INTERMEDIATE EXAMINATION

June 2012

I–P5(FAC)
Syllabus 2008

Financial Accounting

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Answer Question No. 1, *which is compulsory and* any five *questions from the rest.*

1. (a) From the four alternative answers given against each of the following cases, indicate the correct answer: 1×10=10

(i) Which of the following items is shown in the Income and Expenditure Account?
(A) Only items of capital nature
(B) Only items of revenue nature which are received during the year
(C) Only items of revenue nature pertaining to the period of accounts
(D) Both the items of capital and revenue nature

(ii) A heavy revenue expenditure, which helps to generate revenue over more than one accounting year is termed as
(A) Preliminary Expenditure
(B) Revenue Expenditure
(C) Prepaid Expenditure
(D) Deferred Revenue Expenditure

(iii) During the year ₹ 96,000 was Debited as salary in the Income Expenditure Account. There was outstanding on Salary Account at the beginning and at the end of the year were ₹ 12,000 and ₹ 15,000 respectively. The amount of salary paid shown in Receipt and Payments Account would be
(A) ₹ 84,000
(B) ₹ 81,000
(C) ₹ 93,000
(D) None of the above

(iv) Bank Reconciliation Statement is
(A) Ledger Account
(B) Part of Cash Book
(C) A separate statement
(D) A sub-division of Journal

(v) A firm employs ₹ 2,00,000 as Capital and the normal rate of return is 10%. If the firm makes an average profit of ₹ 30,000 per year, the value of Goodwill by considering it as the purchase of 3 years super profit will be :
(A) ₹ 25,000
(B) ₹ 20,000
(C) ₹ 30,000
(D) None of the above

(vi) The capital of a Company comprises of equity shares of ₹ 10 each amounting to ₹ 10 lakhs and 10% Preference Shares of ₹ 2 lakhs. Profit after tax for the year is ₹ 4 lakhs, Dividend declared is @ 25% and current market price of Equity Share is ₹ 80 each. The Price-earning ratio is
(A) 20 times
(B) 21·5 times
(C) 22·1 times
(D) None of the above

PE = MV. of eq / EPS
21.05

(vii) Goods are sent to the Branch at cost plus 25%. The loading on invoice price is
(A) 20%
(B) 25%
(C) 30%
(D) None of the above

(viii) Dual concept in accounting results in the following equation:
(A) Capital + Liability = Assets
(B) Revenue = Expenses
(C) Capital + Profit = Assets
(D) Total Assets = Total Liability

(ix) Under which of the following heads is claims against a Company not acknowledged as debts shown?
(A) Unsecured Loan
(B) Current Liability
(C) Current Assets
(D) Contingent Liability

(x) Which of the following will be the highest amount?
(A) Paid-up Capital
(B) Authorised Capital
(C) Subscribed Capital
(D) Reserve Capital

(b) State whether the following statements are TRUE (T) or FALSE (F): 1×5=5

(i) Excess of hire-purchase price over cash price is known as penalty imposed on hire purchaser by the vendor. F

(ii) Every Banking Company incorporated in India is required to transfer at least 20% of its profit to Reserve Fund. F

(iii) One of the objectives achieved by providing depreciation is saving cash resources for future replacement of assets. T

(iv) As per concept of conservatism, the Accountant should provide for all possible losses but should not anticipate profit. T

(v) Wages incurred by departmental workers of a factory in installing a new machinery is a revenue expenditure. F

(c) Fill in the blanks in the following sentences by using the more appropriate word(s) from the alternatives shown in bracket: 1×5=5

(i) When there is no agreement among the partners, the profit or loss of the firm will be shared in their equally (capital ratio/equally).

(ii) In Hire Purchase transaction the right to sell or transfer of the goods remains with ________ (Seller/ Hirer).

(iii) As per the going concern concept, the enterprise should continue to exist ________ (in the foreseeable future/for limited period of time).

(iv) Inauguration expenses on opening of a new Branch of an existing business will be ________ (capital/revenue) expenditure.

(v) Trial Balance would not disclose ________ (error of omission/ommission of posting).

(d) Match the following: 1×5=5

(i) AS-3 Cash flow	(A) Accounting for Government grants
(ii) AS-20 EPS	(B) Segmental Reporting
(iii) Garner Vs Murray Rule (D)	(C) Cash Flow Statement
(iv) AS-17 Segment	(D) Dissolution of Partnership
(v) AS-12 Govt. Grants	(E) Earning per Share
	(F) No matching statements found

2. (a) You are provided with the following information for AD Vita Ltd. for the year: 6

(i)	Net Profit before provision for income tax and Managerial remuneration, but after Depreciation	₹ 13,87,600
(ii)	Depreciation provided in the Books	+ ₹ 4,15,000
(iii)	Depreciation allowable under Schedule XIV	− ₹ 3,09,000

1493600.

You are required to claculate the Managerial remuneration

(i) when there is only one whole-time Directors; 5% 74680

(ii) when there are two whole-time Directors; 10% → 149360

(iii) when there are two whole-time Directors and one Manager. 10%

(b) X's accounting year ends on 30.06.2011 but actual stock was not taken till 08.07.2011 on which date it is valued at ₹ 29,700. The following additional information is available:

(i) Sales are entered in the sales book on the date of dispatch and returns inward entered in the credit note register on the day goods are received back.

(ii) Purchases are entered in the purchase book on the day invoices are received.

(iii) Sales from 01.07.2011 to 08.07.2011 are ₹ 34,400.

(iv) Purchases invoiced from 01.07.2011 to 08.07.2011 are ₹ 2,640, out of which goods of ₹ 240 was not received upto 08.07.2011.

(v) Invoices for goods purchased upto 30.06.2011 were of ₹ 2,000 of which goods worth ₹ 1,400 were received between 01.07.2011 to 08.07.2011.

(vi) Rate of G.P. 33·33% on cost.

Find out the value of stock on 30.06.2011. Not done 6

(c) Briefly describe the two types of accounting methods of Amalgamations as per AS-14. Not done 3

3. (a) Kailash took a mine on lease from Jagdish for five years at a royalty of ₹ 20 per tonne subject to a minimum rent of ₹ 80,000 per annum. Minimum rent paid in excess of actual royalties is recoverable throughout during the next three years succeeding the year in respect of which excess was paid. In the event of a strike, the minimum rent will be reduced proportionately in relation to time lost. The first year in respect of which the minimum rent was payable expired on 31st March, 2008. The excess paid in respect of the first year was ₹ 80,000 and in 5

Correct Ans — Patent Rights - Real. Drawings - Personal Purchase - Nominal Prepaid Insurance Donation

Bank Overdraft - Personal

respect of the second year ₹ 50,000. In the third year the actual royalties amounted to ₹ 1,15,000, in the fourth year ₹ 50,000 (in consequence of strike which lasted for 146 days) and in the fifth year ₹ 1,60,000 only.

Prepare the Royalty Account, Shortworkings Account and Jagdish's Account in the Ledger of Kailash. 8

Not done

(b) Classify the following accounts into Personal, Real and Nominal accounts: 3

(1) (i) Patent Rights a/c (ii) Drawing a/c (iii) Purchases a/c (iv) Prepaid Insurance a/c (v) Donation a/c (vi) Bank Overdraft a/c.

(c) Calculate Stock Turnover Ratio in the following cases: 8 times 2+2=4

(i) Opening Stock ₹ 87,000; Closing Stock ₹ 93,000; Sales ₹ 9,60,000; Gross Profit @ $33^{1}/_{3}\%$ on cost.

(ii) Credits Sales ₹ 15,00,000; Cash Sales @ 25% of Credit Sales; Gross Profit @ 25% on cost; Opening Stock ₹ 2,50,000; Closing Stock ₹ 7,50,000. 3 times.

4. (a) X and Y are partners in a firm sharing profit/loss in the ratio 5 : 3. They admit their Manager Z in the firm for ¼th share in profit, which would be not less than the remuneration received by him as Manager. As Manager, Z is entitled for a salary of ₹ 32,000 per quarter and a commission of 10% on the net profit after charging such salary and commission. If the profit of the firm for the year ended 31st March, 2012 amounted to ₹ 4,80,000, show the distribution of firm's profit among the partners. not done 5

(b) Oxford Library Society showed the following position on 31st March, 2011:

(8)

Balance Sheet as on 31st March, 2011

Liabilities	₹	*Assets*	₹
Capital fund	7,93,000	Electrical fittings	1,50,000
Expenses payable	7,000 – paid	Furniture	50,000
		Books	4,00,000
		Investments in securities	1,50,000
		Cash at bank	25,000
		Cash in hand	25,000
	8,00,000		8,00,000

The Receipts and Payment Account for the year ended on 31st March, 2012 is given below:

Receipts		₹	*Payments*	₹
To Balance b/d			By Electric charges	7,200
Cash at bank	25,000		By Postage and stationery	5,000
Cash in hand	25,000	50,000	By Telephone charges	5,000
To Entrance fees 7510		30,000	By Books purchased (April, 2011)	60,000
To Membership subscription		2,00,000	By Outstanding expenses paid	7,000
To sale proceeds of old papers		1,500	By Rent	88,000
To hire of Lecture Hall		20,000	By Investment in securities	40,000
To interest on securities		8,000	By Salaries	66,000
			By Balance c/d	
			Cash at bank	20,000
			Cash in hand	11,300
		3,09,500		3,09,500

Deprech 16700

Nominal - Dr all expenses Cr all income.
Personal - Dr the receiver Cr the giver
Real - Dr what comes in Cr what goes out

You are required to prepare Income and Expenditure Account for the year ended 31st March, 2012 and a Balance Sheet as at 31st March, 2012 after making the followng adjustments:

Membership subscription included ₹ 10,000 received in advance.

Provide for outstanding rent ₹ 4,000 and salaries Rs. 3,000.

Books to be depreciated @ 10% including additions. Electrical fittings and furniture are also to be depreciated at the same rate.

75% of the entrance fees is to be capitalized.

Interest on securities is to be calculated @ ₹ 5% p.a. including purchases made on 01.10.2011 for ₹ 40,000.

10

5. (a) Ram, Rahim and Robert are partners of the firm ABC & Co-sharing profits and losses in the ratio of 5 : 3 : 2. The Balance Sheet of the firm as on 01.4.2012 is given below:

Liabilities	₹	*Assets*	₹
Partners Capital:		Goodwill	50,000
Ram	3,00,000	Machinery	4,55,000
Rahim	2,50,000	Furniture	10,000
Robert	2,00,000	Stock	2,00,000
General Reserve	1,05,000	Debtors	3,00,000
Loan	95,000	Cash & Bank	35,000
Sundry Creditors	1,00,000		
	10,50,000		10,50,000

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly. Ram took over goodwill for ₹ 75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value. Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

Refi 61500.

Prepare (i) Realisation Account;

(ii) Partners Capital Account; and

(iii) Cash Account of the firm to show the dissolution proceedings. 10

(b) You are provided with the following figures from the Financial Reports and Balance Sheet of Narhari Co. Ltd. as at 31st March, 2012:

	₹
Stock	30,000
Sundry Debtors	8,000
Investments	4,000
Cash and Bank Balances	8,000
Fixed Assets	36,000
Sundry Creditors	10,000
Bank Overdraft	3,000
Current Year Taxation	2,000

You are required to calculate

(i) Current Ratio; (ii) Quick Ratio and also give your comments. 5

46:13 8:5

Please Turn Over

6. (a) Purchases made by a business concern having three departments were: P-1,500 units; Q-3,000 units and R-3,600 units at a total cost of ₹ 6,00,000. The sales made were P-1,530 units at the rate of ₹ 160 per unit; Q-2,880 units at the rate of ₹ 180 per unit and R-3,744 units at the rate of ₹ 200 per unit. The closing stocks were: P-150 units; Q-240 units and R-9 units.

Prepare Departmental Trading Account assuming that the rate of gross profit on sales is the same in each case. 8

(b) Show what journal entries would be passed by the Jaipur Head Office to record the following transactions in their Books on 31st March, 2012, the closing date:

(i) A remittance of ₹ 35,000 made by Sikar Branch to Head Office on 29th March, 2012 and received by the Head Office on 5th April, 2012.

(ii) Goods of ₹ 63,000 sent by the Head Office to the Bikaner Branch on 28th March, 2012 and received by the later on 4th April, 2012.

(iii) Sikar Branch paid ₹ 30,000 as salary to a visiting Head Office Official. 3

(c) What are the various steps followed in analysis through accounting ratios? 4

7. (a) Ashok Ltd. furnishes you with the following Balance Sheet as at 31st March, 2012:

(₹ in crores)

Sources of Funds		
Share Capital:		
Authorised		100
Issued:		
12% redeemable preference shares of Rs. 100 each fully paid	75	
Equity shares of Rs. 10 each fully paid	25	100
Reserves and surplus:		
Capital reserve	15	
Securities Premium	25	
Revenue reserves	260	300
		400
Application of Funds		
Fixed Assets : cost	100	
Less : Provision for depreciation	(100)	Nil
Investments at cost (Market value Rs. 400 cr.)	100	
Current Assets	340	
Less : Current Liabilities	(40)	300
		400

The company redeemed preference shares on 1st April, 2012. It also bought back 50 lakh equity shares of ₹ 10 each at ₹ 50 per share. The payments for the above were made out of the huge bank balances, which appeared as a part of current assets.

You are required to

(i) Pass Journal entries to record the above;

(ii) Prepare Balance Sheet as at 01.04.2012. 10

Policyholder's + interim Bonus.

(b) The Life Insurance Fund of Bharat Life Insurance Co. Ltd. was ₹ 50 lakhs on 31.03.2012. Its acturial valuation on 31.03.2012 disclosed a net liability of ₹ 42.50 lakhs. An interim bonus of ₹ 80,000 was paid to the policy holders during previous two years. It is now proposes to carry forward ₹ 150,000 and to divide the balance between policy holders and the shareholders. 95 : 5

Show the (a) Valuation Balance Sheet; (b) Net profit for the two-year period; and (c) Distribution of profits. 5

8. Write short notes on *any three*: 3×5=15

(a) Surrender value of policy;

(b) Accounting for construction contract (AS-7);

(c) Objectives of Financial Statements;

(d) Liquidity norms of Banking Companies;

(e) Profit prior to Incorporation.

8

INTERMEDIATE EXAMINATION

June 2012

I–P7(ADT)
Syllabus 2008

Applied Direct Taxation

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.

Answer Question No. 1 *which is compulsory and* any five questions *from the rest.*

Wherever necessary, suitable assumptions may be made by the candidate and state clearly in the answer.

Working notes should form part of the answer.

1. (a) Choose the correct alternative: 1×13

(i) The basic exemption limit for a non-resident woman above the age of 60 years for the assessment year 2012-13 is
(a) Rs. 1,90,000 (b) Rs. 1,80,000 (c) Rs. 2,40,000 (d) Rs. 2,50,000

(ii) When a person retires from a profession and receives any amount towards self-generated goodwill, it is
(a) Taxable as income from profession (b) Exempt income under section 10
(c) Not taxable since there is no cost of acquisition (d) Taxable as capital gain

(iii) Mr. Xavier received Rs. 2,00,000 from the prospective employer before joining duty in order to resign from the present employer. Subsequently, he joined the new employer. The amount received is
(a) Taxable as income from business (b) Taxable as salary income
(c) Exempt from tax u/s 10 (d) Exempt being capital receipt

(iv) Jain introduced his motor car costing Rs. 3,00,000 acquired in April, 2009 into the business newly commenced by him from 01.04.2011. The actual cost of car for the purpose of depreciation would be
(a) Rs. 3,00,000 (b) Rs. 2,16,750 (c) 1,50,000 (d) Rs. 'Nil' not eligible for depreciation

(v) For non-Government employee governed by Payment of Gratuity Act, 1972, the monetary limit for exemption is
(a) Rs. 5,00,000 (b) Rs. 3,50,000 (c) Rs. 10,00,000 (d) Limitless

(vi) Unrealised rent of Rs. 50,000 was received in June, 2011. The property was sold before April, 2011. How much of unrealized rent is taxable?
(a) Rs. 50,000 (b) Rs. 35,000 (c) Rs. 30,000 (d) Not taxable

(vii) A registered charitable trust meant for educational purpose has annual aggregate receipt of Rs. 80,00,000. Its income after expenses is Rs. 20,00,000. The income liable to income-tax would be
(a) Rs. 80,00,000 (b) Rs. 60,00,000 (c) 'Nil' (d) Rs. 30,00,000

(viii) Pravin received Rs. 1,000 per month as transport allowance. The amount eligible for exemption would be
(a) Rs. 1,000 p.m. (b) Rs. 200 p.m. (c) Rs. 800 p.m. (d) Rs. 'Nil' fully taxable

(ix) Jayant working in a college received Rs. 2,000 per month as research allowance for pursuing research. The taxable portion of allowance would be
(a) Rs. 2,000 p.m. (b) Rs. 'Nil' (c) Rs. 1,000 p.m. (d) Rs. 'Nil' fully exempt

(x) Pankaj was provided accommodation in a hotel by the employer for 10 days consequent to his transfer from Mumbai to Kolkata. The cost of accommodation was Rs. 30,000 to the employer. The value of perquisite is
(a) Rs. 'Nil' (b) Rs. 30,000 (c) Rs. 15,000 (d) Rs. 20,000

not eligible

(xi) A & Co., a partnership firm, contributed Rs. 1,00,000 towards family planning programme among the employees. The amount eligible for deduction would be
(a) Rs. 1,00,000 (b) Rs. 20,000 (c) Rs. 1,50,000 (d) Rs. 'Nil' not eligible for deduction

(xii) A sum of Rs. 50,000 was written off as bad debt in the assessment year 2008-09 and was disallowed. During financial year 2011-12 Rs. 20,000 was recovered. Out of the recovery how much is taxable?
(a) Rs. 20,000 (b) Rs. Nil (c) Rs. 30,000 (d) Rs. 70,000

(xiii) Pon Ltd. incurred Rs. 35,00,000 towards voluntary retirement compensation paid to its employees in the financial year 2011-12. How much is deductible for the assessment year 2012-13 out of the said payment?
(a) Rs. 7,00,000 (b) Rs. 5,00,000 (c) Rs. 35,00,000 (d) Rs. 3,50,000

(b) Fill up the blanks: 1×12

(i) Salary expenditure not recorded in the books is taxable as unexplained expenditure and at the same time it is __________ (deductible/not deductible) for computing total income as per section 69C.

(ii) Amount received under keyman insurance policy including bonus thereon is __________ (income/exempted income) under the Incom-tax Act, 1961.

(iii) Income of minor child when subjected to clubbing, a sum of Rs. 1500 is exempt.

(iv) Deposit in public provident fund in the name of minor child is __________ (deductible/not deductible) under section 80C in the hands of contributing parent.

(v) An individual can avail the benefit of exemption in respect of leave travel concession offered by his employer twice in a block of four years.

(vi) The maximum amount of exemption in respect of encashment of earned leave is Rs. 350,000. 300,000

(vii) A charge created consequent to the decree of a Court of law is __________ (application/diversion) of income.

(viii) Amount recovered by an employer from the employees towards the latter's share of provident fund contribution is __________ (income/not an income) of the assessee-employer.

(ix) Loss from non-speculation business __________ (can/cannot) be set off against profits derived from speculation business.

(x) Salary foregone is __________ (taxable/not taxable) in computing the income from salaries in the hands of the concerned employee.

(xi) The monetary ceiling limit for exemption for gratuity received w.e.f. 21.05.2011 under the Payment of Gratuity Act, 1972 is Rs. __________.

(xii) Fixed medical allowance of Rs. 2,000 per month paid by an employer is taxable (taxable/exempt) in the hands of the employee.

2. (a) Following details are furnished by Mr. Appaji for the year ended 31.03.2012:

		Rs.
(i)	Profit on sale of shares in Indian company, sold in India but proceeds received in France	30,000
(ii)	Dividend from a Korean company received in France	50,000
(iii)	Rent from property in Sri Lanka deposited in Sri Lanka but later remitted to India through approved banking channel—Gross	1,00,000
(iv)	Dividend from ABC (P) Ltd. Exempt	20,000
(v)	Income from nursery in Gujarat	40,000

Compute the total income of Mr. Appaji if he is
(i) Resident and ordinarily resident; 220,000
(ii) Resident but not ordinarily resident; 70,000
(iii) Non-resident. 70,000 9

exempt

(1) (b) Ms. Monisha, a Sikkimese woman, married Mr. Atul of Surat in June, 2006. She has income from let out property at Sikkim being Rs. 10,000 per month. She is employed in a bank at Surat and her salary income for the year ended 31.03.2012 was computed at Rs. 3,12,000. Determine her total income. (312000 + 84000)
What would be your answer if she got married on 30th June, 2010? 396000 4

(c) Is any income of Khadi and Village Industries Board exempt from tax? If not, state taxable and exempted items of income. not done 2

3. (a) State how the residential status of a company is determined under the Income-tax Act, 1961. 3

(b) Mr. Rajan doing business, donated Rs. 50,000 to Madras University on 10.01.2012, to be used for scientific research programme approved by Principal Scientific Advisor to the Government of India.

(1½)

(i) How much of such donation is deductible in computing business income of Mr. Rajan for the assessment year 2012-13? 125% – 62500

(ii) If Mr. Rajan was an employee having only salary income, what would be your answer? 3
100% – 50,000

(c) Mr. David is employed in Vertex Co. Ltd., Mumbai. His salary details for the financial year 2011-12 are given below:

(i) Basic salary Rs. 70,000 per month;

(ii) Dearness allowance 50% of basic salary (Eligible for retirement benefits);

(iii) House rent allowance Rs. 10,000 per month (Rent paid by employee Rs. 15,000 per month);

(4)

(iv) Bonus Rs. 30,000 per annum;

(v) Both David and his employer contribute Rs. 15,000 each per month towards pension scheme notified in section 80 CCD. HRA – (exempt – 54000

Calculate the total income of Mr. David for the assessment year 2012-13. 1176-000

Determine the amount of contribution to the pension scheme eligible for deduction in the hands of employer.
↳ 15000×12 = 180,000 9

4. (a) Under what head of income is family pension assessed? Is any deduction available for such amount received? 3

(b) State the due dates for filing of return of income under section 139(1) of the Income-tax Act, 1961 in the following cases, for the assessment year 2012-13:

(i) By a non-working partner of a LLP, whose accounts are required to be audited under section 44AB;

(ii) By a company which has entered into international transactions with a non-resident and is required to file audit report in this regard;

(iii) By a University whose gross fee receipts are Rs. 3 crores. 3

(c) Write a brief note on the valuation of self-occupied house property for the purposes of the Wealth-tax Act, 1957. 4

(d) The following are the income details of Padmaja Textiles LLP, for the assessment year 2012-13:

	Rs.
Book profits of the LLP (before considering interest and remuneration to partners)	15,00,000
Interest to partners at 15%	2,10,000
Remuneration to working partners as per books	4,50,000
Permissible deduction u/s 80-ID	6,20,000

Compute the tax payable by the LLP for the assessment year 2012-13. 5

5. (a) Vaibhav Solvents Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the setting up of a new industrial unit:

	Rs.
Preparation of project report Rel	4,00,000
Feasibility report expenses Rel	6,00,000
Expenses for raising additional capital required for the new unit ÷5	3,00,000
The following additional data are given:	
Factory construction cost	12,00,000
Cost of project	40,00,000
Capital employed in the new unit	30,00,000

Lower (Actual Prl. Exp or 5% of COP/COE Higher)

(5)

Compute the deduction admissible to the company under section 35D of the Income-tax Act, 1961 for the assessment year 2012-13. 48,000 5

(3)

(b) State the conditions to be fulfilled for claiming deduction of unrealized rent while computing the income from house property. 5

(c) A domestic company derives the following income for the year ended 31.3.2012: 8.

Income from business	Rs. 90 lakhs
Chargeable long-term capital gains from sale fo vacant site	Rs. 30 lakhs

Compute the total income and tax payable by the company for the assessment year 2012-13. Ignore MAT provisions. 3399,000 tax TI = 120,00,000 5

6. (a) What are the circumstances the Assessing Officer may refer the valuation of the capital asset to the Valuation Officer under section 55A of the Income-tax Act, 1961? 5

(b) Mr. Ram, the kartha of a Hindu Undivided Family (HUF) invested family funds of Rs. 5 lakhs in the shares of Hanumaan Couriers P. Ltd. He was appointed as the Managing Director of the company and was paid a remuneration of Rs. 3.6 lakhs for the year ended 31.3.2012. Discuss whether the said remuneration will be assessed in the individual hands of Mr. Ram or in the hands of the HUF, for the assessment year 2012-13. 4

(c) R Ltd., which had taken up a building on lease, sub-leased the building along with the Furniture to T Ltd. on 01.04.2009. The monthly lease rent is Rs. 10,000 for building and Rs. 4,000 for furniture upto 31.03.2011 and 50% increase in each, for the year ended 31.03.2012. The entire amount was in arrears and only on 31.03.2012, the whole of the lease amount was paid by T Ltd. to R Ltd.

Discuss the obligation of T Ltd. to deduct tax at source from the above payment. What is the rate of TDS and the amount of tax to be deducted? When should this TDS amount be remitted? 6

(1) 7. (a) Explain the tax treatment for set off and carry forward of loss from house property. 8 year c/f allowed 5

(b) Dinesh having a proprietary concern by name 'Dinesh Jewellers' has the following assets and iiabilities as on 31.03.2012:

(10)

Assets	Rs. in lakhs
Plot of land (600 sq. mts) at Indore on which a building has been constructed without the approval of appropriate authority	30
Building constructed on the abovesaid land at Indore without the approval of the appropriate authority and used for his business purpose	40
Jewellery held as stock in trade	60
Gold jewellery meant for personal use brought into India from Malaysia, where he was residing, on his return to India on 1.11.2008 for permanently residing in India	10

	Rs. in lakhs
Motor car (WDV)—Rs. 5 lakhs, Market value	6
Interest in the coparcenary property of the Hindu Undivided Family of which he is a member	20
Cash in hand recorded in the books of account	2.5
Fixed deposits in a nationalised bank	8
Liabilities	
Loan borrowed for marriage of daughter	5
Loan borrowed for construction of building at Indore	8

The amounts stated against the assets, except cash in hand, are the values determined as per section 7 of the Wealth-tax Act, 1957 read with Schedule III thereto. 36,00,000

Compute the net wealth of Dinesh as on 31.03.2012. 10

8. (a) Mr. Arvind (aged 45 years) has total income of Rs. 7,80,000 for the previous year ended 31.03.2012. He has credit by way of tax deducted at source of Rs. 20,000. He paid advance tax of Rs. 20,000, Rs. 25,000 and Rs. 20,000 before 15th of September, December and March during the financial year 2011-12.

Assume he would be filing his return of income on 31.10.2012 after paying self assessment tax, compute interest payable by him under sections 234B and 234C of the Incom-tax Act, 1961. not done 7

(b) Compute total income of Mr. Malik for the assessment year 2012-13 from the following particulars: 8

	Rs.
Income from house property (computed)	(1,40,000)
Income from salary (computed)	4,60,000
Long-term capital gain from sale of vacant site (computed)	2,00,000
Business loss—computed (automobile business)	80,000 – 25000
Income from growing and manufacturing coffee (cured and roasted) 25% =	1,00,000 55000 c/f
Tuition fees for higher education pursued by Mrs. Malik	25,000
Tax saver deposit in the name of Mrs. Malik	10,000
Public provident fund deposit in the name of minor son Pervez	15,000

635000.

INTERMEDIATE EXAMINATION

June 2012

I–P6(CIA)
Syllabus 2008

Commercial and Industrial Laws and Auditing

Time Allowed: 3 Hours | Full Marks: 100

The figures in the margin on the right side indicate full marks.

Please: (i) *Answer all bits of a question at one place.*
(ii) *Open a new page for answer to a new question.*
(iii) *Attempt the required number of questions only.*

Answer Question No. 1 *and* Question No. 5 *which are compulsory and attempt* any two *from the rest in* Section I *and* any two *from the rest in* Section II.

Section I (50 Marks)

(Commercial and Industrial Laws)

1. Comment on the following based on legal provisions (no marks for wrong reasons or justification): 2×7
   (a) Mr. A. Bose contracts with Mr. B. Ghosh to deliver to him 300 kgs Rice before 31.05.2012. Mr. Bose delivered 200 kgs by 31.05.2012. Mr. Ghosh refused to pay due to non-performance.
   (b) Remaining silent with respect to the known defects is fraudulent.
   (c) There are in total two parties to a Promissory Note.
   (d) Any child can be employed in a factory.
   (e) ABC Ltd. who incurred heavy loss during 2011-12 has not paid Bonus to any of its employees.
   (f) Works Manager has deducted INR 500 from wages towards the cost of tools and raw materials supplied to workers for purpose of employment (Payment of Wages Act).
   (g) Mr. A being an agent of Mr. P (who is owner of land) agrees for money to obtain for Mr. B a lease of P's land but without the knowledge of 'P'. Discuss the validity of this agreement.

2. (a) Orders once passed by the Competition Commission of India cannot be reviewed. Do you agree? 2
   (b) Saxena lets to Mr. Menon for hire a horse for his own riding but Mr. Menon drives the horse in his carriage. What action saxena can take? 2
   (c) Mr. Malhotra aged 50 years joined the P.F. Scheme on 01.01.2003. He decided to leave the service w.e.f. 01.07.2012 provided he gets Pension under E.P.F. Scheme. Advice based on Rules. 2
   (d) Arun entered into a contract with Barun to let out the house under construction and received advance of INR 2 lakhs. The house was, however, requisitioned by Government and, therefore, Arun failed to honour the contract. Can Barun recover damages for breach of contract? Advice. 2
   (e) As per order, Mr. Malhotra sent some goods to Mr. Paul at Kolkata through Rail. The Station Superintendent of Howrah Station informed Mr. Paul that goods are held at the Station at Paul's risk and cost. In the mean time, Mr. Paul became insolvent. Mr. Malhotra wants to enforce right as an unpaid seller. Advice. 2
   (f) Ashim Sells 1600 kgs of wheat out of large quantity lying in his godown forwarded to Bablu. Out of these, Bablu sells 600 kgs to Chandan (wheat yet to be ascertained). Then Chandan forwarded the delivery order signed by Bablu to Ashim who confirmed that wheat would be despatched in due course. Bablu then becomes insolvent. Ashim refused to deliver to Chandan. Advice Chandan based on rules. 3

Please Turn Over

(g) Under Rights to Information Act if life or liberty of any person is involved, the Public Information Officer expected to reply within one month. Give correct period if this is wrong. 48 hrs 2

(h) Mr. Batliboi bought 50 kgs of potato against cash payment from Mr. Joshi under a Contract of Sale but half of consignment was rotten and Mr. Joshi refused to change the rotton potato nor refunded the value. Advice Mr. Batliboi. 3

3. (a) Fill in the blanks: 1×4

(i) Drinking water shall be provided at suitable points which shall not be situated within ________ metres of any washing place/urinal.

(ii) In every factory wherein more than ________ workers are ordinarily employed, cooling drinking water during hot weather shall be provided.

(iii) No person shall spit except in the spittons provided for in factory and whoever spits in contravention shall be punishable with fine of INR. ________.

(iv) In every factory wherein ________ workers are ordinarily employed, Welfare Officer as may be prescribed shall be employed.

(b) A seller may deliver goods to a carrier with a right of disposal. Comment. 2

(c) Jayanta, the owner of a car handovers the car with key to Partha (the mercantile agent) to sell the car at a price not below INR 1,00,000. Partha (the agent) sold at INR 90,000 to Amitava, who buys in good faith and without notice of reserve price/or any fraud. Partha misappropriated the money also. Jayanta filed a suit against Amitava to recover the car. Advice with reasons whether Jayanta can succeed. 3

(d) Arun seeing a watch in Barun's shop marked for sale for INR 1000 entered the shop, places INR 1000 on the counter and asks for the watch. Barun refused. Can Barun refuse to sell the watch? Give reasons. 2

(e) State the essentials of a valid contract. 5

(f) "Young persons" means a person who has completed 18 years of age (Factories Act, 1948). Do you agree? 2

4. (a) Write short notes on *any four*: 4×4

(i) Future Goods;

(ii) Counter Offer;

(iii) Protection of Gratuity;

(iv) Limited Liability Partnership;

(v) Industrial Disputes (I.D. Act, 1947).

(b) In the event of principal debtor being a minor, creditor cannot recover his money, from the surety–offer your views. 2

SECTION II (50 Marks)

(Auditing)

5. Comment on the following statements based on legal provisions (no mark for wrong reasons or justification): 2×7

(a) Development of the audit evidence is the basic to the understanding of the audit process.

(b) Verification of assets and liabilities is very important function.

(c) EDP audit has not changed the fundamental nature of auditing.

(d) Year end stock ready for exports are proposed to be valued at realisable value.

(e) Practicing Cost Accountant cannot be Internal Auditor as Internal Audit is related to financial accounting.

(f) Test checks may be applied to all transactions.

(g) Dividend has been declared out of profit on re-issue of forfeited shares.

6. (a) Newly formed ABC & Associates, Chartered Accountants have received offer from 25 Public Ltd. Companies having a Paid-up Capital of INR 10 lakh and 5 Private Companies with Paid-up Capital of INR 15 lakh each. All the offers have been accepted. Comment on validity. 4

(b) Accounts of Mumbai Branch was audited by a firm of Chartered Accountants of Mumbai. Even then the Company Auditor demanded to visit Mumbai Branch, Director (Finance) could not agree. Offer views. 2

(c) Internal Control and Internal Check are same.—Comment. 4

(d) What are the points an Auditor shall consider in I.T. Audit in respect of "Information Processing Facilities"? 2

(e) Managing Director of the Vintex Co. Ltd. opined that Management Audit is not useful and, therefore, there is no need of Management Audit.—State the circumstances if Management Audit is useful to the management. 2

(f) Explain what are expected under CARO regarding—

(i) Maintenance of Cost Records;

(ii) Financial Management. 2+2

7. (a) What are expected under CARO in respect of—

(i) Fraud;

(ii) Internal control on purchase of assets. 2+2

(b) Proposed dividend was not adjusted in the financial statement. Offer your views. 2

(c) How you will verify the machinery imported from Germany? 4

(d) In course of verification of production equipment, how you will verify the idle facilities? 4

(e) Auditor is concerned with "Desired Audit Risk" under computer information system, as such risk also help him in making a decision. Name with short description of such "Desired Audit Risk". 4

8. (a) After understanding the importance of system to reduce complexity, the nature of audit risk, the types of audit procedures etc. under computer information system, Auditor is to take steps for carrying out Audit.—Indicate the 'steps'. 4

(b) Following figures are given in respect of ABC Ltd.:

	Gross Profit	Sales
2010-11	12800	60000
2011-12	15200	74800

(i) Is there fall or rise in gross profit ratio?

(ii) What can cause if rise or fall in the gross profit ratio? 1+1

(c) One electric bill for INR 20000 for the month of March, 2011 was paid in the month of October, 2011 for which no provision was made in the Accounts for 2010-11. How you will solve this item in the Accounts of 2011-12? 2

(d) CMA Ltd. want to treat the heavy advertisement expense incurred for launching a new product as revenue expenditure. The product did not pick up and the sales were negligible. It is anticipated that no material benefit would accrue in future.—Offer your views. 2

(e) As an auditor of a company, how you will vouch the sales tax/VAT? 4

(f) Explain what is expected under CARO regarding "Disclosure of end use of money raised from Public Issue". 2

(g) Find out the difference between India GAAP and US GAAP in respect of "Investment in own shares". 2