

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : GROUP – I

PAPER – 1: ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

(Time allowed: Three hours)

(Maximum marks: 100)

1. (a) Hema Ltd. is in the business of manufacturing computers. During the year ended 31st March, 2015 the company manufactured 550 computers, it has the policy of valuing finished stock of goods at a standard cost of Rs. 1.8 lakhs per computer. The details of the cost are as under:

	(Rs. in lakhs)
Raw material consumed	400
Direct Labour	250
Variable production overheads	150
Fixed production overheads (including interest of Rs. 100 lakhs)	290

Compute the value of cost per computer for the purpose of closing stock and also comment on the policy of valuation of inventory adopted by Hema Ltd.

- (b) In the books of Optic Fiber Ltd., plant and machinery stood at Rs. 6,32,000 on 1.4.2014. However, on scrutiny it was found that machinery worth Rs. 1,20,000 was included in the purchases on

1.6.2014. On 30.6.2014 the company disposed a machine having book value of Rs. 1,89,000 on 1.4.2014 at Rs. 1,75,000 in part exchange of a new machine costing Rs. 2,56,000. The company charges depreciation @ 20% per annum WDV on plant and machinery.

You are required to calculate:

- (i) Depreciation to be charged to the Profit and Loss Account.
 - (ii) Loss on exchange of machinery.
- (c) Ascertain the value at which various items of Fixed Assets are to be shown in the Financial Statements of Velvet Ltd. and amount to be debited to the Profit and Loss Account in the context of the relevant Accounting Standard.

Narrations for the adjustments made should form part of the answer:

- (i) Balance of Office Equipment as on 01.04.2013 is Rs.1,20,000. On.1.04.2013, out of the above office equipment having book value Rs. 20,000 has been retired from use and held for disposal. The net realizable value of the same is Rs. 2,000. Rate of depreciation is 15% p.a. on WDV basis.
 - (ii) Book Value of Plant and Machinery as on 01.04.2013 was Rs. 7,20,000. On 01.08.2013 an item of machinery was purchased in exchange for 500 equity shares of face value Rs. 10. The Fair Market value of the equity shares on 01.08.2013 wasRs. 120. Rate of depreciation is 10% p.a. on WDV basis.
- (d) M/s Highway Constructions undertook the construction of a highway on 01.04.2013. The contract was to be completed in 2 years. The contract price was estimated at Rs. 150 crores. Up to 31.03.2014 the company incurred Rs. 120 crores on the construction. The engineers involved in the project estimated that a further Rs. 45 crores would be incurred for completing the work. What amount should be charged to revenue for the year 2013-14

as per the provisions of Accounting Standard 7 "Construction Contracts"?
(4 x 5 = 20 Marks)

2. Mr. Rajeev furnishes you with the following information relating to his business:

(a) Assets and liabilities as on	1.1.2014	31.12.2014
	Rs.	Rs.
Furniture (w.d.v)	6,000	6,350
Stock at cost	8,000	7,000
Sundry Debtors	16,000	?
Sundry Creditors	11,000	15,000
Prepaid expenses	600	700
Unpaid expenses	2,000	1,800
Cash in hand and at bank	1,200	625

- (b) Receipts and payments during 2014:

Collections from debtors, after allowing discount of Rs. 1,500 amounted to Rs. 58,500. Collections on discounting of bills of exchange, after deduction of discount of Rs. 125 by the bank, totalled to Rs. 6,125. Creditors of Rs. 40,000 were paid Rs. 39,200 in full settlement of their dues. Payment for freight inwards Rs. 3,000. Amount withdrawn for personal use Rs. 7,000. Payment for office furniture Rs. 1,000. Expenses including salaries paid Rs. 14,500. Miscellaneous receipts Rs. 500.

- (c) Bills of exchange drawn on and accepted by customers during the year amounted to Rs. 10,000. Of these, bills of exchange of Rs. 2,000 were endorsed in favour of creditors. An endorsed bill of exchange of Rs. 400 was dishonoured.
- (d) Difference in cash book, if any, is to be treated as further drawing or introduction by Mr. Rajeev.

- (e) Goods are invariably sold to show a gross profit of $33\frac{1}{3}\%$ on sales.

Mr. Rajeev asks you to prepare Trading and Profit and Loss A/c for the year ended 31st December, 2014 and the balance sheet as on that date. (16 Marks)

3. (a) Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2014. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2014:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
	_____	_____	Current assets	<u>1,63,500</u>	<u>1,58,600</u>
	<u>13,98,500</u>	<u>14,12,600</u>		<u>13,98,500</u>	<u>14,12,600</u>

Following is the additional information:

- (i) The authorised capital of the new company will be Rs. 25,00,000 divided into 1,00,000 equity shares of Rs. 25 each.
- (ii) Liabilities of Neel Ltd. includes Rs. 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.
- (iii) Neel Ltd. had purchased goods costing Rs. 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2014.
- (iv) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

- (v) The purchase consideration is to be discharged as under:
- (a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	Rs.	Rs.
1 st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

(c) Issue 12% preference shares of Rs. 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2014 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

- (i) equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
 - (ii) Purchase consideration.
- (b) Mr. 'Zoom' prepares accounts on 30th September each year, but on 31st December 2014 fire destroyed the greater part of his stock. Following information was collected from his books:

Particulars	Rs.
Stock as on 1.10.2014	59,400
Purchases from 1.10.2014 to 31.12.2014	1,50,000
Wages from 1.10.2014 to 31.12.2014	66,000
Sales from 1.10.2014 to 31.12.2014	2,80,000

The rate of Gross profit is $33\frac{1}{3}\%$ on sale value. There was salvaged stock of Rs. 6,000. Insurance policy was for Rs. 50,000 and claim was subject to average clause.

Additional Information:

- (i) Stock in the beginning was calculated at 10% less than cost
- (ii) A plant was installed by firm's own worker. He was paid Rs. 1,000 which was included in wages.
- (iii) Purchases include the purchase of plant for Rs. 10,000.

You are required to calculate the claim for loss of stock. (10 + 6 = 16 Marks)

4. On 31st March, 2014, the Balance Sheet of A, B and C sharing profits and losses in proportion to their Capital stood as below:

<i>Liabilities</i>	<i>`</i>	<i>Assets</i>	<i>`</i>
Capital Account:		Land and Building	60,000
Mr. A	40,000	Plant and Machinery	40,000
Mr. B	60,000	Inventory of goods	24,000
Mr. C	40,000	Sundry debtors	22,000
Sundry Creditors	<u>20,000</u>	Cash and Bank	<u>14,000</u>
	<u>1,60,000</u>	Balances	<u>1,60,000</u>

On 1st April, 2014, A desired to retire from the firm and remaining partners decided to carry on the business. It was agreed to revalue the assets and liabilities on that date on the following basis:

- (i) Land and Building be appreciated by 20%.
- (ii) Plant and Machinery be depreciated by 30%.
- (iii) Inventory of goods to be valued at ` 20,000.
- (iv) Old credit balances of Sundry creditors, ` 4,000 to be written back.
- (v) Provisions for bad debts should be provided at 5%.
- (vi) Joint life policy of the partners surrendered and cash obtained ` 15,100.
- (vii) Goodwill of the entire firm is valued at ` 28,000 and A's share of the goodwill is adjusted in the A/cs of B and C, who would share the future profits equally. No goodwill account being raised.

(viii) The total capital of the firm is to be the same as before retirement. Individual capital is in their profit sharing ratio.

(ix) Amount due to Mr. A is to be settled on the following basis:

50% on retirement and the balance 50% within one year.

Prepare (a) Revaluation account, (b) The Capital accounts of the partners, (c) Cash account and (d) Balance Sheet of the new firm M/s B & C as on 1.04.2014. (16 Marks)

5. From the following Receipts and Payments Account of Omega Recreation Club for the year ended 31.3.2014 and additional information given, prepare an Income and Expenditure Account for the year ended 31.3.2014 and Balance Sheet as on 31.3.2014:

<i>Receipts</i>	<i>Rs.</i>	<i>Payments</i>	<i>Rs.</i>
Opening Balance:		Secretary's salary	12,000
Cash in Hand and at Bank	3,180	Salaries to staff	25,000
Subscription	18,000	Charities	1,000
Sale of old newspapers	2,500	Printing and stationary	600
Legacies	4,000	Postage expenses	120
Interest on investments	2,000	Rates and taxes	1,500
Endowment fund receipts	20,000	Upkeep of the land	2,000
Proceeds of sport and concerts	4,020	Purchase of sports materials	10,000
Advertisement in the year book	5,000		
		Telephone expenses	3,480
		Closing balance:	
		Cash in hand and at bank	<u>3,000</u>
	<u>58,700</u>		<u>58,700</u>

Assets and liabilities as on 31.3.2013 and 31.3.2014 were as follows:-

	31.3.2013 Rs.	31.3.2014 Rs.
Subscription in arrears	2,000	1,000
Subscription received in advance	500	400
Furniture	2,000	1,800
Land	10,000	10,000

Depreciation shall be charged at 10% p.a. under the diminishing value method. Legacies received shall be capitalized. Investments were made in securities, the rate of interest being 12% p.a., the date of investment was 1.6.2012 and the amount of investments was Rs. 20,000. Due date of interest is 31st March of every year. Stock of sports materials on 31.3.2014 was useless and valued at Nil. (16 Marks)

6. (a) Following is the Draft Balance Sheet of ABC Ltd. Co. as at 31st March, 2015:

Liabilities	Rs.	Assets	Rs.
Share capital:		Plant and machinery	9,00,000
2,00,000 Equity shares of Rs. 10 each fully paid up	20,00,000	Furniture and fixtures	2,50,000
6,000 8% Preference shares of Rs. 100 each	6,00,000	Patents and copyrights	70,000
9% Debentures	12,00,000	Investments (at cost) (Market value Rs. 55,000)	68,000
Bank overdraft	1,50,000	Inventory	14,00,000
		Trade receivables	14,39,000

Trade payables	5,92,000	Cash and bank balance	10,000
		Profit and Loss Account	<u>4,05,000</u>
	<u>45,42,000</u>		<u>45,42,000</u>

The following scheme of reconstruction was finalized:

- (i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.
- (ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.
- (iii) Stock equal to Rs.5,00,000 in book value will be taken over by trade payables in full settlement of their dues.
- (iv) Investment value to be reduced to market price.
- (v) The company would issue 11% Debentures for Rs. 3,00,000 to augment its working capital requirement after settlement of bank overdraft.

Give necessary journal entries reflecting the above scheme of reconstruction in the books of the ABC Ltd. Co.

- (b) From the following prepare an account current, as sent by A to B on 30th June, 2012 by means of products method charging interest @ 6% p.a:

2012		Rs.
Jan. 1	Balance due from B	600
Jan.11	Sold goods to B	520
Jan. 18	B returns Goods	125
Feb 11	B Paid by cheque	400
Feb 14	B accepted a bill drawn by A for one month	300

Apr. 29	Goods sold to B	615
May 15	Received cash from B	700

(8+8=16 marks)

7. Answer any **four** of the following:

- (a) A hospital has decided to outsource the accounting functions. For this purpose, it invited proposals from vendors received proposals. How will you select the vendor?
- (b) Intelligent Ltd., a non financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.
 - (i) Loans and Advances given to the following and interest earned on them:
 - (1) to suppliers
 - (2) to employees
 - (ii) Investment made in subsidiary Smart Ltd. and dividend received
 - (iii) Dividend paid for the year
 - (iv) TDS on interest income earned on investments made
 - (v) TDS on interest earned on advance given to suppliers
 - (vi) Insurance claim received against loss of fixed asset by fire

Discuss in the context of AS 3 Cash Flow Statement.
- (c) Following items appear in the Trial Balance of Saral Ltd. as on 31st March, 2014:

Particulars	Amount
4,500 Equity Shares of Rs. 100 each	4,50,000
Capital Reserve (including Rs. 40,000 being profit on sale of Plant)	90,000
Securities Premium	40,000

Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserves. Pass necessary Journal Entries in the books Saral Ltd.

- (d) Abhishek Ltd. manufactures machinery used in Steel plants. In response to the tenders issued by Steel plants, Abhishek Ltd. quotes its price. As per terms of contract, full price of machinery is not released by the Steel plants, but 10% thereof is retained and paid after one year if there is satisfactory performance of the machinery supplied. From the past experience, it is observed that Abhishek Ltd. normally performs satisfactorily and fulfills the expectations of the Steel plants. Abhishek Ltd. accounts for only 90% of the invoice value as sales revenue and book the balance amount in the year of receipt to the extent of actual receipts only. Comment on the treatment done by the company.
- (e) The following is the Draft Profit & Loss A/c of Mudra Ltd., the year ended 31st March, 2015:

	Rs.		Rs.
To Administrative, Selling and distribution expenses	8,22,542	By Balance b/d	5,72,350
Directors fees	1,34,780	By Balance from Trading A/c	40,25,365
Interest on debentures	31,240	By Subsidies received from Govt.	2,73,925
Managerial	2,85,350		

remuneration			
Depreciation on	5,22,543		
fixed assets			
Provision for	12,42,500		
Taxation			
General	4,00,000		
Reserve			
Investment	12,500		
Revaluation			
Reserve			
Balance c/d	<u>14,20,185</u>		
	<u>48,71,640</u>		<u>48,71,640</u>

Depreciation on fixed assets as per Schedule II of the Companies Act, 2013 was Rs. 5,75,345. You are required to calculate the maximum limits of the managerial remuneration as per Companies Act, 2013. (4 x 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 2: BUSINESS LAWS, ETHICS AND COMMUNICATION

Question No.1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Mr. Anand contracts with Mr. Birendra that, if he (Anand) practices as a surgeon within Calcutta, he will pay Birendra

Rs. 5000. Anand starts practising as a surgeon in Calcutta. Discuss the right available to Birendra with reference to the provisions of the Indian Contract Act, 1872. (5 Marks)

- (b) Matrika Company Limited served a notice of general meeting upon its shareholders. The notice stated that the issue of sweat equity shares would be considered at such meeting. Mr. 'A', a shareholder of the Matrika Company Limited complains that the issue of sweat equity shares was not specified fully in the notice. Is the notice issued by Matrika Company Limited regarding issue of sweat equity shares valid according to the provisions of the Companies Act, 2013? Explain in detail. (5 Marks)
- (c) "CSR can mean different things to different people", explain. (5 Marks)
- (d) State the various forms of formal communication along with their potential benefits in any organisation. (5 Marks)
2. (a) (i) State whether following statements is correct or incorrect with respect to the Payment of Bonus Act, 1965.
1. The provisions of the Payment of Bonus Act does not apply on public sector establishments.
 2. As employee by his misconduct caused financial loss to the employer. As of consequences employer denied to pay employee the bonus to compensate the financial loss. (4 Marks)
- (ii) Examining the law related to the nominations for gratuity as per the Payment of Gratuity Act, 1972, give the answers of the following-
1. Whether an employee can make nomination in favour of more than one family members.
 2. What if, at the time of making nomination the employee has no family and he subsequently acquires a family.
 3. Where the nominee dies before the employee.
 4. Where an employee wants to modify the nomination. (4 Marks)

- (b) State the importance of the ethical behavior in the workplace that may develop the common understanding of right and wrong and lead to the growth and expansion of the organization. (4 Marks)
- (c) Explain how the kinesics, a non-verbal communication conveys relational messages to other person. (4 Marks)
3. (a) (i) A is the holder of a bill of exchange made payable to the order of B, which contains the following endorsements in blank-
- First endorsement, "B".
- Second endorsement, "C".
- Third endorsement, "D".
- Fourth endorsement, "E".
- This bill, A puts in suit against E and strikes out, without the E consent, the endorsement by C & D. Examining the legal provisions of the endorser's liability under the Negotiable Instruments Act, 1881, discuss the liability of E.
- (5 Marks)
- (ii) State whether the given statements is correct/incorrect.
1. A breaks open B's safe and gets B's cheque book. He then forges B's signature on a cheque and obtains money on it from B's banker and then disappears. The loss shall be borne by the B.
 2. A promissory note was made without mentioning any time for payment. The holder added the words "on demand" on the face of the instrument .This amount to material alteration. (3 Marks)
- (b) State with reason whether the following statement is correct or incorrect
1. Environmental considerations does not play a key role in corporate strategy. (2 Marks)

2. Fairness and honesty are at the heart of the business ethics and relate to the general values of decision makers. (2 Marks)
- (c) State the various factors that may lead to the development of the critical thinking. (4 Marks)
4. (a) **Mr. Vihan, alongwith six other persons desires to float a company for charitable purposes, as permissible under Section 8 of the Companies Act, 2013. He seeks your advise about the procedure to be followed to give effect to the above proposal. Advise him. (8 Marks)**
- (b) Answer whether the statement is correct or incorrect with brief reason:
 - 1 Consumer purchases goods and health services for personal purposes only.
 - 2 'Competition Act, 2002 protects the interest of consumers'. (4 Marks)
- (c) What is meant by "Negotiation"? Name the various steps which can be identified in the process of negotiation from start to the completion of the process. (4 Marks)
5. (a) **M/s Rubby textile enters into a contract with Retail Garments Show Room for supply of 1,000 pieces of Cotton Shirts at Rs. 300 per shirt to be supplied on or before 31st December, 2014. However, on 1st November, 2014 Rubby Textiles informs the Retail Garments Show Room that he is not willing to supply the goods as the price of Cotton shirts in the meantime has gone upto Rs. 350 per shirt. Examine the rights of the Retail Garments Show Room in this regard. (8 Marks)**
- (b) Mars India Ltd. owed to Sunil Rs.1,000. On becoming this debt payable, the company offered Sunil 10 shares of Rs.100 each in full settlement of the debt. The said shares were fully paid and were allotted to Sunil. Examine the validity of these allotments in the light of the provisions of the Companies Act, 2013. (4 Marks)

- (c) Draft a press release by the manufacturing company with respect to establishing of new business location. (4 Marks)
6. (a) (I) State whether the following statement is correct/incorrect with reasons:
- 1 OPC and Private Limited Company are synonymous.
 - 2 Cash withdrawn by the customer of a bank from the automatic teller machine is an implied contract. (2 x 2 = 4 Marks)
- (II) Whether the following persons can be counted for the purposes of quorum in a general meeting of a public company-
- (i) a person representing three member companies;
 - (ii) both the joint owners of shares present at the meeting;
 - (iii) a single member present at the meeting (4 Marks)
- (b) 'The Competition Act, 2002 protects the interest of consumers'. Explain. (4 Marks)
- (c) Draft the specimen of partnership deed. (4 Marks)
7. Answer any **FOUR** of the following:
- (a) Write a note on the Employees' Deposit Linked Insurance (Amendment) Scheme, 2014. (4 Marks)
 - (b) What are the advantages of E-filing under MCA 21. (4 Marks)
 - (c) The minutes of the meeting must contain fair and correct summary of the proceedings thereat. Can the Chairman direct exclusion of any matter from the minutes? Some of the shareholders insist on inclusion of certain matters which are regarded as defamatory of a Director of the company. The Chairman declines to do so. State how the matter can be resolved as per the Companies Act, 2013. (4 Marks)
 - (d) State the various acts of responsibility which would help to comply with the Integrity principle for behaving in an ethical manner. (4 Marks)

- (e) Draft a lease deed for the transfer of land for a limited period.
(4 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

Question No. 1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. Answer the following:

- (a) Aditya Ltd. is engaged in heavy engineering works on the basis of job order received from industrial customers. The company has received a job order of making turbine from a power generating company. Below are some details of stores receipts and issues of copper wire, used in the manufacturing of turbine:

Feb. 1	Opening stock of 1,200 Kgs. @ Rs. 475 per kg.
Feb. 5	Issued 975 kgs. to mechanical division vide material requisition no. Mec 09/13
Feb. 6	Received 3,500 kgs. @ Rs. 460 per kg vide purchase order no. 159/2013
Feb. 7	Issued 2,400 kgs. to electrical division vide material requisition no. Ele 012/13
Feb. 9	Returned to stores 475 kgs. by electrical division against material requisition no. Ele 012/13.

Feb. 15	Received 1,800 kgs. @ Rs. 480 per kg. vide purchase order no. 161/ 2013
Feb. 17	Returned to supplier 140 kgs. out of quantity received vide purchase order no. 161/2013.
Feb. 20	Issued 1,900 kgs. to electrical division vide material requisition no. Ele 165/ 2013

On 28th February, 2014 it was found that 180 kgs. of wire was fraudulently misappropriated by the stores assistant and never recovered by the company.

From the above information you are required to prepare the Stock Ledger account using 'Weighted Average' method of valuing the issues.

- (b) Maxim Ltd. manufactures a product "N-joy". In the month of August 2014, 14,000 units of the product "N-joy" were sold, the details are as under:

	(Rs.)
Sale Revenue	2,52,000
Direct Material	1,12,000
Direct Labour	49,000
Variable Overheads	35,000
Fixed Overheads	28,000

A forecast for the month of September 2014 has been carried out by the General manger of Maxim Ltd. As per the forecast, price of direct material and variable overhead will be increased by 10% and 5% respectively.

Required to calculate:

- (i) Number of units to be sold to maintain the same quantum of profit that made in August 2014.

- (ii) Margin of safety in the month of August 2014 and September 2014.
- (c) For Alpha Limited the average receivables balance is Rs. 30,00,000 and credit sales are Rs. 4,00,00,000. You are required to compute the receivable collection period. (1 Year = 365 days)
- (d) Mr. Grewal borrowed Rs. 10,00,000 from a bank on a one-year 16% term loan, with interest compounded quarterly. Determine the effective annual interest on the loan?

(4 × 5 = 20 Marks)

2. (a) J&J Ltd. produces an article by blending two basic raw materials. The following standards have been set up for raw materials:

Material	Standard Mix	Standard Price per kg.
A	40%	Rs. 5.00
B	60%	Rs. 4.00

The standard loss in processing is 10%. During March, 2014, the company produced 2,250 kg. of finished output.

The position of stock and purchases for the month of March, 2014 is as under:

Material	Stock on 1.3.2014	Stock on 31.3.2014	Purchase during March, 2014
A	40 kg.	20 kg.	800 kg. for Rs.4,800
B	50 kg.	15 kgs	1800 kg. for Rs. 7,560

Calculate the following variances:

- (i) Material Price Variance
- (ii) Material Usage Variance
- (iii) Materials Yield Variance
- (iv) Materials Mix Variance

(v) Material Cost Variance

Assume FIFO method for issue of material. The opening stock is to be valued at standard price. (8 Marks)

(b) The capital structure of Beta Limited is as follows:

10% Preference shares of Rs. 10 each	Rs. 50,00,000
Equity shares of Rs. 100 each	Rs. 70,00,000
	Rs. 1,20,00,000

Additional Information:

Profit after tax (50%)	15,00,000
Depreciation	6,00,000
Equity dividend paid	10%
Market price per equity share	200

You are required to compute the following:

- (i) The cover for the preference and equity dividend,
- (ii) The earnings per share,
- (iii) The price earnings ratio, and
- (iv) The net funds flow.

(8 Marks)

3. (a) **Giant Construction Ltd. has been constructing a flyover for 15 months and is under progress. The following information relating to the work on the contract has been prepared for the period ended 31st March, 2014.**

	Amount (Rs.)
Contract price	65,00,000
Value of work certified at the end of the year	57,20,000
Cost of work not yet certified at the end of the	1,20,000

year	
Opening balances:	
Cost of work completed	8,00,000
Materials on site	80,000
Costs incurred during the year:	
Material delivered to site	15,90,000
Wages	14,95,000
Hire of plant	2,86,000
Other expenses	2,30,000
Closing balance: Material on site	40,000

As soon as materials are delivered to the site, they are charged to the contract account. A record is kept on actual use basis, periodically a stock verification is made and any discrepancy between book stock and physical stock is transferred to a general contract material discrepancy account. The stock verification at the year end revealed a stock shortage of Rs. 15,000.

In addition to the direct charges listed above, general overheads are charged to contracts at 5% of the value of work certified. General overheads of Rs. 35,000 had been absorbed into the cost of work completed at the beginning of the year.

It has been estimated that further costs to complete the contract will be Rs. 5,72,000. This estimate includes the cost of materials on site at the end of the year (31.3.2014) and also a provision for rectification.

Required:

- (i) Determine profitability of the above contract and recommend how much profit should be taken for the year just ended. (Provide a detailed schedule of costs).
- (ii) State how your recommendation in (i) would be affected if the contract price was Rs. 80,00,000 (rather than Rs. 65,00,000)

and if no estimate has been made of costs to completion. (8 Marks)

- (b) Given below are the balance sheets of Gamma Limited for the years ending 31st July, 2013 and 31st July, 2014.

Balance Sheet for the year ending on 31st July

(Rs.)

	(Rs.)	(Rs.)
	2013	2014
Capital and Liabilities		
Share capital	3,00,000	3,50,000
General reserve	1,00,000	1,25,000
Capital reserve (profit on sale of investment)	-	5,000
Profit and loss account	50,000	1,00,000
15% Debentures	1,50,000	1,00,000
Accrued expenses	5,000	6,000
Creditors	80,000	1,25,000
Provision for dividend	15,000	17,000
Provision for taxation	<u>35,000</u>	<u>38,000</u>
Total	<u>7,35,000</u>	<u>8,66,000</u>

Assets

Fixed Assets	5,00,000	6,00,000
Less: Accumulated depreciation	1,00,000	1,25,000
Net fixed assets	4,00,000	4,75,000
Long-term investments (at cost)	90,000	90,000
Stock (at cost)	1,00,000	1,35,000
Debtors (net of provisions for doubtful debts of Rs. 20,000 and	1,12,500	1,22,500

Rs. 25,000 respectively for 2013 and 2014)		
Bills receivables	20,000	32,500
Prepaid expenses	5,000	6,000
Miscellaneous expenditure	<u>7,500</u>	<u>5,000</u>
Total	<u>7,35,000</u>	<u>8,66,000</u>

Additional Information:

- (i) During the year 2014, fixed asset with a net book value of Rs. 5,000 (accumulated depreciation Rs. 15,000) was sold for Rs. 4,000.
- (ii) During the year 2014, investments costing Rs. 40,000 were sold, and also investments costing Rs. 40,000 were purchased.
- (iii) Debentures were retired at a premium of 10 percent.
- (iv) Tax of Rs. 27,500 was paid for 2013.
- (v) During 2014, bad debts of Rs. 7,000 were written off against the provision for doubtful debt account.
- (vi) The proposed dividend for 2013 was paid in 2014.

You are required to prepare a funds flow statement (i.e. statement of changes in financial position on working capital basis) for the year ended 31st July, 2014. (8 Marks)

4. (a) Arnav Ltd. has three production departments M, N and O and two service departments P and Q. The following particulars are available for the month of September, 2014:

	(Rs.)
Lease rental	35,000
Power & Fuel	4,20,000

Wages to factory supervisor	6,400
Electricity	5,600
Depreciation on machinery	16,100
Depreciation on building	18,000
Payroll expenses	21,000
Canteen expenses	28,000
ESI and Provident Fund Contribution	58,000

Followings are the further details available:

Particulars	M	N	O	P	Q
Floor space (square meter)	1,200	1,000	1,600	400	800
Light points (nos.)	42	52	32	18	16
Cost of machines (Rs.)	12,00,000	10,00,000	14,00,000	4,00,000	6,00,000
No. of employees (nos.)	48	52	45	15	25
Direct Wages (Rs.)	1,72,800	1,66,400	1,53,000	36,000	53,000
HP of Machines	150	180	120	-	-
Working hours (hours)	1,240	1,600	1,200	1,440	1,440

The expenses of service department are to be allocated in the following manner:

	M	N	O	P	Q
P	30%	35%	25%	-	10%
Q	40%	25%	20%	15%	-

You are required to calculate the overhead absorption rate per hour in respect of the three production departments. (8 Marks)

- (b) Theta Limited is considering buying a new machine which would have a useful economic life of five years, a cost of Rs. 1,25,000 and a scrap value of Rs. 30,000, with 80 per cent of the cost being payable at the start of the project and 20 per cent at the end of the first year. The machine would produce 50,000 units per annum of a new project with an estimated selling price of Rs. 3 per unit. Direct costs would be Rs. 1.75 per unit and annual fixed costs, including depreciation calculated on a straight- line basis, would be Rs. 40,000 per annum.

In the first year and the second year, special sales promotion expenditure, not included in the above costs, would be incurred, amounting to Rs. 10,000 and Rs. 15,000 respectively.

Evaluate the project using the NPV method of investment appraisal, assuming the company's cost of capital to be 10 percent.

Year	1	2	3	4	5
PVF (10%)	0.909	0.826	0.751	0.683	0.621

(8 Marks)

5. (a) Ascent Ltd. is a manufacturing company which keeps its Cost Accounts and Financial Accounts separately. The Audit Committee of the company has advised the Board of Directors to *integrate* the above two accounts to avoid duplicity of work. The Finance Manager has requested you to identify few pre-requisites for the implementation of the Audit Committee's advice.
- (b) A management trainee of an engineering firm while attending a meeting with the Director Finance of his company, heard the term 'Cost Control' and 'Cost Reduction'. Management Trainee is curious to know the difference between the above two terms. You are requested to satisfy his curiosity.

- (c) Discuss the Relevance of Time Value of Money in Financial Decisions.
- (d) Write short note on the Major Considerations in Capital Structure Planning.

(4 x 4 =16 Marks)

6. (a) The following information is available for Zeta Limited for your consideration:

- (i) Production during the previous year was 60,000 units, it is planned that this level of activity should be maintained during the present year.
- (ii) The expected ratios of cost to selling price are – raw materials 60%, direct wages 10%, and overheads 20%.
- (iii) Raw materials are expected to remain in stores for an average of two months before these are issued for production.
- (iv) Each unit of production is expected to be in process for one month.
- (v) Finished goods will stay in warehouse for approximately three months.
- (vi) Creditors allow credit for 2 months from the date of delivery of raw materials.
- (vii) Credit allowed to debtors is 3 months from the date of dispatch.
- (viii) Selling price per unit is Rs. 5.
- (xi) There is a regular production and sales cycle.

You are required to prepare the working capital requirement forecast. *(8 Marks)*

- (b) Oleum Refinery Ltd. refines crude oil and produces two joint product Gasoline and HSD in the ratio of 4:6. The refining is done in three processes.

Crude oil is first fed in Process-A, from where the two products Gasoline and HSD are get separated. After separation from Process-A, Gasoline and HSD are further processed in Process- B and Process- C respectively. During the month of July, 2014, 4,50,000 Ltr. of crude oil were processed in Process-A at a total cost of Rs. 1,71,99,775.

In Process-B, Gasoline is further processed at a cost of Rs. 10,80,000.

In Process- C, HSD is further processed at a cost of Rs. 1,35,000.

The Input output ratio for the each process is as follows:

Process- A	1 : 0.80
Process- B	1 : 0.95
Process- C	1 : 0.90

The details of sales during the month are:

	Gasoline	HSD
Quantity sold (Ltr.)	1,32,000	1,88,000
Sales price per Ltr.(Rs.)	68	46

There were no opening stocks. If these products were sold at split-off point, the selling price of Gasoline and HSD would be Rs. 64 and Rs. 41 per Ltr. respectively.

Required:

- Prepare a statement showing the apportionment of joint cost to Gasoline and HSD in proportion of sales value at split off point.
- Prepare a statement showing the cost per Ltr. of each product indicating joint cost, processing cost and total cost separately.
- Prepare a statement showing the product wise profit or loss for the month.

(8 Marks)

7. Answer any **four** of the following:

- (a) Yanni Ltd. is witnessing high labour turnover for few past years. The Director Personnel has requested you to suggest few remedial steps to be taken to minimize the labour turnover.
- (b) Distinguish between Deep Discount Bonds and Zero Coupon Bonds.
- (c) The Board of Directors of Rehman Ltd. has asked the finance department to prepare Fixed and Flexible Budget for the coming financial year. State the difference between Fixed and Flexible budgets.
- (d) Write a short note on Global Depository Receipts.
- (e) Rahul and you are a good friend, you had a discussion on the relevance of Marginal Costing, the topic studied at Intermediate level in Chartered Accountancy course. Rahul has of the opinion that there is no practical application of the Marginal Costing. Being a good friend of Rahul, you are expected to elaborate the practical application of Marginal Costing. (4 x 4 =16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – I

PAPER – 4: TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Mr. Rajeev working as Manager (Sales) with Pipeline Foods Ltd., provides the following information for the year ended 31.03.2015:
- | | |
|---|-----------------|
| Basic Salary | Rs. 15,000 p.m. |
| DA (50% of it is meant for retirement benefits) | Rs. 12,000 p.m. |

Commission as a percentage of turnover of the Company	0.5 %
Turnover of the Company	Rs. 50 lacs
Bonus	Rs. 50,000
Gratuity	Rs. 30,000
Own Contribution to R.P.F.	Rs. 30,000
Employer's contribution to R.P.F.	20% of basic salary
Interest credited in the R.P.F. account @ 15% p.a..	Rs. 15,000

Gold Ring worth Rs. 10,000 was given by employer on his 25th wedding anniversary.

Music System purchased on 01.04.2014 by the company for Rs. 85,000 and was given to him for personal use.

Two old heavy goods vehicles owned by him were leased to a transport company against the fixed charges of Rs. 6,500 p.m. Books of account are not maintained.

Received interest of Rs. 5,860 on bank FDRs, dividend of Rs. 1,260 from shares of Indian Companies and interest of Rs. 7,540 from the debentures of Indian Companies.

Made payment by cheques of Rs. 15,370 towards premium of Life Insurance policies and Rs. 12,500 for Mediclaim Insurance policy.

Invested in NSC Rs. 30,000 and in FDR of SBI for 5 years Rs. 50,000.

Donations of Rs. 11,000 to an institution approved u/s 80G and of Rs. 5,100 to Prime Minister's National Relief Fund were given during the year by way of cheque.

Compute the total income and tax payable thereon for the A.Y. 2015-16.

(10 Marks)

- (b) A One Decorators entered into a contract for doing the interiors of a newly launched showroom of PB Jewellers. At the time of signing the contract for providing the said service, it received Rs. 3,00,000 by an account payee cheque. It received Rs. 6,00,000 by credit card and Rs. 2,00,000 by a pay order in the same month.

Determine the value of taxable service and the service tax payable by A One Decorators.

Note: A One Decorators is not eligible for small service provider's exemption under Notification No. 33/2012 ST dated 20.06.2012 and service tax has been charged separately.

(6 Marks)

- (c) An importer imports a carton of goods containing 1000 pieces with assessable value of Rs. 1,00,000 under section 14 of the Customs Act, 1962. On said product, rate of basic customs duty is 10% and rate of excise duty is 12% ad valorem. Similar product in India is assessable under section 4A of the Central Excise Act, 1944, after allowing an abatement of 30%. MRP printed on the package at the time of import is Rs. 250 per piece.

Calculate the countervailing duty (CVD) leviable under section 3(1) of the Customs Tariff Act, 1975 payable on the imported goods.

(4 Marks)

2. (a) Mr. Suraj submits the following details of his income for the assessment year 2015-16:

Particulars	Rs.
Income from salary	3,00,000
Loss from let out house property	40,000
Income from sugar business	50,000

Loss from iron ore business b/f (discontinued in P.Y. 2008-09)	1,20,000
Short term capital loss	60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winnings from card games	6,000
Agricultural income	20,000
Long term capital gain from shares (STT paid)	10,000
Short term capital loss under section 111A	10,000
Bank interest	5,000

Calculate gross total income and losses to be carried forward. (8 Marks)

- (b) Prince Private Limited is engaged in providing taxable services. It received following amounts in the month of October, 2014. Compute the value of taxable service and the service tax payable by it:-

Receipts	Amount (Rs.)
Advances received from clients for which no service has been rendered so far	9,00,000
Demurrage charges recovered for use of the services beyond the agreed period	80,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service	3,20,000

Besides the above receipts, one of the clients-MNO Ltd. made a payment of Rs. 2,00,000 (out of which Rs. 40,000 were paid extra by mistake). However, Prince Private Limited refused to return the excess payment received.

Note: Prince Private Limited is not eligible for small service providers' exemption under Notification No. 33/2012 ST dated 20.06.2012.
(4 Marks)

- (c) Mr. Shantiprasad, a first stage dealer of a machine in the State of Madhya Pradesh, furnishes the following data:

S.N o.	Particulars	Rs.
(i)	Total inter-State sales during F.Y. 2014-15 (CST not shown separately)	95,60,000
(ii)	Above sales include:	
	Dharmada	6,50,000
	Freight	4,10,000
	(Rs. 1,10,000 is not shown separately in invoices)	
	Cost of corrugated boxes specially designed for packing of the machinery	48,000
	Installation and commissioning charges shown separately	1,25,000

Determine CST payable assuming that all transactions were covered by valid 'C' Forms and sales tax rate within the State is 5%.
(4 Marks)

3. (a) State with reasons whether the following transactions attract

income-tax in India in the hands of recipients:

- (i) Salary paid by Central Government to Mr. Gagan, a citizen of India
Rs. 7,00,000 for the services rendered outside India.
 - (ii) Interest on moneys borrowed from outside India Rs. 5,00,000 by a non-resident for the purpose of business within India say, at Mumbai.
 - (iii) Post office savings bank interest of Rs. 12,000 received by a resident assessee, Mr. Pawan
 - (iv) Royalty paid by a resident to a non-resident in respect of a business carried on outside India. (4 Marks)
- (b) Mr. Sahil, a non-resident, operates an aircraft between Canada to Mumbai. For the Financial year ended on 31st March, 2015, he received the amounts as under:
- (i) For carrying passengers from Mumbai Rs. 50 lacs.
 - (ii) For carrying passengers from Canada Rs. 75 lacs received in India.
 - (iii) For carrying of goods from Mumbai Rs. 25 lacs.

The total expenditure incurred by Mr. Sahil for the purposes of the business for the financial year 2014-15 was Rs. 1.4 crores.

Compute the income of Mr. Sahil under the head "Profits and Gains from business or profession" for the financial year ended on 31st March 2015 relevant to assessment year 2015-16. (4 Marks)

- (c) Determine the amount of CENVAT credit available with Durable Manufacturing Ltd. in respect of the following items procured by them:

S.No.	Item	Excise duty paid [Rs.]*
-------	------	-------------------------

(i)	Raw materials used in the factory of Durable Manufacturing Ltd.	65,000
(ii)	Goods used in the guest house primarily for the stay of the newly recruited employees.	50,000
(iii)	Inputs used for making structures for support of capital goods	1,15,000
(iv)	Capital goods used as parts and components for use in the manufacture of final product	70,000

*including EC and SHEC

(5 Marks)

- (d) A manufacturer cleared some goods by charging excise duty. The invoice provided the following details:

	Rs.
Price	15,000
Excise duty @ 10.30%	1,545
Total	16,545

However, he came to know later that actual rate of excise duty is 12.36%. How much differential duty is payable by him, if he is not able to recover any extra amount from the customer?

(3 Marks)

4. (a) Mrs. Sonakshi (aged 40 years), working with M/s Star Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2014-15 from her employer:

Basic salary	Rs. 60,000 per month.
Dearness allowance	40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of Rs. 15,000 and the same has been provided for residence of Mrs. Sonakshi. Company is recovering Rs. 2,000 per month as rent of house.

Mrs. Sonakshi has further furnished the following details:

- (i) She has paid professional tax of Rs. 6,000 during financial year 2014-15.
- (ii) She is owning only one house and payment of interest of Rs. 1,75,000 and principal of Rs. 1,00,000 was made for housing loan taken for purchase of house.
- (iii) She has also taken a loan of Rs. 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered Rs. 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability for assessment year 2015-16. (8 Marks)

- (b) Akshita of Sikkim received some taxable services from Addum Enterprises of Netherland on 05.10.2014 for which an invoice was raised on 08.10.2014. Determine the point of taxation in accordance with Point of Taxation Rules, 2011, if Akshita makes the payment for the said services on:-

Case I: 27.12.2014

Case II: 13.01.2015 (4 Marks)

- (c) Tirumala, purchased raw material 'A' for Rs. 40,00,000 plus VAT @ 4%. Out of such raw material 50% was used for manufacture of taxable goods and the remaining for manufacture of goods which are exempt from VAT.

Another raw material 'B' was purchased for Rs. 20,00,000 on which VAT was paid at 1%. Entire raw material 'B' was used for manufacture of taxable goods only.

The entire taxable goods were sold for Rs. 70,00,000 plus VAT @ 12.5%.

Compute net VAT liability of Tirumala on the assumption that there was no opening or closing inventory. (4 Marks)

5. (a) MNO Ltd. made the following payments in the month of March 2015 to residents without deduction of tax at source. What would be the tax consequence for A.Y.2015-16, assuming that the resident payees in all the cases mentioned below, have not paid the tax, if any, which was required to be deducted by MNO Ltd.?

	Particulars	Amount in Rs.
(1)	Salary to its employees	15,00,000
(2)	Non-compete fees to Mr. Sagar	70,000
(3)	Directors' remuneration	25,000

Would your answer change if MNO Ltd. has deducted tax on the above in April, 2015 from subsequent payments made to these persons and remitted the same in July, 2015? (4 Marks)

- (b) Mr. Yatin submits the following information pertaining to the year ended 31st March, 2015:
- On 30.11.2014, when he attained the age of 60, his friends in India gave a flat at Gwalior as a gift, each contributing a sum of Rs. 20,000 in cash. The cost of the flat purchased using the various gifts was Rs. 3.40 lacs.
 - His close friend abroad sent him a cash gift of Rs. 75,000 through his relative for the above occasion.
 - Mr. Yatin sold the above flat on 30.1.2015 for Rs. 3.6 lacs. The Registrar's valuation for stamp duty purposes was Rs. 3.7 lacs. Neither Mr. Yatin nor the buyer, questioned the value fixed by the Registrar.

- (iv) He had purchased some unlisted equity shares in S Pvt. Ltd., on 5.2.2007 for Rs. 3.5 lacs. These shares were sold on 15.3.2015 for Rs. 2.8 lacs.

You are requested to calculate the total income of Mr. Yatin for the assessment year 2015-16. [Cost Inflation Index for F.Y. 2006-07: 519, 2014-15: 1024] (4 Marks)

- (c) ABC & Co. is a consultancy firm based in Gujarat. It has two branch offices at Chandigarh and Malaysia. Services are provided by Chandigarh branch to Head Office at Gujarat and by Head Office at Gujarat to Malaysia branch.

Explain which of the activities will constitute 'service' under service tax law. (5 Marks)

- (d) The service tax liability of Mr. Manan Mittal, a service tax assessee for the quarter July-September, 2014 was Rs. 25,000. However, on account of a clerical error, he paid Rs. 2,50,000 as service tax for the said quarter. Now Mr. Manan Mittal wants to adjust the excess payment of Rs. 2,25,000 against his service tax liability for the succeeding quarter. Can he do so? What is the condition to be satisfied for it?

(3 Marks)

6. (a) Mr. Manish owns a factory building on which he had been claiming depreciation for the past few years. It is the only asset in the block. The factory building and land appurtenant thereto were sold during the year. The following details are available:

Particulars	Rs.
Building completed in September, 2008 for	10,00,000
Land appurtenant thereto purchased in April, 2002 for	12,00,000

Advance received from a prospective buyer for land in May, 2003, forfeited in favour of assessee, as negotiations failed	50,000
WDV of the building block as on 1.4.2014	8,74,80 0
Sale value of factory building in November, 2014	8,00,00 0
Sale value of appurtenant land in November, 2014	40,00,0 00

The assessee is ready to invest in long-term specified assets under section 54EC, within specified time.

Compute the amount of taxable capital gain for the assessment year 2015-16 and the amount to be invested under section 54EC for availing the maximum exemption.

Cost inflation indices are as under:

Financial Year	Cost inflation index
2002-03	447
2003-04	463
2014-15	1024

(8 Marks)

- (b) Sahil Caretakers, a service tax assessee, provides the services of repair and maintenance of electrical appliances. On April 1, 2014, it has entered into an annual maintenance contract with X for its Refrigerator and Air Conditioner. As per the terms of contract, maintenance services will be provided in the first week of each quarter of the financial year 2014-15 and payment for the same will also be charged quarterly after completion of such services in each quarter. Services were provided during the year 2014-15 on April 4, July 2, October 3, and January 3. When should Sahil Caretakers issue the invoice for the services rendered? (4 Marks)
- (c) LMN Co. is a manufacturer. It intends to pay *ad valorem* excise

duty on the basis of assessable value computed under section 4 of the Central Excise Act, 1944. However, Excise Department insists that LMN Co. should pay duty under Compounded Levy Scheme as the product manufactured by it is covered under the said scheme.

You are required to examine the situation in the light of the relevant statutory provisions. Will your answer be different if the product manufactured by LMN Co. is notified under production capacity based duty scheme? (4 Marks)

7. (a) XYZ Ltd. makes the following payments to Mr. Ramprakash, a contractor, for contract work during the P.Y.2014-15 –

Rs. 15,000 on 1.5.2014

Rs. 25,000 on 1.8.2014

Rs. 30,000 on 1.12.2014

On 1.3.2015, a payment of Rs. 28,000 is due to Mr. Ramprakash on account of a contract work.

Discuss whether XYZ Ltd. is liable to deduct tax at source under section 194C from payments made to Mr. Ramprakash. (4 Marks)

(b) Mr. Vikas submits his return of income on 12-09-2015 for A.Y 2015-16 consisting of income under the head "Income from house property" and "Income from other sources". On 21-01-2016, he realized that he had not claimed deduction under section 80TTA in respect of his interest income on the Savings Bank Account. He wants to revise his return of income, since one year has not elapsed from the end of the relevant assessment year. Discuss. (4 Marks)

(c) Mr. S is an air travel agent, who discharges his service tax liability at special rates provided under the Service Tax Rules, 1994. Compute his service tax liability for the quarter July-September, 2014 with the help of following particulars furnished by him:

Particulars	Basic fare as per rule 6(7) of Service Tax Rules, 1994 (Rs.)	Other charges and fee (Rs.)	Taxes (Rs.)	Total value of tickets (Rs.)
Domestic Bookings	1,00,000	8,200	3,980	1,12,180
International Bookings	3,06,000	17,100	16,400	3,39,500

Mr. S wants to pay service tax at the general rate of 12% in respect of bookings done by him during the quarter July-September, 2014. Can he do so? Explain.

(4 Marks)

(d) MNO Manufacturers Ltd. imported some goods from Australia through a vessel. After the ship entered Indian port, the goods were unloaded and were lying with the custodian. The said goods were pilfered before the proper officer made an order for clearance for home consumption.

Is MNO Manufacturers Ltd. Liable to pay duty on such goods? Further, what would be the customs duty implication if such goods are restored to MNO Manufacturers Ltd.?

(4 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC) : GROUP – II

PAPER – 5: ADVANCED ACCOUNTING

Question No. 1 is compulsory.

*Answer any **five** questions from the remaining **six** questions.*

Wherever necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

Time Allowed: 3 Hours

Maximum Marks: 100

1. (a) A Company had deferred research and development cost amounting Rs. 225 Lakhs. Sales expected in the subsequent years are as under:

Years	Sales (Rs. in lakhs)
1	600
2	450
3	300
4	150

You are asked to suggest how should research and development cost be charged to Profit and Loss Account assuming entire cost of Rs. 225 Lakhs is development cost. If at the end of 3rd year, it is felt that no further benefit will accrue in the 4th year, how the unamortized expenditure would be dealt with in the accounts of the company ?

- (b) Path Ltd. purchased a fixed asset for US \$ 50 lakhs on 01.04.2014 and the same was fully financed by the foreign currency loan [i.e. US \$] repayment in five equal instalments annually. (Exchange rate at the time of purchase was 1 US \$=Rs. 60]. As on 31.03.2015 the first instalment was paid when 1 US \$ fetched Rs. 62.00. The entire loss on exchange was included in cost of goods sold. Path Ltd. normally provides depreciation on fixed assets at 20% on WDV basis and exercised the option to adjust the cost of asset for exchange difference arising out of loan restatement and payment. Calculate the amount of exchange loss and its treatment.
- (c) Power Ltd. has acquired a generator on 1.4.2013 for Rs. 100 lakhs. On 2.4.2013, it applied to Indian Renewal Energy

Development Authority (IREDA) for a subsidy. The subsidy was granted in June, 2014 after the accounts for 2013-14 were finalized. The company has not accounted for the subsidy for the year ended 31.3.2014.

State

- (i) Is this a prior period item?
 - (ii) How should the subsidy be accounted in the accounting year 2014-15?
- (d) A machine having expected useful life of 6 years, is leased for 4 years. Both the cost and the fair value of the machinery are Rs. 7,00,000. The amount will be paid in 4 equal instalments and at the termination of lease, lessor will get back the machinery. The unguaranteed residual value at the end of the 4th year is Rs. 70,000. The IRR of the investment is 10%. The present value of annuity factor of Rs. 1 due at the end of 4th year at 10% IRR is 3.169. The present value of Rs. 1 due at the end of 4th year at 10% rate of interest is 0.683.

State with reasons whether the lease constitutes finance lease and also compute the unearned finance income. (4 x 5 = 20 Marks)

2. (a) The following figures have been taken from the books of Centura Bank Limited as on 31st March, 2014:

	Rs.
Paid up share capital	20,00,000
Interest and discount received	74,11,000
Interest paid on deposits	40,74,000
Salaries and allowances	4,00,000
Rent and taxes paid	1,80,000
Directors' fees and allowances	60,000
Statutory reserve fund	16,00,000
Postages and telegrams	1,20,000

Rent received	1,30,000
Commission, exchange and brokerage	3,80,000
Profit on sale of investments	4,00,000
Depreciation on bank's property	60,000
Law charges	80,000
Auditors' fees	10,000

The following additional information is given to you:

- (i) One customer to whom a sum of Rs. 20 lakhs was advanced has become insolvent and it is expected that only 50% of the amount will be recovered from his estate.
- (ii) Auditors find that a provision of Rs. 3 lakhs is necessary against other debts.
- (iii) Rebate on bills discounted on 31st March, 2013 was Rs. 24,000 and on 31st March, 2014 was Rs. 32,000.
- (iv) Provide Rs. 13,00,000 for income tax.
- (v) The Board of Directors decides to declare dividend @ 10% after transfer of 25% of the year's profit to Statutory Reserve.

You are required to prepare Profit and Loss Account of the bank with all the necessary schedules for the year ended 31st March, 2014. Ignore figures for the previous year and corporate dividend tax.

- (b) State any four alternative accounting treatment of the fund received by an Electricity Company from consumer towards capital expenditure/ service line contributions.

(12 + 4 = 16 Marks)

3. O and M are partners of O and Co., sharing profits and losses in the ratio of 3 : 1 and M and G are partners of M & Co., sharing profits and losses in the ratio of 2 : 1. On 31st March, 2014, they decide to amalgamate and form a new firm M/s OMG & Co., wherein O, M and G would be partners sharing profits and

losses in the ratio of 3 :2 :1. The Balance Sheets of two firms on the above date are as under:

<i>Liabilities</i>	<i>O & Co.</i>	<i>M & Co.</i>	<i>Assets</i>	<i>O & Co.</i>	<i>M & Co.</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Capitals:			Fixed Assets:		
O	4,80,00 0	–	Building	1,00,00 0	–
M	3,20,00 0	4,00,00 0	Machinery	3,00,00 0	3,20,00 0
G	–	2,00,00 0	Furniture	40,000	12,000
Reserves	1,00,00 0	3,00,00 0	Current Assets:		
Creditors	2,40,00 0	2,32,00 0	Stock	2,40,00 0	2,80,00 0
Due to O & Co.	–	2,00,00 0	Debtors	3,20,00 0	4,00,00 0
Bank Loan	1,60,00 0	–	Cash at Bank	60,000	1,80,00 0
			Cash in hand	40,000	20,000
			Due from M & Co.,	2,00,00 0	–
			Advances	–	1,20,00 0
	13,00,0 00	13,32,0 00		13,00,0 00	13,32,0 00

The amalgamated firm took over the business on the following terms:

- (a) Building of O & Co., was valued at Rs. 2,00,000. (b) Machinery of O & Co., was valued at Rs. 4,50,000 and that of M & Co. at Rs. 4,00,000. (c) Goodwill valued O and Co. Rs.1,00,000 and M & Co., Rs. 82,000 but the same will not appear in the books of OMG & Co., (d) Partners of the new firm will bring the necessary cash to pay other partners to adjust their capitals according to the profit sharing ratio.

You are required to pass journal entries in the books of M/s OMG & Co. and prepare the Balance Sheet as at 31.3.2014. (16 Marks)

4. Alia Limited was wound up on 31.3.2014 and its draft Balance Sheet as on that date was given below:

Balance Sheet of Alia Limited as on 31.3.2014

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
Share capital:		Fixed assets		4,82,000
60,000 Equity shares of Rs. 10 each	6,00,000	Current assets:	3,87,500	
Reserves and surplus:		Inventory	0	
Contingency reserve	1,56,000	Trade receivables	91,000	
Profit and loss A/c	1,26,000	Cash at bank	<u>1,64,500</u>	6,43,000
Current liabilities:			<u>0</u>	0
Trade payables	1,33,000			
Provisions:				
Provision for income tax	<u>1,10,000</u>			-

	<u>0</u>			<u>—</u>
	<u>11,25,0</u>			<u>11,25,0</u>
	<u>00</u>			<u>00</u>

Details of Trade receivables and Trade payables:

Trade Receivables			
Sundry debtors	80,000		
Less: Provision for bad and doubtful debts	<u>4,000</u>	76,000	
Bills receivable		<u>15,000</u>	91,000
Trade payables			
Sundry creditors		1,13,000	
Bills payable		<u>20,000</u>	1,33,000
			0

Burger Limited took over the following assets at values shown as under:

Fixed assets Rs. 6,40,000, Inventory Rs. 3,85,000 and Bills Receivable Rs. 15,000.

Purchase consideration was settled by Burger Limited: Rs. 2,55,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of Rs. 100 each. The balance was settled by issuing equity shares of Rs. 10 each at Rs. 8 per share paid up.

Sundry debtors realised Rs. 75,000. Bills payable was settled for Rs. 19,000. Income tax authorities fixed the taxation liability at Rs. 1,11,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs. 4,000.

You are required to:

- Calculate the number of equity shares and preference shares to be allotted by Burger Limited in discharge of purchase consideration.

- (ii) Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Burger Limited account in the books of Alia Limited.
- (iii) Pass journal entries in the books of Burger Limited. (16 Marks)
5. (a) From the following particulars relating to Pune branch for the year ending December 31, 2013, prepare Branch Account in the books of Head office.

		Rs.
Stock at Branch on January 1, 2013		10,000
Branch Debtors on January 1, 2013		4,000
Branch Debtors on Dec. 31, 2013		4,900
Petty cash at branch on January 1, 2013		500
Furniture at branch on January 1, 2013		2000
Prepaid fire insurance premium on January 1, 2013		150
Salaries outstanding at branch on January 1, 2013		100
Good sent to Branch during the year		80,000
Cash Sales during the year		1,30,000
Credit Sales during the year		40,000
Cash received from debtors		35,000
Cash paid by the branch debtors directly to the Head Office		2,000
Discount allowed to debtors		100
Cash sent to branch for Expenses:		
Rent	2,000	
Salaries	2,400	
Petty Cash	1,000	
Insurance up to March 31, 2014	<u>600</u>	6,000

Goods returned by the Branch	1,000
Goods returned by the debtors	2,000
Stock on December 31,2013	5000
Petty Cash spent by branch	850
Provide depreciation on furniture 10% p.a.	

Goods costing Rs. 1,200 were destroyed on account of fire and a sum of Rs. 1,000 was received from the Insurance Company.

- (b) From the data, prepare Departmental Trading Profit and Loss Account and thereafter the combined Profit and Loss Account revealing the concern's true result for the year ended on 31st December 2014:

	<i>Departments</i>	
	<i>A (Rs.)</i>	<i>B (Rs.)</i>
Stock (January)	40,000	-
Purchase from outside	2,00,000	20,000
Wages	10,000	1,000
Transfer of goods from Dept. A	-	50,000
Stock (December 31 st) at cost to the Department	30,000	10,000
Sale to outside	2,00,000	71,000

B's entire stock represents goods from Department A which transfers them at 25% above its cost. Administrative and selling expenses amount to Rs. 15,000 which are to be allocated between departments A and B in the ratio 4:1 respectively.

(10 + 6 = 16 Marks)

6. (a) Beta Ltd. has its share capital divided into shares of Rs. 10 each. On 1st April, 2013, it granted 25,000 employees stock options at Rs. 50 when the market price was Rs. 140 per share. The options were to be exercised between 1st

January, 2014 and 28th February, 2014. The employees exercised options for 24,000 shares only; the remaining options lapsed. The company closes its books of account on 31st March every year. You are required to show necessary journal entries reflecting these transactions.

- (b) Shubha Limited issued 8% Debentures of Rs. 3,00,000 in earlier year on which interest is payable half yearly on 31st March and 30th September. The company has power to purchase its own debentures in the open market for cancellation thereof. The following purchases were made during the financial year 2013-14 and cancellation made on 31st March, 2014:

- (i) On 1st April, Rs. 50,000 nominal value debentures purchased for Rs. 49,450, ex-interest.
- (ii) On 1st September, Rs. 30,000 nominal value debentures purchased for Rs. 30,250 cum interest.

Show the Journal Entries (without narrations) for the transactions held in the year 2013-14.

- (c) From the following information of Reliable Marine Insurance Ltd. for the year ending 31st March, 2014, find out the Net claims incurred:

	(Rs.) <i>Direct Business</i>	(Rs.) <i>Re-insurance Business</i>
Claims:		
Paid	69,00,000	5,54,000
Payable – 01.04.2013	89,000	15,000
Payable – 31.03.2014	95,000	12,000
Received		2,01,000
Receivable – 01.04.2013		40,000

Receivable – 31.03.2014		38,000
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(4 + 6 + 6 = 16 Marks)

7. Answer any **four** of the following:

- (a) EXOX Ltd. is in the process of finalizing its accounts for the year ended 31st March, 2013. The company seeks your advice on the following:

The Company's sales tax assessment for assessment year 2010-11 has been completed on 14th February, 2013 with a demand of Rs. 2.76 crore. The company paid the entire due under protest without prejudice to its right of appeal. The Company files its appeal before the appellate authority wherein the grounds of appeal cover tax on additions made in the assessment order for a sum of 2.10 crore.

- (b) A company capitalizes interest cost of holding investments and adds to cost of investment every year, thereby understating interest cost in profit and loss account. State whether the accounting done by the company is usual or not?

- (c) Sohan Ltd. provides you the following information:

Issued capital	1,00,000 equity shares of Rs. 10 each
Reserves and surplus	Capital reserve Rs. 5,00,000
Securities premium	Rs. 9,00,000
Revenue reserve	Rs. 15,00,000

The company resolved to buy 10% of its equity share capital @ Rs. 60 per share. Give the necessary journal entries in the books of Sohan Ltd.

- (d) AB Limited was incorporated on 1st January, 2014 and it issued a prospectus inviting applications for 40,000 equity shares of Rs. 10 each. The whole issue was fully underwritten by A, B and C as follows:

A - 20,000 Shares, B - 12,000 Shares, C - 8,000 Shares

Applications were received for 32,000 shares, of which marked applications were as follows:

A - 16,000 Shares, B - 5,700 Shares, C - 8,300 Shares

You are required to find out the liabilities of individual underwriters.

- (e) Calculate the diluted earnings per share from the following information:

Net profit for the current year (after tax)	Rs.
85,50,000	

Number of equity shares outstanding
20,00,000

Number of 8% convertible debentures of Rs. 100 each
1,00,000

Each debenture is convertible into 10 equity shares.

Interest expenses for the current year	Rs.
6,00,000	

Tax relating to interest expenses
30%

(4 x 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II
PAPER – 6: AUDITING AND ASSURANCE

Question No.1 is compulsory.

*Attempt any **five** questions from the remaining **six** questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Discuss with reference to SAs:
 - (i) The communication of findings from the audit may include requesting further information from those charged with Governance in order to complete the audit evidence obtained. (5 Marks)
 - (ii) Factors affecting form, contents and extent of audit documentation. (5 Marks)
- (b) Discuss the following:
 - (i) The discipline of behavioural science is closely linked with the subject of auditing. (5 Marks)
 - (ii) Inspection is one of the audit procedures to obtain audit evidence. (5 Marks)
2. State with reason (in short) whether the following statements are correct or incorrect (Answer any eight):
 - (i) PQR Ltd. included underwriting commission and stamp duty under the head preliminary expenses.
 - (ii) Cost of abnormal amounts of wasted materials included in the cost of inventories.
 - (iii) Internal control is part of internal check system.
 - (iv) Computer software which is the integral part of the related hardware can be treated as fixed assets.
 - (v) The auditor appointed under section 139 of the Companies Act, 2013 may be removed from his office before the expiry of his term only by an ordinary resolution of the company.

- (vi) Mr. Rajat, an auditor, recovering fees on progressive basis is said to be indebted to the company.
- (vii) "Examination in depth" implies examination of a few selected transactions from the beginning to the end through the entire flow of the transaction.
- (viii) Inherent and control risk, and detection risk have same meaning.
- (ix) An officer of the company is not qualified for appointment as Auditor of a Company.
- (x) Operational Audit involves examination of all operations and activities of the entity.

(2 x 8 = 16 Marks)

3. (a) What are accounting estimates according to the Standards on Auditing 540? Give some examples. *(5 Marks)*
- (b) "Doing a statutory audit is full of risk". Narrate the factors which cause the risk.

(5 Marks)

- (c) Despite of several disadvantages, audit programme is required to start an audit.

(6 Marks)

4. (a) To prepare an audit plan in CIS environment an auditor should gather information. Mention any four such important information which he has to collect. *(4 Marks)*

- (b) How will you vouch/verify the following?

- (i) Purchase of Goods through its invoice only.

- (ii) Patterns, dies, loose tools etc.

- (iii) Refund of General Insurance Premium paid. *(3 x 4 = 12 Marks)*

5. (a) State the circumstances which could lead to any of the following in an Auditor's Report:

- (i) A modification of opinion
 - (ii) Disclaimer of opinion
 - (iii) Adverse opinion
 - (iv) Qualified opinion. (4 x 2 = 8 Marks)
- (b) What are the points on which an auditor should concentrate while planning audit of an N.G.O.? (8 Marks)
6. (a) KBC & Co. a firm of Chartered Accountants has three partners, namely, Mr. K, Mr. B & Mr. C. Mr. K is also in whole time employment elsewhere. The firm is offered the audit of ABC Ltd. and is already holding audit of 40 companies. Comment. (6 Marks)
- (b) Due to the resignation of the existing auditor(s), the Board of Directors of X Ltd. appointed Mr. Hari as the auditor. Is the appointment of Mr. Hari, as auditor, valid? (6 Marks)
- (c) At the Annual General Meeting of the Company, a resolution was passed by the entire body of shareholders restricting some of the powers of the Statutory Auditors. Whether powers of the Statutory Auditors can be restricted? (4 Marks)
7. Write short notes on any four of the following:
- (a) Impairment of Assets.
 - (b) Application of Securities Premium Account.
 - (c) Importance of audit working papers.
 - (d) Inherent limitations of Internal Control system.
 - (e) Auditor's approach for Re-issue of forfeited shares. (4 x 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

INTERMEDIATE (IPC): GROUP – II

**PAPER – 7: INFORMATION TECHNOLOGY AND STRATEGIC
MANAGEMENT**

SECTION – A: INFORMATION TECHNOLOGY

Question No. 1 is compulsory.

Attempt any **five** questions from the rest.

Time Allowed – 1½ Hours

Maximum Marks – 50

1. Answer all the following questions in brief.
 - (i) Decision Table
 - (ii) Value Chain
 - (iii) Computer Bus
 - (iv) Wi-Fi
 - (v) Vulnerability
 - (vi) Repeater
 - (vii) Knowledge Management Systems
 - (viii) XBRL
 - (ix) Business Application
 - (x) HTTPS (1 x 10 = 10 Marks)
2. (a) Discuss the architecture of Cloud Computing. (5 Marks)
(b) List down some of the business uses of Internet. (3 Marks)
3. (a) What is an Expert System? Discuss its components in brief. (5 Marks)
(b) Discuss about Smart Card and its types? (3 Marks)
4. (a) Discuss Network Virtualization and its application. (5 Marks)
(b) Why Grid computing is needed? (3 Marks)

5. (a) Differentiate between Hierarchical Database Model and Network Database Model.

(5 Marks)

- (b) Differentiate between Transport Layer and Network Layer of OSI Model.

(3Marks)

6. (a) A company ABC Ltd. is engaged in selling consumer goods to different categories of customers. In order to increase its sales, different types of discounts are offered to customers. The policy of discount is as given below:

- (i) On cooking range, a discount of 12 percent is allowed to dealers and 9 percent to retailers irrespective of the value of the order.
- (ii) A discount of 12 percent is allowed on washing machine irrespective of the category of customer and the value of the order.
- (iii) On decorative products, dealers are allowed a discount of 20 percent provided that the value of the order is Rs. 10,000 and above. Retailers are allowed a discount of 10 percent irrespective of the value of the order.

Draw a flow chart to calculate the discount for the above policy. (5 Marks)

- (b) Give advantages of using Decision Tree.

(3 Marks)

7. Write short notes on any **four** of the following.

- (a) Bluetooth
- (b) Business Process Reengineering (BPR)
- (c) Mesh Network
- (d) Core Banking System (CBS)
- (e) Application Controls

(4 × 2 = 8 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1
INTERMEDIATE (IPC): GROUP – II
PAPER –7: INFORMATION TECHNOLOGY AND STRATEGIC
MANAGEMENT
SECTION – B: STRATEGIC MANAGEMENT

Question No.1 is compulsory.

*Attempt any **five** questions from the rest.*

Time Allowed – 1½ Hours

Maximum Marks – 50

1. (a) Organization can wield considerable power and influence over some of the elements of the external environment. Discuss. (3 Marks)
- (b) Explain the meaning of market penetration. (3 Marks)
- (c) What is meant by concentric diversification? (3 Marks)
- (d) The first step in strategic management model is developing a strategic vision and mission. Explain. (3 Marks)
- (e) Describe briefly the use of strategic management techniques in educational institutions. (3 Marks)
2. (a) State with reasons which of the following statements is correct/incorrect:
 - (i) Strategy needs to be perfect, flawless and optimal.

- (ii) A strength is an inherent capacity of an organization. (2 × 2 = 4 Marks)
- (b) Distinguish between strategy formulation and strategy implementation. (3 Marks)
3. Write short notes on the following:
- (a) Industry. (2 Marks)
- (b) Key success factors. (2 Marks)
- (c) Value chain analysis. (3 Marks)
4. Discuss PESTLE as a framework for analysis of macro environmental factors of a business. (7 Marks)
5. (a) 'Strategic planning and implementation are must for all organizations'. In light of statement discuss the importance of strategic planning. (4 Marks)
- (b) What tips can you offer to write a 'right' mission statement? (3 Marks)
6. Under what conditions would you recommend the use of turnaround strategy in an organization? What could be a suitable work plan for this? (7 Marks)
7. Explain prominent areas where Human Resource Manager can play a strategic role. (7 Marks)

