ensure that he raises sufficient long term funds to finance fixed assets and other long term investments and to provide for the needs of working capital.

(iii) *Investment Decision:* The investment of funds, in a project has to be made after careful assessment of various projects through capital budgeting. Assets management policies are to be laid down regarding various items of current assets. For e.g. receivable in coordination with sales manager, inventory in coordination with production manager.

(iv) *Dividend decision:* The finance manager is concerned with the decision as to how much to retain and what portion to pay as dividend depending on the company's policy. Trend of earnings, trend of share market prices, requirement of funds for future growth, cash flow situation etc., are to be considered.

(v) *Evaluating financial performance:* A finance manager has to constantly review the financial performance of the various units of organisation generally in terms of ROI Such a review helps the management in seeing how the funds have been utilised in various divisions and what can be done to improve it.

(vi) *Financial negotiation:* The finance manager plays a very important role in carrying out negotiations with the financial institutions, banks and public depositors for raising of funds on favourable terms.

(vii) *Cash management:* The finance manager lays down the cash management and cash disbursement policies with a view to supply adequate funds to all units of organisation and to ensure that there is no excessive cash.

(viii) K*eeping touch with stock exchange:* Finance manager is required to analyse major trends in stock market and their impact on the price of the company share.

(b) Inter-relationship between Investment, Financing and Dividend Decisions

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

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

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

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

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

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

(c) 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, bank. The creditworthiness of borrower is evaluated and contract is entered into with repayment schedule structured 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* – SPV will structure and issue securities on the basis of asset 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 are – pension funds, mutual funds, insurance funds.

PAPER 4: TAXATION

SECTION A: INCOME TAX

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2018, including significant notifications/ circulars issued upto 31st October, 2018 are applicable for May, 2019 examination. The relevant assessment year for May, 2019 examination is A.Y.2019-20. The July 2018 edition of the Study Material is based on the provisions of income-tax law as amended by the Finance Act, 2018 and significant notifications/circulars issued upto 30th April, 2018.

The significant notifications/circulars made between 1.4.2018 and 31.10.2018 which are relevant for May, 2019 examination are given hereunder.

Chapter 3: Incomes which do not form part of Total Income

Computation of admissible deduction u/s 10AA of the Income-tax Act, 1961 [Circular No. 4/2018, Dated 14-8-2018]

As per the provisions of section 10AA(7), the profits derived from export of articles or things or services (including computer software) shall be the amount which bears to the profits of the business of the undertaking, being the Unit, the same proportion as the export turnover in respect of such articles or things or services bears to the total turnover of the business carried on by the undertaking.

Further as per clause (i) to *Explanation 1* to section 10AA, "export turnover" means the consideration in respect of export by the undertaking, being the Unit of articles or things or services received in, or brought into, India by the assessee, but does not include freight, telecommunication charges or insurance attributable to the delivery of the articles or things outside India or expenses, if any, incurred in foreign exchange in rendering of services (including computer software) outside India.

The issue of whether freight, telecommunication charges and insurance expenses are to be excluded from both "export turnover'" and "total turnover' while working out deduction admissible under section 10AA on the ground that they are attributable to delivery of articles or things outside India has been highly contentious. Similarly, the issue whether charges for rendering services outside India are to be excluded both from "export turnover" and "total turnover" while computing deduction admissible under section 10AA on the ground that such charges are relatable towards expenses incurred in convertible foreign exchange in rendering services outside India has also been highly contentious.

The controversy has been finally settled by the Hon'ble Supreme Court vide its judgment dated 24.4.2018 in the case of Commissioner of Income Tax, Central-III Vs. M/s HCL Technologies Ltd. (CA No. 8489-8490 of 2013, NJRS Citation 2018-LL-0424-40), in relation to section 10A.

The issue had been examined by CBDT and it is clarified, in line with the above decision of the Supreme Court, that **freight, telecommunication charges and insurance expenses are to be excluded both from "export turnover" and "total turnover', while working out deduction admissible under section 10AA to the extent they are attributable to the delivery of articles or things outside India**.

Similarly, **expenses incurred in foreign exchange for rendering services outside India are to be excluded from both "export turnover" and "total turnover" while computing deduction admissible under section 10AA**.

Note: *Though this CBDT Circular is issued in relation to erstwhile section 10A, the same is also relevant in the context of section 10AA. Accordingly, the reference to section 10A in the Circular and the relevant sub-section and Explanation number thereto have been modified and given with reference to section 10AA and the corresponding sub-sections, Explanation number and clause of Explanation.*

Chapter 9: Advance Tax and Tax Deduction at Source

No tax is required to be deducted at source on interest payable on "Power Finance Corporation Limited 54EC Capital Gains Bond" and "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" – [Notification No. 27 & 28/2018, dated 18-06-2018]

Section 193 (Interest on securities) provides that the person responsible for paying to a resident any income by way of interest on securities shall, at the time of credit of such income to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct income-tax @ 10%, being the rates in force on the amount of the interest payable.

As per clause (iib) of the proviso to section 193, no tax is required to be deducted at source from any interest payable on such debentures, issued by any institution or authority, or any public sector company, or any co-operative society (including a co-operative land mortgage bank or a co-operative land development bank), as the Central Government may, by notification in the Official Gazette, specify in this behalf.

Accordingly, the Central Government has, vide this notification, specified -

(i) "Power Finance Corporation Limited 54EC Capital Gains Bond" issued by Power Finance Corporation Limited {PFCL} and

(ii) "Indian Railway Finance Corporation Limited 54EC Capital Gains Bond" issued by Indian Railway Finance Corporation Limited {IRFCL}

The benefit of this exemption would, however, be admissible in the case of transfer of such bonds by endorsement or delivery, only if the transferee informs PFCL/IRFCL by registered post within a period of sixty days of such transfer.

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

I. Mr. Sumit is an Indian citizen and a member of the crew of an America bound Indian ship engaged in carriage of freight in international traffic departing from Kochi on 25th April, 2018. From the following details for the P.Y. 2018-19, determine the residential status of Mr. Sumit for A.Y. 2019-20, assuming that his stay in India in the last 4 previous years preceding P.Y. 2018-19 is 365 days and last seven previous years preceding P.Y. 2018-19 is 730 days:

Date entered in the Continuous Discharge Certificate in respect of joining the ship by Mr. Sumit: 25th April, 2018

Date entered in the Continuous Discharge Certificate in respect of signing off the ship by Mr. Sumit: 24th October, 2018

Mr. Sumit has been filing his income tax return in India as a Resident for previous 2 years.

What is his residential status for A.Y. 2019-20:

(a) Resident and ordinarily resident

(b) Resident but not-ordinarily resident

(c) Non-resident

(d) Non-resident till 24.10.2018 and resident till 31.03.2019

II. Aashish earns the following income during the P.Y. 2018-19:

- Interest on U.K. Development Bonds (1/4th being received in India): ₹4,00,000
- Capital gain on sale of a building in India but received in Holland: ₹ 6,00,000

If Aashish is a resident but not ordinarily resident in India, then what will be amount of income chargeable to tax in India for A.Y. 2019-20?

(a) ₹ 7,00,000

(b) ₹ 10,00,000

(c) ₹ 6,00,000

(d) ₹ 1,00,000

III. Mr. Anay (aged 25) has agricultural income of ₹ 2,10,000 and business income of ₹ 2,35,000. Which of the following statement is correct?

(a) Agricultural income always has to be aggregated with business income for rate purposes

(b) No aggregation is required since business income which constitutes his total income, is less than basic exemption limit

(c) No aggregation is required since agricultural income is less than basic exemption limit

(d) Agricultural income is exempt under section 10(1) but the same has to be aggregated with business income, since it exceeds ₹ 5,000

IV. Miss Riya has started working in a reputed company. This is her first job. She earned total income of ₹8 Lakhs in P.Y. 2018-19. While filing her return of income she had a doubt with respect to deduction of transport allowance. Her father advised her that she cannot claim deduction of transport allowance while her friend told that maximum deduction of ₹1600 p.m. in respect of the said allowance can be claimed. According to you, what is the correct treatment for the same?

(a) Transport allowance upto a maximum ₹1600 per month can be claimed.

(b) Transport allowance upto a maximum ₹800 per month can be claimed.

(c) No separate deduction for transport allowance is allowed. However, a standard deduction of ₹ 40,000 is allowed to salaried assessees.

(d) Deduction of transport allowance is allowed without any monetary limit.

V. In respect of loss from house property, which of the following statements are correct?

(a) While computing income from any house property, the maximum interest deduction allowable under section 24 is ₹ 2 lakhs

(b) Loss from house property relating to a particular year can be set-off against income under any other head during that year only to the extent of ₹ 2 lakhs

(c) The loss in excess of ₹ 2 lakh, which is not set-off during the year, can be carried forward for set-off against any head of income in the succeeding year(s)

(d) All the above

VI. M/s ABC, an eligible assessee, following mercantile system of accounting, carrying on eligible business under section 44AD provides the following details:

♦ Total turnover for the financial year 2018-19 is ₹ 130 lakh

♦ Out of the above:

- ₹ 25 lakh received by A/c payee cheque during the financial year 2018-19;
- ₹ 50 lakh received by cash during the financial year 2018-19;

- ₹ 25 lakh received by A/c payee bank draft before the due date of filing of return;
- ₹ 30 lakh not received till due date of filing of return.

Compute the amount of deemed profits of M/s ABC under section 44AD(1) for A.Y. 2019-20.

(a) ₹ 10.4 lakh

(b) ₹ 7.0 lakh

(c) ₹ 5.5 lakh

(d) ₹ 9.4 lakh

VII. Ram owns 500, 15% debentures of Reliance Industries Ltd. of ₹ 500 each. Annual interest of ₹ 37,500 was declared on these debentures for P.Y. 2018-19. He transfers interest income to his friend Shyam, without transferring the ownership of these debentures. While filing return of income for A.Y. 2019-20, Shyam showed ₹ 37,500 as his income from debentures. As tax advisor of Shyam, do you agree with the tax treatment done by Shyam in his return of income?

(a) Yes, since interest income was transferred to Shyam therefore, after transfer it becomes his income.

(b) No, since Ram has not transferred debentures to Shyam, interest income on the debentures is not taxable income of Shyam.

(c) Yes, if debentures are not transferred, interest income on debentures can be declared by anyone, Ram or Shyam, as taxable income depending upon their discretion.

(d) No, since Shyam should have shown the income as interest income received from Mr. Ram and not as interest income earned on debentures.

VIII. Mr. Rajan incurred loss of ₹ 5.3 lakh in the P.Y.2018-19 in toy business. Against which of the following income earned during the same year, can he set-off such loss?

(a) profit of ₹ 2 lakh from wholesale cloth business

(b) speculative business income of ₹ 80,000

(c) long-term capital gains of ₹ 1.20 lakhs on sale of land

(d) All of the above

IX. Mr. Ajay is a recently qualified doctor. He joined a reputed hospital in Delhi on 01.01.2019. He earned total income of ₹ 3,40,000 till 31.03.2019. His employer advised him to claim rebate u/s 87A while filing return of income for A.Y. 2019-20. He approached his father to enquire regarding what is rebate u/s 87A of the Act. His father told him:

(i) An individual who is resident in India and whose total income does not exceed ₹ 3,50,000 is entitled to claim rebate under section 87A.

(ii) An individual who is resident in India and whose total income does not exceed ₹ 5,00,000 is entitled to claim rebate under section 87A.

(iii) Maximum rebate allowable under section 87A is ₹ 5,000.

(iv) Rebate under section 87A is available in the form of exemption from total income.

(v) Maximum rebate allowable under section 87A is ₹ 2,500.

(vi) Rebate under section 87A is available in the form of deduction from tax liability.

As a tax expert, do you agree with the explanation given by Mr. Ajay's father? Choose the correct option from the following:

(a) (ii), (iii), (vi)

(b) (i), (v), (vi)

(c) (ii), (iii), (iv)

(d) (i), (iv), (v)

X. Mr. P is a professional who is responsible for paying a sum of ₹ 2,00,000 as rent for use of building to Mr. Harshit for the month of February, 2019. The gross receipts of Mr. P are as under:

From 01.04.2017 to 31.03.2018: ₹ 55,00,000

From 01.04.2018 to 28.02.2019: ₹ 45,00,000

Find out whether Mr. P is responsible for deducting any tax at source from the rent of ₹ 2,00,000 payable to Mr. Harshit.

(a) Tax at source is required to be deducted u/s 194-I at the rate of 10%.

(b) Tax at source is required to be deducted u/s 194-IB at the rate of 5%.

(c) Tax at source is required to be deducted u/s 194-IB at the rate of 10%.

(d) No tax is required to be deducted at source.

DESCRIPTIVE QUESTIONS

1. Determine the residential status of Ms. Nicole Kidman, an Australian actress, for the A.Y. 2019-20, from the following information about her stay in India contained in her passport.

F.Y.	From	To	F.Y.	From	To
2018-19	May 3rd	August 12th	2013-14	May 3rd	August 12th
2017-18	July 23rd	August 11h	2012-13	May 3rd	August 12th

2016-17	February 9th	March 26th	2011-12	May 3rd	August 12th
2015-16	September 8th	March 26th	2010-11	May 3rd	August 12th
2014-15	May 17th	September 30th	-	-	-

2. Mr. Rana, a resident and ordinarily resident aged 42 years, manufactures rubber from the latex processed from rubber plants grown in Kerala. Thereafter, he sold the rubber for ₹ 47 lakhs. The cost of growing rubber plants was ₹ 25 lakhs and the cost of manufacturing rubber was ₹ 7 lakhs. He has no other income during the previous year 2018-19. Compute his tax liability for the Assessment Year 2019-20.

3. Ms. Aarohi is the HR manager in Shipra limited. She gives you the following particulars:

Basic Salary	₹ 70,000 p.m.
Dearness Allowance	₹ 24,000 p.m. (30% of which forms part of retirement benefits)
Bonus	₹ 21,000 p.m.

   Her employer has provided her with an accommodation on 1st April 2018 at a concessional rent. The house was taken on lease by Shipra Ltd. for ₹ 12,000 p.m. Ms. Aarohi occupied the house from 1st November, 2018, ₹ 4,800 p.m. is recovered from the salary of Ms. Aarohi.

   The employer gave her a gift voucher of ₹ 10,000 on her birthday. She contributes 18% of her salary (Basic Pay plus DA) towards recognised provident fund and the company contributes the same amount.

   The company pays medical insurance premium to effect insurance on the health of Ms. Aarohi ₹ 20,000.

   Motor car owned by the employer (cubic capacity of engine exceeds 1.6 litres) provided to Ms. Aarohi from 1st November, 2018 which is used for both official and personal purposes. Repair and running expenses of ₹ 70,000 were fully met by the company. The motor car was self-driven by the employee.

   Compute the income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for the Assessment Year 2019-20.

4. Shraddha has two flats in Mumbai, both of which are self-occupied. The particulars of these are given below:

Particulars	(Value in ₹)	
	Flat at Goregaon	**Flat at Navi Mumbai**
Municipal Valuation per annum	1,40,000	1,35,000
Fair Rent per annum	1,60,000	1,80,000

Standard rent per annum	1,40,000	1,90,000
Date of completion of construction	1-02-2012	24-08-2006
Municipal taxes payable during the year (paid for Flat at Navi Mumbai only)	10%	12%
Interest on money borrowed for repair of property during current year	-	72,000

Compute Shraddha's income from house property for the Assessment Year 2019-20. Also, suggest which flat should be opted by Shraddha to be assessed as self-occupied so that her tax liability is minimum.

5. Mr. Jai Prakash commenced the business of operating goods vehicles on 1.4.2018. He purchased the following vehicles during the P.Y.2018-19. Compute his income under section 44AE for A.Y.2019-20.

	Gross Vehicle Weight (in kilograms)	Number	Date of purchase
(1)	8,500	3	11.05.2018
(2)	9,500	1	16.03.2019
(3)	10,000	1	21.09.2018
(4)	11,500	2	12.01.2019
(5)	15,000	1	21.07.2018
(6)	15,000	2	23.01.2019

Would your answer change if the goods vehicles purchased in January, 2019 were put to use only in July, 2019?

6. Mr. Pratap, a proprietor has transferred his unit RS to Mr. Raj by way of Slump Sale on December 7, 2018. The summarised Balance Sheet of Mr. Pratap as on that date is given below:

Liabilities	**Amount (₹ In lacs)**	**Assets**	**Amount (₹ In lacs)**
Own Capital	1,850	**Fixed Assets:**	
Accumulated P & L balance	870	Unit PT	250
Liabilities:		Unit QL	170
Unit PT	190	Unit RS	950
Unit QL	260	**Other Assets:**	
Unit RS	340	Unit PT	790

		Unit QL	860
		Unit RS	490
Total	**3,510**	**Total**	**3,510**

Other information:

(i) Slump sale consideration on transfer of Unit RS was ₹ 1540 lacs.

(ii) Fixed Assets of Unit RS includes land which was purchased at ₹ 90 lacs in the year 2008 and was revalued at ₹ 180 lacs.

(iii) Other fixed assets are reflected at ₹ 770 lacs, (i.e., ₹ 950 lacs less value of land) which represents written down value of those assets as per books. The written down value of these assets is ₹ 630 lacs as per Income-tax Act, 1961.

(iv) Unit RS was set up by Mr. Pratap in December, 2006.

Compute the Capital Gains arising in the hands of Mr. Pratap from slump sale of Unit RS for Assessment year 2019-20.

***Note**: Cost Inflation Indices for the financial year 2006-07 and financial year 2018-19 are 122 and 280, respectively.*

7. Mr. Suraj sold a house to his friend Mr. Ganesh on 18th September, 2018 for a consideration of ₹ 42,00,000. On the date of registration stamp duty value of the said property is ₹ 45,00,000. However, on the date of agreement stamp duty value of the said property was ₹ 44,00,000. Mr. Ganesh had paid 10% of the value of the property by way of A/c payee cheque at the time of agreement. Assume value of land is 70% of the total value of the property.

   What are the tax implications in the hands of Mr. Suraj and Mr. Ganesh for the assessment year 2019-20? Mr. Suraj had purchased the land on 19th February, 2013 for ₹ 9,20,000 and completed the construction of house on 18th January, 2017 for ₹ 15,50,000.

   Cost Inflation Index: F.Y. 2012-13 – 200; F.Y. 2016-17 – 264; F.Y. 2018-19 - 280.

8. On 10th April, 2018, Mr. Mayur made a gift of ₹ 4,45,000 to his handicapped son, Master Tanmay aged 10 years. He deposited such amount in a fixed deposit account in a Nationalised bank. The bank credited a sum of ₹ 42,500 as interest on fixed deposit on 31st March, 2019.

   Mayur's father gifted 10,000 unlisted equity shares of an Indian company to Master Tejas, another son of Mr. Mayur (Date of birth 19th June, 2011) in September 2011 which were purchased by him on 18th December, 2004 for ₹ 95,000. Tejas received a dividend of ₹ 10,000 on these shares in October 2018. He sold these shares on 1st December, 2018 for ₹ 4,80,000 and deposited ₹ 3,10,000 in a company at 14% interest per annum.

Cost Inflation Index

Financial Year	Cost Inflation Index
2004-05	113
2011-12	184
2018-19	280

Mr. Mayur has a taxable income of ₹ 4,50,000 from his profession during the financial year 2018-19. Compute his Gross Total Income for the A.Y. 2019-20.

9. Compute the gross total income of Mr. Avinash and show the items eligible for carry forward and the assessment years upto which such losses can be carry forward from the following information furnished by him for the year ended 31-03-2019:

Particulars	Amount (₹)
Loss from speculative business MNO	12,000
Income from speculative business BPO	25,000
Loss from specified business covered under section 35AD	45,000
Income from salary (computed)	4,18,000
Loss from house property	2,20,000
Income from trading business	2,80,000
Income from owning and maintaining race horses	8,000
Long-term capital gain from sale of urban land	2,05,000
Long-term capital loss on sale of equity shares (STT not paid)	85,000
Long-term capital loss on sale of listed equity shares in recognized stock exchange (STT paid at the time of acquisition and sale of shares)	1,10,000

Following are the brought forward losses:

(1) Losses from owning and maintaining of race horses pertaining to A.Y. 2017-18 ₹ 12,000.

(2) Brought forward loss from speculative business MNO 18,000 relating to A.Y. 2016-17.

(3) Brought forward loss from trading business of ₹ 12,000 relating to A.Y. 2015-16.

Assume Mr. Avinash has furnished his return of income on or before the due date specified under section 139(1) in all the above previous years.

10. Mr. Darshan aged 61 years, working with G Ltd., submits the following particulars of investments and payments made by him during the previous year 2018-19:

- Deposit of ₹ 1,50,000 in public provident fund
- Payment of life insurance premium of ₹ 62,000 on the policy taken on 01.4.2017 to insure his life (Sum assured – ₹ 3,00,000).
- Deposit of ₹ 55,000 in a five year term deposit with bank.
- Contributed ₹ 1,95,000, being 15% of his salary (basic salary plus dearness allowance, which forms part of retirement benefits) to the NPS of the Central Government. A matching contribution was made by G Ltd.
- On 1.4.2018, mediclaim premium of ₹ 1,08,000 and ₹ 80,000 paid as lumpsum to insure his and his wife (aged 58 years) health, respectively for four years medical insurance and incurred ₹ 46,000 towards medical expenditure of his father, aged 90 years, not dependent on him. No insurance policy taken for his father.
- He spent ₹ 6,000 for the preventive health-check up of his wife.
- He has incurred an expenditure of ₹ 90,000 for the medical treatment of his mother, being a person with severe disability.

His income comprises of income from salary of ₹ 18,50,000 and interest on fixed deposits of ₹ 75,000.

Compute the deduction available to Mr. Darshan under Chapter VI-A for A.Y.2019-20.

Would your answer be different, if Mr. Darshan contributed ₹ 1,30,000 (being, 10% of his salary) towards NPS of the Central Government?

11. Mr. Krishan, aged 58 years, a resident individual and practicing Chartered Accountant, furnishes you the receipts and payments account for the financial year 2018-19.

Receipts and Payments Account

Receipts	₹	Payments	₹
Opening Balance (01-04-2018)		Staff salary, bonus and stipend to articled clerks	17,50,000
Cash & Bank	80,000	Other general and administrative expenses	22,00,000
Fee from professional services	49,60,000	Office rent	1,48,000
Motor car loan from ICICI @12% interest per annum	5,00,000	Life Insurance Premium (Sum Assured ₹ 5,00,000]	49,000

Sale receipts of 5,800 listed equity shares (sold on 31st January 2019)	5,95,000	Motor car (Acquired in January 2019 by way of online payment)	9,50,000
		Books bought by way of A/c payee cheque in the month of May, June and September 2018 (annual publications)	80,000
		Computer acquired on 1-11-2018 for professional use (payment made by A/c payee cheque)	52,000
		Domestic drawings	6,23,000
		Motor car maintenance	72,000
		Public Provident Fund subscription	1,50,000
		Closing balances (31-03-2019)	
		Cash & Bank	61,000
	61,35,000		**61,35,000**

Other information:

(i) Listed equity shares on which STT was paid were acquired in August 2016 for ₹ 1,21,800. The fair market value of such shares as on 31st January 2018 and on 1st April 2018 was ₹ 75 per share and ₹ 85 per share, respectively.

(ii) Motor car was put to use for both official and personal purposes.1/5th of the motor car is for personal purpose. No interest on car loan was paid during the previous year 2018-19.

(ii) Mr. Krishan purchased a flat in Gwalior for ₹ 35,00,000 in July 2012 cost of which was partly financed by a loan from Punjab National Housing Finance Limited of ₹ 25,00,000, his own-savings ₹ 1,00,000 and a deposit from Canara Bank for ₹ 9,00,000. The flat was given to Canara Bank on lease for 10 years @ ₹ 35,000 per month. The following particulars are relevant:

(a) Municipal taxes paid by Mr. Krishan ₹ 8,200 per annum

(b) House insurance ₹ 11,000

As per interest certificate issued by Punjab National Housing Finance Limited for the financial year 2018-19, he paid ₹ 1,80,000 towards principal and ₹ 2,01,500 as interest.

(iii) He earned ₹ 1,20,000 in share speculation business and lost ₹ 1,80,000 in commodity speculation business.

(iv) Mr. Krishan received a gift of ₹ 21,000 each from four of his family friends.

(v) He contributed ₹ 1,21,000 to Prime Minister's Drought Relief Fund by way of bank draft.

(vi) He donated to a registered political party ₹ 3,50,000 by way of cheque.

(vii) He follows cash system of accounting.

(viii) Cost Inflation Index : F.Y. 2016-17 – 264; F.Y. 2018-19 - 280

Compute the total income of Mr. Krishan and the tax payable for the Assessment year 2019-20.

12. (a) Mr. Narayan is engaged in the retail business of groceries. During the previous year 2018-19 his turnover was ₹ 1.65 crores. Out of this, receipt of ₹ 1.30 crore represents online transactions and ₹ 35 lakhs cash transactions. He opted for paying tax as per presumptive taxation scheme laid down in section 44AD. He has no other income during the previous year.

Is he liable to pay advance tax and if so, what is the minimum amount of advance tax to be paid and the due date for payment of such advance tax?

(b) Mr. Shivpal, a very senior citizen, has reported a Total Income ₹ 4,90,000 and the deductions eligible under Chapter VI-A amounting to ₹ 1,70,000 for the previous year 2018-19. Is he liable to file his return of income under section 139(1) for the Assessment year 2019-20? If so why?

SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

I. (a)

II. (a)

III. (b)

IV. (c)

V. (b)

VI. (d)

VII. (b)

VIII. (d)

IX. (b)

X. (a)

DESCRIPTIVE QUESTIONS

1. The residential status of Ms. Nicole Kidman, a foreign national, would be determined in the following manner -

Previous Year	2018-19	2017-18	2016-17	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11
No. of days of stay in India	102	20	46	201	137	102	102	102	102

Ms. Nicole Kidman is said to be resident if she satisfies any one of the following basic conditions:

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

(or)

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

Ms. Nicole Kidman's stay in India during the P.Y.2018-19 is less than 182 days. However, her stay in India during the P.Y.2018-19 is 102 days, which exceeds 60 days; and her stay in India during the four previous years prior to P.Y.2018-19 is 404 days [20 + 46 + 201 + 137], which exceeds 365 days. Hence, she is a resident for P.Y.2018-19.

Further, Ms. Nicole Kidman would be "Resident but not ordinarily resident" in India in during the previous year 2018-19, if she:

(a) has been a non-resident in 9 out of 10 previous years preceding the relevant previous year; or

(b) has during the 7 previous years immediately preceding the relevant previous year been in India for less than 730 days.

If she does not satisfy both of these conditions, she would be a resident and ordinarily resident.

In the present case, her stay in India in the last seven previous years prior to P.Y.2018-19 is 710 days [20 +46 +201+137 +102 +102 +102], which is less than 730 days. Therefore, she is resident but not ordinarily resident for the P.Y.2018-19 even if she is resident in the two assessment years i.e., A.Y.2016-17 and A.Y.2015-16 as per the information given in the question.

2. In cases where the assessee himself grows rubber plants and manufactures rubber processed from latex obtained from rubber plants in India, then, as per Rule 7A, 35% of profit on sale of rubber is taxable as business income under the head "Profits and gains

from business or profession", and the balance 65% is agricultural income, which is exempt from tax.

Profits from manufacture and sale of rubber processed from latex = ₹ 47 lakhs – ₹ 25 lakhs – ₹ 7 lakhs = ₹ 15 lakhs

Agricultural Income = 65% of ₹ 15 lakhs = ₹ 9.75 lakhs

Business Income = 35% of ₹ 15 lakhs = ₹ 5.25 lakhs.

The tax liability of Mr. Rana has to be computed applying the concept of partial integration, since his total income comprises of both agricultural income and non-agricultural income and his agricultural income exceeds ₹ 5,000 p.a and his non-agricultural income exceeds the basic exemption limit i.e., ₹ 2,50,000 (applicable, in his case).

Accordingly, his tax liability would be computed in the following manner:

Computation of tax liability of Mr. Rana for the A.Y. 2019-20

Particulars	₹
Tax on total income of ₹ 15,00,000, being agricultural income and non-agricultural income	2,62,500
Less: Tax on agricultural income and basic exemption limit i.e., ₹ 12,25,000 [₹ 9,75,000 *plus* ₹ 2,50,000]	1,80,000
	82,500
Add: Health and Education cess@4%	3,300
Total Tax liability	**85,800**

3. **Computation of income chargeable to tax under the head "Salaries" in the hands of Ms. Aarohi for A.Y.2019-20**

Particulars	₹
Basic Salary [₹ 70,000 x 12]	8,40,000
Dearness allowance [₹ 24,000 x 12]	2,88,000
Bonus [₹ 21,000 x 12]	2,52,000
Perquisite value in respect of concessional rent ***[See Working Note below]***	36,000
Gift voucher given by employer on Ms. Aarohi's birthday (entire amount is taxable since the perquisite value exceeds ₹5,000) ***[See Note for Alternative view]***	10,000
Employer's contribution to recognized provident fund in excess of 12% of salary	91,872

= 18% x [(₹ 70,000 + ₹ 24,000) x 12] – 12% x {[₹ 70,000 + ₹ 7,200 (being 30% of ₹ 24,000)] x 12} = 2,03,040 – 1,11,168 [Salary = Basic Salary + Dearness allowance, to the extent it forms part of pay for retirement benefits]	
Medical insurance premium of ₹ 20,000 paid by the employer to effect an insurance on the health of an employee is an exempt perquisite	-
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer to an employee without chauffeur for both official and personal purpose, where the expenses are fully met by the employer - the perquisite value would be ₹2400/- p.m. [₹2,400 × 5 months]	12,000
Gross salary	**15,29,872**
Less: Standard deduction under section 16(ia)	**40,000**
Salary chargeable to tax	**14,89,872**

Working Note:

Where the accommodation is taken on lease or rent by the employer, the actual amount of lease rent paid or payable by the employer or 15% of salary, whichever is lower, **in respect of the period during which the house is occupied by the employee,** as reduced by the rent recoverable from the employee, is the value of the perquisite.

Actual rent paid by the employer from 1.11.2018 to 31.3.2019 = ₹ 60,000 [₹ 12,000 x 5 months]

15% of salary = ₹ 73,650 [15% x (₹ 70,000 + ₹ 7,200 + ₹ 21,000) x 5 months]

Salary = Basic Salary + Dearness Allowance, to the extent it forms part of pay for retirement benefits + Bonus

Lower of the above is ₹ 60,000 which is to be reduced by the rent recovered from the employee.

Hence, the perquisite value of concessional rent = ₹ 60,000 – ₹24,000 [₹ 4,800 x 5 months] = ₹ 36,000

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv).

In this case, the gift voucher of ₹ 10,000 was received by Ms. Aarohi from her employer on the occasion of her birthday. Since the value of the gift voucher exceeds the limit of

₹ 5,000, the entire amount of ₹ 10,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

Alternative view - *An alternate view is also possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 5,000. The salary chargeable to tax, in this case, would be ₹ 14,84,872.*

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

OPTION 1 [Flat at Goregaon – Self-occupied and Flat at Navi Mumbai – Deemed to be let out]

If Flat at Goregaon is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

Particulars	Amount in ₹
Flat at Goregaon (Self-occupied) [Annual value is Nil]	Nil
Flat at Navi Mumbai (Deemed to be let-out) ***[See Working Note below]***	42,660
Income from house property	**42,660**

OPTION 2 [Flat at Goregaon – Deemed to be let out and Flat at Navi Mumbai – Self-occupied]

If Flat at Navi Mumbai is opted to be self-occupied, Shraddha's income from house property for A.Y.2019-20 would be –

Particulars	Amount in ₹
Flat at Goregaon (Deemed to be let-out) ***[See Working Note below]***	98,000
Flat at Navi Mumbai (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to ₹ 30,000, irrespective of the date of borrowal].	(30,000)
Income from house property	**68,000**

Since Option 1 is more beneficial, Shraddha should opt to treat Flat at Goregaon as Self-occupied and Flat at Navi Mumbai as Deemed to be let out, in which case, her income from house property would be ₹ 42,660 for the A.Y. 2019-20.

Working Note:

Computation of income from Flats at Goregaon & Navi Mumbai assuming that both are deemed to be let out

Particulars	Amount in Rupees	
	Flat at Goregaon	Flat at Navi Mumbai
Gross Annual Value (GAV)		
Expected Rent is the GAV of house property		
Expected Rent = Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,40,000	1,80,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	16,200
Net Annual Value (NAV)	**1,40,000**	**1,63,800**
***Less:* Deductions under section 24**		
(a) 30% of NAV	42,000	49,140
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	72,000
Income from deemed to be let-out house property	**98,000**	**42,660**

5. Since Mr. Jai Prakash does not own more than 10 vehicles at any time during the previous year 2018-19, he is eligible to opt for presumptive taxation scheme under section 44AE. ₹ 1,000 per ton of gross vehicle weight or unladen weight per month or part of the month for each heavy goods vehicle and ₹ 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

(1)	(2)	(3)	(4)
Number of Vehicles	**Date of purchase**	**No. of months for which vehicle is owned**	**No. of months × No. of vehicles [(1) × (3)]**
For Heavy goods vehicle			
1	21.07.2018	9	9

2	23.01.2019	3	6
			15
For goods vehicle other than heavy goods vehicle			
3	11.5.2018	11	33
1	16.3.2019	1	1
1	21.9.2018	7	7
2	12.1.2019	3	6
			47

The presumptive income of Mr. Jai Prakash under section 44AE for A.Y.2019-20 would be ₹ 5,77,500, i.e., ₹ 3,52,500 (47 × ₹ 7,500, being for other than heavy goods vehicle) + ₹ 2,25,000 (15 x ₹ 1,000 x 15 ton, being for heavy goods vehicle).

The answer would remain the same even if the two vehicles purchased in January, 2019 were put to use only in July, 2019, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Jai Prakash.

6. Computation of capital gain on slump sale of Unit RS for A.Y. 2019-20

Particulars	₹
Full value of consideration	15,40,00,000
Less: Deemed cost of acquisition (Net worth is deemed to be the cost of acquisition) [***Refer Working Note below***]	8,70,00,000
Long-term capital gain [Since the Unit is held for more than 36 months]	**6,70,00,000**

Working Note: Net worth of Unit-RS

Particulars	₹
Cost of Land (Revaluation not to be considered)	90,00,000
WDV of other depreciable fixed assets as per the Income-tax Act, 1961	6,30,00,000
Other Assets (book value)	4,90,00,000
	12,10,00,000
Less: Liabilities	3,40,00,000
Net worth	**8,70,00,000**

Notes:

(1) In case of slump sale, net worth of the undertaking transferred shall be deemed to be the cost of acquisition and cost of improvement as per section 50B.

(2) "Net worth" of the undertaking shall be the aggregate value of total assets of the

undertaking or division as reduced by the value of liabilities of such undertaking or division as appearing in the books of accounts.

However, any change in the value of assets on account of revaluation shall not be considered for this purpose.

(3) For calculating aggregate value of total assets of the undertaking or division in case of slump sale in case of depreciable assets, the written down value of block of assets determined in accordance with the provisions contained in section 43(6) of Income-tax Act, 1961 is to be considered and for all other assets, book value is to be considered.

(4) Since Unit RS is held by the assessee for more than 36 months, the capital gain arising from slump sale is a long-term capital gain.

(5) Indexation benefit is not available in case of slump sale

7. In the hands of the seller, Mr. Suraj

As per section 50C, where the consideration received or accruing as a result of transfer of land or building or both, is less than the value adopted or assessed or assessable by the stamp valuation authority, the value adopted or assessed or assessable by the stamp valuation authority shall be deemed to be the full value of consideration received or accruing as a result of transfer.

However, where the date of registration and date of agreement are not the same and part or whole of the consideration is received by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken to be the full value of consideration.

Further, where the stamp duty value on the date of agreement or registration, as the case may be, does not exceed 105% of the amount of consideration received or receivable then the consideration so received would be deemed to be the full value of the consideration.

In the present case, since Mr. Suraj has received 10% of the consideration by way of A/c payee cheque on the date of agreement, the stamp duty value of ₹ 44,00,000 on the date of agreement would be taken for the purpose of computing full value of consideration.

Further, since the stamp duty of land and building of ₹ 44,00,000 does not exceed ₹ 44,10,000 i.e., 105% of ₹ 42,00,000, the consideration received i.e., ₹ 42,00,000 in respect of land and building would be deemed to be the full value of consideration.

In the given problem, land has been held for a period exceeding 24 months and building for a period less than 24 months immediately preceding the date of transfer. So land is a long-term capital asset, while building is a short-term capital asset.

Accordingly, capital gains would be determined in the following manner:

Particulars	₹
Long term capital gain on sale of land	
Consideration received or accruing as a result of transfer of land [70% of ₹ 42,00,000]	29,40,000
Less: Indexed cost of acquisition ₹ 9,20,000 x 280/200	12,88,000
Long-term capital gain (A)	**16,52,000**
Short-term capital loss on sale of building	
Consideration received or accruing from transfer of building [30% of ₹ 42,00,000]	12,60,000
Less: Cost of acquisition	15,50,000
Short term capital loss (B)	**(2,90,000)**

As per section 70(2), short-term capital loss can be set-off against long-term capital gains. Therefore, the net taxable long-term capital gains would be ₹ 13,62,000 (i.e., ₹ 16,52,000 – ₹ 2,90,000). The same would be taxable @ 20% under section 112, after adjusting un-exhausted basic exemption limit, if any, against such long term capital gain.

In the hands of the buyer Mr. Ganesh

As per section 56(2)(x), where any person receives from a non-relative, any immovable property for a consideration which is less than the stamp duty value on the date of agreement or date of registration as the case may be, and the difference between actual consideration and stamp duty value so considered is more than the higher of ₹ 50,000 or 5% of the consideration so received, then the difference between such value and actual consideration of such property is chargeable to tax as income from other sources.

Where the date of registration and date of agreement are not the same and part or whole of the consideration is paid by way of A/c payee cheque or A/c payee bank draft or by use of ECS on or before the date of agreement, then stamp duty value on the date of agreement may be taken for the purpose of determining income taxable under the head "Income from other sources".

Since in the present case, Mr. Ganesh has paid 10% of the consideration by way of A/c payee cheque, the stamp duty value on the date of agreement has to be taken. Further, since the difference of ₹ 2,00,000 is not more than ₹ 2,10,000 being higher of ₹ 50,000 and ₹ 2,10,000 (5% of ₹ 42,00,000), no income would be chargeable to tax as income from other sources in the hands of Mr. Ganesh.

8. **Computation of Gross Total Income of Mr. Mayur for the A.Y. 2019-20**

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 x 280/184]	1,44,565	3,35,435	
Income from Other Sources			
Dividend of ₹ 10,000 on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [₹ 3,10,000 x 14% x 4/12]	14,467	14,467	
		3,49,902	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	
			3,48,402
Gross Total Income			**7,98,402**

Notes:

(1) As per section 64(1A), in computing the total income of an individual, all such income accruing or arising to a minor child shall be included. However, income of a minor child suffering from disability specified under section 80U would not be included in the income of the parent but would be taxable in the hands of the minor child. Therefore, in this case, interest income of ₹ 42,500 arising to handicapped son, Master Tanmay, would not be clubbed with the income of Mr. Mayur.

(2) Income of the other minor child, Master Tejas, is includible in the hands of Mr. Mayur, assuming that Mr. Mayur's income is higher than that of his wife.

(3) In the above solution, the indexed cost of acquisition has been computed by taking into consideration the first year in which Master Tejas held the asset, i.e., F.Y.2011-12, as per the definition given in *clause (iii) of Explanation below section 48*. However, as per the view expressed by *Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42*, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by considering the Cost Inflation Index of F.Y.2004-05. The solution based on alternate view is given as under:

Computation of gross total income of Mr. Mayur for the A.Y. 2019-20

Particulars	₹	₹	₹
Income from profession			4,50,000
Income of minor son Tejas			
Capital gains			
Full value of consideration	4,80,000		
Less: Indexed Cost of Acquisition [₹ 95,000 x 280/113]	2,35,398	2,44,602	
Income from Other Sources			
Dividend on equity shares [Exempt u/s 10(34)]	-		
Interest on company deposit [₹ 3,10,000 x 14% x 4/12]	14,467	14,467	
		2,59,069	
Less: Exemption u/s 10(32) in respect of income of minor child		1,500	
			2,57,569
Gross Total Income			**7,07,569**

9. **Computation of Gross total income of Mr. Avinash for the A.Y.2019-20**

Particulars	₹	₹
Salaries		
Income from Salary	4,18,000	
Less: Loss from house property set-off against salary	(1,90,000)	2,28,000
[As per section 71(3A), loss from house property to the extent of ₹ 2,00,000 can be set-off against any other head of income. In case of Mr. Avinash, it is more beneficial to set-off the loss from house property against long-term capital gains, since LTCG would be taxable @ 20%. Accordingly, loss to the extent of ₹ 10,000 is set-off against LTCG (shown below) and ₹ 1,90,000 set-off against income under the head "Salaries"]		
Profits and gains of business or profession		
Income from trading business	2,80,000	

Less: Brought forward loss from trading business of A.Y. 2015-16 can be set off against current year income from trading business as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	(12,000)	2,68,000
Income from speculative business BPO	25,000	
Less: Loss from speculative business MNO set-off as per section 73(1)	(12,000)	
Loss from speculative business MNO brought forward from A.Y. 2016-17 as per section 73(2), can be set off to the extent of	(13,000)	-
Capital Gains		
Long term capital gain on sale of urban land	2,05,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)	(85,000)	
Less: Long-term capital loss on sale of listed equity shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	(1,10,000)	
Less: Loss from house property	(10,000)	-
Income from owning and maintaining race horses	8,000	
Less: Set-off of brought forward losses from owning and maintaining race horses as per section 74A(3)	(8,000)	-
Gross Total Income		**4,96,000**

Items eligible for carried forward to A.Y.2020-21

Particulars	₹
Loss from house property As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2027-28, in this case.	20,000
Loss from speculative business MNO Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried	5,000

forward for a maximum of four assessment years i.e., upto A.Y. 2020-21, in this case, as specified under section 73(4).	
<u>Loss from specified business under section 35AD</u> Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	45,000
<u>Loss from the activity of owning and maintaining race horses</u> Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case, as specified under section 74A(3).	4,000

10. (i) Deduction available to Mr. Darshan under Chapter VI-A for A.Y.2019-20

Section	Particulars	₹	₹
80C	Deposit in public provident fund	1,50,000	
	Life insurance premium paid ₹ 62,000 (deduction restricted to ₹ 30,000, being 10% of ₹ 3,00,000, which is the sum assured, since the policy was taken on or after 01.04.2012)	30,000	
	Five year term deposit with bank	55,000	
		2,35,000	
	Restricted to		1,50,000
80CCD(1)	Contribution to NPS of the Central Government, ₹ 1,45,000 [₹ 1,95,000 – ₹ 50,000, being deduction under section 80CCD(1B)], restricted to 10% of salary [₹ 1,95,000 x 10/15] **[See Note 1]**		1,30,000
			2,80,000
80CCE	Aggregate deduction under section 80C and 80CCD(1), ₹ 2,80,000, but restricted to		1,50,000
80CCD(1B)	₹ 50,000 would be eligible for deduction in respect of contribution to NPS of the Central Government		50,000

80CCD(2)	Employer contribution to NPS, restricted to 10% of salary **[See Note 2]**		1,30,000
80D	(i) (a) Medical insurance premium for self and his wife, deduction would be equal to ₹ 47,000 (₹ 27,000 + ₹ 20,000), being 1/4th of lumpsum premium, since policies would be in force for four previous years.	47,000	
	(b) Preventive health check up ₹ 6,000 for wife restricted to ₹ 3,000 (₹ 50,000 - ₹ 47,000, since maximum allowable deduction is ₹ 50,000 in case assessee or one of the family member is senior citizen)	3,000	
		50,000	
	(ii) Medical Expenditure for his father would be fully allowed as deduction, since no insurance policy is taken on his name	**46,000**	
	Total of (i) and (ii)		**96,000**
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 ₹ 90,000		1,25,000
80TTB	Interest on fixed deposits with bank of ₹ 75,000, deduction restricted to		50,000
Deduction under Chapter VI-A			**6,01,000**

Notes:

(1) 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. Darshan to claim deduction under section 80CCD(1B) first in respect of contribution to NPS. Thereafter, the remaining amount of ₹ 1,45,000 can be claimed as deduction under section 80CCD(1), subject to a maximum limit of 10% of salary i.e. ₹ 1,30,000.

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

(ii) If the contribution towards NPS is ₹ 1,30,000, here again, it is beneficial for Mr. Darshan to first claim deduction of ₹ 50,000 under section 80CCD(1B) and the balance of ₹ 80,000 can be claimed under section 80CCD(1), since the deduction available under section 80CCD(1B) is over and above the aggregate limit of ₹ 1,50,000 under section 80CCE. In any case, the aggregate deduction of ₹ 2,30,000 [i.e., ₹ 1,50,000 under section 80C and ₹ 80,000 under section 80CCD(1)] cannot exceed the overall limit of ₹ 1,50,000 under section 80CCE. The total deduction under Chapter VIA would remain the same i.e., ₹ 6,01,000.

11. Computation of total income and tax liability of Mr. Krishan for A.Y. 2019-20

Particulars	₹	₹	₹
Income from house property			
Gross annual value[1] (₹ 35,000 x 12)		4,20,000	
Less: Municipal taxes paid by Mr. Krishan		8,200	
Net annual value		4,11,800	
Less: Deductions under section 24			
(a) 30% of Net Annual Value		1,23,540	
(b) Interest on house borrowing (allowed in full in case of let out property)		2,01,500	
			86,760
Profits and gains of business or profession			
Income from profession			
Fees from professional services		49,60,000	
Less: Expenses allowable as deduction			
- Staff salary, bonus and stipend	17,50,000		
- Other general and administrative expenses	22,00,000		
- Office rent	1,48,000		
- Motor car maintenance (₹ 72,000 x 4/5)	57,600		
- Car loan interest – not allowable, since Mr. Krishan follows cash system of accounting and no interest is paid during the previous year)	-	41,55,600	
		8,04,400	
Less: Depreciation u/s 32			
- Motor car ₹ 9,50,000 x 15% x 50% x 4/5, being put to use for less than 180 days	57,000		

1 Rent receivable has been taken as the gross annual value in the absence of other information

- Books being annual publications [₹ 80,000 x 40%]	32,000		
- Computer @40% of ₹ 52,000 x 50%, since the same is put to use for less than 180 days	10,400	99,400	
For the P.Y. 2018-19, the gross receipts of Mr. Krishan is ₹ 49,60,000. Since, it does not exceed ₹ 50,00,000, he is eligible to opt for presumptive tax scheme under section 44ADA		7,05,000	
In such case, his professional income would be ₹ 24,80,000, being 50% of ₹ 49,60,000			
It is more beneficial for Mr. Krishan to declare profit of ₹ 7,05,000 as per books of accounts which is lower than the profits computed on presumptive basis under section 44ADA. However, for declaring lower profits, he has to maintain books of account under section 44AA and get the same audited under section 44AB			
Income from share speculation business	1,20,000		
Less: Loss from commodity speculation business set off against income from share speculation business. Balance loss of ₹ 60,000 from commodity speculation business to be carried forward to A.Y. 2020-21	1,20,000	Nil	7,05,000
Capital Gains			
Long-term capital gains on sale of 5800 listed shares			
Sale consideration		5,95,000	
Less: Cost of acquisition is higher of		4,35,000	1,60,000
- Cost of acquisition	1,21,800		
- Lower of ₹ 4,35,000 (₹ 75 x 5800), being fair market value as on 31.1.2018 and ₹ 5,95,000, being full value of consideration on transfer	4,35,000		
Income from other sources			
Cash Gift of ₹ 84,000 i.e., ₹ 21,000 x 4, received from his four friends is taxable u/s 56(2)(x), since aggregate amount of cash gifts exceeds ₹ 50,000			84,000
Gross Total Income			**10,35,760**

Less: **Deductions under Chapter VI-A**			
Section 80C			
Life insurance premium	49,000		
Repayment of housing loan	1,80,000		
PPF subscription	1,50,000		
	3,79,000		
Restricted to ₹ 1,50,000		1,50,000	
Section 80G			
Contribution to Prime Minister's Drought Relief Fund (50% of ₹ 1,21,000) by way of bank draft		60,500	
Section 80GGC			
Donation to registered political party made by way of cheque		3,50,000	
			5,60,500
Total Income			**4,75,260**
Tax liability			
Tax @ 10% under section 112A on long-term capital gains exceeding ₹ 1,00,000 i.e., ₹ 60,000			6,000
Tax @5% on ₹ 65,260 [₹ 3,15,260 (total income excluding LTCG u/s 112A) - ₹ 2,50,000, being basic exemption limit]			3,263
			9,263
Add: Health and Education cess@4%			371
Tax liability			**9,634**
Tax liability (rounded off)			**9,630**

12. (a) Computation of advance tax liability in the hands of Mr. Narayan opting for presumptive taxation scheme under section 44AD

Particulars	₹
As per section 211, an eligible assessee, opting for computation of profits or gains of business on presumptive basis in respect of an eligible business referred to in section 44AD, shall be required to pay advance tax of the whole amount in one instalment on or before 15th March of the financial year. Thus, Mr. Narayan is required to pay advance tax by 15th of March 2019. However, any amount paid by way of advance tax on or before 31st March shall also be treated as advance tax paid during that financial year on or before 15th March.	

The advance tax liability is computed as follows –		
Business Income		
8% of ₹ 35,00,000	2,80,000	
6% of ₹ 1,30,00,000	7,80,000	10,60,000
In respect of the amount of turnover received by account payee cheque/bank draft or use of ECS through a bank account, the assessee can declare 6% (instead of 8%) of such turnover as presumptive income under section 44AD.		
Since Mr. Narayan does not have any other income during the previous year 2018-19, business income would be the total income.		
Tax liability		
Upto ₹2,50,000	Nil	
₹2,50,001 to ₹5,00,000 @5%	12,500	
₹5,00,001 to ₹10,00,000 @20%	1,00,000	
Above ₹10,00,001 @30%	18,000	1,30,500
Add: Health and Education cess @ 4%		5,220
Total Tax Payable		**1,35,720**
Mr. Narayan is required pay ₹ 1,35,720 as minimum amount of advance tax by 15th March 2019.		

(b) As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia,* Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Shivpal, a very senior citizen is required to file return of income, since his total income of ₹ 6,60,000 before giving effect to the deduction of ₹ 1,70,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 5,00,000 applicable in his case.

SECTION B: INDIRECT TAXES

QUESTIONS

(1)	**All questions should be answered on the basis of the position of GST law as amended up to 31.10.2018.**
(2)	**The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**

1. M/s. Ramchandra Associates has received some taxable services from Mohan Dalal (P) Ltd. on 12.01.20XX by making a cash payment of ₹ 5,00,000 on same day. The payment was entered in the books of account of M/s. Ramchandra Associates on 16.01.20XX and in the books of account of Mohan Dalal (P) Ltd. on 20.01.20XX. The invoice was issued by Mohan Dalal (P) Ltd. on 18.01.20XX. Determine the time of supply in the given case.

   (a) 12.01.20XX

   (b) 16.01.20XX

   (c) 18.01.20XX

   (d) 20.01.20XX

2. M.H. Husain, a famous painter, Delhi, sends his latest art work to Indian Classic gallery, Delhi, for exhibition. However, no consideration has flown from Indian Classic gallery to M. H. Husain when the art work is sent to the gallery for exhibition. M. H. Husain is in dilemma whether GST is payable on said transfer of art work. What would be your advice on the same?

   (a) GST is payable as the same amounts to taxable supply of goods.

   (b) GST is payable as the same amounts to taxable supply of services.

   (c) GST is not payable as the same is an exempt supply.

   (d) GST is not payable as the same does not amount to supply at all.

3. Kidzee Ltd., a wholesaler of toys registered in Chandigarh, is renowned in the local market for the varieties of toys and their reasonable prices. Kidzee Ltd. makes supply of 100 pieces of baby's learning laptops and chat learning phones to Nancy General Store on 25th September, 20XX by issuing a tax invoice amounting to ₹ 1,00,000.

   However, the said toys were returned by Nancy General Store on 30th September, 20XX. Which document Kidzee Ltd. is required to issue in such a case?

   (a) Debit Note

   (b) Refund voucher

(c) Credit note

(d) Payment voucher

4. Which of the following services is exempt from GST?

   (a) Bollywood dance performance by a film actor in a film and consideration charged is ₹ 1,45,000.

   (b) Carnatic music performance by a classical singer to promote a brand of readymade garments and consideration charged is ₹ 1,30,000.

   (c) Carnatic music performance by a classical singer in a music concert and consideration charged is ₹ 1,55,000.

   (d) Kathak dance performance by a classical dancer in a cultural programme and consideration charged is ₹ 1,45,000.

5. Examine whether supply of food and drink in the following independent cases is exempt from GST:-

   (i) "Smart Kids" is a Play School located in Delhi. Smart Kids has outsourced the catering services for supply of food and drink in the canteen of Play School to BTV Caterers, Delhi for a consideration of ₹ 8,00,000 per annum.

   (ii) Wellness Hospital, a clinical establishment located in Tirupati, is specialised in diabetic treatment. The hospital has its own canteen – Tasty Foods. The canteen serves the food and drink to the in-patients as advised by the doctors/nutritionists of the hospital. Apart from this, other patients (who are not admitted) or attendants or visitors of the in-patients also take food and drink from the canteen.

6. Sahil is a supplier of taxable goods in Karnataka. He got registered under GST in the month of September, 20XX and wishes to pay his IGST liability for the month. Since he's making the GST payment for the first time, he is of the view that he needs to mandatorily have the online banking facility to make payment of GST; offline payment is not permitted under GST. You are required to apprise Sahil regarding the various modes of deposit in the electronic cash ledger. Further, advise him with regard to following issues:

   (a) Are manual challans allowed under GST?

   (b) What is the validity period of the challan?

   (c) Is cross utilization among Major and Minor heads of the electronic cash ledger permitted?

7. M/s Cavenon Enterprises, a registered supplier of designer wedding dresses under regular scheme, has aggregate annual turnover of ₹ 30 lakh in the preceding financial year. It is of the view that in the current financial year, it is permitted to file its monthly statement of outward supplies – GSTR-1 - on a quarterly basis while its accountant advises it to file the same on a monthly basis. You are required to advise M/s Cavenon Enterprises on the same.

During a given tax period in the current financial year, owing to an off-season, M/s Cavenon Enterprises has not made any taxable supply. Therefore, M/s Cavenon Enterprises opines that no return under GST is required to be filed for the said period. You are required to examine the technical veracity of the opinion of M/s Cavenon Enterprises.

8. Kamal Book Depot, a wholesaler of stationery items, registered in Mumbai, has received order for supply of stationery items worth ₹ 2,00,000/- on 12th November, 20XX from another local registered dealer, Mr. Mehta, Mumbai. Kamal Book Depot charged the following additional expenses from Mr. Mehta:-

	Particulars	Amount (₹)
(i)	Packing charges	5,000
(ii)	Freight & Cartage	2,000
(iii)	Transit insurance	1,500
(iv)	Extra designing charges	6,000
(v)	Taxes by Municipal Authority	500

The goods were delivered to Mr. Mehta on 14th November, 20XX. Since Mr. Mehta was satisfied with the quality of the goods, he made the payment of goods the same day and simultaneously placed another order on Kamal Book Depot of stationery items amounting to ₹ 10,00,000 to be delivered in the month of December, 20XX**. On receipt of second order, Kamal Book Depot allowed a discount of ₹ 20,000 on the first order placed by Mr. Mehta.

Compute the GST liability of Kamal Book Depot for the month of November, 20XX assuming the rates of GST on the goods supplied as under:

CGST 9%

SGST 9%

Would your answer be different if expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000?

Note:-

(i) All the amounts given above are exclusive of GST.

(ii) Kamal Book Depot and Mr. Mehta are not related persons and price is the sole consideration of the supply.

***Payment and invoice for the second order will also be made in the month of December, 20XX only.*

9. Mr. Ekaant, a supplier registered in Delhi, is engaged in the business of sale and purchase of plastic raincoats. He furnishes the following information pertaining to inward/outward supply made by him for the month of July, 20XX:

Particulars	Amount (₹ in lakh)
Value of inter-State outward supply to registered persons	30
Value of intra-State outward supply to registered persons	50
Value of intra-State outward supply to unregistered persons	15
Value of intra-State inward supply from registered persons	10
Value of inter-State inward supply from registered persons	5
Value of intra-State inward supply from unregistered persons	2

Following additional information is also provided by Mr. Ekaant:-

Particulars	Amount (₹ in lakh)
IGST credit on capital goods purchased in the month of July	1.5
CGST/SGST credit on other inward supplies [including credit of ₹ 5,000 (CGST and SGST each) on account of membership of a club]	0.5 (CGST and SGST each)
Availed consultancy services from Mr. Sujit, lawyer located in Delhi [Intra-State services]	1

The amount of ITC brought forward in the month of July, 20XX is as under:-

CGST: ₹ 2 lakh

SGST: ₹ 2 lakh

IGST: ₹ 5 lakh

Calculate the net GST liability (CGST and SGST or IGST, as the case may be) to be paid in cash for the month of July, 20XX by assuming the rates of GST as under:

CGST	9%
SGST	9%
IGST	18%

Note:

(i) All the amounts given above are exclusive of taxes.

(ii) All the conditions necessary for availing the ITC have been fulfilled.

10. Le Marc Ltd. of Nashik, Maharashtra, a registered supplier, is engaged in manufacturing taxable goods. It provides the following details of items purchased and services availed by it from Gujarat, for the month of March, 20XX:

S. No.	Particulars	IGST (₹)
1	Motor vehicle purchased for employees to be used for personal as well as business purposes	1,50,000
2	Motor vehicle purchased for transportation of goods within the factory	2,00,000
3	Food items for consumption of employees. These items were supplied free of cost to the employees in lieu of services rendered by them to the manufacturer in the course of employment.	2,000
4	Rent-a-cab facility availed for employees to fulfill a statutory obligation in this regard. The Government has notified such service under section 17(5)(b)(iii)(A) of the CGST Act, 2017.	36,000

Calculate the amount of eligible input tax credit for the month of March, 20XX.

SUGGESTED ANSWERS/HINTS

1. (c)

2. (d)

3. (c)

4. (d)

5. **(i)** Services provided to an educational institution providing services by way of pre-school education and education up to higher secondary school or equivalent, by way of catering is exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended. Thus, in the given case, services provided by BTV Caterers to Smart Kids are exempt from GST.

(ii) Services by way of health care services provided by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended.

In this regard, CBIC has clarified that food supplied by the hospital canteen to the in-patients as advised by the doctor/nutritionists is a part of composite supply of healthcare services and is not separately taxable. Thus, it is exempt from GST. However, other supplies of food by a hospital to patients (not admitted) or their attendants or visitors are taxable.

In view of the same, GST is exempt on the food supplied by Tasty Foods to the in-patients as advised by doctors/nutritionists while other supplies of food by it to patients (not admitted) or attendants/visitors of the in-patients is taxable.

6. Section 49(1) of CGST Act, 2017 read with rule 87 of CGST Rules, 2017 provides that the deposit in electronic cash ledger can be made through any of the following modes, namely:-

(i) Internet Banking through authorised banks;

(ii) Credit card or Debit card through the authorised bank;

(iii) National Electronic Fund Transfer or Real Time Gross Settlement from any bank; or

(iv) Over the Counter payment through authorised banks.

Thus, offline mode is also permitted under GST.

(a) Manual or physical Challans are not allowed under the GST regime. It is mandatory to generate Challans online on the GST Portal.

(b) E-challan is valid for a period of 15 days.

(c) Amount entered under any Minor head (Tax, Interest, Penalty, etc.) and Major Head (CGST, IGST, SGST/UTGST) of the Electronic Cash Ledger can be utilized only for that liability. Cross-utilization among Major and Minor heads is not possible.

7. Section 37 of the CGST Act, 2017 stipulates that GSTR-1 for a particular month is required to be filed on or before the 10th day of the immediately succeeding month, i.e. on a monthly basis.

However, presently, as a measure of easing the compliance requirement for small tax payers, GSTR-1 has been allowed to be filed quarterly by small tax payers with aggregate annual turnover up to ₹ 1.5 crore in the preceding financial year or the current financial year. Tax payers with annual aggregate turnover above ₹ 1.5 crore will however continue to file GSTR- 1 on a monthly basis.

In view of the same, M/s Cavenon Enterprises can file its GSTR-1 on quarterly basis as its aggregate turnover does not excced ₹ 1.5 crore in the preceding financial year.

Further, GSTR-1 needs to be filed even if there is no business activity in a tax period. Thus, in the present case, even if no supply has been made by M/s Cavenon Enterprises, a nil return is required to be filed for the relevant tax period.

8. Computation of value of taxable supply and tax liability

	Particulars	**Amount (₹)**
	Price of the goods [Note-1]	2,00,000
(i)	Packing charges [Note-2]	5,000
(ii)	Freight & Cartage [Note-3]	2,000
(iii)	Transit Insurance [Note-3]	1,500
(iv)	Extra Designing charges [Note-4]	6,000

(v)	Taxes by Municipal Authority [Note-5]	500
	Value of taxable supply	2,15,000
	CGST @ 9%	19,350
	SGST @ 9%	19,350

Notes:-

1. As per section 15(1) of the CGST Act, 2017, the value of a supply is the transaction value i.e. the price actually paid or payable for the said supply.
2. All incidental expenses including packing charged by the supplier to the recipient are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
3. The given supply is a composite supply involving supply of goods (stationery items) and services (transit insurance and freight) where the principal supply is the supply of goods.

   As per section 8(a) of the CGST Act, 2017, a composite supply is treated as a supply of the principal supply involved therein and charged to tax accordingly.
4. Any amount charged for anything done by the supplier in respect of the supply of goods or services or both at the time of, or before delivery of goods or supply of services; is includible in the value of supply vide section 15(2) of the CGST Act, 2017. Thus, extra designing charges are to be included in the value of supply.
5. The taxes by Municipal Authorities are includible in the value of supply in terms of section 15(2) of the CGST Act, 2017.
6. In the given case, Mr. Mehta is allowed a discount of ₹ 20,000 on the goods supplied to him in the month of November, 20XX. Since the said goods have already been delivered by Kamal Book Depot, this discount will be a post-supply discount.

   Further, value of supply shall not include any discount which is given after the supply has been effected, if—

   (i) such discount is established in terms of an agreement entered into at or before the time of such supply and specifically linked to relevant invoices; and

   (ii) input tax credit as is attributable to the discount on the basis of document issued by the supplier has been reversed by the recipient of the supply [Section 15(3) of the CGST Act, 2017].

   However, in the given case, post-supply discount given to Mr. Mehta will not be allowed as a deduction from the value of supply since the discount policy was not known before the time of such supply although the discount can be specifically linked to relevant invoice (invoice pertaining to stationery items supplied to Mr. Mehta in November, 20XX).

In case the expenses (i) to (v) given in above table are already included in the price of ₹ 2,00,000: Since these expenses are includible in the value of supply by virtue of the reasons mentioned in explanatory notes above, no further addition will be required. Resultantly, the value of taxable supply will be ₹ 2,00,000 and CGST and SGST will be ₹ 18,000 and ₹ 18,000 respectively.

9. **Computation of net GST liability of Mr. Ekaant**

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Value of intra-State legal consultancy services i.e. inward supplies liable to reverse charge mechanism (to be paid in cash) **(A)** [Note-1]	1,00,000	9,000	9,000	-
Value of inter-State outward supplies **(B1)**	30,00,000	-	-	5,40,000
Value of intra-State outward supplies to registered as well as unregistered persons **(B2)** (₹ 50,00,000+ ₹ 15,00,000)	65,00,000	5,85,000	5,85,000	-
Total (B) = (B1) +(B2)		**5,85,000**	**5,85,000**	**5,40,000**
Input tax Credit				
Brought forward ITC		2,00,000	2,00,000	5,00,000
Value of intra-State inward supplies from registered person [Note-2]	10,00,000	90,000	90,000	
Value of inter-State inward supplies from registered person [Note-2]	5,00,000	-	-	90,000
Value of intra-State inward supplies from unregistered person [Note-3]	2,00,000	-	-	-
IGST credit of capital goods [Note-2]				1,50,000
Credit on other inward supplies purchased in the month of July *less* credit on membership of a club [Note-2 & 4]		45,000	45,000	-

Credit of legal consultancy services [Note-2]		9,000	9,000	-
Total (C)		**3,44,000**	**3,44,000**	**7,40,000**
Net liability (B)-(C)		2,41,000	2,41,000	(2,00,000)
Less: Set off from IGST credit [Note-5]		2,00,000	-	-
Liability after set off **(D)**		**41,000**	**2,41,000**	**Nil**
Net GST liability to be paid in cash (A) + (D)		**50,000**	**2,50,000**	**Nil**

Notes:-

1. Services supplied by an individual advocate to any business entity located in the taxable territory by way of legal services, directly or indirectly are taxable under reverse charge mechanism. Thus, tax is payable by the recipient (Mr. Ekaant) on said services to the Government.

   Further, as per section 49(4) of the CGST Act, 2017, amount available in the electronic credit ledger [ITC amount] may be used for making payment towards output tax. However, tax payable under reverse charge is not an output tax in terms of section 2(82) of the CGST Act, 2017. Therefore, tax payable under reverse charge cannot be set off against the input tax credit and thus, will have to be paid in cash.

2. Every registered person is entitled to take credit of input tax charged on any inward supply of goods and/or services which are used or intended to be used in the course or furtherance of his business in terms of section 16 of CGST Act, 2017. Further "input tax" in relation to a registered person includes the tax payable under reverse charge mechanism in terms of section 2(62) of the CGST Act, 2017.

3. Intra-State supplies received by a registered person from any unregistered supplier, are exempt from the whole of the central tax leviable thereon under section 9(4) till 30.09.2019 *[Notification No.8/2017 CT (R) dated 28.06.2017].* Since no tax has been paid, so no credit is available.

4. Input tax credit is not allowed in respect of membership of a club in terms of section 17(5) of CGST Act, 2017.

5. Input tax credit of IGST has been used to pay IGST and CGST in that order.

10. Computation of eligible input tax credit

Particulars	**Eligible ITC (₹)**
Motor vehicle purchased for employees to be used for personal as well as business purposes [Note-1]	-
Motor vehicle purchased for transportation of goods within the factory [Note-1]	2,00,000
Food items for consumption of employees [Note-2]	-
Rent-a-cab facility given to employees [Note-3]	36,000
Total eligible input tax credit	**2,36,000**

Notes:-

As per section 17(5) of the CGST Act, 2017:

1. ITC on motor vehicles and other conveyances is blocked except when they are used—
   (i) for making the following taxable supplies, namely :—
      (A further supply of such vehicles or conveyances; or
      (B) transportation of passengers; or
      (C) imparting training on driving, flying, navigating such vehicles or conveyances;
   (ii) for transportation of goods.

   Thus, in the given case, ITC on motor vehicle purchased for transportation of goods within the factory will only be allowed
2. ITC in respect of food and beverages is blocked unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply. Thus, in the given case, ITC of taxes paid on food for employees is not allowed.
3. ITC on supply of rent-a cab services is not blocked where the Government notifies the services which are obligatory for an employer to provide such service to its employees. Thus, ITC is available on said service.

Note: GST law is in its nascent stage and has been subject to frequent changes. Although many clarifications are continually being issued by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.

Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2019 – Intermediate (IPC) Examination

Paper 1: Accounting

Accounting Standards

AS 1 : Disclosure of Accounting Policies

AS 2 : Valuation of Inventories

AS 3 : Cash Flow Statements

AS 7 : Construction Contracts

AS 9 : Revenue Recognition

AS 10 : Property, Plant and Equipment

AS 13 : Accounting for Investments

AS 14 : Accounting for Amalgamations

NOTE:

I. Applicability of the Companies Act, 2013 and other Legislative Amendments for May, 2019 Examination

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authority up to 31st October, 2018 will be applicable for May, 2019 Examination.

II. Applicability of Amendments made by the MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 are applicable for May, 2019 examination.

III. Non-Applicability of Ind AS for May, 2019 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 May, 2019 Examination.

Paper 2: Business Laws, Ethics and Communication

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the business laws, as amended by concerned authority, including significant notifications and circulars issued up to 31st October, 2018, are applicable for May, 2019 examination.

Inclusions /Exclusions from the syllabus			
(1)	**(2)**	**(3)**	**(4)**
S. No. in the syllabus	**Chapters/ Topics of the syllabus**	**Inclusions** **(Provisions which are included from the corresponding chapter/topic of the syllabus)**	**Exclusions** **(Provisions which are excluded from the corresponding chapter/ topic of the syllabus)**
Part I: Business Law	The Indian Contract Act, 1872	The entire content included in Module 1 of Study Material read with RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	-
Part I: Business Law	The Negotiable Instruments Act, 1881	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (November 2018) and RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	-
Part I: Business Law	The Payment of Bonus Act, 1965	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read	-

		with the Supplementary Study Paper (November 2018) and RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	
Part I: Business Law	The Employees' Provident Fund and Miscellaneous Provisions Act, 1953	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (November 2018) and RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	EPF Scheme, EPS Scheme and EDLI Scheme, shall be applicable for the students only to the extent as covered in the *Relevant Publications.
Part I: Business Law	The Payment of Gratuity Act, 1972	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (November 2018) and RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	-

Part I: Section A- Company Law	Companies Act, 2013 (Sections 1 to 122)	The entire content included in the Supplementary Study Paper (November 2018) read with amendments given in RTP for May 2019, shall only be relevant for the said examinations. The Legislative amendments have been made available through RTP hosted on the BoS Knowledge Portal.	Except the Relevant rules covered in the *Relevant Publications, all other Rules of the Companies Act, 2013 are excluded.

Note: *Relevant publications for the examinations

Publication	Edition
Study Material (Module 1 & 3)	July 2015
"Supplementary Study Paper for May 2019 examination and onwards" for Paper 2: Business Law, Ethics and Communication (Please Note: Module 2 of Study Material - July 2015 edition, has been completely replaced with the 'Chapter 6- The Companies Act, 2013', as contained in the said Supplementary)	November 2018

The amendments made after the issuance of the Study material/ Supplementary Study Paper, to the extent covered in the RTP for May 2019, shall also be relevant for the said examinations.

Paper 4: Taxation

Section A: Income-tax

Applicability of the Finance Act, Assessment Year etc. for May, 2019 examination

The provisions of income-tax law, as amended by the **Finance Act, 2018** including significant circulars and notifications issued upto **31st October, 2018**, are applicable for May, 2019 examination. The relevant assessment year for income-tax is **A.Y. 2019-20**.

List of topic-wise exclusions from the syllabus

Topics of the Syllabus		Exclusions (Provisions which are excluded from the corresponding topic of the Syllabus)
1.	Basic Concepts	-
2.	Residential status and scope of total income	Section 9A - Certain activities not to constitute business connection in India

<table>
<tr>
<td>3.</td>
<td>Incomes which do not form part of total income (other than charitable trusts and institutions, political parties and electoral trusts)</td>
<td>
<table>
<tr><th>Clause of section 10</th><th>Particulars</th></tr>
<tr><td>6A</td><td>Tax on royalty or fees for technical services derived by foreign companies</td></tr>
<tr><td>6B</td><td>Tax paid on behalf of non-resident deriving income from Government or an Indian concern in pursuance of an agreement entered into with the Government of a foreign State or an international organization</td></tr>
<tr><td>6BB</td><td>Tax paid on behalf of foreign state or foreign enterprise on amount paid as consideration of acquiring aircraft, etc. on lease</td></tr>
<tr><td>6C</td><td>Income from projects connected with the security of India arising to a notified foreign company</td></tr>
<tr><td>8 & 9</td><td>Remuneration and certain income of individuals who are assigned duties in India in connection with any co-operative technical assistance programmes and income of any member of the family of such individual accompanying them to India.</td></tr>
<tr><td>8A & 8B</td><td>Any remuneration or fee received by a consultant, directly or indirectly, out of the funds made available to an international organisation (agency) under a technical assistance grant agreement with the agency and Government of a foreign State
Any remuneration received by an individual who is assigned to duties in India in connection with any technical assistance program from such consultant</td></tr>
<tr><td>15A</td><td>Any payment made by an Indian company engaged in the business of operation of aircraft to acquire an aircraft on lease from the government of a foreign State or a foreign enterprise</td></tr>
<tr><td>19A</td><td>Annual value of palaces of former rulers</td></tr>
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			20 to 25A	• Income of local authorities [Section 10(20)] • Income of research associations approved under section 35(1)(ii)/(iii) [Section 10(21)] • Income of news agency [Section 10(22B)] • Income of professional associations [Section 10(23A)] • Income received on behalf of any Regimental Fund or Non-Public Fund established by armed forces [Section 10(23AA)] • Income of Funds established for welfare of employees of which such employees are members [Section 10(23AAA)] • Income of Fund set up by Life Insurance Corporation or any other insurer under pension scheme [Section 10(23AAB)] • Income of institution established for development of Khadi and Village Industries [Section 10(23B)] • Income of authorities set up under State or Provincial Act for promotion of Khadi and Village Industries [Section 10(23BB)] • Income of any body or authority set up to administer religious or charitable trusts [Section 10(23BBA) • Income of European Economic Community (EEC) [Section 10(23BBB)] • Income derived by the SAARC Fund for Regional Projects [Section 10(23BBC)] • Income of the IRDA [Section 10(23BBE)] • Income of Central Electricity Regulatory Commission [Section 10(23BBG)] • Income of Prasar Bharati (Broadcasting Corporation of India) [Section 10(23BBH)] • Income of certain funds or institutions [Section 10(23C)] • Income of Mutual Fund [Section 10(23D)] • Income of a securitization trust from the activity of securitization [Section 10(23DA)]

				• Income of Investor Protection Funds [Section 10(23EA)] • Specified income of Investor Protection Fund set up by commodity exchanges [Section 10(23EC)] • Income of Investor Protection Fund set up by depositories [Section 10(23ED)] • Specified income of Core Settlement Guarantee Fund (SGF) set up by a recognized Clearing Corporation [Section 10(23EE)] • Income of Investment Fund [Section 10(23FBA)] • Income of unit holder of an Investment Fund [Section 10(23FBB)] • Certain incomes of Business trust [Section 10(23FC)/(23FCA)] • Distributed income of unit holder of a business trust [Section 10(23FD)] • Income of trade unions [Section 10(24)] • Income of provident funds, superannuation funds, gratuity funds etc. [Section 10(25)] • Income of Employees State Insurance (ESI) Fund [Section 10(25A)]
			26AAB to 29A	• Income of an Agricultural Produce Market Committee or Board [Section 10(26AAB)] • Income of a corporation etc. for the promotion of interests of members of Scheduled Castes or Scheduled Tribes or both [Section 10(26B)] • Income of corporations established to protect interests of minority community [Section 10(26BB)] • Income of corporation established by a Central, State or Provincial Act for welfare of ex-servicemen [Section 10(26BBB)] • Income of a co-operative society formed for promoting the interests of Scheduled Castes or Schedules Tribes or both [Section 10(27)] • Incomes of certain bodies like Coffee Board, Rubber Board etc. [Section 10(29A)]

		36	Long term capital gains on transfer of listed equity shares purchased on or after 1.3.2003 but before 1.3.2004, and held for a period of 12 months or more
		37A	Any income chargeable under the head capital gains in respect of transfer of specified capital asset to an asseesee, being an individual or HUF under Land Pooling Scheme
		39 to 42	• Specified income arising from any international sporting event in India [Section 10(39)] • Certain grants etc. received by a subsidiary from its Indian holding company engaged in the business of generation or transmission or distribution of power [Section 10(40)] • Specified income of certain notified bodies or authorities which have been established under a treaty or an agreement [Section 10(42)]
		44	Income received by any person on behalf of NPS Trust [Section 10(44)]
		46 to 50	• Specified income of notified entities not engaged in commercial activity [Section 10(46)] • Income of notified infrastructure debt funds [Section 10(47)] • Income received by certain foreign companies in India in Indian currency from sale of crude oil to any person in India [Section 10(48)] • Income arising to a foreign company on account of storage of crude oil [Section 10(48A)] • Income arising to a foreign company on account of sale of leftover stock of crude oil [Section 10(48B)] • Income of the National Financial Holdings company Limited [Section 10(49)] • Income arising from any specified service chargeable to equalization levy [Section 10(50)].
4.	Heads of income and the provisions governing computation of		

<table>
<tr><td></td><td>income under different heads</td><td></td></tr>
<tr><td></td><td>Salaries</td><td>-</td></tr>
<tr><td></td><td>Income from house property</td><td>-</td></tr>
<tr><td></td><td>Profits and gains of business or profession</td><td>1. Income computation and disclosure standards (ICDSs) notified under section 145 and the related provisions in the Income-tax Act, 1961;
2. The provisions contained in the following sections given hereunder:</td></tr>
<tr><td></td><td></td><td>
<table>
<tr><th>Section</th><th>Particulars</th></tr>
<tr><td>33AB</td><td>Tea Development Account/ Coffee Development Account/ Rubber Development Account</td></tr>
<tr><td>33ABA</td><td>Site Restoration Fund</td></tr>
<tr><td>35ABA</td><td>Expenditure for obtaining right to use spectrum for telecommunication services</td></tr>
<tr><td>35ABB</td><td>Expenditure for obtaining licence to operate telecommunication services</td></tr>
<tr><td>35DD</td><td>Amortisation of expenditure in case of amalgamation or demerger</td></tr>
<tr><td>35E</td><td>Deduction of expenditure on prospecting and development of certain minerals</td></tr>
<tr><td>36(1)(viia)/ (viii)/(xii)/ (xiv)/ (xvii)</td><td>• Special provision for bad and doubtful debts made by Banks, Public Financial Institution, State Financial Corporation, State Industrial Investment Corporation [Section 36(1)(viia)]
• Deduction for Special Reserve created and maintained by Specified Entities engaged in eligible business [Section 36(1)(viii)]
• Deduction for expenditure incurred by entities established under any Central, State or Provincial Act [Section 36(1)(xii)]
• Deduction of contribution by a public financial institution to Credit guarantee fund trust for small industries [Section 36(1)(xiv)]</td></tr>
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			• Deduction of expenditure incurred by a co-operative society for purchase of sugarcane at price fixed by the Government [Section 36(1)(xvii)]
		40(a)(ib)	Consideration paid or payable to a non-resident for specified service on which equalization levy is deductible under Chapter VIII of the Finance Act, 2016 and such levy has not deducted or after deduction has not been paid on or before the due date of filing return of Income.
		42	Special provisions for deduction in case of business for prospecting etc. for mineral oil
		43C	Special Provision for Computation of Cost of Acquisition of Certain Assets
		43D	Special Provision in case of income of Public Financial Institutions, public companies etc.
		44	Insurance Business
		44A	Special provision for deduction in the case of trade, professional or similar association
		44B to 44DB	• Special provision for computing the profits and gains of shipping business in case of non-residents [Section 44B] • Special provision for computing profits and gains in connection with the business of exploration etc., of mineral oils [Section 44BB] • Special provision for computing profits and gains of the business of operation of aircraft in the case of non-residents [Section 44BBA] • Special provision for computing profits and gains of foreign companies engaged in the business of civil construction etc. in certain turnkey power projects [Section 44BBB] • Deduction of head office expenditure in the case of non-residents [Section 44C] • Special provisions for computing income by way of royalties etc. in case of non-residents [Section 44DA]

		• Special provision for computing deductions in the case of business reorganisation of co-operative banks [Section 44DB]
	Capital gains	

Section	Particulars
2(42A)	Sub-clauses consequent to excluded clauses of section 47 and sub-clause (he) of clause (i) of *Explanation 1* relating to period of holding of share(s) of a company acquired by non-resident on redemption of GDRs referred to in section 115AC(1)(b)
47(via)/(viaa)/(viab)/(vic)/(vica)/(vicb)/(vicc)/(viia)/(viiab)/(xb)/(xii)/(xiii)/(xiiia)/(xiiib)/(xiv)/(xv)/(xvii)	• Any transfer of a capital asset being a share or shares held in an Indian company, in a scheme of amalgamation, by amalgamating foreign company to the amalgamated foreign company [Section 47(via)] • Any transfer of a capital asset, in a scheme of amalgamation of a banking company with a banking institution [Section 47(viaa)] • Any transfer, in a scheme of amalgamation, of a capital asset, being a share of a foreign company [Section 47(viab)] • Any transfer in a demerger, of a capital asset, being a share or shares held in an Indian company, by the demerger foreign company to the resulting foreign company [Section 47(vic)] • Any transfer in a business reorganisation, of a capital asset by the predecessor co-operative bank to the successor co-operative bank [Section 47(vica)] • Any transfer by a shareholder, in a business reorganisation, of a capital asset being a share or shares held by him in the predecessor co-operative bank if the transfer is made in consideration of the allotment to him of any share or shares in

			the successor co-operative bank [Section 47(vicb)] • Any transfer in case of a demerger of a capital asset, being a share of a foreign company [Section 47(vicc)] • Any transfer of bonds of an Indian company or Global Depository Receipts purchased in foreign currency referred to in section 115AC(1) [Section 47(viia)] • Any transfer of a capital asset, being GDR, rupee denominated bonds or derivative by a non-resident in foreign currency on a recognized stock exchange located in any IFSC [Section 47(viiab)] • Any transfer of by way of conversion of Foreign Currency Exchangeable Bonds into shares or debentures of a company [Section 47(xb)] • Any transfer of land under a scheme prepared and sanctioned under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985, by a sick industrial company which is managed by its workers' co-operative [Section 47(xii)] • Any transfer of a capital asset or intangible asset by a firm to a company, where a firm is succeeded by a company, or any transfer of a capital asset where an AOP or BOI is succeeded by a company consequent to demutualisation or corporatisation of a recognised stock exchange in India [Section 47(xiii)] • Any transfer of a membership right by a member of recognised stock exchange in India for acquisition of shares and trading or clearing rights in accordance with a scheme for demutualization or corporatisation approved by SEBI [Section 47(xiiia)]

				• Any transfer of a capital asset or intangible asset by a private company or unlisted public company to a LLP [Section 47(xiiib)] • Any transfer of a capital asset or intangible asset where a sole proprietary concern is succeeded by a company [Section 47(xiv)] • Any transfer in a scheme for lending of any securities under an agreement or arrangement which is subject to SEBI guidelines [Section 47(xv)]. • Any transfer of a capital asset being share of a SPV to a business trust in exchange of units allotted by the trust to the transferor [Section 47(xvii)]
			47A	Withdrawal of exemption in certain cases
			49	• Sub-sections consequent to excluded clauses of section 47 • Cost of acquisition of share(s) of a company acquired by a non-resident on redemption of GDRs referred under section 115AC(1)(b) [Section 49(2ABB)] • Cost of acquisition of shares in case of business reorganization of a co-operative bank [Section 49(2E)] • Cost of acquisition of capital asset transferred by holding to its 100% subsidiary Indian company or *vice versa* in case of attraction of section 47A [Section 49(3)] • Cost of acquisition of an asset declared under the Income Declaration Scheme, 2016 [Section 49(5)] • Cost of acquisition of specified capital asset to an assessee, being an individual or HUF under Land Pooling Scheme in case of transfer of reconstituted plot or land after the expiry of two years from the end of the financial year in which the possession was

			handed over to the assessee [Section 49(6)] • Cost of acquisition of capital asset of entities in case of levy of tax on accreted income under section 115TD. [Section 49(8)]
		54G	Exemption of Capital gains on transfer of assets in cases of shifting of industrial undertaking from urban area
		54GA	Exemption of capital gains on transfer of certain capital assets in case of shifting of an industrial undertaking from an urban area to any SEZ
		54GB	Exemption of capital gains on transfer of residential property if the sale consideration is used for subscription in equity of an eligible start-up to be used for purchase of new plant and machinery
		55(2)(ab)	Cost of acquisition in respect of capital asset, being equity share or shares allotted to a shareholder of a recognised stock exchange of India under a scheme for demutualization or corporatization
	Income from Other Sources	-	
5.	Income of other persons included in assessee's total income	Section 65 : Liability of person in respect of income included in the income of another person	
6.	Aggregation of income; Set-off, or carry forward and set-off of losses	**Section**	**Particulars**
		67A	Method of computing a member's share in income of association of persons or body of individuals
		72A	Carry forward and set-off of accumulated business losses and unabsorbed depreciation in certain cases of Amalgamation/ Demerger, etc.
		72AA	Provisions relating to carry forward and set-off of accumulated losses and unabsorbed

		<table><tr><td></td><td>depreciation of a banking company against the profit of a banking institution under a scheme of amalgamation</td></tr><tr><td>72AB</td><td>Provisions relating to carry forward and set off of accumulated loss and unabsorbed depreciation in business reorganisation of co-operative banks</td></tr><tr><td>78</td><td>Carry forward and set-off of losses in case of change in constitution of firm or succession</td></tr><tr><td>79</td><td>Carry forward and set-off of losses in case of certain companies</td></tr></table>
7.	Deductions from gross total income	**Deductions in respect of certain income:**<table><tr><th>Section</th><th>Particulars</th></tr><tr><td>80-IA to 80-IE</td><td>Profit-linked deductions under Chapter VI-A</td></tr><tr><td>80JJA</td><td>Deduction in respect of profits and gains from business of collecting and processing of bio-degradable waste.</td></tr><tr><td>80LA</td><td>Deduction in respect of certain incomes of Offshore Banking units and International Financial Services Centers</td></tr><tr><td>80P</td><td>Deduction in respect of income of co-operative societies</td></tr><tr><td>80PA</td><td>Deduction in respect of certain income of Producer Companies</td></tr></table>
8.	Computation of total income and tax liability of Individuals	**Section 5A** – Apportionment of income between spouses governed by Portuguese Civil Code **Provisions relating to Alternate Minimum Tax**
9.	Advance tax, tax deduction at source	<table><tr><th>Section</th><th>Particulars</th></tr><tr><td>194LB to 194LD</td><td>• Interest income from Infrastructure Debt Fund [Section 194LB] • Income from units of business trust [Section 194LBA]</td></tr></table>

			• Income in respect of units of investment fund [Section 194LBB] • Income in respect of investment in securitization trust [Section 194LBC] • Income by way of interest payable to non-residents by Indian company [Section 194LC] • Income by way of interest on certain bonds and Government securities payable to a Foreign Institutional Investor or a Qualified Foreign Investor [Section 194LD]
		195	Other sums (payable to non-residents)
		196A to 196D	• Income in respect of units of non-residents [Section 196A] • Income from units referred to in section 115AB [Section 196B] • Income from foreign currency bonds or shares of Indian company [Section 196C] • Income of Foreign Institutional Investors from securities [Section 196D]
10.	Provisions for filing return of income	Sections 139(4A) to 139(4F) dealing with provisions for filing of return of charitable or religious trusts, research institutions, political party, university, college or other institution, business trust, investment fund.	

Note *– As far as the Income-tax Rules, 1962 are concerned, only the significant Rules included in the respective chapters the Study Material as well as in the Statutory Update given in the Revision Test Paper (RTP) are relevant at the IIPCE level.*

The above referred Study Material is the July, 2018 edition of the Study Material for Intermediate (New) Paper 4A: Income-tax Law, which is also the relevant study material for IIPCE (Old) Paper 4A: Income-tax for May, 2019 and November, 2019 examinations. However, the topics "Tax Collection at Source – Basic Concept" forming part of Chapter 9 and "Self-assessment" forming part of Chapter 10 of the above Study Material, are not relevant for IIPCE.

Section B: Indirect Taxes

Applicability of the provisions of GST law for May, 2019 Examination

The provisions of **CGST Act, 2017 and IGST Act, 2017**, including significant circulars and notifications issued upto **31st October, 2018**, are applicable for May, 2019 examination.

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S.No. in the syllabus	**Topics of the syllabus**	**Exclusions** **(Provisions which are excluded from the corresponding topic of the syllabus)**
2(ii)(c)	Charge of tax	**CGST Act, 2017** (i) Rate of tax prescribed for supply of **goods*** (ii) Rate of tax prescribed for supply of **services*** **IGST Act, 2017** (iii) Rate of tax prescribed for supply of **goods** (iv) Rate of tax prescribed for supply of **services** (v) Determination of nature of supply – Inter-State supply; Intra-State supply; Supplies in territorial waters (vi) Special provision for payment of tax by a supplier of online information and database access or retrieval [OIDAR] services
2(ii)(d)	Exemption from tax	**CGST Act, 2017 & IGST Act, 2017** (i) Exemptions for supply of **goods**
2(iii)	Basic concepts of time and value of supply	**CGST Act, 2017 & CGST Rules, 2017** (i) Provisions relating to change in rate of tax in respect of supply of goods or services (ii) Chapter IV: Determination of Value of Supply [Rules 27-35] of CGST Rules, 2017
2(iv)	Input tax credit	**CGST Act, 2017 read with CGST Rules, 2017** (i) Input tax credit provisions in respect of inputs and capital goods sent for job work (ii) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD] (iii) Manner of recovery of credit distributed in excess (iv) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
2(viii)	Returns	**CGST Act, 2017 read with CGST Rules, 2017**

		(i) Furnishing of GSTR-2, GSTR-1A, GSTR-3 (ii) Claim of input tax credit and provisional acceptance thereof (iii) Matching, reversal & reclaim of input tax credit (iv) Matching, reversal & reclaim of reduction in output tax liability
2(ix)	Payment of tax including reverse charge	**CGST Act, 2017** (i) Tax deduction at source (ii) Collection of tax at source (iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) **IGST Act, 2017** (iv) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)

***Rates specified for computing the amount payable under composition levy are included in the syllabus.**

Notes:

(1) Only the following sections of the Central Goods and Services Tax (Amendment) Act, 2018, which have become retrospectively effective from 1st July, 2017, are applicable for May, 2019 examination:

(i) Section 3 of the CGST Amendment Act, 2018 amending section 7 of the CGST Act, 2017, and

(ii) Section 31 of the CGST Amendment Act, 2018 amending Schedule II to the CGST Act, 2017.

It may be noted that all the remaining provisions of the CGST Amendment Act, 2018 have not been made effective till 31.10.2018 and hence, are not applicable for May, 2019 examination.

(2) The syllabus includes select provisions of the CGST Act, 2017 and IGST Act, 2017 and not the entire CGST Act, 2017 and the IGST Act, 2017. The provisions covered in any topic(s) of the syllabus which are related to or correspond to the topics not covered in the syllabus shall also be excluded.

(3) In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded. For example, since provisions relating to ISD and tax collection at source are excluded from the topics “Input tax credit” and “Payment of tax including reverse charge” respectively, the provisions relating to (i) registration of ISD and person required to collect tax at source and (ii) filing of returns by

an ISD and submission of TCS statement by an electronic commerce operator required to collect tax at source are also excluded from the topics "Registration" and "Returns" respectively.

(4) September, 2018 edition of the Study Material is relevant for May, 2019 and November, 2019 examinations. The amendments - made after the issuance of this Study Material - to the extent covered in the Statutory Updates for May, 2019 examination alone shall be relevant for the said examination. The Statutory Updates shall be hosted on the BoS Knowledge Portal.

(5) The provisions of CGST Act, 2017 and the rules issued thereunder and IGST Act, 2017 and the rules issued thereunder, to the extent included in the September, 2018 edition of the Study Material, **except** the exclusions mentioned in the table above, and the Statutory Updates for May, 2019 examination shall alone be relevant for the said examination.