

PRIME ACADEMY
30TH SESSION MODEL EXAM – ACCOUNTING
QUESTION PAPER

Total No. of Questions: 6

Time Allowed: 3 Hrs

ACTG

Total No. of Printed Pages: 6

Maximum Marks: 100

All are compulsory

Wherever appropriate, suitable assumptions to be made by the candidate

Working Notes should form part of the answers

1. Answer the following:

- (a) The following bills are due for payment on different dates, and it is desired to make a single payment for the total amount :

Dated	7 th April due 17 May for	Rs.3000
Dated	14 th May due July 22 nd	Rs.6,000
Dated	5 th June due August 2 nd for	Rs.5,000
Dated	15 th June due 30 th August for	Rs.7,000

- (b) Bala, Babu and Barat were partners in a firm sharing profits and losses in the ratio of 2:2:1 respectively with the capital balance of Rs.50, 000 for Bala, Rs.70, 000 for Babu and for Barat Rs.35, 000. Babu declared to retire from the firm and balance in reserve on the date was Rs.25, 000. If goodwill of the firm was valued as Rs.30,000 and profit on revaluation was Rs.7,500, then what amount will be payable to Babu.
- (c) Suja and Sumitha were partners sharing profits in the ratio 5:3, they admitted Suvitha giving her 3/10 share of profits. If Suvitha acquires 1/5th share from Suja and 1/10th from Sumitha, calculate the new profit sharing ratio.
- (d) What is an account current?
- (e) Calculate the amount of Insurance claim to be lodged, based on the following Information:
Value of stock destroyed by fire Rs.90, 000
Insurance policy amount (subject to average clause) Rs.65, 000
Value of stock salvaged from fire Rs.40, 000
- (f) A trader purchased goods for Rs.1, 70,000. The opening stock of inventory prior to the said purchase was Rs.30, 000. His sale was Rs.2, 10,000. Find out the closing stock of inventory if the Gross profit margin is 25% on cost.
- (g) X Co. Ltd. having share capital of Rs.50 lakhs divided into equity shares of Rs.10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of Rs.10, 00,000 and Profit and Loss account Cr. Rs.5,00,000. Y Co. Ltd. issued 11 equity shares of Rs.10 each for every 10 shares of X Co. Ltd.
How the Journal entry would be passed in the books of Y Co. Ltd. for the shares Issued under the 'Pooling of interests method' of amalgamation.

- (h) Garden Ltd. acquired fixed assets viz. plant and machinery for Rs.20 lakhs. During the same year it sold its furniture and fixtures for Rs.5 lakhs. Can the company disclose, net cash outflow towards purchase of fixed assets in the cash flow statement as per AS-3?
- (i) What is the basis for recognition of revenue by way of Interest, Royalties and Dividends?
- (j) A company took a construction contract for Rs.100 lakhs in January, 2009. It was found that 80% of the contract was completed at a cost of Rs.92 lakhs on the Closing date i.e. on 31.3.2010. The company estimates further expenditure of Rs.23 lakhs for completing the contract. The expected loss would be Rs.15 lakhs. Can the company recognise the loss in the financial statements prepared for the year ended 31.3.2010? (10x2=20 Marks)

2. The income and expenditure account of Country club for the year ended 31-3- 2010 is as follows:-

Dr

Cr

Income and expenditure Account for the year ended 31-3-2010

Particulars	Rs.	Particulars	Rs.
To Salaries	24750	By Subscriptions	37500
To General expenses	500	By Entrance fees	250
To Audit fees	1250	By Contribution for annual dinner	11000
To Secretary'sHonorarium	1000	By profit on Annual Sports meet	750
To Stationery &Printing	450		
To Annual dinner expenses	11500		
To Interest and Bank charges	150		
To Depreciation	9300		
	49500		49500

The Accounts have been prepared after the following adjustments:

Subscriptions outstanding on 31st March 2009	Rs.600
Subscriptions received in advance on 31st March 2009	Rs.450
Subscriptions received in advance on 31st March 2010	Rs.270
Subscriptions outstanding on 31st March 2010	Rs 750

Salaries outstanding on 31st March,2009 and 31st March 2010 were respectively Rs.2,000 and Rs.2,250.General expenses include insurance prepaid to the extent of Rs.60.Audit fees for 2009-2010 are as yet unpaid: during 2009-2010,audit fees for 2008-2009 were paid amounting to Rs.1,000.

The club owned freehold lease of ground valued at Rs.10, 000. The club had sports equipment on 1st April.2009 valued at Rs.12,600.At the end of the year, after depreciation, this equipment amounted to Rs.13,700.In 2008-2009 the club had raised a loan of Rs.2,000.This is outstanding throughout the year 2009-10.On 31st march ,2010 cash in hand amounted to Rs.1,600.

Prepare receipts and payments Account for the year ended 31st March, 2010 and the Balance Sheet at the end of the year. (16 Marks)

3. A, B and C were partners of a firm sharing profits and losses in the ratio of 3:4:3. The Balance Sheet of the firm, as at 31st March, 2009 was as under:

Liabilities	Rs.	Assets	Rs.
Capital Accounts:		Fixed Assets	1, 00,000
A	48,000	Current Assets:	
B	64,000	Stock	30,000
C	<u>48,000</u>	Debtors	60,000
Reserve	20,000	Cash and Bank	<u>30,000</u>
Creditors	<u>40,000</u>		<u>1, 20,000</u>
	<u>2, 20,000</u>		<u>2, 20,000</u>

The firm had taken a Joint Life Policy for Rs. 1, 00,000; the premium periodically paid was charged to Profit and Loss Account. Partner C died on 30th September, 2009. It was agreed between the surviving partners and the legal representatives of C that:

- Goodwill of the firm will be taken at Rs. 60,000.
- Fixed Assets will be written down by Rs. 20,000.
- In lieu of profits, C should be paid at the rate of 25% per annum on his capital as on 31st March, 2009.

Policy money was received and the legal heirs were paid off. The profits for the year ended 31st March, 2010, after charging depreciation of Rs. 10,000 (depreciation upto 30th September was agreed to be Rs. 6,000) were Rs. 48,000.

Partners' Drawings Accounts showed balances as under:

- A Rs. 18,000 (drawn evenly over the year)
 B Rs. 24,000 (drawn evenly over the year)
 C (up-to-date of death) Rs. 20,000

On the basis of the above figures, please indicate the entitlement of the legal heirs of C, assuming that they had not been paid anything other than the share in the Joint Life Policy. (16 Marks)

- 4(a) A fire occurred in the premises of Samson Ltd. on 1st August, 2009. The company had a loss of profits policy for Rs. 1,20,000. Sales from 1st August 2008 to 31st July 2009 were Rs. 10,00,000, the sales from 1st August, 2008 to 30th November, 2008. Being Rs. 3,00,000. During the indemnity period, which lasted for four months, sales amounted to only Rs. 40,000. The company made up its accounts to 31st March, every year. The profit and loss account for the year ended 31st March, 2008 is given below:-
 Profit and loss account for the year ended 31st March, 2008

Particulars	Rs.	Particulars	Rs.
To Opening Stock	1,00,000	By Sales	9,50,000
To purchase	6,00,000	By Closing Stock	50,000

To Manufacturing expenses	67,500		
To Variable selling expenses	90,500		
To Fixed expenses	72,500		
To Net profit	70,000		
	10,00,000		10,00,000

Comparing the Sales of the first four months of 2009-2010(1st April 2009 to 31st July 2009) with those of the year 2008-2009,it was found that the sales were 20% higher in 2009-2010.Ascertain the loss of profits and the amount of the claim, assuming that the policy contains `average clause'. (8 Marks)

- 4(b) Total Accounts are employed in the business of Sri Ram and Co in relation to Sales Ledgers A and B on alphabetical basis. The following are the material details:

	A	B
	Rs.	Rs.
Opening Balances Dr	12500	31000
Opening Balances Cr	300	
Sales as per Sales day book	31200	43100
Returns as per Returns Inwards Day book	3170	2050
Cash received as per Cash book	20050	51200
Discounts allowed as per cash book	1300	2700
Bad debts written off as per journal	3710	4250
Provision for Bad debts as per journal	5000	6000
Bad Debts, written off, now recovered as per cash book.	300	
Allowances as per allowances book	420	370
Bills Receivable as per bills receivable book	1300	
Bills dishonored as per journal	500	
Closing Credit balances	720	210

It was found that a sale of Rs.1, 200 was entered by mistake in the sales book under column A instead of Column B. It was also discovered that a sum of Rs.980 was debited to the account of A. Nair instead of A. Nayyar.

Prepare Sales and Nominal Ledger Adjustment Accounts.

(8 Marks)

- 5(a) Mr. Robert sells products on hire purchase terms, the price being cost plus 33 1/3%. From the following particulars for the year ended 31st march 2010,prepare the necessary accounts on stock and debtors system to reveal the profit earned:

		Rs.
1 April,2009	Stock out on hire at Hire purchase price	4,00,000
	Stock in hand ,at shop	50,000
	Installments due(customers still paying)	30,000
31st March,2010	Stock out on hire at hire purchase price	4,60,000
	Stock in hand ,at the shop	70,000
	Installments due(customers still paying)	50,000
	Cash received during the year	8,00,000

(10 Marks)

- 5(b) From the following Summary Cash Account of Southern lands Ltd. prepare Cash Flow Statement for the year ended 31st March, 2010 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.3.2010

	Rs. '000		Rs. '000
Balance on 1.4.2009	50	Payment to Suppliers	2,000
Issue of Equity Shares	300	Purchase of Fixed Assets	200
Receipts from Customers	2,800	Overhead expense	200
Sale of Fixed Assets	100	Wages and Salaries	100
		Taxation	250
		Dividend	50
		Repayment of Bank Loan	300
		Balance on 31.3.2010	150
	<u>3,250</u>		<u>3,250</u>

(6 Marks)

6. Answer any four

- Mr. Sundhar tells you that his capital on 31st December 2009 is RS.1,40,250 and his capital on 1st January was Rs.1,44,000. He further informs you that during the year he gave a loan of Rs.26,250 to his sister on private account and withdrew Rs.2,250 p.m. for personal use. He also used a flat for his personal purpose, the rent of which is Rs.750 per month and electricity charges on an average Rs.75 per month were paid from the business account. He sold his 8% government Bonds Rs.15,000 at 2% premium and bought that money into the business. Besides this there is no other information. You are required to calculate his profit.
- Write short note on Pre-packaged Accounting Software.
- Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.
- X Co. Ltd. charged depreciation on its asset on SLM basis. For the year ended 31.3.2010 it changed to WDV basis. The impact of the change when computed from the date of the asset coming to use amounts to Rs. 20 lakhs being additional charge. Decide how it must be disclosed in Profit and loss account. Also, discuss, when such changes in method of depreciation can be adopted by an enterprise as per AS-6.
- Bharat Ltd. wants to re-classify its investments in accordance with AS 13. Decide on the amount of transfer, based on the following information:
 - A portion of Current Investments purchased for Rs. 20 lakhs, to be reclassified as Long Term Investments, as the Company has decided to retain them. The market value as on the date of Balance Sheet was Rs. 25 lakhs.

2. Another portion of current investments purchased for Rs. 15 lakhs, to be reclassified as long term investments. The market value of these investments as on the date of balance sheet was Rs. 6.5 lakhs.
 3. Certain long term investments no longer considered for holding purposes, to be reclassified as current investments. The original costs of these were Rs. 18lakhs but had been written down to Rs. 12 lakhs to recognise permanent Decline, as per AS 13.
- (f) Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14 (4x4=16 Marks)

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SUGGESTED ANSWER

1(a)

Due Date	Amount	Number of Days	Product
May 17	Rs.3000	0	0
July 22	Rs.6,000	66	396000
Aug 2	Rs.5,000	77	385000
Aug 30	Rs.7,000	105	735000
	Rs.21,000		1516000

Average due date = May 17 + (15,16,000 / 21000) = 28th July.

1(b) Rs.95,000

1(c) 17:11:12

1(d) Account current is a running statement of transactions between parties, maintained in the form of a ledger account, for a given period of time and includes interest allowed or charged on various items. It is prepared when transactions regularly take place between two parties. An account current has two parties – one who renders the account and the other to whom the account is rendered.

1(e) Amount of claim = (Total stock before fire / Stock destroyed by fire) × Amount of Policy
 $(1,30,000 / 90,000) \times 65,000 = \text{Rs.}45,000$

1(f) Calculation of Closing Stock: Cost of goods sold = Sales – Gross Profit
 $= 2,10,000 - (125/25 \times 2,10,000) = \text{Rs.}1,68,000$
 Total stock available = Opening Stock + Purchases
 $= 30,000 + 1,70,000$
 $= \text{Rs.}2,00,000$
 Closing Inventory = Total stock available – Cost of goods sold
 $= \text{Rs.}2,00,000 - 1,68,000$
 $= \text{Rs.}32,000$

	Rs.	Rs.
Liquidator of X Co. Ltd. Dr.	50,00,000	
General Reserve (of X Co. Ltd.) Dr.	5,00,000	
To Equity Share Capital A/c		55,00,000
(The excess of shares issued over the existing value in the books of X Co. Ltd. adjusted in carrying value of General Reserve).		

1(h) According to Para 21 of AS 3 (Revised) 'Cash Flow Statements', an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows described in paragraphs 22 and 24 are reported on a net basis. Acquisition and disposal of fixed assets is not prescribed in para 22 and 24 of the standard.

Hence, the company cannot disclose net cash flow in respect of acquisition of plant and machinery and disposal of furniture and fixtures.

- 1(i) *Interest*: On time proportion basis considering the amount outstanding and rate of interest.
Royalties: On accrual basis in accordance with the terms of relevant agreement.
Dividends: When the owner's right to receive payment is established
- 1(j) As per paragraphs 31 and 35 of AS 7 on Construction Contracts, an expected loss on the construction contract should be recognized as an expense immediately irrespective of (i) whether or not the work has commenced on the contract; or (ii) the stage of completion of the contract; or (iii) the amount of profits expected to arise in other contracts.
Hence, the company must recognize the loss immediately

2 Country Club

Receipts and Payments Account for the year ended March 31st2010.

To Balance b/d (Balancing figure)	1990	By Salaries	24750
To Subscriptions:		Add:paid for 2008-09 2000	
As per income &expenditure account 37500		Less:unpaid for 2009-10 2250	24500
Add:Outstanding as on 31-3-09 600		By General expenses 500	
Add:Advance on 31-3-10 270		Add:Paid for 2010-11 Rs.60	560
38370		By Audit fees(2008-2009)	1000
Less:Advance on 31-3-09 (450)		By Secretary's honoraum	1000
37920		By Stationery & Printing	450
Less:Outstanding as on 31-3-10 750	37170	By Annual dinner expenses	11500
To Entrance fees	250	By interest and bank charges	150
To Contribution for annual dinner	11000	By sports equipment	
To profit on sports meet:		(14700-12600+9300)	10400
Receipts		BY Balance c/d	1600
Less: Expenses	750		
	51160		51160

Balance Sheet as on 31-3-2010

Liabilities		Assets	
Subscription received in advance	270	Freehold grounds	10000
Audit fees Outstanding	1250	Sports Equipment	
Salaries Outstanding	2250	Balance as per previous balance sheet	12600
Bank Loan	2000	Additions during the year	10400
Capital fund:		23000	
Balance as per previous balance sheet 19740		Less: Depreciation	13700
Add: surplus 600	20340	Subscriptions outstanding	750
		Insurance Prepaid	60
		Cash in hand	1600
	26110		26110

Balance Sheet as on 31-3-2009

Subscription received in advance	450	Freehold grounds	10000
Audit fees Outstanding	2000	Sports Equipment	12600
Salaries Outstanding	1000	Subscriptions outstanding	600
Bank Loan	2000	Cash in hand	1990
Capital Fund	19740		
	25190		25190

3 Computation of entitlement of legal heirs of C

(1) Profits for the half year ended 31st March, 2010

	Rs.
Profits for the year ended 31 st march, 2010 (after depreciation)	48,000
Add: Depreciation	<u>10,000</u>
Profits before depreciation	<u>58,000</u>
Profits for the first half (assumed: evenly spread)	29,000
Less : Depreciation for the first half	<u>6,000</u>
Profits for the first half year (after depreciation)	<u>23,000</u>
Profits for the second half (i.e., 1 st October, 2009 to 31 st March, 2010)	29,000
Less : Depreciation for the second half	<u>4,000</u>
Profits for the second half year (after depreciation)	<u>25,000</u>

(2) Capital Accounts of Partners as on 30th September, 2009

Dr.				Cr.			
A	B	C		A	B	C	
Rs.	Rs.	Rs.		Rs.	Rs.	Rs.	
ToFixed Assets			By Balance b/d	48,000		64,000 48,000	
(loss on			By Reserve	6,000		8,000 6,000	
revaluation)	6,000	8,000	6,000	By Goodwill	18,000	24,000	18,000
To Drawings	9,000	12,000	20,000	By P & L Appro-			
ToC Executor’s A/c			52,000	priation A/c			
ToBalance c/d	57,000	76,000	–	(Interest on			
				Rs. 48,000 @ 25%			
				for 6 months)	—	—	6,000
	<u>72,000</u>	<u>96,000</u>	<u>78,000</u>		<u>72,000</u>	<u>96,000</u>	<u>78,000</u>

(3) Application of Section 37 of the Partnership Act

Legal heirs of C have not been paid anything other than the share in joint life policy. The amount due to the deceased partner carries interest at the mutually agreed upon rate. In the absence of any agreement, the representatives of the deceased partner can receive at their option interest at the rate of 6% per annum or the share of profit earned for the amount due to the deceased partner.

Thus, the representatives of C can opt for

Either,

(i) Interest on Rs. 52,000 for 6 months @ 6% p.a. = Rs. 1,560

Or

(ii) Profit earned out of unsettled capital (in the second half year ended 31st March, 2010)

$$\text{Rs. } 52,000 \times \frac{25,000}{57,000 + 76,000 + 52,000} = \text{Rs. } 7,027 \text{ (approx.)}$$

In the above case, it would be rational to assume that the legal heirs would opt for Rs. 7,027.

(4) Amount due to legal heirs of C

	Rs.
Balance in C's Executor's account	52,000
Amount of profit earned out of unsettled capital [calculated in (3)]	<u>7,027</u>
Amount due	<u>59,027</u>
(a) Sales from 1 st August, 2008 to 30 th November, 2008	3,00,000
Add: 20% increase trend	<u>60,000</u>
	3,60,000
Less: sales from 1 st August 2009 to 30 th November, 2009	<u>40,000</u>
Short Sales	<u>3,20,000</u>

$$\begin{aligned} \text{G.P. Ratio} &= (\text{Net profit} + \text{insured standing charges}) / \text{Sales} \times 100 \\ &= (70,000 + 72,500) / 9,50,000 \times 100 = 15\% \end{aligned}$$

Loss of profits = 3,20,000*15%=48,000

Application of Average clause:

Annual Turnover: Sales for 12 months preceding the date of fire 10,00,000

Add: 20% increase trend 2,00,000
12,00,000

Gross profit on 12,00,000@15% = 1,80,000

Amount of policy 1,20,000

Claim = $48,000 \times 1,20,000 / 1,80,000 = 32,000$

(b) Sales Ledger Adjustment Account in the nominal ledger

	A	B		A	B
To Balance b/d	12,500	31,000	By balance b/d	300	
To nominal ledger adjustment in sales ledgers under			By Nominal ledger adjustment in sales ledgers under		
Sales	31200	43100	Returns	3170	2050
Bills receivable dishonoured	500		Cash	20050	51200
Transfer from A ledger		1200	Discounts	1300	2700
			Bad debts	3710	4250
			Allowances	420	370
			Bills receivable	1300	
			Transfer to B ledger	1200	
To Balance c/d	720	210	By balance c/d	13470	14940
	44920	75510		44920	75510

In sales Ledger-Nominal Ledger adjustment Account			
To balance b/d	300	By Balance b/d	12,500
To Sales ledger adjustment in nominal ledgers under		By Sales ledger adjustment in nominal ledgers under	
Returns	3170	Sales	31200
Cash	20050	Bills receivable dishonoured	500
Discounts	1300		
Bad debts	3710	To Balance b/d	720
Allowances	420		
Bills receivable	1300		
Transfer to B ledger	1200		
To balance c/d	13470		
	44920		44920

In sales Ledger-Nominal Ledger adjustment Account			
To balance b/d		By Balance b/d	31000
To Sales ledger adjustment in nominal ledger as under		By Sales ledger adjustment in nominal ledger as under	
Returns	2050	Sales	43,100
Cash	51200		
Discounts	2700		
Bad debts	4250		
Allowances	370	Transfer from A ledger	1200
		To Balance b/d	210
To balance c/d	14940		
	75510		75510

5(a)

Hire Purchase Debtors account

April 1st	To Balance b/d	30,000		By Cash	8,00,000
	To HP Stock	8,20,000	31 st mar	By balance c/d	50,000
		8,50,000			8,50,000

Hire Purchase stock account

April 1st	To Balance b/d	4,00,000		By Hire purchase debtors	8,20,000
	To Goods sold on HP	8,80,000	31 st mar	By balance c/d	4,60,000
		12,80,000			12,80,000

Goods sold on Hire purchase account

31 st mar	To HP adjustment a/c	2,20,000		By HP stock a/c	8,80,000
	To Trading a/c	6,60,000			
		8,80,000			8,80,000

Hire purchase stock reserve a/c

To HP Adjustment a/c	1,00,000	By balance b/d	1,00,000
To Balance c/d	1,15,000	By HP Adjustment a/c	1,15,000
	2,15,000		2,15,000

HP Adjustment Account

To HP stock Reserve(closing)	1,15,000	By HP stock Reserve(opening)	1,00,000
To Profit and Loss account	2,05,000	By goods sold on HP a/c	2,20,000
	3,20,000		3,20,000

5(b)

X Ltd.

Cash Flow Statement for the year ended 31st March, 2010 (Using the direct method)

	Rs. '000	Rs. '000
Cash flows from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	<u>(200)</u>	
Cash generated from operations	500	
Income tax paid	<u>(250)</u>	
Net cash from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	<u>100</u>	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	<u>(50)</u>	
Net cash used in financing activities		<u>(50)</u>
Net increase in cash		100
Cash at beginning of the period		<u>50</u>
Cash at end of the period		<u>150</u>

6(a)

Statement of profit

Capital at the end		140250
Add: Drawings made during the year		
Loan to sister	26250	
House hold expenses(2250*12)	27000	
Rent for the house(750*12)	9000	
Electricity charges(75*12)	900	63150
		203400
Less: Capital introduced during the year(15000*102/100)		15300
Adjusted capital at the end		188100
Less: Capital at the beginning		144000
Profit made during the year		44100

- 6(b) Prepackaged accounting softwares are easy to use, relatively inexpensive and readily available. The installation of these softwares are very simple. An installation diskette or CD is provided with the software which can be used to install the software on a personal computer. A network version of this software is also generally available which needs to be installed on the server and work can be performed from the various workstations or nodes connected to the server. Along with the software an user manual is provided which guides the user on how to use the software. After installation of the software, the user should check the version of the software to ensure that they have been provided with the latest. The vendor normally provides regular updates to take care of the changes of law as well as add features to the existing software. These softwares normally have a section which provides for the creation of a company. The name, address, phone numbers and other details of the company like VAT registration number, PAN and TAN numbers are feeded into the system. The accounting period has to be set by inserting the first and the last day of the financial year. The next step in the use of this software could be the creation of accounts. This is done by adding the accounts along with their codes into the master file files. Each account has to be classified into whether it is an asset or liability or an income or expenditure account. Whether the account has other subsidiary ledgers under it needs to be indicated to the system. The opening balances are to be entered into the master file files. The company parameters need to be set at this point of time so that the accounts which are the cash, bank, sundry debtors, sundry creditors, etc are known to the system. The customers name, address and other basic details are also entered in the customer master file. Similarly, the creditors details are entered into the creditor master file files. Product details are entered through the product master file files. Here the unit of measurement and the opening stock quantities including the values are provided. The system of valuation of stock like the FIFO, LIFO, Weighted average, etc are defined in the product master file files.

6(c) **Revaluation of fixed Assts**

According to Accounting Standard 10 on “Accounting for Fixed Assets”

- (a) When fixed assets are revalued in financial statements, the basis of selection should be an entire class of assets or the selection should be done on a systematic basis. The basis of selection should be disclosed.
- (b) The revaluation of any class of assets should not result in the net book value of that class being greater than the recoverable amount of that class of assets.
- (c) The accumulated depreciation should not be credited to profit and loss account.
- (d) The net increase in book value should be credited to a revaluation reserve account.
- (e) On disposal of a previously revalued item of fixed asset, the difference between net disposal proceeds and the net book value should be charged or credited to the profit and loss account except that to the extent to which such a loss is related to an increase and which has not been subsequently reversed or utilised may be charged directly to that account.

6(d) The company should disclose the change in method of depreciation adopted for the accounting year. The impact on depreciation charge due to change in method must be quantified and reported by the enterprise.

Following aspects may be noted in this regard as per AS 6 on Depreciation Accounting.

- (a) The depreciation method selected should be applied consistently from period to period.
- (b) A change from one method of providing depreciation to another should be made only if the adoption of the new method is required by statute or for compliance with an accounting standard if it is considered that the change would result in a more appropriate preparation or presentation of the financial statements of the enterprise.

6(e) The transfers should be made at lower of (a) Cost, and (b) Fair value at the date of transfer.

1. In this case, the transfer should be made at cost (being lower of Rs. 20 lakhs and Rs. 25 lakhs) and hence the long term investments should be carried at Rs. 20 lakhs.
2. In the second case, the transfer should be made at Market Value (being lower of Rs. 15 lakhs and Rs. 6.5 lakhs) and hence the long term investments should be carried at Rs. 6.50 lakhs. The loss of Rs. 15 – Rs. 6.5 = Rs. 8.5 lakhs should be provided for in the profit and loss account.
3. Here, the transfer should be made at carrying amount (being lower of Rs. 18 lakhs and Rs. 12 lakhs) and hence these reclassified current investments should be carried at Rs. 12 lakhs.

6(f) As per AS 14 on ‘Accounting for Amalgamations’, there are two main methods of accounting for amalgamations:

(i) *The Pooling of Interest Method*

Under this method, the assets, liabilities and reserves of the transferor

company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

(ii) *The Purchase Method*

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

PRIME ACADEMY
30TH SESSION MODEL EXAM – LAW ETHICS & COMMUNICATION
QUESTION PAPER

Total No. of Questions: 16
Time Allowed: 3 Hrs

WEIN
All are compulsory
PART I

Total No. of Printed Pages: 2
Maximum Marks: 100

- 1(a) “Counter offer to an offer lapses the offer.” Comment 5 Marks
- (b) X’s mill was stopped due to break down of a shaft. He delivered the shaft to Y, a common carrier, to be taken to a manufacturer to copy it and make a new one. X did not make known to Y that the delay would result in loss of profits. By some neglect on the part of Y, the delivery of shaft was delayed in transit beyond reasonable time. The mill had to remain idle for a longer time than otherwise.. Decide whether Y will be liable for loss of profit. 5 Marks
- 2(a) A draws a bill on B, who accepts it without consideration. He endorses the bill to C for valuable consideration. On due date when C presents the bill to B for payment, B contends absence of consideration. Decide the case. 5 Marks
- (b) Explain the meaning of “Basic Wages under the Employees” Provident Fund and Miscellaneous Provisions Act, 1952. 5 Marks
- 3 Who is entitled for Gratuity under the Payment of Gratuity Act, 1972 5 Marks
- 4 Discuss the applicability of the Payment of Bonus Act, 1965 5 Marks
- 5 When Corporate Veil can be lifted? 5 Marks
- 6 How the articles of association for a Company be altered? 5 Marks
- 7 Explain “Shelf Prospectus” 5 Marks
- 8 How to apply for a company name under E filing? 5 Marks
- 9 The plaintiff society was incorporated in 1902 under the name, “The society of Motor Manufacturers and Traders Ltd. In 1924, the defendant society was incorporated under the name “Motor Manufacturers and traders Mutual Insurance Ltd “. The plaintiff company bought an action to restrain the use of this name. Decide. 5 Marks
- 10 A Ltd issued a notice for holding of its AGM on 7th November 2009. Notice was posted to members on 16th October 2009. Some members alleged that the company had not complied with the Companies Act as regards period of notice and as such meeting was not validly called. Decide whether the meeting is validly called? 5 Marks

PART II

- 11(a) Explain the meaning of business ethics 5 Marks
- (b) Explain the features of Corporate Social Responsibility 5 Marks
- 12 What do you mean by harassment? Explain the effect of harassment. 5 Marks
- 13 Explain the need of ethical behavior in marketing 5 Marks

PART III

- 14(a) Explain “Semantic problems” which is one of the causes for mis-communication 5 Marks
- (b) Kinesics (Body language) plays important role in communication. Do you agree? 5 Marks
- 15 What are the advantages of upward communication? 5 Marks
- 16 What are the types of power of attorney? Draft a power of Attorney to appear before Income - Tax Authorities. 5 Marks

PRIME ACADEMY
30TH SESSION MODEL EXAM – LAW ETHICS & COMMUNICATION
SUGGESTED ANSWER

- 1(a) i. When two persons make identical offers to each other, in ignorance of each other's offer, it is called Cross Offer .
- ii. One offer cannot be taken as offer and the other person's offer cannot be taken as its acceptance.
- iii. There can be no concluded contract in such a case because both are offers and there is no acceptance.
- iv. When there is a Cross offer, the original offer terminates. It is for the original offeror to accept the terms of the counter offer made by the offeree.
- (b) The facts of the case are similar to Hadley v. Baxendale. Accordingly Y was not liable for loss of profits during the period of delay as circumstances communicated to Y did not show that the delay in the delivery of shaft would entail loss of profits to the mill.
- 2(a) B is liable to pay to C, who is holder in due course.
- (b) Basic Wages (Sec. 2 (b))
- i. Meaning: It Means all emoluments:-
- Which is earned by an employee (while on duty or on leave with wages) in accordance with the terms of the contract of employment, and which are paid or payable in cash to him
- ii. What not to It does not include :
- a. The cash value of any food concession
 - b. Any DA (I.e, all cash payments, paid for a rise in the cost of living), HRA, overtime allowance, bonus, commission or any other similar allowance payable to the employee in respect of his employment or of work done in such employment
 - c. Any presents made by the employer
- 3 i. Eligibility: Gratuity shall be payable to an employee on the termination of his employment after he has rendered continuous service for not less than 5 years :-
- a. On his superannuation, or
 - b. On his retirement or resignation, or
 - c. On his death or disablement due to accident or disease (Note: Here, the condition of continuous service for 5 years is not applicable.
- ii. Receiver: Generally, it is payable to the employee himself. However, in case of death of the employee it shall be paid to the following persons:
- a. Nominee
 - b. where the Nominee is not appointed, than legal Heirs
 - c. Where the Nominee/ Legal Heir is minor: than deposited with controlling Authority, who shall invest the same the benefit of such minor in the following manner:
Deposit with SBI or its subsidiaries
Deposit with any Nationalized Bank
This amount shall remain deposited, until such minor attains majority.

- 4 This Act extends to the whole of India.
As per Sec. 1(3), unless otherwise provided in the Act, it shall apply to the following:
- (a) Every factory, and
 - (b) Every other establishment in which 20 or more persons are employed on any day during an accounting year.
 - (c) Every other establishment specified by appropriate Government, in which persons between 10 to 19 in number are employed on any day during an accounting year (Proviso to sec.1(3))

- 5 From the juristic point of view a company is a legal person distinct from its members (Salmon v. Salomon & Co. Ltd). This principle may be referred to as the veil of incorporation. The effect of this principle is that there is a fictional veil and not a wall between the company and its members. "Lifting the veil" means looking behind the company as a legal person, i.e. disregarding the corporate entity and paying regard instead to the realities behind the legal façade. Where the courts ignore the company and concern themselves directly with the members or managers, the corporate veil may be said to have been lifted only in corporate circumstances the courts are willing to lift the corporate veil and that too, when questions of control are involved rather than merely question of ownership.

The following are the cases where modern company law disregards the principle of corporate personality or the principle that the company is a legal entity distinct and separate from its shareholders or members.

- (i) In the law relating trading with the enemy where the test of control is adopted.
 - (ii) In certain matters concerning the law of taxes, death duties and stamps particularly where question of the controlling interest is in issue.
 - (iii) where companies form other companies as their subsidiaries to act as their agent. The application of the doctrine may operate in favour of such companies depending upon the facts of a particular case.
 - (iv) Where the benefit of limited liability of shareholders is destroyed and each shareholder's liability has become unlimited. This happens under section 45 when the number of members of a public company or private company falls below 7 or 2 respectively, and business is carried on for more than six months. In such a situation, every person who is a member and is cognizant of the fact shall be severally liable for the payment of the whole debts of the company incurred during that time.
 - (v) Under the law relating to exchange control.
 - (vi) Where the device of incorporation is adopted for some illegal or improper purpose, e.g., to defeat or circumvent law, to defraud creditors or to avoid legal obligations.
- 6 Procedure for alteration of Articles of association:
- Convene a General meeting and Pass a Special Resolution.
 - File a copy of special resolution in form 23 with ROC within 30 days of the date of resolution.
 - File printed copy of altered articles of Company with the ROC within one month of the date of Central government approval wherever applicable.

- 7 Shelf prospectus means a prospectus issued by any financial institution or bank for one or more issues of the securities or class of securities specified in that prospectus. A company filing a shelf prospectus with the ROC shall not be required to file prospectus afresh at every stage of offer of securities by it within the period of validity.
A Company filing a shelf prospectus shall be required to file an information memorandum within such time as may be prescribed by the central government prior to making of a second or subsequent offer of securities under the shelf prospectus on all material facts like new charges created , previous offer of securities and succeeding offer of securities etc.
An information memorandum shall be issued to the public along with the shelf prospectus filed at the stages of first offer of securities and it shall be valid for one year from the date of opening the first issue under the prospectus.
- 8 File E form 1A by logging in the portal along with a payment of fees of Rs. 500/- affixing the digital signature of the applicant proposing to incorporate the company. If the proposed name is not available apply for a fresh name on the same application.
- 9 The contents of problem are identical with the case “Motor Manufacturers and Traders Ltd Vs. Motor Manufacturers and Traders Mutual Insurance Co Ltd (1925) 1 Ch 675. In that case, the Court held that the plaintiff society was a trade protection society was a trade protection society and the defendant company was an insurance company. There was great difference in their business. Therefore Court quashed the plaintiff’s petition.
- 10 Validity of Meeting:
(a) 21 clear days Notice of an AGM must be given.
(b) If Notice is sent by post, it shall be deemed to have been received on expiry of 48 hours from the time of posting.
(c) For working out clear 21 days, day of Notice and day of Meeting shall be excluded.
- 21 clear days notice has not been served and the meeting is, therefore not validly convened.
- Where Notice is sent by post, it must have been sent at least sent at least 25 days before the date of the meeting.
- Notice should have been posted on 14-10-2009: while actually it is posted on 16-10-2009.
- Therefore Notice falls short by 2 days.
- 11(a) Business ethics refers to the application of ethical principal to business. Business ethics is a study of moral right or wrong. It concentrates on moral standards as they apply to business policies, institutions and behaviour.
For example:-

Functional Area Of Business	Ethical Practice
Plant Location	No adverse impact on local community and environment
Production	Control of Pollution

Purchase and Storage	No hoarding of raw materials and finished goods
Transportation	Complying with safety regulations
Marketing	Fair treatment to customers
Advertising	Truthful and realistic claims
Administration	Concern for Social values
Finance	Protection and appreciation of capital
Personnel	Just and equitable treatment to employees

Features of business ethics:

- (1) Business ethics is applied ethics. It involves the application of what is good and right to business affairs.
 - (2) Ethics is the study of Morality. However, ethics is not the same as morality.
- (b) “Definition”
- “CSR” is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as well as of local community and society at large.
- i. Nature of CSR:-Business is a part of Society: The concept of Social responsibility is based on the premise that a business firm is more than an economic institution. It is a part of Society and its activities exercise significant influence on the public. Therefore, business should work beyond the narrow goal of profit – making
 - ii. No Charity: CSR does not mean mere charity. A business can be socially responsible without charity.
 - iii. In the long run, Social responsibility is consistent with profit motive. A business cannot survive and grow without serving the society. By fulfilling its social obligations, business creates an environment, which is conducive to its success.
 - iv. Social responsibility is a personal obligation: - A business firm can discharge its social responsibility only through the persons, who manage and control it.
 - v. Social responsibility is a reciprocal relationship: - just as business owes responsibility to society, society also is responsible to business.
 - vi. Social responsibility is a continuing obligation :- A business firm remains responsible to the society throughout its life.

- 12 Harassment means intimidating and tormenting an individual or group of persons through constant interference. All acts and conducts that create a hostile or offensive working environment amount to harassment.

Effect of Harassment:

- (1) Such an environment unreasonably interferes with an individual’s freedom and work performance.
- (2) It is not easy to determine whether a work environment is hostile. Much depends on the attitudes of the employees involved and the response of management to the concerns of employees.
- (3) Hostile Work environment causes stress and interferes with a person’s ability to work. It may even lead to nervous breakdowns.
- (4) Harassment is a crude violation of the moral standards of utilitarianism rights and justice.

- (5) it can result in substantial costs to the firm. In addition to litigation and settlement costs, there are costs of labour absenteeism and turnover.
- (6) Productivity declines due to reduced morale and stress.
- (7) Harassment is an unjust misuse of the unequal power that an employer can exercise over the employee.

13.
 1. Consumer well – being: Consumers are the lifeblood of a business. Hence management should be concerned with the well being of consumers, Ethical behaviour in marketing strategies, policies and campaigns ensure recognition of consumers' interests.
 2. To maintain public confidence in marketing; Unethical marketing practices on the part of a few business firms are eroding public confidence in marketing.
 3. Image Boost to the Organization: People form an opinion about a business enterprises on the basis of their experience. Sound and ethical practices should be adopted by marketing personnel to project maintain and improve the corporate image.
 4. To avoid Government regulation : Unethical marketing increase the probability of government control on business. Most of the Governmental limitations on marketing arise out of management's failure to maintain ethical standards in marketing business firms can avoid such regulation and retain their freedom of operations by caring for the interests of consumers on voluntary basis.
 5. Matching power & Responsibility : Marketing Executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility related to that power. If marketing managers do not use their power in a socially acceptable manner, that power will be lost in the long run.

14 Advantage of upward communication:

- (1) Subordinates send their complaints, problems and suggestions to top management using upward communication. The top management formulates its policies keeping in mind these suggestions complaints and problems of employees.
 - (2) This Communication system encourages new ideas and best chosen ideas are implemented in the business.
 - (3) Top Management comes to know the reactions of persons in different departments and new plans are devised to keep the business on sound footings.
 - (4) The Most important advantage in this communication is that there arises greater harmony and mutual feelings of co-operation among subordinates and managers. This paves the way for more production in the organization.
- What are the types of power of attorney? Draft a power of Attorney to appear before Income-Tax Authorities ?

15 BODY LANGUAGE (KINESICS)

This is known as kinesics and is an important medium of communication. According to experts the message is conveyed as under:

7% by verbal communication,

38% by voice tone

55% by body movement

Thus, absence of body language in any message renders it incomplete. Some examples of body language are:

BODY POSITION	MESSAGE
PROTRUDING EYES	FOR DISBELIEF
RUBBING THE NOSE	WHEN TENSE
CROSSING THE HANDS	FOR FEELING SECURE
MOVING THE SHOULDERS UP AND DOWN	FOR SHOWING THAT YOU ARE DIFFERENT
PUTTING THE HAND ON FOREHEAD	FOR DISTRESS
CLOSING EYELIDS	FOR PROXIMITY

Another good example of body language is the signal used by a traffic policeman to stop the traffic.

Body language completes communication wherever a verbal message is given along with the use of body language then the message becomes clear. Body language helps in delivering the message unchanged.

- 16 A power of attorney falls within the law of agency. A power of attorney is a written instrument empowering a specified person or persons to act for and in the name of person executing it. The instrument of power of attorney is classified into the following two categories.

1 Specific Power of Attorney:

A specific power of attorney is given for a particular specific act for instance for appearance before Tax Authorities or before Registrar of Companies for presenting documents for incorporation of a company or before a Sub – Registrar for registration of documents etc.

2 General Power of Attorney

(a) Covering all the acts relating to the execution of the deed. Presenting the same for registration, admitting execution thereof.

(b) Such a General Power of Attorney can be registered also.

Format of Power of Attorney to appear before Income – Tax Authorities

I / we -----, residing at ----- hereby authorize -----, to represent me / my firm/ my family in connection with ----- for the year ----His statement and explanation will be binding on me / us.

Place:

Date:

I, ----- hereby declare that I am duly qualified to represent the above- mentioned person.

PRIME ACADEMY
30TH SESSION MODEL EXAM – COSTING & FINANCIAL MANAGEMENT
QUESTION PAPER

Total No. of Questions: 8

Time Allowed: 3 Hrs

CGLM

All are compulsory

Total No. of Printed Pages: 4

Maximum Marks: 100

- 1 Answer any five of the following
- (i) Define explicit costs. How is it different from implicit costs?
 - (ii) For a component standard output in 12 hours is 300 units and actual output in 12 hours is 360 units. The wage rate is Rs.15 per hour. Calculate the amount of bonus and total wages under Emerson plan.
 - (iii) MN Ltd has furnished the following information for the period
Sale price per unit Rs.150
Variable cost per unit Rs.105
Fixed cost Rs.1,35,000
If the company desires to earn a profit of 20% on sales, the quantity to be sold?
 - (iv) From the following data find out the inventory carrying cost as % of unit value
Actual consumption = 18,000 units per annum
Cost per unit = Rs.1.5
Cost of placing order = Rs.12 per order
Economic order quantity = 1,200 units
 - (v) Discuss the Gantt task and bonus system as a system of wage payment and incentives.
 - (vi) How do you deal with fringe benefits of employees in cost accounting?
(5x2=10 Marks)
- 2 The Wood Spirits Company produces two products, turpentine and methanol (wood alcohol), by a joint process. Joint costs amount to Rs.48,00,000 per batch of output. Each batch totals 45,000 litres: 25% methanol and 75% turpentine. Both the products are processed further without gain or loss in volume. Separable processing costs include methanol Rs.480 per litre and turpentine Rs.320 per litre. Methanol sells Rs.3,360 per litre and turpentine sells Rs.2,240 per litre.
Required
- (i) What joint cost per batch should be allocated to the turpentine and methanol, assuming that joint costs are allocated on a physical measure (number of litres at split off point) basis?
 - (ii) If joint costs are to be assigned on an estimated NRV basis, what amounts of joint costs should be assigned to turpentine and methanol?
 - (iii) The company has discovered an additional process by which the methanol can be made into a pleasant tasting alcoholic beverage. The new selling price would be Rs.9,600 per litre. Additional processing would increase the separable costs by Rs.1,440 per litre. Assuming no other changes in cost, what is the joint cost applicable to methanol using estimated NRV method?
 - (iv) Should the company use the new process?
(15 Marks)

- 3 A company undertakes a contract for construction of a large building complex. The construction work commenced on 1st April, 2008 and the following data are available for the year ended 31st March 2009

	Rs.'000
Contract price	35,000
Work Certified	20,000
Progress Payments Received	15,000
Materials issued to site	7,500
Planning & Estimating Costs	1,000
Direct wages paid	4,000
Materials returned from site	250
Plant Hire Charges	1,750
Wage related costs	500
Site office costs	678
Head office expenses apportioned	375
Direct expenses incurred	902
Work not certified	149

The contractors own a plant which originally cost Rs.20 lacs has been continuously in use in this contract throughout the year. The residual value of the plant after 5 years of life is expected to be Rs.5 lacs. Straight line method of depreciation is in use.

As on 31st March, 2009 the direct wages due and payable amounted to Rs.2,70,000 and the materials at site were estimated at Rs.2,00,000

Required:

- Prepare the contract account for the year ended 31st March, 2009.
- Show the calculation of profit to be taken to the profit and loss account of the year.
- Show the relevant balance sheet entries. (16 Marks)

- 4 Answer any three of the following

- Pass journal entries for the following transactions in cost books
Materials worth Rs.25,000 returned to the stores from job
Wages analysis book detailed Rs.20,000 towards direct labour, Rs.12,000 towards indirect factory labour, Rs.10,000 towards salaries etc. to office staff and Rs.8,000 for salaries etc to selling and distribution staff.
- A company provides following data in respect of labour turnover rates for the quarter ended 31.12.2009 as 20%, 10% and 6% respectively under Flux method, Replacement method and Separation method. If the number of workers replaced during the quarter is 80 find (a) The number of workers left and discharged (b) Workers recruited and joined including replacements
- A product is produced after passing it through three processes A,B and C. From the following prepare process B account for the year 2009:
Output of Process A transferred - 3000 units @ Rs.5 each
Process materials added Rs.1,000
Direct wages Rs.10,000
Direct expenses Rs.4,000
Production overhead 20% of wages

- | | |
|---------------------------|---------------|
| Output of Process B | 2,750 units |
| Normal loss | 10% |
| Scrap value of lost units | Rs.2 per unit |
- (iv) A machine shop has 6 identical machines manned by 5 operators. The machine cannot be worked without any operator wholly engaged on it. The original cost of all these machines works out at Rs.6 lakhs.
- The following estimates are available for the year 2009
- | | |
|---|----------------------------------|
| (a) Normal working hours per month | 220 hours |
| (b) Absenteeism (without pay) per month | 20 hours |
| (c) Leave with pay per month | 20 hours |
| (d) Normal idle time (unavoidable) | 20 hours |
| (e) Average rate of wages per day of 8 hours | Rs.40 |
| (f) Production bonus | 15% of wages |
| (g) Cost of power for the period | Rs.20,700 |
| (h) Supervision and indirect labour cost for the year | Rs.8,100 |
| (i) Lighting and electricity per annum | Rs.3,070 |
| (j) Repairs and maintenance of machines | 2% of value of machines p.a |
| (k) Insurance charges | Rs.30,000 p.a |
| (l) General management expenses as allocated for the year | Rs.84,000 |
| (m) Depreciation under straight line method machines | 15% on original cost of machines |
- Workout a comprehensive Machine Hour Rate for the machine shop (3x3=9 Marks)

- 5 Answer any five of the following
- Distinguish between Net Present Value and Internal Rate of return
 - What is the impact of inflation on working capital?
 - The required rate of return on security P as per Critical Asset Pricing Model is 10%. If the current price of the security is Rs.40, the last dividend is Rs.3 and the growth rate is 5%, then what should be the increase / decrease in the price of security such that it is at equilibrium
 - Write a short note on indifference point
 - A firm maintains a separate account for cash disbursement. Total disbursements are Rs.12,60,000 per annum. The administrative and transaction cost of transferring cash to disbursement account is Rs.15 per transfer. Marketable securities yield is 6% p.a. Compute the optimum cash balance according to Baumol's model
 - Explain packing credit (5x2=10 Marks)

- 6 X Ltd is considering 3 financing plans. Total investment to be raised Rs.2,00,000
- | | | | |
|------|--------|------|-------------------|
| Plan | Equity | Debt | Preference shares |
| A | 100% | | |
| B | 50% | 50% | |
| C | 50% | | 50% |
- Cost of debt 8% and cost of preference shares 8%
Tax rate 50%
Equity shares of face value of Rs.10 each will be issued at a premium of Rs.10 per share
Expected EBIT is Rs.80,000

Determine for each plan (a) EPS (b) The financial breakeven point (c) The EBIT range among the plans of indifference (15 Marks)

- 7 From the following particulars prepare Trading and Profit & Loss account for the year ended 31.12.1994 and Balance Sheet as at that date.
- | | |
|---|------------|
| Rate of Gross Profit | 25% |
| Stock Turnover ratio | 5 times |
| Average Debt collection period | 3 months |
| Creditor's velocity | 3 months |
| Current Ratio | 2:1 |
| Proprietary ratio | 80% |
| (FA to Capital employed) | |
| Net Profit to Issued Equity Capital | 10% |
| Capital Gearing ratio | 30% |
| (Preference shares and debentures to capital employed) | |
| Reserve and Surplus to Issued Equity Capital | 25% |
| Preference shares to Debentures | 2:1 |
| Material consists 50% of cost of sales | |
| Gross profit Rs.12,50,000. Current assets consist of stock and debtors only | (16 Marks) |

- 8 Answer any three of the following

- (i) The following data has been extracted from the annual accounts of a company

	Rs. in Lakhs
20,00,000 equity shares of Rs.10 each	200
General Reserve	150
Investment Allowance Reserve	50
15% Long term loan	300
Profit before tax	140
Provision for tax	84
Proposed Dividends	10

Calculate, from the above, the following ratios

- (a) Return on Capital Employed
(b) Return on Net Worth
- (ii) A company manufactures and sells a single product. The estimated activity of the company for the month of Feb 2010 is as follows
- | | |
|--|-----------------------------|
| Sales | - Rs.4,00,000 |
| Gross profit on sales | - 30% |
| Increase in inventory during the month | - Rs.20,000 |
| Increase in Debtors | - Rs.30,000 |
| Total selling and administrative expenses | - Rs.50,000 + 2.5% of sales |
| Depreciation expenses which is included in fixed | |
| Selling and administrative expenses | -Rs.20,000 |
- Calculate the net cash surplus or deficit for the month of Feb 2010.
- (iii) A company has an operating leverage of 1.2 as against 1.25 during the previous year. If the current fixed cost is 25% more than that of the previous year, to what extent has the contribution earned by the firm changed over the period year?
- (iv) Explain the meaning and importance of credit rating (3 x 3=9 Marks)

PRIME ACADEMY
30TH SESSION MODEL EXAM – COSTING & FINANCIAL MANAGEMENT
SUGGESTED ANSWER

- 1(i) Explicit cost is also known as Out-of-pocket costs. This is that portion of the cost which involves payment to other parties, as opposed to costs which do not require any cash outlay such as depreciation. Salaries, wages, stationery, postage, interest etc are some of the examples of explicit costs.

Explicit costs are very much relevant for decision making.

- Explicit cost differs from implicit costs as implicit costs do not involve cash outlay and implicit costs are also known as imputed costs.
- Implicit costs are computed only for decision making purpose and do not find place in accounting where as explicit costs are computed both for decision making and accounting.
- Whenever alternate course of actions are to be considered, for decision making implicit costs are computed.

- (ii) Efficiency = $(360/300) \times 100 = 120\%$

As per Emerson plan for efficiency above 100%, bonus of 20% of basic wages plus 1% for each 1% increase in efficiency is admissible.

Bonus applicable is = $20\% + (120 - 100) = 40\%$

Bonus = $(40/100) \times 12 \times 15 = \text{Rs.}72$

Total wages = $12 \times 15 + 72 = \text{Rs.}252$

- (iii) Let required sales = y units

Sales = 150 y

Profit = 20% of Rs.150y = Rs.30y

Required sales = $\frac{\text{Fixed cost} + \text{Required profit}}{\text{Contribution per unit}}$

$$Y = \frac{1,35,000 + \text{Rs.}30Y}{\text{Rs.}45}$$

$$Y = 9,000 \text{ units}$$

- (iv) Annual consumption = A = 18,000 units

Ordering cost per order O = Rs.12

EOQ = 1,200

Carrying cost = CC

$$\text{EOQ} = \sqrt{2AO/CC}$$

$$1200 \times 1200 = \frac{2 \times 18000 \times 12}{CC}$$

$$CC = \frac{2 \times 18000 \times 12}{1200 \times 1200} = 0.30$$

i.e carrying cost is 20% of unit value

- (v) Gantt task bonus system is a combination of time and piece work system. According to this system a high standard or task is set and payment is made at time rate to a worker for production below the set standard.

Wages payable under the plan are calculated as below.

Output below standard Guaranteed time rate

Output at standard Time rate plus 20% of time rate

Output over standard High piece rate on worker's output. It is so fixed so as to include a bonus of 20% of time rate

- (vi) Fringe benefits are additional benefits paid to employees of a concern and are not related to the direct efforts of the employee. Examples are holiday pay, gratuity, medical benefits, lunch subsidy etc. Fringe benefits are treated as overheads of respective employees of respective function like factory overheads, selling and distribution overheads etc.

- 2(i) Allocation of Joint costs to Joint products (physical measure basis)

	Methanol	Turpentine	Total
Output (Litres)	11,250	33,750	45,000
	(25% of 45,000)	(75% of 45,000)	
Joint costs allocated – Rs.	12,00,000	36,00,000	48,00,000
	(25% of Rs.48,00,000)	(75% of Rs.48,00,000)	

- (ii) Allocation of Joint costs to Joint products (NRV basis)

	Methanol	Turpentine	Total
Output (Litres)	11,250	33,750	45,000
	(25% of 45,000)	(75% of 45,000)	
Sales value	3,78,00,000	7,56,00,000	11,34,00,000
	(11,250×3,360)	(33,750×2,240)	
Less: Post separation cost	54,00,000	1,08,00,000	1,62,00,000
	(11,250×480)	(33,750×320)	
Net realizable value at split-off	3,24,00,000	6,48,00,000	9,72,00,000
Joint costs allocated (1:2) –Rs.	16,00,000	32,00,000	48,00,000

- (iii) Allocation of Joint costs to Joint products (NRV basis after further processing)

	Methanol	Turpentine	Total
Output (Litres)	11,250	33,750	45,000
	(25% of 45,000)	(75% of 45,000)	
Sales value	10,80,00,000	7,56,00,000	18,36,00,000
	(11,250×9,600)	(33,750×2,240)	
Less : Post separation cost	2,16,00,000	1,08,00,000	3,24,00,000
	(11,250×1,920)	(33,750×320)	
Net realizable value at split-off	8,64,00,000	6,48,00,000	15,12,00,000
Joint costs allocated –Rs.	27,42,857	20,57,143	48,00,000

- (iv) Incremental revenue / litre by further processing of new process

$$= (9,600 - 3,360) = \text{Rs.} 6,240 \text{ per litre}$$

Differential cost / litre = Rs.1,440 per litre

Since incremental revenue is more than differential cost the company can new process.

3 Contract Account for the year ended 31 st March,2009

Dr.	Rs.'000		Cr.	Rs.'000
To Materials Issued	7,500	By Materials at site	200	
To Planning & estimating cost	1,000	By materials returned from site	250	
To Direct wages paid	4,000	By work in progress c/d		
To Plant hire charges	1,750	Work certified	20,000	
To wage related costs	500	Work uncertified	149	
To site office costs	678			
To Head office expenses apportioned	375			
To Direct expenses incurred	902			
To Plant Depreciation	300			
To Direct wages accrued	270			
To Notional profit	3,324			
	<u>20,599</u>			<u>20,599</u>
To Profit & Loss account	1,662	By Notional profit b/d	3,324	
To work in progress c/d	1,662			
	<u>3,324</u>			<u>3,324</u>

1 st April 2009

To Work in progress b/d

Work certified	20,000	By Work in progress b/d	
Work uncertified	149	(profit in reserve)	1,662

To materials at site 200

The depreciation of plant and profit to be credited to Profit and loss account is calculated as below.

Value of the plant	20,00,000
Less: Scrap value	<u>5,00,000</u>
	<u>15,00,000</u>

Life 5 years

Depreciation / year $15,00,000/5 = \text{Rs.}3,00,000$

The work certified is 20,000,000 against the contract price of Rs.35,000,000 which is more than 50 %, 2/3 rd of notional profit reduced by cash received to work certified is to be transferred to profit & loss account = $3,324 \times 2/3 \times 15,000/20,000 = \text{Rs.}1,662$ (Rs. in '000)

Work in progress to be carried to Balance sheet

Work in progress	20,149
Less: Profit in reserve	<u>1,662</u>
	18,487
Less: Cash received	<u>15,000</u>
Net WIP to Balance sheet	3,487

Balance sheet extract as on 31 st march' 2009

Liabilities	(Rs.'000)	Assets	(Rs.'000)
Profit & Loss account	1,662	Plant at site	2,000
Wages accrued	270	Less :Depreciation <u>300</u>	1,700
		Materials at site	250
		Work in progress	3,487

4(i)	Stores ledger control A/c	Dr. Rs.25,000	
	To Work in progress control A/c		Rs.25,000

Work-in-progress Control A/c	Dr. Rs.20,000	
Manufacturing Overhead Control A/c	Dr. Rs.12,000	
Administration Overhead Control A/c	Dr. Rs.10,000	
Selling & Distribution Overhead Control A/c	Dr. Rs. 8,000	
To Wages Control A/c		Rs.50,000

(ii) Labour turnover under replacement method

$$= \frac{\text{No.of employees replaced during a period}}{\text{Average no.of employees during period}} \times 100 = 10$$

$$= \frac{80}{\text{Average no.of employees during period}} \times 100 = 10$$

$$= \text{Average no. of employees during period} = 800$$

Labour turnover under separation method

$$= \frac{\text{No. of employees left during a period}}{\text{Average no. of employees during period}} \times 100 = 6$$

$$= \frac{\text{No. of employees left during a period}}{100} = \frac{6 \times 800}{100} = 48$$

Labour turnover under Flux method

$$= \frac{\text{No.of additions and separations during a period}}{\text{Average no.of employees during period}} \times 100 = 20$$

$$= \text{No. of additions and separations during a period} = \frac{20 \times 800}{100} = 160$$

No. of employees left during the period = 48

Workers recruited and joined including replacements = $160 - 48 = 112$

(iii)

Dr.			Process B A/c		Cr.	
Particulars	Units	Amt (Rs.)	Particulars	Units	Amt (Rs)	
To process A A/c	3,000	15,000	By normal loss	300	600	
To Direct Material A/c		1,000	(10% of 3,000 units)			
To Direct wages		10,000	By Balance c/d	2,700	31,400	
To Direct expenses		4,000				
To Production overhead		2,000				
(20% of Rs.10,000)						
	3,000	32,000		3,000	32,000	

To balance b/d	2,700	31,400	By process C A/c	2,750	31,981
To Abnormal Gain A/c	50	581			
	2,750	31,981		2,750	31,981
Abnormal gain = $\text{Rs.} \frac{31,400}{2,700} \times 50 \text{ units} = \text{Rs.} 581$					

(iv)	Rs.
Operator's wages ((220-20) x 5 x 12 x Rs.40 ÷ 8)	60,000
Production bonus	9,000
Cost of power for the period	20,700
Supervision and indirect labour cost for the year	8,100
Lighting and electricity per annum	3,070
Repairs and maintenance of machines 2% of Rs.6,00,000	12,000
Insurance charges	30,000
General management expenses as allocated for the year	84,000
Depreciation under straight line method 15% of Rs.6,00,000	90,000
Total overhead of machine shop	<u>3,16,870</u>

$$\text{Machine hour rate} = \frac{3,16,870}{(220 - (20 + 20 + 20)) \times 12 \times 5 \text{ hours}} = \frac{3,16,870}{9,600} = \text{Rs.} 33$$

5(i) NPV and IRR methods differ in the sense that the results regarding the choice of an asset under certain circumstances are mutually contradictory under two methods. In a situation where projects are mutually exclusive investment projects, they may give contradictory results in certain situations. The different results could be due to size disparity problem, time disparity problem and unequal expected lives. Net present value is expressed in financial values whereas internal rate of return is expressed in percentage terms. In net present value cash flows are assumed to be reinvested at cost of capital rate in internal rate of return investment is assumed to be made at IRR rates

(ii) Impact of inflation on working capital is direct as for the same quantity of sales, the value of debtors, closing stock etc increases as a result of inflation. The valuation of closing stock is progressively on higher amounts due to inflation and the company would not be in a position to maintain its operating capacity unless it brings in extra funds required due to inflationary pressure. The higher valuation results in acute shortage of funds as it triggers profit related cash outflows in respect of income tax, dividends and bonus. Unless steps are taken to counter this it may lead to a situation known as technical solvency.

(iii) Required rate of return = $r = 10\%$
Current Purchase Price = $P = \text{Rs.} 40$
Last paid dividend = $D = \text{Rs.} 3$
Growth rate = $g = 5\%$

$$\text{Equilibrium price of security } P = \frac{D (1 + g)}{R - g} = \frac{3 (1 + 0.05)}{0.10 - 0.05} = \text{Rs.} 63$$

Hence, to research equilibrium, the price of security P should increase by Rs.23 (Rs.63-Rs.40)

- (iv) The capital structure of a firm should consist of an optimum mix between equity and debt. In attempting an optimum mix, one should compare cost of capital with expected return from the investment. So long as cost of financing by debt is less than the rate of return from the investment, add the difference to the earnings per share. In such a case debt financing is more profitable. The indifference point in planning the capital structure is that point at which the after tax cost of acquisition of outside funds is equal to the rate of return from the investment. In other words, at this point rate of return on capital employed is equal to the rate of interest on debt. This is also known as break even level of EBIT for alternative financial plan

(v)

$$\begin{aligned}\text{The optimum cash balance} &= \sqrt{\frac{2 \times 12,60,000 \times 15}{0.06}} \\ &= \text{Rs.}25,100\end{aligned}$$

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

6

a.

Computation of EPS

	Plan A	Plan B	Plan C
EBIT	80,000	80,000	80,000
Less : Interest		8,000	
Earning before Tax	80,000	72,000	80,000
Less: Taxation 50%	40,000	36,000	40,000
Profit after (PAT)	40,000	36,000	40,000
Less: Preference dividend			8,000
Equity Earnings	40,000	36,000	32,000
No.of shares	10,000	5,000	5,000
Earning per share	Rs.4	Rs.7.20	Rs.6.40

- b. The financial break even point for each plan

The financial BEP	For plan A	= 0
	For plan B	= Rs.8,000
	For plan C	= Rs.16,000

Plan A does not involve any fixed financial costs. Hence its financial BEP = 0. But, plan B must have EBIT of Rs.8,000 to cover interest charge and plan C must have an EBIT of Rs.16,000 to cover the preference dividend of Rs.8,000.

c. Computation of EBIT range among plans of indifference

$$\begin{array}{lcl} \text{Plans A and B} & \frac{(\text{EBIT} - 0) \times (1-0.5)}{10,000} & = \frac{(\text{EBIT} - 8,000) \times (1-0.5)}{5,000} \\ & \text{EBIT} = \text{Rs.16,000} & \end{array}$$

$$\begin{array}{lcl} \text{Plans A and C} & \frac{(\text{EBIT} - 0) \times (1-0.5)}{10,000} & = \frac{(\text{EBIT} - 0) \times (1-0.5) - 8,000}{5,000} \\ & \text{EBIT} = \text{Rs.32,000} & \end{array}$$

$$\begin{array}{lcl} \text{Plans A and C} & \frac{(\text{EBIT} - 8,000) \times (1-0.5)}{5,000} & = \frac{(\text{EBIT} - 0) \times (1-0.5) - 8,000}{5,000} \\ & \text{EBIT} = \text{Rs.32,000} & \end{array}$$

$$0.5 \text{ EBIT} - 4,000 = 0.5 \text{ EBIT} - \text{Rs.8,000}$$

Hence, there is no indifference point between financial plans B and C

7

Gross Profit % 25 % Gross profit Rs.12,50,000

$$\text{Sales} = 12,50,000 / 0.25 = \text{Rs.50,00,000}$$

$$\text{Cost of sales} = \text{Sales} - \text{Gprofit} = \text{Rs.50,00,000} - \text{Rs.12,50,000} = \text{Rs.37,50,000}$$

$$\begin{array}{l} \text{Stock turnover ratio} = \text{Cost of sales} / \text{Stock} = 5 \\ = 37,50,000 / \text{Stock} = 5 \end{array}$$

$$\text{Stock} = \text{Rs.37,50,000} / 5 = \text{Rs.7,50,000}$$

$$\text{Debtors} = 3 \text{ months} = \text{Rs.}(50,00,000 / 12) \times 3 = \text{Rs.12,50,000}$$

$$\text{Current assets consist of stock \& debtors} = 7,50,000 + 12,50,000 = \text{Rs.20,00,000}$$

$$\text{Current ratio} = \text{Current assets} / \text{Current liabilities} = 2$$

$$\text{Current liabilities} = 20,00,000 / 2 = \text{Rs.10,00,000}$$

Creditors velocity = 3 months

$$\begin{array}{l} \text{Assuming all purchases on credit, purchases} = 50\% \text{ of cost sales} \\ = 0.5 \times 37,50,000 = \text{Rs.18,75,000} \end{array}$$

$$\text{Creditors} = (18,75,000 / 12) \times 3 = \text{Rs.4,68,750}$$

$$\begin{array}{l} \text{Other current liabilities} = \text{Rs.10,00,000} - \text{Creditors} = \text{Rs.10,00,000} - \text{Rs.4,68,750} \\ = \text{Rs.5,31,250} \end{array}$$

$$\begin{array}{l} \text{Working capital} = \text{Current Assets} - \text{Current Liabilities} = \text{Rs.20,00,000} - \text{Rs.10,00,000} \\ = \text{Rs.10,00,000} \end{array}$$

$$\begin{array}{l} \text{Proprietary Ratio} = 80\% = \text{Fixed Assets} / \text{Capital Employed} = 80\% \\ \text{Or Currents Assets} / \text{Prop.fund} \end{array}$$

$$\text{Proprietary fund (capital employed)} = 10,00,000 \times 100 / 20 = \text{Rs.50,00,000}$$

$$\text{Fixed Assets} = 80\% \text{ of capital employed} = 80\% \text{ of } 50,00,000 = \text{Rs.40,00,000}$$

Capital gearing ratio = 30%

$$\begin{array}{l} \text{Preference shares \& debentures} = 30\% \text{ of capital employed} = \text{Rs.50,00,000} \times 30 / 100 \\ = \text{Rs.15,00,000} \end{array}$$

Ratio of preference shares to debentures = 2:1

$$\text{Preference shares} = \text{Rs.10,00,000} \text{ Debentures} = \text{Rs.5,00,000}$$

$$\text{Capital employed} = \text{Equity} + \text{Reserves} + \text{Pref. shares} + \text{Debentures}$$

$$\text{Rs.50,00,000} = \text{Equity} + \text{Reserves} + \text{Rs.10,00,000} + \text{Rs.5,00,000}$$

$$\text{Equity} + \text{Reserves} = \text{Rs.50,00,000} - \text{Rs.15,00,000} = \text{Rs.35,00,000}$$

Reserves & surplus to equity capital = 25%

$$\text{Reserves} = \text{Rs.35,00,000} \times 25 / 125 = \text{Rs.7,00,000}$$

$$\text{Equity capital} = \text{Rs.35,00,000} - \text{Rs.7,00,000} = \text{Rs.28,00,000}$$

$$\text{Net profit} = 10\% \text{ of issued capital} = 10\% \text{ of Rs.28,00,000} = \text{Rs.2,80,000}$$

Trading and Profit & Loss Account for the year ended 31'st December 2004

	Rs.		Rs.
To materials consumed	18,75,000	By sales	50,00,000
To labour & overhead	18,75,000		
To Gross profit	<u>12,50,000</u>		
	50,00,000		<u>50,00,000</u>
To expenses (balancing fig)	9,70,000	By Gross profit b/d	12,50,000
To Net profit	<u>2,80,000</u>		
	<u>12,50,000</u>		<u>12,50,000</u>

Balance Sheet as at 31st December 2004

	Rs		Rs.
Equity share capital	28,00,000	Fixed Assets (net)	40,00,000
Preference share capital	10,00,000	Current Assets:	
Reserve & surplus		Stock	7,50,000
General reserve	4,20,000	Debtors	12,50,000
Profit & loss A/c	2,80,000		
Debentures	5,00,000		
Current Liabilities			
Creditors	4,68,750		
Other current liabilities	<u>5,31,250</u>		
	<u>60,00,000</u>		<u>60,00,000</u>

8(i) 1. Return = Profit before tax + Interest on long term loans
= Rs.140 lakhs + 15% of Rs.300 lakhs = Rs.185 lakhs

2. Capital Employed = Share capital + General Reserve + Investment Allowance
Reserve+ Long term loan
= 200 + 150 + 50+ 300 = Rs.700 lakhs

3. Return on shareholders funds = Profit after tax
= 140 – 84 = Rs.84 lakhs
Return

Return on capital employed = -----

Capital employed
= 185/700 = 26.4%
Return on Shareholders funds

Return on net worth = -----

Net worth
= 56/400 = 14%

(ii) Cash receipts = Sales – increase in debtors = 4,00,000 – 30,000 = Rs.3,70,000
Cash payment = Cost of goods sold (70% of sales) + Inventory increase + Variable
Selling and admn.expenses + Fixed selling (excl.depren)& admn expenses
= Rs.2,80,000 + .20,000 + 10,000+ 50,000 – 20,000 = Rs.3,40,000
Cash surplus = Rs. 3,70,000 – Rs.3,40,000 = Rs.30,000

(iii) Degree of Operating Leverage (DOL) = $\frac{\text{Contribution}}{\text{Contribution} - \text{Fixed cost}}$

$$\begin{aligned}
 &= \frac{C}{C - F} \\
 \text{Last year DOL} &= 1.25 = \frac{C}{C - F} \\
 C &= 1.25 C - 1.25 F \\
 C &= 5F \\
 \text{Current year DOL} &= 1.2 \\
 \frac{C}{C - 1.25F} &= 1.2 \\
 C &= 1.2 C - 1.5 F \\
 C &= 7.5F \\
 \text{Change in contribution} &= \frac{7.5F - 5F}{5F} = 50\% \text{ increase}
 \end{aligned}$$

- (iv) Credit rating reflects the probability of timely repayment of principal and interest by the borrower. It indicates the risk involved in lending. Higher the credit rating greater is the probability that the borrower will make timely repayment of principal and interest. Credit rating assumes an important place in the modern and developed financial markets. It is a boom to the companies as well as investors as it facilitates company is raising funds and the investor to invest their funds after knowing the risk return trade off. By indicating creditworthiness of a borrower it helps the investor in arriving at a correct and rational decision about making investments. Credit rating plays a vital role in investor protection. Fair and good credit rating motivate the public to invest their savings. The investor is fully informed about the company as any effect of changes in business/ economic conditions on the company is evaluated and published regularly by the credit rating agencies. With good credit rating corporate can borrow funds at a cheaper rate and can also approach the market on the basis of their good rating. Credit rating is useful to the banks and financial institutions while deciding lending and investment strategies

PRIME ACADEMY
30TH SESSION MODEL EXAM – INCOME TAX & SERVICE TAX & VAT
QUESTION PAPER

Total No. of Questions: 12
Time Allowed: 3 Hrs

TSAT
All are compulsory

Total No. of Printed Pages: 4
Maximum Marks: 100

1. Wipro Ltd is an Indian company has most of its business outside India. Determine its residential status (2 Marks)
2. Afcon Infrastructure Ltd. Is a Japanese company, but it is being controlled from India. Determine its residential status for the assessment year 2010-11. (3 Marks)
3. Mr. X is employed in Central Government getting basic pay Rs. 18,000 p.m. dearness allowance Rs. 6,000 p.m. employer has paid children education allowance Rs. 700 p.m. per child w.e.f. 01.09.2009 and hostel allowance of Rs. 1,000 p.m. for one child w.e.f. 01.10.2009.

Employer has paid transport allowance Rs. 900 p.m. w.e.f. 01.11.2009. Employer has paid house rent allowance of Rs. 5,000 p.m. w.e.f. 01.01.2010.

The employee has resigned from 01.02.2010 and has taken up a new job w.e.f. 01.03.2010. He is getting basic pay Rs. 27,000 p.m. and house rent allowance Rs. 4,000 p.m. Compute his tax liability for the assessment year 2010-11. (10 Marks)

4. Ramesh has a property whose municipal valuation is Rs. 2,40,000 p.a. The fair rent is Rs. 2,00,000 p.a. and the standard rent fixed by the Rent Control Act is Rs. 2,10,000 p.a. The Property was let out for a rent of Rs. 20,000 p.m. however, the tenant vacated the property on 31.01.2010. Unrealized rent was Rs. 20,000 and all conditions prescribed by Rule 4 are satisfied.

He paid municipal taxes @ 10% of municipal valuation. Interest on borrowed capital was Rs. 6,500 for the year.

Compute the income from house property of Ramesh for assessment year 2010-11. (10 Marks)

5. Dr. Karan furnishes you the following information:
Income and Expenditure account for the year ended 31st March 2010.

Expenditure	Amount (Rs.)	Income	Amount (Rs.)
To Medicines Consumed	225000	By Fee Receipts	849500
To Staff Salary	155000	By Rent	29000
To Hospital Consumables	48500	By Dividend from Indian Companies	15000
To Rent paid	60000		

To Administrative Expenses	128000		
To Net Income	250000		
	893500		893500

- (i) Rent paid includes rent for his residential accommodation of Rs. 38,000 (paid in cash).
- (ii) Hospital equipments (eligible for depreciation @15%)
01.04.2009 opening written down value Rs. 5,50,000
07.12.2009 acquired (cost), put to use on the same date Rs. 2,50,000
- (iii) Medicines consumed include medicines 8cost) Rs. 12000 used for Dr. Karan's family.
- (iv) Rent received-relates to a property situated at Mysore. The municipal tax of Rs. 3500 paid in December 2009 has been included in the administrative expenses.
- (v) He received Rs. 6000 per month as salary from 'full cure hospital'. This has not been included in the fee receipts credited to income and expenditure account.

Compute Dr. Karan's taxable income for the year ended 31.03.2010 and also his tax liability (10 Marks)

- 6 Calculate tax liability for the Assessment Year 2010-11.
Mr. Lamba, a resident individual, retires from C Ltd. Delhi w.e.f. 1st February 2010 after 25 years of service.
He joined T Ltd. On the same day i.e. 1st February 2010.

The following information is provided by him about his incomes/outgoing during the previous year 2009-10.

- a) Salary/allowances/perquisites/other payment from 01.04.2009 to 31.01.2010 from C Ltd.

	Rs	
Basic salary	12000	pm
Dearness allowance (one-half includible for superannuation benefits)	3000	pm
Commission, 5% on turnover achieved by him	6000	
House accommodation, rent paid by company	5000	pm
Best suggestion award for total quality management scheme (in kind)	12000	
Lunch facility (cost per meal is upto Rs. 50/-)	500	pm
Gratuity under Gratuity Act, 1972	335000	
Pension	3000	pm
Committed value of one-half pension w.e.f. 01.02.2010	225000	
Refund of employer contribution from unrecognized provident fund (including interest of Rs. 1,00,000)	250000	
Refund of employee contribution from unrecognized provident fund (including interest of Rs. 1,00,000)	250000	

b) Salary allowances perquisites etc. From 01.02.2010 to 31.03.2010 from Ltd.

	Rs	
	8000	pm
HRA	1500	pm
Free use of motor car (exceeding 1.6 ltr engine capacity) (expenses met by employer)		
Rent paid by assessee	2000	pm

You are required to compute his income under the head salary and tax liability for the assessment year 2010 – 11.

(15 Marks)

7. Mr. X let out one building on rent to a bank for ATM purpose on 01.04.2006 @ Rs. 2,20,000 p.m. The services have become taxable w.e.f 1st May 2006. Mr. X has received rent in advance on the 1st of every month. Mr. X is not rendering any other services. The rent was increased w.e.f. 1st December 2009 to Rs. 250000 p.m.

Rent for the month of April and May 2010 was received in advance on 25th March 2010. Amount of rent is inclusive of service tax.

Compute service tax liability of Mr. X for the financial year 2009-10 and also determine the date upto which service tax should be paid.

(9 Marks)

8. Mr. X is a Chartered Accountant who is liable to pay service tax has submitted the particulars as given below.
- Rendered services in May 2009 and issued bill for Rs. 150000 inclusive of service tax (out of which Rs. 85000 was received by a cheque on 10th August 2009 and balance on 3rd March 2010.
 - Rendered services in the month of June 2009 in connection with scrutiny assessment and a bill of Rs. 95000 was issued.
 - Rendered free services in July 2009 (market value Rs. 45000)
 - Represented one client in the court of commissioner (appeals) in September 2009 and a bill of Rs. 125000 was issued and payment was received on 3rd October 2009.
 - Rendered services to different clients in the month of January 2010 and bills of Rs.850000 was issued inclusive of service tax but only Rs.675000 was received in the same month in full and final settlement.
 - Received Rs. 90000 in advance in March 2010 for services to be rendered in April 2010.

Compute amount of service tax payable for each quarter and also the last date upto which tax should be paid for the financial year 2009-10.

(8 Marks)

9. Mr. X is rendering certain services which are exempt from service tax but the services have become taxable w.e.f. 01.07.2009 and he has received Rs. 3,00,000 upto 30.06.2009.

He has received Rs. 18,00,000 from 01.07.2009 to 31.03.2010. He has crossed limit of Rs.9,00,000 on 15.09.2009.

He has crossed limit of Rs. 10,00,000 on 10.12.2009 and he has received upto 31.12.2009 Rs.11,00,000. Balance payment of Rs. 7,00,000 was received from 01.01.2010 to 31.03.2010.

He has not collected any service tax from the client.

His expenses in connection with services are Rs. 6,00,000.

He has three houses which are let out @ Rs. 20,000 p.m. (each) w.e.f. 01.04.2009 and he has gifted one house to Mrs. X on 01.04.2009 and one house to minor son who is handicapped and it was gifted on 01.04.2009. Minor son's dependant on Mr. X and Mr. X is incurred Rs.10,000.

He has gifted one bank deposit to minor married daughter on 10.04.2009 and interest income is Rs. 70,000.

Compute service tax payable by him. Also compute income tax liability for assessment year 2010-11. (8 Marks)

10. Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of Rs. 450000 (including VAT) and earns 15% profit on sale to retailers? VAT rate on purchase and sale is 12.5%. (8 Marks)
11. Compute the VAT amount payable by Mr. A who purchases goods from a manufacturer on payment of Rs. 675000 (including VAT) and earns 25% profit on sale to retailers? VAT rate on purchase and sale is 12.5%. (8 Marks)
12. Mr. X is trader and he has purchased certain goods from Punjab for Rs. 400000 and has paid central sales tax @ 10%. He has sold all the goods in the state of Delhi for Rs. 600000 plus VAT @ 12.5%. He has purchased certain goods in Delhi for Rs. 500000 and paid VAT @ 12.5% and all the goods were sold by him under inter state sale to some person in U.P. for Rs. 700000 plus central saels tax @ 12.5%. Show VAT calculations. (9 Marks)

PRIME ACADEMY
30TH SESSION MODEL EXAM – INCOME TAX & SERVICE TAX & VAT
SUGGESTED ANSWERS

1. An Indian company is shall always be considered to be resident in India.
2. Foreign company shall be resident in India only if its control and management is wholly in India. Hence Afcon Infrastructure Ltd. Is resident company.

3. Tax Liability for X

Basic Pay ((18,000 x 10) + (27,000 x 1))	2,07,000
Dearness Allowance (Rs. 6,000 x 10)	60,000
House Rent Allowance (See 10(13A) Rule 2A)	9,000

Working Note

For January

Least of the following is exempt

1. Rs. 5,000
2. Nil
3. 40% of retirement benefit salary = Rs. 7,200
 (retirement benefit salary = Rs. 18,000
 Received = Rs. 5,000
 Exempt = Nil
 Taxable = Rs. 5,000

For March

4. Rs. 4,000
5. Nil
6. 40% of retirement benefit salary = Rs. 10,800
 (Retirement benefit salary = Rs. 27,000
 Received = Rs. 4,000
 Exempt = Nil
 Taxable = Rs. 4,000

Total taxable (Rs. 5000+ Rs. 4000)

Children Education allowance (see 10(14) Rule 2BB) 3,000

Working note

Received = Rs. 700 x 5 x 1	3,500
Exempt = Rs. 100 x 5 x 1	500
Taxable	3,000

Hostel Allowance (see 10(14) Rule 2BB) 2,800

Received = Rs. 1000 x 4 x 1	4,000
Exempt = Rs. 300 x 4 x 1	1,200
Taxable	2,800

Transport Allowance (see 10(14) Rule 2BB) 300

Received = Rs. 900 x 3	2,700
Exempt = Rs. 800 x 3	2,400
Taxable	300

Gross salary	2,82,100
Gross Total Income	2,82,100
Less: Deduction under sec. 80C to 80U	Nil
Total Income	2,82,100
Computation of Tax liability	
Tax on Rs. 2,82,100 at slab rate	12,210
Add: Education cess @ 2%	244
Add: SHEC @ 1%	122
Tax liability	12,576
Rounded off u/s 288B	12,580

4. Computation of Income from house property of Ramesh for AY 2010-11.

Gross Annual Value 1,80,000

Working note

- Fair Rent
- Municipal valuation
- Higher of a) or b)
- Standard rent
- Expected rent (lower of c) or d)
- Rent receivable (Rs. 20000 x 10)-20000

In this case, if there was no vacancy, rent received/receivable
Would have been Rs. 2,20,000/- hence rent received/receivable is
Lower in this case due to vacancy, therefore GAV shall be the rent
Received/receivable
GAV - Rs. 1,80,000

Less: Municipal taxes	24,000
Net Annual Value	1,56,000
Less: 30% of NAV as per Sec 24(a)	46,800
Less: Interest on capital borrowed u/s 24(b)	6,500
Income under the head house property	1,02,700

5. Computation of Income of Dr. Karan Rs.

Net profit as per Profit and loss account	250000
Add: Inadmissible expenses	
Rent for residential accommodation	38000
Medicines for personal use	12000
Municipal taxes	3500
Less:	
Depreciation on hospital equipment	101250

Working note

Depreciation on Rs. 550000 @ 15%	82,500
Depreciation on Rs. 250000 @ 7.5%	18,750
Rent from house property	29000
Dividend from Indian Company	15000
Income under the head business or profession	158250
Income from salary (6000 x 12)	72000
Gross salary & Income from Salary	72000
Income from house property	
Gross Annual value	29000
Less: Municipal taxes	3500
Net annual value	25500
Less: 30% of NAV u/s 24(a)	7650
Less: Interest on capital borrowed	Nil
Income under the head house property	17850
Income under the head other resources	
Dividend from Indian company [exempt u/s 10(34)]	Nil
Gross total Income	248100
Less: Deduction under section 80C to U	Nil
Total income	248100
Computation of tax liability	
Tax on Rs. 248100 at slab rate	8810
Add: education cess @ 2%	176
Add: SHEC @1%	88
Tax liability rounded off under section 288B	9070

6.	Rs.
Computation of income under the head Salary in C Ltd.	
Basic pay (Rs. 12000 x 10)	120000
DA (3000 x 10)	30000
Commission	6000
Rent Free Accommodation - See section 17(2)(I)	21150
Working Note	
15% of rent free accommodation salary or rent paid whichever is less	
Rent free accommodation salary	
Basic pay + DA + commission	
Rs. 120000 + 15000 + 60000 = 141000	
15% of rent free accommodation salary Rs. 21150	
Rent paid = 5000 x 10 = 50000	
Perquisite value of rent free accommodation 21150	
Best suggestion award (Gift)	7000
Lunch Facility	0
Gratuity (Section 10(10))	118654

Working Note

Least of the following is exempt

1. Rs. 3,35,000

2. Rs. 3,50,000

3. $15/26 \times 25 \times 15000 = 216346,15$

Taxable 118,653,35

Uncommuted pension - Section 17(1)(ii) (Rs.3,000x50%x2) 3000

Commuted pension - Section 10 (10A) 75000

Working note

Received Rs. 2,25,000

Exempt = $1/3 \times 4,50,000 = \text{Rs. } 1,50,000$

Taxable = Rs. 75,000

Refund of employer's contribution (including interest) 250000

In T Ltd.

Basic salary (Rs. 8,000 x2) 16000

HRA - Section 10(13A) 600

Working note

a) Rs. 3,000

b) Rs. 4,000 - Rs. 1,600 = Rs. 2,400

c) 40% of retirement benefit salary = Rs. 6,400

(Retirement benefit salary = Rs. 16,000)

Received = Rs. 3,000

Exempt = Rs. 2,400

Taxable = Rs. 600

Motor car (Rs. 2,400 x 2) 4800

Gross salary 652204

Income under the head salary 652204

Income under the head other sources 100000

(interest on employee's contribution to unrecognized provident fund)

Gross Total Income 752204

Less: Deduction under section 80 C to 80 U Nil

Total Income (Rounded under section 288A) 752200

Computation of tax liability

Tax at slab rates 129660

Add: Education cess @ 2% 2 593

Add: SHEC @ 1% 1 297

Tax liability 133 550

Rounded off u/s 288B 133 550

7. Service tax liability Apr to June 2009 Rs. 61632 Due date 5th July 2009 July to Sep 2009 Rs. 61632 Due date 5th Oct 2009 Oct to Dec 2009 Rs. 64433 Due date 5th Jan 2010 Jan to Mar 2010 Rs. 116,727 Due date 31st March 2010.

8. Service tax liability April to June 2009 Nil July to Sep 2009 Rs. 7937 Due date 5th October 2009 Oct to Dec 2009 Nil Jan to March 2010 Rs. 77507 Due date 31st March 2010.

9. Service tax payable : April to June 2009 : Nil. July to Sep 2009 Nil; Oct to Dec 2009 Rs. 9338; Jan to Mar 2010 Rs. 65367; Tax liability Rs. 5,02,990.

10. Particulars	Rs.
Purchase price	450000
Less: Input tax (Rs. 450000 x 12.5% / 112.5 %)	(50000)
	400000
Add: Profit (400000 x 15%)	60000
Amount to be billed	460000
Add: VAT @ 12.5% - Output Tax	57500
Total Invoice value	517500

VAT Paid

Output Tax	57500
Less: Tax credit (12.5% of Rs. 400000) – input tax	(50000)
Net VAT	7500

11. Particulars	Rs.
Purchase price	675000
Less: Input tax (675000 x 12.5% / 112.5%)	(75000)
	600000
Add: Profit (Rs. 600000 x 25%)	150000
Amount to be billed	750000
Add: VAT @ 12.5% - Output tax	93750
Total invoice value	843750

VAT paid

Output tax	93750
Less: Tax credit (12.5% of Rs. 600000)	(75000)
Net VAT	18750

12. Computation of VAT payable:
Purchase from Punjab and sold in Delhi

Rs.

Purchase price	400000
Add: Central sales tax @ 10%	40000
	440000
Sale	600000
Add: Sales tax @ 12.5% - Output tax	75000
	675000

Purchase from Delhi and sold in U.P.

Rs.

Purchase price	500000
Add: Sales tax @ 12.5% - VAT credit	62500
	562500
Sale	700000
Add: Central sales tax @ 12.5% - output tax	87500
	787500
Total output tax (75000 + 87500)	162500
Less: VAT credit	62500
Net Tax	100000