PAPER – 1: ACCOUNTING

PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER, 2018 EXAMINATION

A. Applicable for November, 2018 examination

I. Companies Act, 2013

Relevant Sections of the Companies Act, 2013 notified up to 30th April, 2018 will be applicable for November, 2018 Examination.

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

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

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

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

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 have been made applicable for November, 2018 examination.

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

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

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

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

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

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

Note: The above amendments have also been covered in the respective chapters (1, 2 and 6) webhosted in the BOS Knowledge portal.

B. <u>Not applicable for November, 2018 examination</u>

Non-Applicability of Ind ASs for November, 2018 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS have not been made applicable for November, 2018 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Financial Statements of Companies

Preparation of statement of Profit and Loss and Balance Sheet

1. (a) Prepare a Balance Sheet as at 31st March 2018, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000

Trade payables	45,80,000	Profit for the year	32,00,000
Other advances	14,88,000	Trade receivables	49,00,000
Cash and Bank Balances	38,40,000	Miscellaneous Expenses	2,32,000
Staff Advances	2,20,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000		
Loose Tools	2,00,000	Stores	16,00,000
General Reserve	62,00,000	Fixed Assets (WDV)	2,26,00,000
Capital Work-in- progress	8,00,000	Finished Goods	30,00,000

Additional Information:-

1. Share Capital consist of-
   (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.
   (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.
2. The company declared dividend @ 5% of equity share capital. The dividend distribution tax rate is 17.304%. (15% CDT, surcharge 12%, Education Cess 2% and SHEC @ 1%)
3. Depreciate Assets by ₹ 20,00,000.

(b) PQ Ltd., a non-investment company has been incurring losses for the past few years. The company provides the following information for the current year:

	(₹ in lakhs)
Paid up equity share capital	180
Paid up preference share capital	30
Reserves (including Revaluation reserve ₹ 15 lakhs)	225
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
Accumulated losses not written off	30
Investments	270

PQ Ltd. has only one whole-time director, Mr. Hello. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration for a period not exceeding three years.

Cash flow statement

2. The Balance Sheet of Harry Ltd. for the year ending 31st March, 2018 and 31st March, 2017 were summarised as:

	2018 (₹)	2017 (₹)
Equity share capital	1,20,000	1,00,000
Reserves:		
Profit and Loss Account	9,000	8,000
Current Liabilities:		
Trade Payables	8,000	5,000
Income tax payable	3,000	2,000
Declared Dividends	4,000	2,000
	1,44,000	**1,17,000**
Fixed Assets (at W.D.V)		
Building	19,000	20,000
Furniture & Fixture	34,000	22,000
Cars	25,000	16,000
Long Term Investments	32,000	28,000
Current Assets:		
Inventory	14,000	8,000
Trade Receivables	8,000	6,000
Cash & Bank	12,000	17,000
	1,44,000	**1,17,000**

The Profit and Loss account for the year ended 31st March, 2018 disclosed:

	₹
Profit before tax	8,000
Income Tax	(3,000)
Profit after tax	5,000
Declared Dividends	(4,000)
Retained Profit	1,000

Further Information is available:

1. Depreciation on Building ₹ 1,000.
2. Depreciation on Furniture & Fixtures for the year ₹ 2,000.

3. Depreciation on Cars for the year ₹ 5,000. One car was disposed during the year for ₹ 3,400 whose written down value was ₹ 2,000.
4. Purchase investments for ₹ 6,000.
5. Sold investments for ₹ 10,000, these investments cost ₹ 2,000.

Prepare Cash Flow Statements as per AS-3 (revised) using indirect method.

Profit or Loss Pre and Post incorporation

3. Roshani & Reshma working in partnership, registered a joint stock company under the name of Happy Ltd. on May 31st 2017 to take over their existing business. The summarized Profit & Loss A/c as given by Happy Ltd. for the year ending 31st March, 2018 is as under:

Happy Ltd.

Profit & Loss Account for the year ending March 31, 2018

Particulars	Amount (₹)	Particulars	Amount (₹)
To Salary	1,44,000	By Gross Profit	4,50,000
To Interest on Debenture	36,000		
To Sales Commission	18,000		
To Bad Debts	49,000		
To Depreciation	19,250		
To Rent	38,400		
To Audit fees (Company Audit)	12,000		
To Net Profit	1,33,350		
Total	4,50,000	Total	4,50,000

Prepare a Statement showing allocation of expenses & calculation of pre-incorporation & post- incorporation profits after considering the following information:

(i) GP ratio was constant throughout the year.

(ii) Depreciation includes ₹ 1,250 for assets acquired in post incorporation period.

(iii) Bad debts recovered amounting to ₹ 14,000 for a sale made in 2014-15 has been deducted from bad debts mentioned above.

(iv) Total sales were ₹ 18,00,000 of which ₹ 6,00,000 were for April to September.

(v) Happy Ltd. had to occupy additional space from 1st Oct. 2017 for which rent was ₹ 2,400 per month.

Accounting for Bonus Issue

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

	₹
Authorised capital:	
50,000 12% Preference shares of ₹ 10 each	5,00,000
4,00,000 Equity shares of ₹ 10 each	40,00,000
	45,00,000
Issued and Subscribed capital:	
24,000 12% Preference shares of ₹ 10 each fully paid	2,40,000
2,70,000 Equity shares of ₹ 10 each, ₹ 8 paid up	21,60,000
Reserves and surplus:	
General Reserve	3,60,000
Securities premium	1,00,000
Profit and Loss Account	6,00,000

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

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

Internal Reconstruction of a Company

5. Planet Limited has decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the balance sheet of the company as on 31st March, 2017 before reconstruction:

Particulars	Note No.	Amount (₹ In lakh)
Equity & Liabilities		
Shareholders' Funds		
Share Capital	1	2,100
Reserves & Surplus	2	(783)
Non-Current Liabilities		
Long term Borrowings	3	1,050
Current Liabilities		
Trade Payables	4	153
Other Liabilities	5	36
Total		2,556

Assets		
Non-Current Assets:		
Fixed Assets		
Tangible Assets	6	1,125
Current Investments	7	300
Inventories	8	450
Trade Receivables	9	675
Cash & Cash Equivalents	10	6
Total		2,556

Notes to Accounts:

		₹ In lakh
(1)	Share capital	
	Authorised:	
	300 lakh Equity shares of ₹ 10 each	3,000
	12 lakh, 8% Preference Shares of ₹ 100 each	1,200
		4,200
	Issued, Subscribed and Paid up:	
	150 Lakh Equity Shares of ₹ 10 each, fully paid up	1,500
	6 lakh 8% Preference Shares of ₹ 100 each, fully paid up	600
		2,100
(2)	Reserves and Surplus	
	Debit balance of Profit & Loss A/c	(783)
(3)	Long term borrowings	
	6% Debentures (Secured by freehold property)	600
	Director's Loan	450
		1,050
(4)	Trade payables	
	Trade payables for Goods	153
(5)	Other Liabilities	
	Interest Accrued and Due on 6% Debentures	36
(6)	Tangible Assets	
	Freehold Property	825

	Plant & machinery	300
		1,125
(7)	Current Investment	
	Investment in Equity Instruments	300
(8)	Inventories	
	Finished Goods	450
(9)	Trade Receivables	
	Trade receivables for Goods	675
(10)	Cash and Cash equivalents	
	Balance with bank	6

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to ₹ 75 each and Equity Shares to ₹ 2 each.

(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3rd, Equity Shares of ₹ 2 each to be allotted.

(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 450 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.

(4) Interest accrued and due on Debentures to be paid in cash.

(5) Remaining Freehold Property to be valued at ₹ 550 lakh.

(6) All investments sold out for ₹ 425 lakh.

(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of ₹ 2 each to be alloted.

(8) 40% of Trade receivables and 80% of Inventories to be written off.

(9) Company's contractual commitments amounting to ₹ 900 lakh have been settled by paying 8% penalty of contract value.

You are required to:

(a) Pass Journal Entries for all the transactions related to internal reconstruction;

(b) Prepare Capital Reduction Account, Bank Account; and

(c) Prepare Notes to Accounts on Share Capital and Tangible Assets, immediately after the implementation of internal reconstruction.

Amalgamation of Companies

6. P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Goodwill	1,00,000	80,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Land & Building	4,50,000	3,40,000
8% Debentures	2,00,000	1,00,000	Furniture & Fittings	1,00,000	50,000
General Reserve	1,50,000	50,000	Plant & Machinery	6,20,000	4,50,000
Profit & Loss A/c	3,52,000	2,05,000	Trade Receivables	3,25,000	1,50,000
Unsecured Loan	-	1,75,000	Inventory	2,33,000	1,05,000
Tarde Payables	88,000	1,60,000	Cash at bank	1,08,000	95,000
			Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

(i) 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

Average Due Date

7. Mr. Praveen buys goods on Credit on following dates. 10 days credit is allowed to him after which interest @ 8% p.a. is charged by supplier.

(1)	30th July	₹ 12,000
(2)	12th August	₹ 25,000
(3)	27th July	₹ 18,000
(4)	10th September	₹ 7,000
(5)	12th September	₹ 21,000

It was agreed to be settled on 30th September. Compute interest payable by him using average due date method. Due Date of earliest purchase shall be taken as base date. (one year = 365 days).

Any fraction of a day arising from the calculation to be considered as full day.

Account Current

8. The following transactions took place between Abhik and Dipak during January, 2017 to 31st March, 2017:

Date		₹
1.1.2017	Balance due to Abhik by Dipak	2,16,000
15.1.2017	Goods sold by Dipak to Abhik	3,50,000
15.2.2017	Cash paid by Abhik to Dipak	1,00,000
15.3.2017	Goods sold by Abhik to Dipak	2,00,000

Draw up an Account Current upto 31.3.2017 to be rendered by Abhik to Dipak, by means of Product Method, charging interest at 9% per annum. Interest to be calculated to the nearest rupee.

Self – Balancing Ledgers

9. From the following information available from the books of a trader from 01/01/2018 to 31/03/2018, you are required to draw up the Debtors Ledger Adjustment Account in the General Ledger :

   i. Total sales amounted to ₹ 2,00,000 including the sale of machine for ₹ 6,800 (book value ₹ 12,000). The total cash sales were 85% less than the total credit sales.

ii. Cash collections from debtors amounted to 70% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed a cash discount of ₹ 20,000.

iii. Bills receivable drawn during the three months totalled ₹ 45,000 of which bills amounting to ₹ 20,000 were endorsed in favour of suppliers. Out of the endorsed bills, one bill for ₹ 6,000 was dishonoured for non-payment as the party became insolvent, his estate realized nothing.

iv. Cheque received from debtors ₹ 15,000 were dishonoured, a sum of ₹ 3,500 was irrecoverable, Bad debts written off in the earlier year's realized ₹ 15,000.

v. Sundry debtors as on 01/01/2018 stood at ₹ 1,50,000.

Financial Statements of Not-For-Profit Organizations

10. Following information has been given for Bharat Sports Club, Delhi for the year ending 31.12.2016 and 31.12.2017.

	31.12.2016	31.12.2017
Building (subject to 10% depreciation for the current year)	60,000	?
Furniture (subject to 10% depreciation for the current year)	-	20,000
Stock of Sports Materials	5,000	2,000
Prepaid Insurance	3,000	6,000
Outstanding Subscription	12,000	8,000
Advance Subscription	6,000	4,000
Outstanding Locker Rent	-	6,000
Advance Locker Rent received	-	2,000
Outstanding Rent for Godown	6,000	3,000
12% General Fund Investments	2,00,000	2,00,000
Accrued Interest on above	-	4,000
Cash Balance	1,000	64,000
Bank Balance	2,000	-
Bank Overdraft	-	2,000

Additional Information:

(i) Entrance fees received ₹ 20,000, Life membership fees received ₹ 20,000 during the year.

(ii) Surplus from Income and Expenditure Account ₹ 60,000.

(iii) It is the policy of the club to treat 60% of entrance fees and 40% of life membership fees as revenue nature.

(iv) The furniture was purchased on 01.01.2017.

Prepare Opening and Closing Balance Sheet of Bharat Sports Club as on 31st December, 2016 and 31st December, 2017 respectively.

Accounts from Incomplete Records

11. The following information relates to the business of ABC Enterprises, who requests you to prepare a Trading and Profit & Loss A/c for the year ended 31st March, 2017 and a Balance Sheet as on that date.

(a) Assets and Liabilities as on:

		in ₹
	1.4.2016	31.3.2017
Furniture	60,000	63,500
Inventory	80,000	70,000
Sundry Debtors	1,60,000	?
Sundry Creditors	1,10,000	1,50,000
Prepaid Expenses	6,000	7,000
Outstanding Expenses	20,000	18,000
Cash in Hand & Bank Balance	12,000	26,250

(b) Cash transaction during the year:

(i) Collection from Debtors, after allowing discount of ₹ 15,000 amounted to ₹ 5,85,000.

(ii) Collection on discounting of Bills of Exchange, after deduction of discount of ₹ 1,250 by bank, totalled to ₹ 61,250.

(iii) Creditors of ₹ 4,00,000 were paid ₹ 3,92,000 in full settlement of their dues.

(iv) Payment of Freight inward of ₹ 30,000.

(v) Amount withdrawn for personal use ₹ 70,000.

(vi) Payment for office furniture ₹ 10,000.

(vii) Investment carrying annual interest of 6% were purchased at ₹ 95 (200 shares, face value ₹ 100 each) on 1st October 2016 and payment made thereof.

(viii) Expenses including salaries paid ₹ 95,000.

(ix) Miscellaneous receipt of ₹ 5,000.

(c) Bills of exchange drawn on and accepted by customers during the year amounted to ₹ 1,00,000. Of these, bills of exchange of ₹ 20,000 were endorsed in favour of creditors. An endorsed bill of exchange of ₹ 4,000 was dishonoured.

(d) Goods costing ₹ 9,000 were used as advertising material.

(e) Goods are invariably sold to show a gross profit of 20% on sales.

(f) Difference in cash book, if any, is to be treated as further drawing or introduction of capital by proprietor of ABC enterprises.

(g) Provide at 2% for doubtful debts on closing debtor.

Hire Purchase Transactions

12. The following particulars relate to hire purchase transactions:

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

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

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

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

You are required to compute:

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

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

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

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

Investment Accounts

13. Akash Ltd. had 4,000 equity share of X Limited, at a book value of ₹ 15 per share (face value of ₹ 10 each) on 1st April 2017. On 1st September 2017, Akash Ltd. acquired 1,000 equity shares of X Limited at a premium of ₹ 4 per share. X Limited announced a bonus and right issue for existing shareholders.

The terms of bonus and right issue were -

(1) Bonus was declared, at the rate of two equity shares for every five equity shares held on 30th September, 2017.

(2) Right shares are to be issued to the existing shareholders on 1st December, 2017. The company issued two right shares for every seven shares held at 25% premium. No dividend was payable on these shares. The whole sum being payable by 31st December, 2017.

(3) Existing shareholders were entitled to transfer their rights to outsiders, either wholly or in part.

(4) Akash Ltd. exercised its option under the issue for 50% of its entitlements and sold the remaining rights for ₹ 8 per share.

(5) Dividend for the year ended 31st March 2017, at the rate of 20% was declared by the company and received by Akash Ltd., on 20th January 2018.

(6) On 1st February 2018, Akash Ltd., sold half of its shareholdings at a premium of ₹ 4 per share.

(7) The market price of share on 31.03.2018 was ₹ 13 per share.

You are required to prepare the Investment Account of Akash Ltd. for the year ended 31st March, 2018 and determine the value of share held on that date assuming the investment as current investment. Consider average cost basis for ascertainment of cost for equity share sold.

Insurance Claim for loss of stock and loss of profit

14. On 27th July, 2017, a fire occurred in the godown of M/s. Vijay Exports and most of the stocks were destroyed. However goods costing ₹ 5,000 could be salvaged. Their fire fighting expenses were amounting to ₹ 1,300.

From the salvaged accounting records, the following information is available relating to the period from 1.4.2017 to 27.7.2017:

1.	Stock as per balance sheet as on 31.3.2017	₹ 63,000
2.	Purchases (including purchase of machinery costing ₹ 10,000	₹ 2,92,000
3.	Wages (including wages paid for installation of machinery ₹ 3,000)	₹ 53,000
4.	Sales (including goods sold on approval basis amounting to ₹ 40,000. No approval has been received in respect of 1/4th of the goods sold on approval)	₹ 4,12,300
5.	Cost of goods distributed as free sample	₹ 2,000

Other Information:

(i) While valuing the stock on 31.3.2017, ₹ 1,000 had been written off in respect of certain slow moving items costing ₹ 4,000. A portion of these goods were sold in June, 2017 at a loss of ₹ 700 on original cost of ₹ 3,000. The remainder of these stocks is now estimated to be worth its original cost.

(ii) Past record shows the normal gross profit rate is 20%.

(iii) The insurance company also admitted fire fighting expenses. The Company had taken the fire insurance policy of ₹ 55,000 with the average clause.

Compute the amount of claim of stock destroyed by fire, to be lodged to the Insurance Company. Also prepare Memorandum Trading Account for the period 1.4.2017 to 27.7.2017 for normal and abnormal items.

Issues in Partnership Accounts

15. Ram, Shyam and Laxman are in partnership sharing Profit & Loss equally. Interest on partner's capital and remuneration to partners not to be provided as agreed among partners.

    On 31st March, 2017 their Balance Sheet stood as follows:

Liability	Amount ₹	Assets	Amount ₹
Capital A/c - Ram	2,70,000	Building	4,50,000
Capital A/c - Shyam	2,40,000	Plant & Machinery	90,000
Capital A/c - Laxman	2,40,000	Furniture & Fittings	69,000
Current A/c - Ram	4,200	Closing Stock	27,000
Current A/c- Shyam	6,000	Sundry Debtors	60,600
Sundry Creditors	24,600	Cash at Bank	85,200
		Current A/c - Laxman	3,000
Total	7,84,800	Total	7,84,800

On 31st July, 2017 Ram died. According to the partnership deed, on the death of partner, the sum to be paid to his estate will be:

(i) the amount of his capital and current account balance at the end of last financial year.

(ii) his share of profit for the relevant part of the year of death.

(iii) his share of goodwill.

Goodwill is to be valued at two years' purchase of the average profit of immediately preceding three accounting years.

The profit as per Books of Accounts were as follows:

For accounting year ended 31st March, 2014 ₹ 86,700

For accounting year ended 31st March, 2015 ₹ 1,43,200

For accounting year ended 31st March, 2016 ₹ 1,07,600

No goodwill account is to remain in the books after any change in the partnership's constitution. The stock value at 31st July has been calculated and all other accounts balanced off, including provision for depreciation, accrued expenses and prepaid expenses.

This results in the following position of assets and liabilities on 31st July 2017:

	₹		₹
Building	4,50,000	Stock	33,000
Plants & Machinery	97,700	Sundry Debtors	66,900

(including addition of ₹ 12,000)			
Furniture & Fittings	66,700	Cash at Bank	1,01,100
		Sundry Creditors	29,400

There were no additions to, or reduction in the capital accounts during the four months, but the following drawings have been made by the partners:

Ram ₹ 60,000

Shyam ₹ 48,000

Laxman ₹ 54,000

It has also been agreed that the share of deceased partner should be repaid in three equal installments, the first payment being made on the day after the day of death.

On 1st August 2017, Ram's son Shankar was admitted to partnership as a new partner and agreed that he would bring in to the business ₹ 1,20,000 as his capital together with a premium for his share of goodwill using the existing valuation.

The new profit sharing ratio Shyam: 2/5th, Laxman: 2/5th and Shankar: 1/5th.

You are required to prepare the partnership firm's Balance Sheet as at 1st August 2017, on the assumption that the above transactions have been completed by that date.

Accounting in Computerized Environment

16. What are the disadvantages of a spreadsheet as an accounting tool?

Applicability of Accounting Standards

17. (a) What are Accounting Standards? Explain the issues, with which they deal.

AS 14 Accounting for Amalgamations

(b) Anjana Ltd. is absorbed by Sanjana Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000); the payment of the 9% debentures of ₹ 50,000 at a premium of 20% in form of 8% debentures issued at a premium of 25% at face value and the payment of ₹ 15 per share in cash and allotment of three 11% preference share of ₹ 10 each at a discount of 10% and four equity share of ₹ 10 each at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of shares of the vendor company are 1,50,000 of ₹ 10 each fully paid.

Calculate purchase consideration as per Accounting Standard 14.

AS 2 Valuation of Inventories

18. (a) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2017.

	₹ Per unit
Raw Material X	
Cost price	380
Unloading Charges	20
Freight Inward	40
Replacement cost	300
Chemical Y	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

(i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 20,000 units.

(ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was ₹ 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when

(a) Net realizable value of Chemical Y is ₹ 800 per unit

(b) Net realizable value of Chemical Y is ₹ 600 per unit

AS 7 Construction Contracts

19. (a) Uday Constructions undertake to construct a·bridge for the Government of Uttar Pradesh. The construction commenced during the financial year ending 31.03.2018 and is likely to be completed by the next financial year. The contract is for a fixed price of ₹ 12 crores with an escalation clause. The costs to complete the whole contract are estimated at ₹ 9.50 crores of rupees. You are·given the following information for the year ended 31.03.2018:

Cost incurred upto 31.03.2018 ₹ 4 crores

Cost estimated to complete the contract ₹ 6 crores

Escalation in cost by 5% and accordingly the contract price is increased by 5%.

You are required to ascertain the state of completion and state the revenue and profit to be recognized for the year as per AS-7.

AS 9 Revenue Recognition

(b) Fashion Limited is engaged in manufacturing of readymade garments. They provide you the following information on 31st March, 2017:

(i) On 15th January, 2017 garments worth ₹ 4,00,000 were sent to Anand on consignment basis of which 25% garments unsold were lying with Anand as on 31st March, 2017.

(ii) Garments worth ₹ 1,95,000 were sold to Shine boutique on 25th March, 2017 but at the request of Shine Boutique, these were delivered on 15th April, 2017.

(iii) On 1st November, 2016 garments worth ₹ 2,50,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods up to 31st December, 2016 and no approval or disapproval received for the remaining goods till 31st March, 2017.

You are required to advise the accountant of Fashion Limited, the amount to be recognised as revenue in above cases in the context of AS 9

AS 10 Property, Plant and Equipment

20. (a) ABC Ltd. is installing a new plant at its production facility. It provides you the following information:

	₹
Cost of the plant (cost as per supplier's invoice)	31,25,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Initial Operating losses before commercial production	3,75,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants used for advice on the acquisition of the plant	6,50,000

Please advise ABC Ltd. on the costs that can be capitalised for plant in accordance with AS 10: Property, Plant and Equipment.

AS 13 Accounting for Investments

(b) Active Builders Ltd. invested in the shares of another company on 31st October, 2016 at a cost of ₹ 4,50,000. It also earlier purchased Gold of ₹ 5,00,000 and Silver of ₹ 2,25,000 on 31st March, 2014.

Market values as on 31st March, 2017 of the above investments are as follows:

Shares ₹ 3,75,000; Gold ₹ 7,50,000 and Silver ₹ 4,35,000

How will the above investments be shown in the books of account of Active Builders Ltd. for the year ending 31st March, 2017 as per the provision of AS-13?

SUGGESTED ANSWERS

1. (a) Balance Sheet of Mehar Ltd. as at 31st March, 2018

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	98,64,424
(2)	**Non-current Liabilities**		
	Long term Borrowings Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables	-	45,80,000
	(b) Other current liabilities	3	20,03,576
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		**3,74,68,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Fixed Assets:		
	(i) Tangible Assets	4	2,06,00,000
	(ii) Capital WIP		8,00,000
	(b) Non- current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000
	(d) Short-term Loans and Advances	7	17,08,000
	Total		**3,74,68,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of ₹ 100 each	1,20,00,000	

	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance		
	Profit for the period 32,00,000		
	Less: Miscellaneous Expenditure		
	written off (2,32,000)		
	29,68,000		
	***Less*: Appropriations**		
	Dividend (10,00,000)		
	Dividend distribution tax (2,03,576)	17,64,424	98,64,424
3.	**Other current liabilities**		
	Loan from other parties	8,00,000	
	Dividend	10,00,000	
	Dividend Distribution tax [W.N]	2,03,576	20,03,576
4.	**Tangible assets**		
	Fixed Assets		
	Opening balance	2,26,00,000	
	Less: Depreciation	(20,00,000)	
	Closing balance		2,06,00,000
5.	**Inventories**		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	**Trade Receivables**		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	**Short term loans & Advances**		
	Staff Advances	2,20,000	
	Other Advances	14,88,000	17,08,000

Working Note:

Calculation of Dividend distribution tax

(i) Grossing-up of dividend:

		₹
Dividend distributed by Mehar Ltd.		
Equity shares dividend	6,00,000	
Preference share dividend	4,00,000	10,00,000
Add: Increase for the purpose of grossing up of dividend 10,00,000 x [15 /(100-15)]		1,76,470
Gross dividend		11,76,470

(ii) Dividend distribution tax @ 17.304% 2,03,576

(b) Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	180
Paid up Preference share capital	30
Reserve excluding Revaluation reserve (225 - 15)	210
Securities premium	60
Long term loans	60
Deposits repayable after one year	30
	570
Less: Accumulated losses not written off	(30)
Investments	(270)
Effective capital for the purpose of managerial remuneration	270

Since PQ Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration, managerial remuneration will be calculated on the basis of effective capital of the company, therefore maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum*.

*If the effective capital is less than 5 crores, limit of yearly remuneration payable should not exceed ₹ 60 lakhs as per Companies Act, 2013.

2. **Harry Ltd.**

Cash Flow Statement

for the year ended 31st March, 2018

	₹	₹
Cash flows from operating activities		
Net Profit before taxation	8,000	
Adjustments for:		
Depreciation (1,000 + 2,000 +5,000)	8,000	
Profit on sale of Investment	(8,000)	
Profit on sale of car	(1,400)	
Operating profit before working capital changes	6,600	
Increase in Trade receivables	(2,000)	
Increase in inventories	(6,000)	
Increase in Trade payables	3,000	
Cash generated from operations	1,600	
Income taxes paid	(2,000)	
Net cash generated from operating activities (A)		(400)
Cash flows from investing activities		
Sale of car	3,400	
Purchase of car	(16,000)	
Sale of Investment	10,000	
Purchase of Investment	(6,000)	
Purchase of Furniture & fixtures	(14,000)	
Net cash used in investing activities (B)		(22,600)
Cash flows from financing activities		
Issue of shares for cash	20,000	
Dividends paid*	(2,000)	
Net cash from financing activities(C)		18,000
Net decrease in cash and cash equivalents (A + B +C)		(5,000)
Cash and cash equivalents at beginning of period		17,000
Cash and cash equivalents at end of period		12,000

* Dividend declared for the year ended 31st March, 2017 amounting ₹ 2,000 must have been and paid in the year 2017-18. Hence, it has been considered as cash outflow for preparation of cash flow statement of 2017-18.

Working Notes:

1. **Calculation of Income taxes paid**

	₹
Income tax expense for the year	3,000
Add: Income tax liability at the beginning of the year	2,000
	5,000
Less: Income tax liability at the end of the year	(3,000)
	2,000

2. **Calculation of Fixed assets acquisitions**

	Furniture & Fixtures (₹)	Car (₹)
W.D.V. at 31.3.2018	34,000	25,000
Add back: Depreciation for the year	2,000	5,000
Disposals	—	2,000
	36,000	32,000
Less: W.D.V. at 31. 3. 2017	(22,000)	(16,000)
Acquisitions during 2016-2018	14,000	16,000

3. Pre-incorporation period is for two months, from 1st April, 2017 to 31st May, 2017. 10 months' period (from 1st June, 2017 to 31st March, 2018) is post-incorporation period.

Statement showing calculation of profit/losses for pre and post incorporation periods

		Pre-Inc ₹	***Post-Inc*** ₹
Gross Profit		50,000	4,00,000
Bad debts Recovery		14,000	
		64,000	4,00,000
Less:	Salaries	24,000	1,20,000
	Audit fees	-	12,000
	Depreciation	3,000	16,250
	Sales commission	2,000	16,000
	Bad Debts (49,000 + 14,000)	7,000	56,000
	Interest on Debentures	–	36,000
	Rent	4,000	34,400
Net Profit		24,000	1,09,350

Working Notes:

(i) Calculation of ratio of Sales

Sales from April to September = 6,00,000 (1,00,000 p.m. on average basis)

Oct. to March = ₹ 12,00,000 (2,00,000 p.m. on average basis)

Thus, sales for pre-incorporation period = ₹2,00,000

post-incorporation period = ₹ 16,00,000

Sales are in the ratio of 1:8

(ii) Gross profit, sales commission and bad debts written off have been allocated in pre and post incorporation periods in the ratio of Sales.

(iii) Rent, salary are allocated on time basis.

(iv) Interest on debentures is allocated in post incorporation period.

(v) Audit fees charged to post incorporation period as relating to company audit.

(vi) Depreciation of ₹ 18,000 divided in the ratio of 1:5 (time basis) and ₹ 1,250 charged to post incorporation period.

(vii) Bad debt recovery of ₹ 14,000/- is allocated in pre-incorporation period, being sale made in 2014-15.

(viii) Rent

(₹ 38,400 – Additional rent for 6 months)		₹
[38,400- 14,400 (2,400 x 6)]	=	24,000
1/4/17 -31/5//17 (2,000 x 2)	=	4,000
1/6/17 -31/3/18 – [(2,000 x 10) +14,400]	=	34,400
		38,400

4. Journal Entries in the books of Xeta Ltd.

			₹	₹
1-4-2017	Equity share final call A/c	Dr.	5,40,000	
	To Equity share capital A/c			5,40,000
	(For final calls of ₹ 2 per share on 2,70,000 equity shares due as per Board's Resolution dated….)			
20-4-2017	Bank A/c	Dr.	5,40,000	

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

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

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

5. (a) Journal Entries related to Internal reconstruction in the books of Planet Ltd.

(₹ in lakhs)

	Particulars		*Debit* ₹	*Credit* ₹
i	8% Preference share capital A/c (₹ 100 each)	Dr.	600	
	To 8% Preference share capital A/c (₹ 75 each)			450

	To Capital reduction A/c			150
	(Being the preference shares of ₹ 100 each reduced to ₹ 75 each as per the approved scheme)			
ii	Equity share capital A/c (₹ 10 each)	Dr.	1,500	
	To Equity share capital A/c (₹ 2 each)			300
	To Capital reduction A/c			1,200
	(Being the equity shares of ₹ 10 each reduced to ₹ 2 each)			
iii	Capital reduction A/c	Dr.	48	
	To Equity share capital A/c (₹ 2 each)			48
	(Being 1/3rd of arrears of preference share dividend of three years to be satisfied by issue of 24 lakh equity shares of ₹ 2 each)			
iv	6% Debentures A/c	Dr.	450	
	To Freehold property A/c			450
	(Being claim settled in part by transfer of freehold property)			
v	Accrued debenture interest A/c	Dr.	36	
	To Bank A/c			36
	(Being accrued debenture interest paid)			
vi	Freehold property A/c	Dr.	175	
	To Capital reduction A/c			175
	(Being appreciation (550-375) in the value of freehold property)			
vii	Bank A/c	Dr.	425	
	To Investment A/c			300
	To Capital reduction A/c			125
	(Being investment sold on profit)			
viii	Director's loan A/c	Dr.	450	
	To Equity share capital A/c (₹ 2 each)			135
	To Capital reduction A/c			315
	(Being director's loan waived by 70% and balance being discharged by issue of 67.5 lakh equity shares of ₹ 2 each)			

ix	Capital Reduction A/c	Dr.	1,485	
	To Profit and loss A/c			783
	To Trade receivables A/c (675 x 40%)			270
	To Inventories-in-trade A/c (450 x 80%)			360
	To Bank A/c			72
	(Being various assets, penalty on cancellation of contract, profit and loss account debit balance written off through capital reduction account)			
x	Capital Reduction A/c	Dr.	432	
	To Capital reserve A/c			432
	(Being balance transferred to capital reserve account as per the scheme)			

(b) Capital Reduction Account

(₹ in lakhs)

To Equity Share Capital	48	By 8% Pref. Share Capital	150
To P & L A/c	783	By Equity Share Capital	1,200
To Trade Receivables	270	By Freehold property	175
To Inventories	360	By Bank (profit on sale of investment)	125
To Bank	72	By Director's loan	315
To Capital Reserve	432		
	1,965		1,965

Bank Account

(₹ in lakhs)

To Balance b/d	6	By Accrued debenture interest	36
To Investments	300	By Capital Reduction Account (Penalty on cancellation of contract)	72
To Capital reduction	125	By Balance c/d	323
	431		431

(c) Note to Accounts on Share Capital and Tangible Assets after implementation of internal reconstruction

Share Capital	***(₹ in lakhs)***
Authorised:	
300 lakh shares of ₹ 2 each	600

12 lakh, 8% Preference shares of ₹ 75 each		900
		1,500
Issued, subscribed and paid up:		
241.5 lakh Equity shares of ₹ 2 each		483
(out of which 91.5 lakh shares have been issued for consideration other than cash)		
6 lakh, 8% Preference shares of ₹75 each fully paid up		450
Total		933
Tangible assets		
Freehold property	825	
Less: Utilised to pay Debenture holders	(450)	
Add: Appreciation	175	550
Plant and machinery		300
Total		850

Working Note:

Calculation of number of equity shares issued

to equity shareholders	150 Lakh
to Preference shareholders (in lieu of arrear of preference dividend)	24 Lakh
to Directors	67.5 Lakh
	241.5 Lakh

6. **Books of P Ltd.**

Realization Account

		₹			₹
To	Goodwill	1,00,000	By	8% Debentures	2,00,000
To	Land & Building	4,50,000	By	Trade Payables	88,000
To	Plant & Machinery	6,20,000	By	PQ Ltd.	16,02,100
To	Furniture & Fitting	1,00,000		(Purchase consideration)	
To	Trade receivables	3,25,000	By	Equity Shareholders A/c	1,37,900
To	Inventory	2,33,000		(loss)	
To	Cash at Bank	1,08,000			
To	Cash in Hand	54,000			
To	Preference shareholders				
	(excess payment)	38,000			
		20,28,000			20,28,000

Equity Shareholders Account

		₹			₹
To	Realization A/c (loss)	1,37,900	By	Share capital	8,20,000
To	Equity Shares in PQ Ltd.	10,82,400	By	Profit & Loss A/c	3,52,000
To	Cash	1,01,700	By	General Reserve	1,50,000
		13,22,000			13,22,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	4,18,000	By	Pref. Share capital	3,80,000
			By	Realization A/c	38,000
		4,18,000			4,18,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	16,02,100	By	Shares in PQ Ltd.		
				For Equity	10,82,400	
				For Pref	4,18,000	15,00,400
			By	Cash		1,01,700
		16,02,100				16,02,100

8% Debentures holders Account

	₹		₹
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

		₹			₹
To	Goodwill	80,000	By	8% Debentures	1,00,000
To	Land & Building	3,40,000	By	Trade payables	1,60,000
To	Plant & Machinery	4,50,000	By	Unsecured loan	1,75,000
To	Furniture & Fittings	50,000	By	PQ Ltd. (Purchase	

To	Trade receivables	1,50,000		consideration)	7,92,250
To	Inventory	1,05,000	By	Equity Shareholders A/c—	
To	Cash at bank	95,000		Loss	90,750
To	Cash in hand	20,000			
To	Pref. shareholders	28,000			
		13,18,000			13,18,000

Equity Shareholders Account

		₹			₹
To	Equity shares in PQ Ltd.	4,22,400	By	Share Capital	3,20,000
To	Realization	90,750	By	Profit & Loss A/c	2,05,000
To	Cash	61,850	By	General Reserve	50,000
		5,75,000			5,75,000

9% Preference Shareholders Account

		₹			₹
To	Preference Shares in PQ Ltd.	3,08,000	By	Share capital	2,80,000
			By	Realization A/c	28,000
		3,08,000			3,08,000

PQ Ltd. Account

		₹				₹
To	Realization A/c	7,92,250	By	Equity shares in PQ Ltd.		
				For Equity	4,22,400	
				Preference	3,08,000	7,30,400
			By	Cash		61,850
		7,92,250				7,92,250

8% Debentures holders Account

	₹		₹
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. ₹	Q Ltd. ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,18,000	3,08,000
Equity Shares at ₹ 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

		P Ltd. ₹		Q Ltd. ₹
Goodwill		1,00,000		80,000
Land & Building		4,50,000		3,40,000
Plant & Machinery less 10% Depreciation		5,58,000		4,05,000
Furniture & Fittings less 10% Depreciation		90,000		45,000
Trade receivables less 5%		3,08,750		1,42,500
Inventory less 5%		2,21,350		99,750
Cash at Bank		1,08,000		95,000
Cash in hand		54,000		20,000
		18,90,100		12,27,250
Less: Debentures	2,00,000		1,00,000	
Trade payables	88,000		1,60,000	
Secured Loans	–	(2,88,000)	1,75,000	(4,35,000)
		16,02,100		7,92,250
Payable in shares		15,00,400		7,30,400
Payable in cash*		1,01,700		(61,850)

(iii)	P	Q
Plant &Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

**This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.*

7. Calculation of Average Due date (Taking 6th August as the base date)

Date	*Due Date*	*Amount ₹*	*No. of days from Base date*	*Product ₹*
27/7	6/8	18,000	0	0
30/7	9/8	12,000	3	36,000
12/8	22/8	25,000	16	4,00,000
10/9	20/9	7,000	45	3,15,000
12/9	22/9	21,000	47	9,87,000
		83,000		17,38,000

Average due date = 6th August + 17,38,000/83,000

= 6th August + 21 days = 27th August

Thus average due date is 27th August.

If the payment is made on 30th September, then no. of days after 27th August till 30th Sept. will be 34 days

Interest if settlement is done on 30th September

Interest payable by Parveen on ₹ 83,000 for 34 days @ 8% p.a.

= ₹ 83,000 x 8/100 x 34/365 = ₹ 618.50

8. In the books of Abhik

Dipak in Account Current with Abhik for 1.1.2017 to 31.3.2017

(interest to 31st March,2017@9%p.a.)

Date	*Particulars*	*₹*	*Days*	*Product (₹)*	*Date*	*Particulars*	*₹*	*Days*	*Product (₹)*
01.01.17	To Bal. b/d	2,16,000	90	1,94,40,000	15.1.17	By Purchase	3,50,000	75	2,62,50,000
15.2.17	To Cash	1,00,000	44	44,00,000	31.3.17	By Balance of Products			7,90,000

15.3.17	To sales	2,00,000	16	32,00,000	31.3.17	By Bal. c/d	1,66,195		
31.3.17	To Interest	195							
		5,16,195		2,70,40,000			5,16,195		2,70,40,000

Interest = ₹ 7,90,000 x $\frac{9}{100} \times \frac{1}{365}$ = ₹ 195 (Rounded off)

9. In General Ledger

Debtors Ledger Adjustment Account

2018		₹	2018		₹
Jan. 1	To Balance b/d	1,50,000	Jan. 1 to Mar.31	By General ledger adjustment account:	
Jan. 1 to Mar.31	To General ledger adjustment account:			Collection-cash and bank [70 % of (1,50,000 + 1,68,000)]	2,22,600
	Sales [(100/115) x (2,00,000-6,800)]	1,68,000		Discount	20,000
	Creditors-bill			Bills receivable	45,000
	receivable dishonoured	6,000		Bad debts (6,000 + 3,500)	9,500
	Bank-cheques dishonoured	15,000	March 31	By Balance c/d	41,900
		3,39,000			3,39,000

Note: If credit sales is ₹ 100, cash sales will be ₹ 15. Total credit sales shall be 100/115 of ₹ 1,93,200, i.e., ₹ 1,68,000.

10. Balance Sheet of Bharat sports club as at 31st December, 2016

Liabilities	₹	*Assets*	₹
Outstanding Rent	6,000	Building	60,000
Advance Subscription	6,000	Stock of Sports materials	5,000
Capital Fund	2,71,000	Prepaid Insurance	3,000
(balancing Figure)		Outstanding subscription	12,000
		12% General Fund Investments	2,00,000
		Cash Balance	1,000
		Bank Balance	2,000
	2,83,000		2,83,000

Balance Sheet of Bharat Sports club as at 31st December, 2017

Liabilities		₹	*Assets*		₹
Outstanding Rent		3,000	Building		
Advance Subscription		4,000	Book Value	60,000	
Advance Locker Rent		2,000	*Less:* Depreciation	6,000	54,000
Bank Overdraft		2,000	Furniture Cost	20,000	
Capital Fund:			*Less:* Depreciation	2,000	18,000
Opening Balance	2,71,000		Stock of sports materials		2,000
Add: Entrance Fees	8,000		Prepaid Insurance		6,000
[20,000 x 40%]			Outstanding Subscription		8,000
Add: Life Membership fee	12,000		Outstanding Locker Rent		6,000
[₹ 20,000 x 60%]			12% General		2,00,000
Add: Surplus	60,000	3,51,000	Fund Investments		
			Accrued Interest on 12%		
			General Fund Investments		4,000
			Cash Balance		64,000
		3,62,000			3,62,000

11. **Trading and Profit and Loss Account of ABC enterprise for the year ended 31st March, 2017**

		₹		₹
To Opening Inventory		80,000	By Sales	6,08,750
To Purchases	4,56,000		By Closing inventory	70,000
Less: For advertising	(9,000)	4,47,000		
To Freight inwards		30,000		
To Gross profit c/d		1,21,750		
		6,78,750		6,78,750
To Sundry expenses		92,000	By Gross profit b/d	1,21,750
To Advertisement		9,000	By Interest on investment	600
To Discount allowed –			(20,000 x 6/100 x ½)	
Debtors	15,000		By Discount received	8,000
Bills Receivable	1,250	16,250	By Miscellaneous income	5,000

To Depreciation on furniture		6,500		
To Provision for doubtful debts		1,455		
To Net profit		10,145		
		1,35,350		135,350

Balance Sheet as on 31st March, 2017

Liabilities	*Amount*		*Assets*		*Amount*
	₹	₹		₹	₹
Capital as on 1.4.2016	1,88,000		Furniture (w.d.v.)	60,000	
Less: Drawings	(91,000)		Additions during the year	10,000	
	97,000		*Less:* Depreciation	(6,500)	63,500
Add: Net Profit	10,145	1,07,145	Investment (200x₹95)		19,000
Sundry creditors		1,50,000	Interest accrued		600
Outstanding expenses		18,000	Closing inventory		70,000
			Sundry debtors	72,750	
			Less: Provision for doubtful debts	1,455	71,295
			Bills receivable		17,500
			Cash in hand and at bank		26,250
			Prepaid expenses		7,000
		2,75,145			2,75,145

Working Notes:

(1) Capital on 1st April, 2016

Balance Sheet as on 1st April, 2016

Liabilities	₹	*Assets*	₹
Capital (Bal.fig.)	1,88,000	Furniture (w.d.v.)	60,000
Creditors	1,10,000	Closing Inventory	80,000
Outstanding expenses	20,000	Sundry debtors	1,60,000
		Cash in hand and at bank	12,000

		Prepaid expenses	6,000
	3,18,000		3,18,000

(2) Purchases made during the year

Sundry Creditors Account

	₹		₹
To Cash and bank A/c	3,92,000	By Balance b/d	1,10,000
To Discount received A/c	8,000	By Sundry debtors A/c	4,000
To Bills Receivable A/c	20,000	By Purchases A/c	4,56,000
To Balance c/d	1,50,000	(Balancing figure)	
	5,70,000		5,70,000

(3) Sales made during the year

		₹
Opening inventory		80,000
Purchases	4,56,000	
Less: For advertising	(9,000)	4,47,000
Freight inwards		30,000
		5,57,000
Less: Closing inventory		(70,000)
Cost of goods sold		4,87,000
Add: Gross profit (25% on cost)		1,21,750
		6,08,750

(4) Debtors on 31st March, 2017

Sundry Debtors Account

	₹		₹
To Balance b/d	1,60,000	By Cash and bank A/c	5,85,000
To Sales A/c	6,08,750	By Discount allowed A/c	15,000
To Sundry creditors A/c		By Bills receivable A/c	1,00,000
(bill dishonoured)	4,000	By Balance c/d (Bal.fig.)	72,750
	7,72,750		7,72,750

(5) Additional drawings by proprietors of ABC enterprises

Cash and Bank Account

	₹		₹
To Balance b/d	12,000	By Freight inwards A/c	30,000
To Sundry debtors A/c	5,85,000	By Furniture A/c	10,000
To Bills Receivable A/c	61,250	By Investment A/c	19,000
To Miscellaneous income A/c	5,000	By Expenses A/c	95,000
		By Creditors A/c	3,92,000
		By Drawings A/c [₹ 70,000 + ₹ 21,000) (Additional drawings)]	91,000
		By Balance c/d	26,250
	6,63,250		6,63,250

(6) Amount of expenses debited to Profit and Loss A/c

Sundry Expenses Account

	₹		₹
To Prepaid expenses A/c (on 1.4.2016)	6,000	By Outstanding expenses A/c (on 1.4.2016)	20,000
To Bank A/c	95,000	By Profit and Loss A/c (Balancing figure)	92,000
To Outstanding expenses A/c (on 31.3.2017)	18,000	By Prepaid expenses A/c (on 31.3.17)	7,000
	1,19,000		1,19,000

(7) Bills Receivable on 31st March, 2017

Bills Receivable Account

	₹		₹
To Debtors A/c	1,00,000	By Creditors A/c	20,000
		By Bank A/c	61,250
		By Discount on bills receivable A/c	1,250
		By Balance c/d (Balancing figure)	17,500
	1,00,000		1,00,000

Note: All sales and purchases are assumed to be on credit basis.

12.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	1,20,000
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	84,000
	Agreed value of two cars taken back by the hire vendor	1,96,000
(ii)	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @20% for the first year	40,000
	Written drown value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	32,000
	Book value of car left with the hire purchaser	1,28,000
(iii)	Book value of one car as calculated in working note (ii) above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in working note (i) above	1,96,000
	Hence, loss on cars taken back = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000
(iv)	Sale proceeds of cars repossessed	1,70,000
	Less: Value at which Cars were taken back ₹ 1,96,000	
	Repair ₹ 10,000	2,06,000
	Loss on resale	36,000

13. **Investment Account-Equity Shares in X Ltd.**

Date		*No. of shares*	*Dividend*	*Amount*	*Date*		*No. of shares*	*Dividend*	*Amount*
			₹	₹				₹	₹
2017					2018				
April 1	To Balance b/d	4,000	-	60,000	Jan. 20	By Bank (dividend)		8,000	2,000
Sept 1	To Bank	1,000	-	14,000	Feb. 1	By Bank	4,000		56,000
Sept.30	To Bonus Issue	2,000		—	Mar. 31	By Balance c/d	4,000		42,250
Dec.1	To Bank (Right)	1,000	-	12,500					

2018									
Feb. 1	To Profit & Loss A/c			13,750					
March-31	To Profit & Loss A/c (Dividend income)		8,000						
		8,000	8,000	1,00,250			8,000	8,000	1,00,250
April. 1	To Balance b/d	4,000		42,250					

Working Notes:

1. **Cost of shares sold — Amount paid for 8,000 shares**

	₹
(₹ 60,000 + ₹ 14,000 + ₹ 12,500)	**86,500**
Less: Dividend on shares purchased on 1st Sept, 2017	(2,000)
Cost of 8,000 shares	84,500
Cost of 4,000 shares (Average cost basis*)	42,250
Sale proceeds (4,000 shares @ 14/-)	56,000
Profit on sale	13,750

* For ascertainment of cost for equity shares sold, average cost basis has been applied.

2. **Value of investment at the end of the year**

Closing balance will be valued based on lower of cost (₹ 42,250) or net realizable value (₹13 x 4,000). Thus investment will be valued at ₹ 42,250.

3. **Calculation of sale of right entitlement**

1,000 shares x ₹ 8 per share = ₹ 8,000

Amount received from sale of rights will be credited to P & L A/c as per AS 13 ‘Accounting for Investments’.

4. **Dividend received on investment held as on 1st April, 2017**

= 4,000 shares x ₹ 10 x 20%

= ₹ 8,000 will be transferred to Profit and Loss A/c

Dividend received on shares purchased on 1stSep. 2017

= 1,000 shares x ₹ 10 x 20% = ₹ 2,000 will be adjusted to Investment A/c

Note: It is presumed that no dividend is received on bonus shares as bonus shares are declared on 30th Sept., 2017 and dividend pertains to the year ended 31.3.2017.

14. Memorandum Trading Account for the period 1st April, 2017 to 27th July, 2017

	Normal Items ₹	Abnormal Items ₹	Total ₹		Normal Items ₹	Abnormal Items ₹	Total ₹
To Opening stock (W.N.5)	60,000	4,000	64,000	By Sales (W.N. 3)	4,00,000	2,300	4,02,300
To Purchases (W.N. 1)	2,80,000	-	2,80,000	By Loss	-	700	700
To Wages (W.N. 4)	50,000	-	50,000	By Goods on Approval (W.N. 2)	8,000	-	8,000
To Gross profit @ 20%	80,000	-	80,000	By Closing stock (Bal. fig.)	62,000	1,000	63,000
	4,70,000	4,000	4,74,000		4,70,000	4,000	4,74,000

Statement of Claim for Loss of Stock

	₹
Book value of stock as on 27th July, 2017	62,000
Add: Abnormal Stock	1,000
Less: Stock salvaged	(5,000)
Loss of stock	58,000
Add: Fire fighting expenses	1,300
Total Loss	59,300

Amount of claim to be lodged with insurance company

$$= \text{Loss x } \frac{\text{Policy value}}{\text{Value of stock on the date of fire}}$$

= ₹ 59,300 x (55,000/ 63,000) = ₹ 51,770 (rounded off)

Working Notes:

1. Calculation of Adjusted Purchases

	₹
Purchases	2,92,000
Less: Purchase of Machinery	(10,000)

Less: Free samples	(2,000)
Adjusted purchases	2,80,000

2. **Calculation of Goods with Customers**

Approval for sale has not been received = ₹ 40,000 X 1/4 = ₹ 10,000.

Hence, these should be valued at cost i.e. (₹ 10,000 – 20% of ₹ 10,000) = ₹ 8,000

3. **Calculation of Actual Sales**

Total Sales shown	₹ 4,12,300
Less: Approval for sale not received (1/4 X ₹ 40,000)	₹ 10,000
Actual Sales	₹ 4,02,300

4. **Calculation of Wages**

Total Wages	₹ 53,000
Less: Wages for installation of machinery	₹ 3,000
	₹ 50,000

5. **Value of Opening Stock**

Original cost of stock as on 31st March, 2018

= ₹ 63,000 + 1,000 (Amount written off)

= ₹ 64,000.

15. Balance Sheet as at 1st August, 2017

Liabilities	₹	*Assets*	₹
Capital Accounts:		Building	4,50,000
Shyam	2,25,000	Plant and Machinery	97,700
Laxman	2,25,000	Stock	33,000
Shankar	1,20,000	Debtors	66,900
Current Accounts:		Furniture and Fittings	66,700
Shyam	21,600	Cash at Bank	1,48,500
Laxman	6,600	(1,01,100+1,65,000-	
Sundry Creditors	29,400	1,17,600)	
Ram's Executor's Loan	2,35,200		
	8,62,800		8,62,800

Working Notes:

(1) Calculation of Goodwill: ₹

Profit for the year ended 31.3.2014	86,700
Profit for the year ended 31.3.2015	1,43,200
Profit for the year ended 31.3.2016	1,07,600
	3,37,500

Average profit = $\frac{3,37,500}{3} = 1,12,500$

Goodwill = ₹ 1,12,500 X 2 years = ₹ 2,25,000

Ram's share of goodwill = $2,25,000 \times \frac{1}{3} = 75,000$

Shankar's share of goodwill = $2,25,000 \times \frac{1}{5} = 45,000$

2. Balance Sheet as on 31st July, 2017

Liabilities	**₹**	***Assets***	**₹**
Capital A/c (balancing figure)	7,86,000	Building	4,50,000
Creditors	29,400	Stock	33,000
		Sundry Debtors	66,900
		Plant and Machinery	97,700
		Furniture & Fittings	66,700
		Cash at bank	1,01,100
	8,15,400		8,15,400

3. Calculation of profits made during the period of 1st April, 2017 to 31st July, 2017

	₹
Combined Capital (of all partners) as on 31.7.2017	7,86,000
Less: Combined Capitals on 1.4.17	
[2,70,000 + 2,40,000 + 2,40,000 + 4,200 + 6,000 less 3,000)	7,57,200
	28,800
Add: Drawings of all partners (60,000 + 48,000 + 54,000)	1,62,000
Total Profit	1,90,800
Share of Profit of each partner	63,600

4. Partners' Capital Accounts

	Ram	Shyam	Laxman	Shankar		Ram	Shyam	Laxman	Shankar
	₹	₹	₹	₹		₹	₹	₹	₹
To Ram (Goodwill adj.)	-	37,500	37,500	–	By Balance b/d	2,70,000	2,40,000	2,40,000	–
					By Goodwill adjustment (Shyam and Laxman)	75,000	–	–	–
To Ram's Executors A/c	3,52,800	–	–	–	By Ram's current a/c	7,800	–	–	
To Shyam and Laxman	–	–	–	45,000	By Cash	–	–	–	1,65,000
					By Shankar (Goodwill adj.)		22,500	22,500	
To Balance c/d		2,25,000	2,25,000	1,20,000					–
	3,52,800	2,62,500	2,62,500	1,65,000		3,52,800	2,62,500	2,62,500	1,65,000

5. Partners' Current Accounts

Dr.							*Cr.*
	Ram	***Shyam***	***Laxman***		***Ram***	***Shyam***	***Laxman***
	₹	₹	₹		₹	₹	₹
To Balance b/d	–	–	3,000	By Balance b/d	4,200	6,000	–
To Drawings	60,000	48,000	54,000	By Profit and loss A/c	63,600	63,600	63,600
To Capital A/c (bal. fig.)	7,800	–	–				
To Balance c/d		21,600	6,600				
	67,800	69,600	63,600		67,800	69,600	63,600

6. Ram' Executors' Account

	₹		₹
To Cash and Bank	1,17,600	By Ram's Capital A/c	3,52,800
To Ram's Executor's Loan A/c	2,35,200		
	3,52,800		3,52,800

16. Disadvantages of a spreadsheet as an accounting tool are as follows:

1. Spreadsheet has data limitations. Depending upon the package, it can accept data only up to a specified limit.
2. Simultaneous access on a network may not be possible. Many of the modern softwares allow locking of the table when updation is taking place. This is not possible in a spread sheet.
3. Double entry is not automatically completed in Spread Sheet. Formulas or other means have to be adopted to complete the double entry.
4. Reports are not automatically formatted and generated but have to be user controlled. Each time a report has to be printed, settings have to be checked and data range has to be set. In many accounting softwares this is automatically taken care of by the program.

17. (a) Accounting Standards (ASs) are written policy documents issued by expert accounting body or by government or other regulatory body covering the aspects of recognition, measurement, presentation and disclosure of accounting transactions in the financial statements. Accounting Standards reduce the accounting alternatives in the preparation of financial statements and ensure standardization of alternative accounting treatments and comparability of financial statements of different enterprises.

Accounting Standards deal with the issues of

(i) **Recognition of events and transactions** in the financial statements,

(ii) **Measurement** of these transactions and events,

(iii) **Presentation** of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and

(iv) **Disclosure requirements** which should be there to enable the public at large and the stakeholders and the potential investors, in particular, to get an insight into what these financial statements are trying to reflect and thereby facilitating them to take prudent and informed business decisions.

(b) As per AS 14 on Accounting for Amalgamations, the term 'consideration' has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company

The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

	₹
Cash payment [₹15 x 1,50,000]	22,50,000
11% Preference Shares of ₹ 10 each @ 10% discount [(1,50,000 x 3/5) x ₹ 9]	8,10,000
Equity shares of ₹ 10 each @ 20% premium [(1,50,000 x 4/5) x ₹ 12]	14,40,000
Total Purchase consideration	45,00,000

For every 5 shares Anjana Ltd. will receive (i) 4 equity shares @ ₹12 per share and (ii) 3 11% Preference Shares shares @ ₹ 9 per share.

18. (a) **When Net Realizable Value of the Chemical Y is ₹ 800 per unit**

NRV is greater than the cost of Finished Goods Y i.e. ₹ 660 (Refer W.N.)

Hence, Raw Material and Finished Goods are to be valued at cost.

Value of Closing Stock:

	Qty.	*Rate (₹)*	*Amount (₹)*
Raw Material X	1,000	440	4,40,000
Finished Goods Y	2,400	660	15,84,000
Total Value of Closing Stock			20,24,000

(b) **When Net Realizable Value of the Chemical Y is ₹ 600 per unit**

NRV is less than the cost of Finished Goods Y i.e. ₹ 660. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	*Rate (₹)*	*Amount (₹)*
Raw Material X	1,000	300	3,00,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,40,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	380

Add: Freight Inward	40
Unloading charges	20
Cost	440
Chemical Y	**₹**
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/20,000 units)	20
Cost	660

19. (a)

	₹ in crore
Cost of construction of bridge incurred upto 31.3.18	4.00
Add: Estimated future cost	6.00
Total estimated cost of construction	10.00
Contract Price (12 crore x 1.05)	12.60 crore

Stage of completion

Percentage of completion till date to total estimated cost of construction

$= (4/10)\times100 = 40\%$

Revenue and Profit to be recognized for the year ended 31st March, 2018 as per AS 7

Proportion of total contract value recognized as revenue = Contract price x percentage of completion

=₹ 12.60 crore x 40% =₹ 5.04 crore

Profit for the year ended 31st March, 2018 = ₹ 5.04 crore less ₹ 4 crore = 1.04 crore

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

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

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

Case (i): 25% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 3,00,000 (75% of ₹ 4,00,000) for the year ended on 31.3.17. In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

Case (ii): The sale is complete but delivery has been postponed at buyer's request. Fashion Ltd. should recognize the entire sale of ₹1,95,000 for the year ended 31st March, 2017.

Case (iii): In case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 2,50,000 as the time period for rejecting the goods had expired.

Thus total revenue amounting ₹ 7,45,000 (3,00,000+1,95,000+2,50,000) will be recognized for the year ended 31st March, 2017 in the books of Fashion Ltd.

20. **(a)** According to AS 10 on Property, Plant and Equipment, the costs which will be capitalized by ABC Ltd.:

	₹
Cost of the plant	31,25,000
Initial delivery and handling costs	1,85,000
Cost of site preparation	4,50,000
Consultants' fees	6,50,000
Estimated dismantling costs to be incurred after 5 years	2,50,000
Total cost of Plant	46,60,000

Note: Operating losses before commercial production amounting to ₹ 3,75,000 will not be capitalized as per AS 10. They should be written off to the Statement of Profit and Loss in the period they are incurred.

(b) As per AS 13 'Accounting for Investments', if the shares are purchased with an intention to hold for short-term period then investment will be shown at the realizable value.

If equity shares are acquired with an intention to hold for long term period then it will continue to be shown at cost in the Balance Sheet of the company. However, provision for diminution shall be made to recognize a decline, if other than temporary, in the value of the investments. In the given case, shares purchased on 31st October, 2016, will be valued at ₹ 3,75,000 as on 31st March, 2017.

Gold and silver are generally purchased with an intention to hold it for long term period until and unless given otherwise. Hence, the investment in gold and silver (purchased on 31st March, 2014) shall continue to be shown at cost as on 31st March, 2017 i.e., ₹ 5,00,000 and ₹ 2,25,000 respectively, though their realizable values have been increased.

Thus the shares, gold and silver will be shown at ₹ 3,75,000, ₹ 5,00,000 and ₹ 2,25,000 respectively and hence, total investment will be valued at ₹ 11,00,000 in the books of account of M/s Active Builders for the year ending 31st March, 2017 as per provisions of AS 13.

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART-I: COST ACCOUNTING

QUESTIONS

Material

1. Rounak Ltd. is the manufacturer of monitors for PCs. A monitor requires 4 units of Part-M. The following are the details of its operation during 20X8:

Average monthly market demand	2,000 Monitors
Ordering cost	₹ 1,000 per order
Inventory carrying cost	20% per annum
Cost of Part	₹ 350 per part
Normal usage	425 parts per week
Minimum usage	140 parts per week
Maximum usage	710 parts per week
Lead time to supply	3 - 5 weeks

Compute from the above:

(i) Economic Order Quantity (EOQ). If the supplier is willing to supply quarterly 30,000 units of Part-M at a discount of 5%, is it worth accepting?

(ii) Reorder level

(iii) Maximum level of stock

(iv) Minimum level of stock.

Labour

2. A job can be executed either through workman A or B. A takes 32 hours to complete the job while B finishes it in 30 hours. The standard time to finish the job is 40 hours.

The hourly wage rate is same for both the workers. In addition workman A is entitled to receive bonus according to Halsey plan (50%) sharing while B is paid bonus as per Rowan plan. The works overheads are absorbed on the job at ₹ 7.50 per labour hour worked. The factory cost of the job comes to ₹ 2,600 irrespective of the workman engaged.

Interpret the hourly wage rate and cost of raw materials input. Also show cost against each element of cost included in factory cost.

Overheads

3. Sree Ajeet Ltd. having fifteen different types of automatic machines furnishes information as under for 20X8-20X9

(i) Overhead expenses: Factory rent ₹ 1,80,000 (Floor area 1,00,000 sq.ft.), Heat and gas ₹ 60,000 and supervision ₹ 1,50,000.

(ii) Wages of the operator are ₹ 200 per day of 8 hours . Operator attends to one machine when it is under set up and two machines while they are under operation.

In respect of machine B (one of the above machines) the following particulars are furnished:

(i) Cost of machine ₹1,80,000, Life of machine- 10 years and scrap value at the end of its life ₹ 10,000

(ii) Annual expenses on special equipment attached to the machine are estimated as ₹ 12,000

(iii) Estimated operation time of the machine is 3,600 hours while set up time is 400 hours per annum

(iv) The machine occupies 5,000 sq.ft. of floor area.

(v) Power costs ₹ 5 per hour while machine is in operation.

Estimate the comprehensive machine hour rate of machine B. Also find out machine costs to be absorbed in respect of use of machine B on the following two work orders

	Work order- 1	Work order-2
Machine set up time (Hours)	15	30
Machine operation time (Hours)	100	190

Non-Integrated Accounting

4. The financial books of a company reveal the following data for the year ended 31st March, 20X8:

Opening Stock:	(₹)
Finished goods 625 units	53,125
Work-in-process	46,000
01.04.20X7 to 31.03.20X8	
Raw materials consumed	8,40,000
Direct Labour	6,10,000
Factory overheads	4,22,000
Administration overheads (Production related)	1,98,000
Dividend paid	1,22,000
Bad Debts	18,000
Selling and Distribution Overheads	72,000

Interest received	38,000
Rent received	46,000
Sales 12,615 units	22,80,000
Closing Stock: Finished goods 415 units	45,650
Work-in-process	41,200

The cost records provide as under:

- Factory overheads are absorbed at 70% of direct wages.
- Administration overheads are recovered at 15% of factory cost.
- Selling and distribution overheads are charged at ₹ 3 per unit sold.
- Opening Stock of finished goods is valued at ₹ 120 per unit.
- The company values work-in-process at factory cost for both Financial and Cost Profit Reporting.

Required:

(i) Prepare a statements for the year ended 31st March, 20X8. Show

- the profit as per financial records
- the profit as per costing records.

(ii) Prepare a statement reconciling the profit as per costing records with the profit as per Financial Records.

Contract Costing

5. A construction company undertook a contract at an estimated price of ₹ 108 lakhs, which includes a budgeted profit of ₹ 18 lakhs. The relevant data for the year ended 31.03.20X8 are as under:

	(₹ '000)
Materials issued to site	5,000
Direct wages paid	3,800
Plant hired	700
Site office costs	270
Materials returned from site	100
Direct expenses	500
Work certified	10,000
Work not certified	230
Progress payment received	7,200

A special plant was purchased specifically for this contract at ₹ 8,00,000 and after use on this contract till the end of 31.02.20X8, it was valued at ₹ 5,00,000. This cost of materials at site at the end of the year was estimated at ₹ 18,00,000 Direct wages accrued as on 31.03.20X8 was ₹ 1,10,000.

Required

Prepare the Contract Account for the year ended 31st March, 20X8.

Job Costing

6. A company has been asked to quote for a job. The company aims to make a net profit of 30% on sales. The estimated cost for the job is as follows:

   Direct materials 10 kg @₹10 per kg

   Direct labour 20 hours @ ₹5 per hour

   Variable production overheads are recovered at the rate of ₹2 per labour hour.

   Fixed production overheads for the company are budgeted to be ₹1,00,000 each year and are recovered on the basis of labour hours.

   There are 10,000 budgeted labour hours each year. Other costs in relation to selling, distribution and administration are recovered at the rate of ₹50 per job.

   Determine quote for the job by the Company.

Process Costing

7. From the following information for the month of January, 20X9, prepare Process-III cost accounts.

Opening WIP in Process-III	1,600 units at ₹ 24,000
Transfer from Process-II	55,400 units at ₹ 6,23,250
Transferred to warehouse	52,200 units
Closing WIP of Process-III	4,200 units
Units Scrapped	600 units
Direct material added in Process-III	₹ 2,12,400
Direct wages	₹ 96,420
Production overheads	₹ 56,400

Degree of completion:

	Opening Stock	Closing Stock	Scrap
Material	80%	70%	100%
Labour	60%	50%	70%
Overheads	60%	50%	70%

The normal loss in the process was 5% of the production and scrap was sold @ ₹ 5 per unit.

(Students may treat material transferred from Process – II as Material – A and fresh material used in Process – III as Material B)

Joint Products & By Products

8. In an Oil Mill four products emerge from a refining process. The total cost of input during the quarter ending March 20X8 is ₹1,48,000. The output, sales and additional processing costs are as under:

Products	Output in Litres	Additional processing cost after split off (₹)	Sales value (₹)
ACH	8,000	43,000	1,72,500
BCH	4,000	9,000	15,000
CSH	2,000	–	6,000
DSH	4,000	1,500	45,000

In case these products were disposed-off at the split off point that is before further processing, the selling price per litre would have been:

ACH(₹)	BCH(₹)	CSH(₹)	DSH(₹)
15.00	6.00	3.00	7.50

Produce a statement of profitability based on:

(i) If the products are sold after further processing is carried out in the mill.

(ii) If they are sold at the split off point.

Operating Costing

9. In order to develop tourism, Nepal Airline has been given permit to operate three flights in a week between X and Y cities (both side). The airline operates a single aircraft of 160 seats capacity. The normal occupancy is estimated at 60% throughout the year of 52 weeks. The one-way fare is ₹ 7,200. The cost of operation of flights is:

Fuel cost (variable)	₹ 96,000 per flight
Food served on board on non-chargeable basis	₹ 125 per passenger
Commission	5% of fare applicable for all booking
Fixed cost:	
Aircraft lease	₹ 3,50,000 per flight
Landing Charges	₹ 72,000 per flight

Required:

(i) Calculate the net operating income per flight.

(ii) The airline expects that its occupancy will increase to 108 passengers per flight if the fare is reduced to ₹ 6,720. Advise whether this proposal should be implemented or not.

Standard Costing

10. Aaradhya Ltd.manufactures a commercial product for which the standard cost per unit is as follows:

	(₹)
Material:	
5 kg. @ ₹ 4 per kg.	20.00
Labour:	
3 hours @ ₹10 per hour	30.00
Overhead	
Variable: 3 hours @ ₹1	3.00
Fixed: 3 hours @ ₹0.50	1.50
Total	54.50

During Jan. 20X8, 600 units of the product were manufactured at the cost shown below:

	(₹)
Materials purchased:	
5,000 kg. @ ₹4.10 per kg.	20,500
Materials used:	
3,500 kg.	
Direct Labour:	
1,700 hours @ ₹ 9	15,300
Variable overhead	1,900
Fixed overhead	900
Total	38,600

The flexible budget required 1,800 direct labour hours for operation at the monthly activity level used to set the fixed overhead rate.

Compute:

(a) Material price variance, (b) Material Usage variance; (c) Labour rate variance; (d) Labour efficiency variance; (e) Variable overhead expenditure variance; (f) Variable overhead efficiency variance; (g) Fixed overhead expenditure variance; (h) Fixed overhead volume variance; (i) Fixed overhead capacity variance; and (j) Fixed overhead efficiency variance.

Also reconcile the standard and actual cost of production.

Marginal Costing

11. A company sells its product at ₹ 15 per unit. In a period, if it produces and sells 8,000 units, it incurs a loss of ₹ 5 per unit. If the volume is raised to 20,000 units, it earns a profit of ₹ 4 per unit. Calculate break-even point both in terms of rupees as well as in units.

Budget and Budgetary Control

12. Gaurav Ltd. is drawing a production plan for its two products Minimax (MM) and Heavyhigh (HH) for the year 20X8-X9. The company's policy is to hold closing stock of finished goods at 25% of the anticipated volume of sales of the succeeding month. The following are the estimated data for two products:

	Minimax (MM)	**Heavyhigh (HH)**
Budgeted Production units	1,80,000	1,20,000
	(₹)	**(₹)**
Direct material cost per unit	220	280
Direct labour cost per unit	130	120
Manufacturing overhead	4,00,000	5,00,000

The estimated units to be sold in the first four months of the year 20X8-X9 are as under

	April	**May**	**June**	**July**
Minimax	8,000	10,000	12,000	16,000
Heavyhigh	6,000	8,000	9,000	14,000

Prepare production budget for the first quarter in monthwise

Miscellaneous

13. (a) Discuss the essential features of a good cost accounting system.

(b) Explain the difference between Cost Control and Control Reduction.

(c) Define Controllable Cost and Uncontrollable Cost.

(d) Distinguish between job and batch costing.

SUGGESTED HINTS/ANSWERS

Cost Accounting

1. (1) A = Annual usage of parts = Monthly demand for monitors × 4 parts × 12 months

= 2,000 monitors × 4 parts × 12 months = 96,000 units

O = Ordering cost per order = ₹ 1,000/- per order

C_1 = Cost per part = ₹ 350/-

$_iC_1$ = Inventory carrying cost per unit per annum

=20% × ₹ 350 = ₹ 70/- per unit, per annum

Economic order quantity (EOQ):

$$\text{E.O.Q} = \sqrt{\frac{2AO}{_iC_1}} = \sqrt{\frac{2\times 96{,}000 \text{ units}\times ₹1{,}000}{₹70}}$$

= 1,656 parts (approx.)

The supplier is willing to supply 30,000 units at a discount of 5%, therefore cost of each part shall be ₹350 – 5% of 350 = ₹332.5

Total cost (when order size is 30,000 units):

= Cost of 96,000 units + Ordering cost + Carrying cost.

$$= (96{,}000 \text{ units} \times ₹\ 332.50) + \left(\frac{96{,}000 \text{ units}}{30{,}000 \text{ units}} \times ₹1{,}000\right) + \frac{1}{2}(30{,}000 \text{ units} \times 20\% \times ₹\ 332.50)$$

= ₹ 3,19,20,000 + ₹ 3,200* + ₹ 9,97,500 = ₹ 3,29,20,700

Total cost (when order size is 1,656 units):

$$= (96{,}000 \text{ units} \times ₹350) + \left(\frac{96{,}000 \text{ units}}{1{,}656 \text{ units}} \times ₹1{,}000\right) + \frac{1}{2}(1{,}656 \text{ units} \times 20\% \times ₹350)$$

= ₹3,36,00,000 + ₹57,970* + ₹57,960 = ₹3,37,15,930

Since, the total cost under the supply of 30,000 units with 5% discount is lower than that when order size is 1,656 units, therefore the offer should be accepted.

Note: While accepting this offer consideration of capital blocked on order size of 30,000 units has been ignored.

**Order size can also be taken in absolute figure.*

(2) Reorder level

= Maximum consumption × Maximum re-order period

= 710 units × 5 weeks = 3,550 units

(3) Maximum level of stock

= Re-order level + Reorder quantity – (Min. usage × Min. reorder period)

= 3,550 units + 1,656 units – (140 units × 3 weeks) = 4,786 units.

(4) Minimum level of stock

= Re-order level – Normal usage × Average reorder period

= 3,550 units – (425 units × 4 weeks) = 1,850 units.

2. Calculation of :

1. Time saved and wages:

Workmen	A	B
Standard time (hrs.)	40	40
Actual time taken (hrs.)	32	30
Time saved (hrs.)	8	10
Wages paid @ ₹ x per hr. (₹)	32x	30x

2. Bonus Plan:

	Halsey	Rowan
Time saved (hrs.)	8	10
Bonus (₹)	4x $\left[\frac{8 \text{ hrs} \times ₹\ x}{2}\right]$	7.5x $\left[\frac{10 \text{ hrs}}{40 \text{ hrs}} \times 30\text{hrs} \times ₹\ x\right]$

3. Total wages:

Workman A: 32x + 4x = ₹ 36x

Workman B: 30x + 7.5x = ₹ 37.5x

Statement of factory cost of the job

Workmen	A (₹)	B (₹)
Material cost (assumed)	y	y
Wages (shown above)	36x	37.5x
Works overhead	240	225
Factory cost (given)	2,600	2,600

The above relations can be written as follows:

$36x + y + 240 = 2{,}600$ (i)

$37.5x + y + 225 = 2{,}600$ (ii)

Subtracting (i) from (ii) we get

$1.5x - 15 = 0$

Or, $1.5x = 15$

Or, x = ₹ 10 per hour

On substituting the value of x in (i) we get y = ₹ 2,000

Hence the wage rate per hour is ₹ 10 and the cost of raw material is ₹ 2,000 on the job.

3. Sree Ajeet Ltd.

Statement showing comprehensive machine hour rate of Machine B

	(₹)
Standing Charges:	
Factory rent {(₹ 1,80,000/1,00,000 sq.ft) × 5,000 Sq.ft.}	9,000
Heat and Gas (₹ 60,000/15 machines)	4,000
Supervision (₹ 1,50,000/ 15 machines)	10,000
Depreciation [(₹ 1,80,000 – ₹ 10,000)/ 10 years]	17,000
Annual expenses on special equipment	12,000
	52,000
Fixed cost per hour (₹ 52,000/ 4,000 hrs.)	13/-

	Set up rate Per hour (₹)	**Operational rate Per hour (₹)**
Fixed cost	13.00	13.00
Power	--	5.00
Wages	25.00	12.50
Comprehensive machine hour rate per hour	38.00	30.50

Statement of 'B' machine costs

to be absorbed on the two work orders

	Work order-1			Work order-2		
	Hours	**Rate**	**Amount**	**Hours**	**Rate**	**Amount**
		₹	₹	₹	₹	₹
Set up time cost	15	38	570	30	38	1,140
Operation time cost	100	30.5	3,050	190	30.5	5,795
Total cost			3,620			6,935

4. (i) Statement of Profit as per Financial records

(for the year ended March 31, 20X8)

	(₹)		(₹)
To Opening stock of Finished Goods	53,125	By Sales	22,80,000
To Work-in-process	46,000	By Closing stock of finished Goods	45,650
To Raw materials consumed	8,40,000	By Work-in-Process	41,200
To Direct labour	6,10,000	By Rent received	46,000
To Factory overheads	4,22,000	By Interest received	38,000
To Administration overheads	1,98,000		
To Selling & distribution overheads	72,000		
To Dividend paid	1,22,000		
To Bad debts	18,000		
To Profit	69,725		
	24,50,850		24,50,850

Statement of Profit as per Costing records

(for the year ended March 31,20X8)

	(₹)
Sales revenue (A) (12,615 units)	22,80,000

Cost of sales:	
Opening stock (625 units × ₹ 120)	75,000
Add: Cost of production of 12,405 units (Refer to working note 2)	21,63,350
Less: Closing stock (₹174.39 × 415 units)	(72,372)
Cost of goods sold (12,615 units)	21,65,978
Selling & distribution overheads (12,615 units × ₹ 3)	37,845
Cost of sales: (B)	22,03,823
Profit: {(A) – (B)}	76,177

(ii) Statement of Reconciliation

(Reconciling the profit as per costing records with the profit as per financial records)

	(₹)	(₹)
Profit as per Cost Accounts		76,177
Add: Administration overheads over absorbed (₹2,81,550 – ₹1,98,000)	83,550	
Opening stock overvalued (₹75,000 – ₹53,125)	21,875	
Interest received	38,000	
Rent received	46,000	
Factory overheads over recovered (₹4,27,000 – ₹4,22,000)	5,000	1,94,425
		2,70,602
Less: Selling & distribution overheads under recovery (₹72,000 – ₹37,845)	34,155	
Closing stock overvalued (₹72,372 – ₹45,650)	26,722	
Dividend	1,22,000	
Bad debts	18,000	(2,00,877)
Profit as per financial accounts		69,725

Working notes:

1. Number of units produced

	Units
Sales	12,615
Add: Closing stock	415
Total	13,030
Less: Opening stock	(625)
Number of units produced	12,405

2. Cost Sheet

		(₹)
Raw materials consumed		8,40,000
Direct labour		6,10,000
Prime cost		14,50,000
Factory overheads (70% of direct wages)		4,27,000
Factory cost		18,77,000
Add: Opening work-in-process		46,000
Less: Closing work-in-process		41,200
Factory cost of goods produced		18,81,800
Administration overheads (15% of factory cost)		2,81,550
Cost of production of 12,405 units (Refer to working note 1) Cost of production per unit:		21,63,350
$=\frac{\text{Total Cost of Production}}{\text{No. of units produced}}=\frac{₹\ 21,63,350}{12,405\text{ units}}=₹174.39$		

5. Contract Account for the year ended 31st March, 20X8

	(₹'000)		(₹' 000)
To Material issued to site	5,000	By Material at site	1,800
To Direct wages 3,800		By Material returned	100
Add: Outstanding wages 110	3,910	By Work-in-progress:	

To Plant hire	700	- Value of work certified	10,000
To Site office cost	270	- Work uncertified	230
To Direct expenses	500		
To Depreciation (special plant)	300		
To Notional profit c/d	1,450		
	12,130		12,130

6. Determination of quotation price for the job

Cost	(₹)
Direct Material (10kg × ₹10)	100
Direct Labour (20hrs × ₹ 5)	100
Variable production overhead (20hrs × ₹ 2)	40
Fixed Overhead $\left(\frac{₹\,1,00,000}{10,000\,\text{budgeted hours}} \times 20\,\text{hours}\right)$	200
Other costs	50
Total costs	490

Net profit is 30% of sales, therefore total costs represent 70% (₹490 × 100) ÷ 70 = ₹700 price to quote for job.

(To check answer is correct; profit achieved will be ₹ 210 (₹700 - ₹ 490)

= ₹210 ÷₹700 = 30%)

7. Statement of Equivalent Production

Process III

Input Details	Units	Output Particulars	Units	Equivalent Production					
				Material-A		Material-B		Labour & Overhead	
				%	Units	%	Units	%	Units
Opening WIP	1,600	Work on Op. WIP	1,600	-	-	20	320	40	640
Process - II Transfer	55,400	Introduced & completed during the month	50,600	100	50,600	100	50,600	100	50,600

		Normal loss (5% of 52,800 units)	2,640	-	-	-	-	-	-
		Closing WIP	4,200	100	4,200	70	2,940	50	2,100
		Abnormal Gain	(2,040)	100	(2,040)	100	(2,040)	100	(2,040)
	57,000		57,000		52,760		51,820		51,300

Working note:

Production units = Opening units + Units transferred from Process-II – Closing Units

= 1,600 units + 55,400 units – 4,200 units

= 52,800 units

Statement of Cost

	Cost (₹)	Equivalent units	Cost per equivalent units (₹)
Material A (Transferred from previous process)	6,23,250		
Less: Scrap value of normal loss (2,640 units × ₹ 5)	(13,200)		
	6,10,050	52,760	11.5627
Material B	2,12,400	51,820	4.0988
Labour	96,420	51,300	1.8795
Overheads	56,400	51,300	1.0994
	9,75,270		18.6404

Statement of apportionment of Process Cost

		Amount (₹)	Amount (₹)
Opening WIP	Material A		24,000
Completed opening WIP units -1600	Material B (320 units × ₹ 4.0988)	1311.62	
	Wages (640 units × ₹ 1.8795)	1202.88	
	Overheads (640 units × ₹ 1.0994)	703.62	3,218.12
Introduced & Completed - 50,600 units	50,600 units × ₹ 18.6404		9,43,204.24

Total cost of 52,200 finished goods units			9,70,422.36
Closing WIP units - 4,200	Material A (4,200 units × ₹ 11.5627)		48,563.34
	Material B (2,940 units × ₹ 4.0988)		12,050.47
	Wages (2,100 units × ₹ 1.8795)		3,946.95
	Overheads (2,100 units × ₹ 1.0994)		2,308.74
			66,869.50
Abnormal gain units - 2,040	(2,040 units × ₹ 18.6404)		38026.42

Process III A/c

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Balance b/d	1,600	24,000	By Normal loss	2,640	13,200
To Process II A/c	55,400	6,23,250	By Finished goods	52,200	9,70,422.36
To Direct material		2,12,400	By Closing WIP	4,200	66,874.06*
To Direct wages		96,420			
To Production overheads		56,400			
To Abnormal gain	2,040	38,026.42			
	59,040	10,50,496.42		59,040	10,50,496.42

* Difference in figure due to rounding off has been adjusted with closing WIP

8. (i) Statement of profitability of the Oil Mill (after carrying out further processing) for the quarter ending 31st March 20X8.

Products	Sales Value after further processing	Share of Joint cost	Additional processing cost	Total cost after processing	Profit (loss)
ACH	1,72,500	98,667	43,000	1,41,667	30,833
BCH	15,000	19,733	9,000	28,733	(13,733)
CSH	6,000	4,933	--	4,933	1,067
DSH	45,000	24,667	1,500	26,167	18,833
	2,38,500	1,48,000	53,500	2,01,500	37,000

(ii) Statement of profitability at the split off point

Products	Selling price of split off	Output in units	Sales value at split off point	share of joint cost	profit at split off point
ACH	15.00	8,000	1,20,000	98,667	21,333
BCH	6.00	4,000	24,000	19,733	4,267
CSH	3.00	2,000	6,000	4,933	1,067
DSH	7.50	4,000	30,000	24,667	5,333
			1,80,000	1,48,000	32,000

Note: Share of Joint Cost has been arrived at by considering the sales value at split off point.

9. (i) No. of passengers 160 seats × 60% = 96

	(₹)	(₹)
Fare collection (96 passengers ×₹7,200)		6,91,200
Variable costs:		
Fuel	96,000	
Food (96 passengers ×₹125)	12,000	
Commission (5% of ₹6,91,200)	34,560	1,42,560
Contribution per flight		5,48,640
Fixed costs:		
Aircraft Lease	3,50,000	
Landing charges	72,000	4,22,000
Net operating income per flight		1,26,640

(ii)

Fare collection (108 passengers ×₹ 6,720)		7,25,760
Variable costs:		
Fuel	96,000	
Food (108 passengers ×₹125)	13,500	
Commission (5% of ₹ 7,25,760)	36,288	1,45,788
Contribution		5,79,972

There is an increase in contribution by ₹ 31,332. Hence the proposal is acceptable.

10. (a) Material price variance:

= (Standard price – Actual Price) × Actual quantity

= (₹ 4 – ₹ 4.10) × 5,000 = ₹ 500 Adv.

(b) Material usage variance:

= (Std. quantity for actual output – Actual qtty.) × Std. price

= (600 × 5 – 3,500) × 4 = ₹ 2,000 Adv.

(c) Labour Rate Variance:

= (Standard rate – Actual rate) × Actual hours

= (₹10 – ₹9) × 1,700 = ₹ 1,700 Fav.

(d) Labour Efficiency Variance:

= (Standard hours for actual output – Actual hours) × Standard rate

= (600 × 3 – 1,700) × ₹10

= ₹ 1,000 Fav.

(e) Variable Overhead Expenditure Variance

= (Actual Hours × Standard Rate) – Actual Overhead

= (1,700 × ₹ 1) – ₹ 1,900

= ₹ 200 Adv.

(f) Variable Overhead Efficiency Variance:

= Std. hours for actual output – Actual hours) × Std. rate

= (600 × 3 – 1,700) × ₹1 = ₹100 Fav.

(g) Fixed Overhead Expenditure Variance:

= (Budgeted overhead – Actual overhead)

= (1,800 × 0.50 – 900) = Nil

(h) Fixed Overhead Volume Variance:

= (Std. hours for actual output – Budgeted hours) × Std. rate

= (600 × 3 – 1,800) × ₹ 0.50 = Nil

(i) Fixed Overhead Capacity Variance:

= (Budgeted hours – Actual Hours) × Standard rate

= (1,800 – 1,700) × ₹ 0.50 = ₹ 50 Adv.

(j) Fixed Overhead Efficiency Variance:

= (Std. hours for actual output – Actual hours) × Standard rate

= (600 × 3 – 1,700) × ₹ 0.50 = ₹ 50 Fav.

Verification:	**(₹)**	**(₹)**
Overhead recovered: 600 units @ ₹4.50		2,700
Actual Overhead:		
Variable	1,900	
Fixed	900	2,800
		100 Adv.
Variable expenditure variance		200 Adv
Variable Efficiency variance		100 Fav.
Fixed expenditure variance		Nil
Fixed overhead volume variance		Nil
		100 Adv.

Reconciliation Statement

Standard Cost: 600 units @ ₹54.50		32,700	
Actual Cost:	38,600		
Less: Material Stock at standard cost: (1,500 × ₹ 4)	6,000	(32,600)	100 Fav.
Variances:	Adv. **(₹)**	Fav. **(₹)**	
Material price	500		
Material usage	2,000		
Labour rate		1,700	
Labour efficiency		1,000	
Variable expenditure	200		
Variable efficiency		100	
Total	2,700	2,800	100 Fav.

11. We know that S – V = F + P (S- Sales, V- Variable cost, F- Fixed cost and P- Profit/loss)

$\therefore$ Suppose variable cost = x per unit

Fixed Cost = y

When sales is 8,000 units, then

$15 \times 8{,}000 - 8{,}000\,x = y - 40{,}000$.................... (1)

When sales volume raised to 20,000 units, then

$15 \times 20{,}000 - 20{,}000\,x = y + 80{,}000$............. (2)

Or, $1{,}20{,}000 - 8{,}000\,x = y - 40{,}000$............. (3)

And $3{,}00{,}000 - 20{,}000\,x = y + 80{,}000$............. (4)

From (3) & (4) we get x = ₹ 5.

Variable cost per unit = ₹ 5

Putting this value in 3rd equation:

1,20,000 – (8,000 × 5) = y – 40,000

or y = ₹ 1,20,000

Fixed Cost = ₹ 1,20,000

P/V ratio = $\frac{S - V}{S} = \frac{15 - 5}{15} \times 100 = \frac{200}{3} = 66\frac{2}{3}\%$.

Suppose break-even sales = x

15x – 5x = 1,20,000 (at BEP, contribution will be equal to fixed cost)

x = 12,000 units.

Or Break-even sales in units = 12,000

Break-even sales in rupees = 12,000 ×₹ 15 = ₹ 1,80,000

12. Production budget of Product Minimax and Heavyhigh (in units)

	April		May		June		Total	
	MM	**HH**	**MM**	**HH**	**MM**	**HH**	**MM**	**HH**
Sales	8,000	6,000	10,000	8,000	12,000	9,000	30,000	23,000
Add: Closing Stock (25% of next month's sale	2,500	2,000	3,000	2,250	4,000	3,500	9,500	7,750
Less: Opening Stock	2,000*	1,500*	2,500	2,000	3,000	2,250	7,500	5,750
Production units	8,500	6,500	10,500	8,250	13,000	10,250	32,000	25,000

* Opening stock of April is the closing stock of March, which is as per company's policy 25% of next months sale.

Production Cost Budget

Element of cost	**Rate (₹)**		**Amount (₹)**	
	MM (32,000 units)	**HH (25,000 units)**	**MM**	**HH**
Direct Material	220	280	70,40,000	70,00,000

Direct Labour	130	120	41,60,000	30,00,000
Manufacturing Overhead				
(4,00,000/ 1,80,000 × 32,000)			71,111	
(5,00,000/ 1,20,000 × 25,000)				1,04,167
			1,12,71,111	1,01,04,167

13. (a) The essential features, which a good cost and management accounting system should possess, are as follows:

(i) **Informative and simple:** Cost and management accounting system should be tailor-made, practical, simple and capable of meeting the requirements of a business concern. The system of costing should not sacrifice the utility by introducing meticulous and unnecessary details.

(ii) **Accurate and authentic:** The data to be used by the cost and management accounting system should be accurate and authenticated; otherwise it may distort the output of the system and a wrong decision may be taken.

(iii) **Uniformity and consistency:** There should be uniformity and consistency in classification, treatment and reporting of cost data and related information. This is required for benchmarking and comparability of the results of the system for both horizontal and vertical analysis.

(iv) **Integrated and inclusive:** The cost and management accounting system should be integrated with other systems like financial accounting, taxation, statistics and operational research etc. to have a complete overview and clarity in results.

(v) **Flexible and adaptive:** The cost and management accounting system should be flexible enough to make necessary amendments and modification in the system to incorporate changes in technological, reporting, regulatory and other requirements.

(vi) **Trust on the system:** Management should have trust on the system and its output. For this, an active role of management is required for the development of such a system that reflect a strong conviction in using information for decision making

(b)

Cost Control	Cost Reduction
1. Cost control aims at maintaining the costs in accordance with the established standards.	1. Cost reduction is concerned with reducing costs. It challenges all standards and endeavours to better them continuously
2. Cost control seeks to attain lowest possible cost under existing conditions.	2. Cost reduction recognises no condition as permanent, since a change will result in lower cost.

3.	In case of cost control, emphasis is on past and present	3.	In case of cost reduction, it is on present and future.
4.	Cost control is a preventive function	4.	Cost reduction is a corrective function. It operates even when an efficient cost control system exists.
5.	Cost control ends when targets are achieved.	5.	Cost reduction has no visible end.

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

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

(d) **Distinction between Job and Batch Costing:**

Sr. No	Job Costing	Batch Costing
1	Method of costing used for non-standard and non- repetitive products produced as per customer specifications and against specific orders.	Homogeneous products produced in a continuous production flow in lots.
2	Cost determined for each Job	Cost determined in aggregate for the entire Batch and then arrived at on per unit basis.
3	Jobs are different from each other and independent of each other. Each Job is unique.	Products produced in a batch are homogeneous and lack of individuality

PART-II: FINANCIAL MANAGEMENT

QUESTIONS

Time Value of Money

1. Mr. X took a loan of ₹30,00,000 lakh to purchase an asset from a financial institution at 14% interest per year. The amount has to be repaid in 10 equal annual instalments. Calculate the instalment amount.

Fund Flow Statement

2. Following are the financial statements of Zed Ltd.:

Balance Sheet as on

	March 31, 20X7(₹)	March 31, 20X6 (₹)
Capital and Liabilities:		
Share capital, ₹10 par value	1,67,500	1,50,000
Share premium	3,35,000	2,37,500
Reserves and Surplus	1,74,300	1,23,250
Debentures	2,40,000	--
Long-term loans	40,000	50,000
Creditors	28,800	27,100
Bank Overdraft	7,500	6,250
Accrued expenses	4,350	4,600
Income-tax payable	48,250	16,850
	10,45,700	6,15,550
Assets:		
Land	3,600	3,600
Building, net of depreciation	6,01,800	1,78,400
Machinery, net of depreciation	1,10,850	1,07,050
Investment in 'A' Ltd.	75,000	--
Stock	58,800	46,150
Prepaid expenses	1,900	2,300
Debtors	76,350	77,150
Trade Investments	40,000	1,05,000

Cash	77,400	95,900
	10,45,700	6,15,550

Income Statement

for the year ended March 31, 20X7

	(₹)
Net Sales	13,50,000
Less: Cost of goods sold and operating expenses (including depreciation on buildings of ₹ 6,600 and depreciation on machinery of ₹ 11,400)	(12,58,950)
Net operating profit	91,050
Gain on sale of trade investments	6,400
Gain on sale of machinery	1,850
Profits before tax	99,300
Income-tax	(48,250)
Profit after tax	51,050

Additional information:

(i) Machinery with a net book value of ₹9,150 was sold during the year.

(ii) The shares of 'A' Ltd. were acquired by issue of debentures.

Required:

Prepare a Funds Flow Statement (Statement of changes in financial position on Working capital basis) for the year ended March 31, 20X7.

Ratio Analysis

3. Assuming the current ratio of a Company is 2, State in each of the following cases whether the ratio will improve or decline or will have no change:

   (i) Payment of current liability

   (ii) Purchase of fixed assets by cash

   (iii) Cash collected from Customers

   (iv) Bills receivable dishonoured

   (v) Issue of new shares

Cost of Capital

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

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

Project cost	Cost of debt	Cost of equity
Upto ₹ 2 lakhs	10%	12%
Above ₹ 2 lakhs & upto to ₹ 5 lakhs	11%	13%
Above ₹ 5 lakhs & upto ₹10 lakhs	12%	14%
Above ₹10 lakhs & upto ₹ 20 lakhs	13%	14.5%

   Assuming the tax rate at 50%, calculate:-

   (i) Cost of capital of two projects X and Y whose fund requirements are ₹ 6.5 lakhs and ₹ 14 lakhs respectively.

   (ii) If a project is expected to give after tax return of 10%, determine under what conditions it would be acceptable?

Capital Structure Decisions

5. Rounak Ltd. is an all equity financed company with a market value of ₹ 25,00,000 and cost of equity (K_e) 21%. The company wants to buyback equity shares worth ₹5,00,000 by issuing and raising 15% perpetual debt of the same amount. Rate of tax may be taken as 30%. After the capital restructuring and applying MM Model (with taxes), you are required to compute:

   (i) Market value of J Ltd.

   (ii) Cost of Equity (K_e)

   (iii) Weighted average cost of capital (using market weights) and comment on it.

Leverage

6. A firm has sales of ₹ 75,00,000 variable cost is 56% and fixed cost is₹ 6,00,000. It has a debt of ₹ 45,00,000 at 9% and equity of ₹ 55,00,000. You are required to interpret:

   (i) The firm's ROI?

   (ii) Does it have favourable financial leverage?

   (iii) If the firm belongs to an industry whose capital turnover is 3, does it have a high or low capital turnover?

   (iv) The operating, financial and combined leverages of the firm?

(v) If the sales is increased by 10% by what percentage EBIT will increase?

(vi) At what level of sales the EBT of the firm will be equal to zero?

(vii) If EBIT increases by 20%, by what percentage EBT will increase?

Capital Budgeting

7. Shiv Limited is thinking of replacing its existing machine by a new machine which would cost ₹ 60 lakhs. The company's current production is 80,000 units, and is expected to increase to 1,00,000 units, if the new machine is bought. The selling price of the product would remain unchanged at ₹ 200 per unit. The following is the cost of producing one unit of product using both the existing and new machine:

			Unit cost (₹)
	Existing Machine (80,000 units)	**New Machine (1,00,000 units)**	**Difference**
Materials	75.0	63.75	(11.25)
Wages & Salaries	51.25	37.50	(13.75)
Supervision	20.0	25.0	5.0
Repairs and Maintenance	11.25	7.50	(3.75)
Power and Fuel	15.50	14.25	(1.25)
Depreciation	0.25	5.0	4.75
Allocated Corporate Overheads	10.0	12.50	2.50
	183.25	165.50	(17.75)

The existing machine has an accounting book value of ₹ 1,00,000, and it has been fully depreciated for tax purpose. It is estimated that machine will be useful for 5 years. The supplier of the new machine has offered to accept the old machine for ₹ 2,50,000. However, the market price of old machine today is ₹ 1,50,000 and it is expected to be ₹ 35,000 after 5 years. The new machine has a life of 5 years and a salvage value of ₹ 2,50,000 at the end of its economic life. Assume corporate Income tax rate at 40%, and depreciation is charged on straight line basis for Income-tax purposes. Further assume that book profit is treated as ordinary income for tax purpose. The opportunity cost of capital of the Company is 15%.

Required:

(i) Estimate net present value of the replacement decision.

(ii) Calculate the internal rate of return of the replacement decision.

(iii) Should Company go ahead with the replacement decision? Analyse.

Year (t)	1	2	3	4	5
$PVIF_{0.15,t}$	0.8696	0.7561	0.6575	0.5718	0.4972
$PVIF_{0.20,t}$	0.8333	0.6944	0.5787	0.4823	0.4019
$PVIF_{0.25,t}$	0.80	0.64	0.512	0.4096	0.3277
$PVIF_{0.30,t}$	0.7692	0.5917	0.4552	0.3501	0.2693
$PVIF_{0.35,t}$	0.7407	0.5487	0.4064	0.3011	0.2230

Management of Receivables (Debtors)

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

Quantity sold (No. of TV Sets)

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

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

You are required:-

(a) Compute the credit period to be allowed to each customer.

(Assume 360 days in a year for calculation purposes).

(b) Demonstrate the other problems the company might face in allowing the credit period as determined in (a) above?

Financing of Working Capital

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

(₹ Crores)

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

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

(₹ Crores)

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

You are required to calculate the following:

(i) Working Capital Investment for each policy:

(a) Net Working Capital position

(b) Rate of Return

(c) Current ratio

(ii) Financing for each policy:

(a) Net Working Capital position.

(b) Rate of Return on Shareholders' equity.

(c) Current ratio.

Miscellaneous

10. (i) "The profit maximization is not an operationally feasible criterion." Identify.

(ii) Explain the principles of "Trading on equity".

SUGGESTED HINTS/ANSWERS

1. $A = P\left(\frac{I(1+I)^n}{(1+I)^n - 1}\right)$

Where,

A = Amount of Instalment

P = Principal amount of loan

I = Interest rate

n = Loan repayment period.

$$A = 30,00,000\left(\frac{0.14(1+0.14)^{10}}{(1+0.14)^{10} - 1}\right)$$

$$A = 30,00,000 \times \frac{0.14 \times 3.707}{2.707}$$

A = 5,75,153

Or

$$A = \frac{P}{PVIFA_{n,I}}$$

$$A = \frac{30,00,000}{PVIFA_{10,0.14}} = \frac{30,00,000}{5.216} = 5,75,153$$

2. Fund Flow Statement as at 31st March 20X7

		(₹)
A.	**Sources of Funds:**	
	(i) Fund from Business Operations	67,200
	(ii) Sale of Machinery (₹ 9,150 + ₹ 1,850)	11,000
	(iii) Proceeds from issue of Debentures (₹ 2,40,000 – ₹ 75,000*)	1,65,000
	(iv) Proceeds from issue of Shares (including share premium)	1,15,000
	Total sources	3,58,200
B.	**Application of Funds:**	
	(i) Purchase of Building (₹ 6,01,800 + ₹ 6,600 – ₹ 1,78,400)	4,30,000
	(ii) Purchase of Machinery	24,350

(iii) Payment of long-term loan(₹50,000 – ₹40,000)	10,000
Total uses	4,64,350
Net Decrease in Working Capital (A–B)	(1,06,150)

*Investment worth ₹75,000 in A Ltd. has been acquired without incurring any cash outflow hence, it will not affect the working capital.

Workings:

1. Schedule of Changes in Working Capital

	March 31, 20X7	March 31, 20X6	Change in Working Capital	
			Increase	Decrease
Current Assets				
Stock	58,800	46,150	12,650	--
Prepaid expenses	1,900	2,300	--	400
Debtors	76,350	77,150	--	800
Trade Investments	40,000	1,05,000	--	65,000
Cash	77,400	95,900	--	18,500
	2,54,450	3,26,500	--	--
Current Liabilities			--	--
Creditors	28,800	27,100	--	1,700
Bank overdraft	7,500	6,250	--	1,250
Accrued expenses	4,350	4,600	250	--
Income tax payable	48,250	16,850	--	31,400
	88,900	54,800	--	--
Net Working Capital	1,65,550	2,71,700	--	--
Decrease in net working capital	1,06,150	--	1,06,150	--
	2,71,700	2,71,700	1,19,050	1,19,050

2. Machinery Account

	(₹)		(₹)
To Balance b/d	1,07,050	By Bank A/c (Sale)	11,000
To Bank A/c (Purchase of machinery) (Bal. figure)	24,350	By Depreciation (given)	11,400
To P & L A/c (Profit)	1,850	By Balance c/d	1,10,850
	1,33,250		1,33,250

3. **Trade Investments Account**

	(₹)		(₹)
To Balance b/d	1,05,000	By Bank (Sale of trade investments)	65,000
		By Balance c/d	40,000
	1,05,000		1,05,000

4. **Estimation of Funds flow from Operations**

	(₹)	(₹)
Profits after tax		51,050
Add: Depreciation on Buildings	6,600	
Depreciation on Machinery	11,400	18,000
		69,050
Less: Gain on sale of machinery		1,850
Funds from Operations		67,200

Gain on sale of trade investments has been considered as an operating income. Trade investments have been considered as part of current assets.

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

S. No.	Situation	Improve/ Decline/ No Change	Reason
(i)	Payment of Current liability	Current Ratio will improve	Let us assume CA is ₹ 2 lakhs & CL is ₹ 1 lakh. If payment of Current Liability = ₹ 10,000 then, CA = 1, 90,000 CL = 90,000. Current Ratio = $\frac{1,90,000}{90,000}$ = 2.11 : 1. When Current Ratio is 2:1 Payment of Current liability will reduce the same amount in the numerator and denominator. Hence, the ratio will improve.
(ii)	Purchase of Fixed Assets by cash	Current Ratio will decline	Since the cash being a current asset converted into fixed asset, current

			assets reduced, thus current ratio will fall.
(iii)	Cash collected from Customers	Current Ratio will not change	Cash will increase and Debtors will reduce. Hence No Change in Current Asset.
(iv)	Bills Receivable dishonoured	Current Ratio will not change	Bills Receivable will come down and debtors will increase. Hence no change in Current Assets.
(v)	Issue of New Shares	Current Ratio will improve	As Cash will increase, Current Assets will increase and current ratio will increase.

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

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

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

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

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

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

Or, Net Income (NI) = 0.21 (₹25,00,000 – ₹5,00,000)

Market Value of Equity = ₹25,00,000

K_e =21%

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

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

Net income for equity holders = 5,25,000

EBIT= 5,25,000/0.7 = 7,50,000

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

Present value of tax-shield benefits = ₹ 5,00,000 × 0.30 = ₹ 1,50,000

(i) Value of Restructured firm

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

(ii) Cost of Equity (K_e)

Total Value = ₹ 26,50,000

Less: Value of Debt = ₹ 5,00,000

Value of Equity = ₹ 21,50,000

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

(iii) WACC (on market value weight)

Cost of Debt (after tax)= 15% (1- 0.3)= 0.15 (0.70) = 0.105= 10.5%

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

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

6. Income Statement

Particulars	Amount (₹)
Sales	75,00,000
Less: Variable cost (56% of 75,00,000)	(42,00,000)
Contribution	33,00,000
Less: Fixed costs	(6,00,000)
Earnings before interest and tax (EBIT)	27,00,000
Less: Interest on debt (@ 9% on ₹ 45 lakhs)	(4,05,000)
Earnings before tax (EBT)	22,95,000

(i) $\text{ROI} = \frac{\text{EBIT}}{\text{Capital employed}} \times 100 \quad = \quad \frac{\text{EBIT}}{\text{Equity} + \text{Debt}} \times 100$

$= \frac{27,00,000}{55,00,000 + 45,00,000} \times 100 = 27\%$

(ROI is calculated on Capital Employed)

(ii) ROI = 27% and Interest on debt is 9%, hence, it has a favourable financial leverage.

(iii) Capital Turnover $= \frac{\text{Net Sales}}{\text{Capital}}$

Or $= \frac{\text{Net Sales}}{\text{Capital}} = \frac{75,00,000}{1,00,00,000} = 0.75$

Which is very low as compared to industry average of 3.

(iv) Calculation of Operating, Financial and Combined leverages

(a) Operating Leverage $= \frac{\text{Contribution}}{\text{EBIT}} = \frac{33,00,000}{27,00,000} = 1.22$ (approx)

(b) Financial Leverage $= \frac{\text{EBIT}}{\text{EBT}} = \frac{27,00,000}{22,95,000} = 1.18$ (approx)

(c) Combined Leverage $= \frac{\text{Contribution}}{\text{EBT}} = \frac{33,00,000}{22,95,000} = 1.44$ (approx)

Or = Operating Leverage × Financial Leverage = 1.22 × 1.18 = 1.44 (approx)

(v) Operating leverage is 1.22. So if sales is increased by 10%. EBIT will be increased by 1.22 × 10 i.e. 12.20% (approx)

(vi) Since the combined Leverage is 1.44, sales have to drop by 100/1.44 i.e. 69.44% to bring EBT to Zero

Accordingly, New Sales = ₹75,00,000 × (1-0.6944)

=₹75,00,000 × 0.3056

= ₹ 22,92,000 (approx)

Hence at ₹22,92,000 sales level EBT of the firm will be equal to Zero.

(vii) Financial leverage is 1.18. So, if EBIT increases by 20% then EBT will increase by

1.18 × 20 = 23.6% (approx)

7. (i) Net Cash Outlay of New Machine

Purchase Price	₹ 60,00,000
Less: Exchange value of old machine	
[2,50,000 – 0.4(2,50,000 – 0)]	1,50,000
	₹ 58,50,000

Market Value of Old Machine: The old machine could be sold for ₹ 1,50,000 in the market. Since the exchange value is more than the market value, this option is not attractive. This opportunity will be lost whether the old machine is retained or replaced. Thus, on incremental basis, it has no impact.

Depreciation base: Old machine has been fully depreciated for tax purpose.

Thus the depreciation base of the new machine will be its original cost i.e. ₹ 60,00,000.

Net Cash Flows: Unit cost includes depreciation and allocated overheads. Allocated overheads are allocated from corporate office therefore they are irrelevant. The depreciation tax shield may be computed separately. Excluding depreciation and allocated overheads, unit costs can be calculated. The company will obtain additional revenue from additional 20,000 units sold.

Thus, after-tax saving, excluding depreciation, tax shield, would be

= {100,000(200 – 148) – 80,000(200 – 173)} ×(1 – 0.40)

= {52,00,000 – 21,60,000}×0.60

= ₹ 18,24,000

After adjusting depreciation tax shield and salvage value, net cash flows and net present value are estimated.

Calculation of Cash flows and Project Profitability

							₹ ('000)
		0	1	2	3	4	5
1	After-tax savings	-	1824	1824	1824	1824	1824
2	Depreciation (₹ 60,00,000 – 2,50,000)/5	-	1150	1150	1150	1150	1150
3	Tax shield on depreciation (Depreciation × Tax rate)	-	460	460	460	460	460
4	Net cash flows from operations (1+3)*	-	2284	2284	2284	2284	2284
5	Initial cost	(5850)					
6	Net Salvage Value (2,50,000 – 35,000)	-	-	-	-	-	215
7	Net Cash Flows (4+5+6)	(5850)	2284	2284	2284	2284	2499
8	PVF at 15%	1.00	0.8696	0.7561	0.6575	0.5718	0.4972
9	PV	(5850)	1986.166	1726.932	1501.73	1305.99	1242.50
10	NPV	₹ 1913.32					

* Alternately Net Cash flows from operation can be calculated as follows:

Profit before depreciation and tax = ₹ 1,00,000 (200 -148) - 80,000 (200 -173)

= ₹ 52,00,000 – 21,60,000

= ₹ 30,40,000

So profit after depreciation and tax is ₹ (30,40,000 -11,50,000) × (1 - .40)

= ₹ 11,34,000

So profit before depreciation and after tax is :

₹ 11,34,000 + 11,50,000 (Depreciation added back) = 22,84,000

(ii)

						₹ ('000)
	0	**1**	**2**	**3**	**4**	**5**
NCF	(5850)	2284	2284	2284	2284	2499
PVF at 20%	1.00	0.8333	0.6944	0.5787	0.4823	0.4019
PV	(5850)	1903.257	1586.01	1321.751	1101.57	1004.35
PV of benefits	6916.94					
PVF at 30%	1.00	0.7692	0.5917	0.4550	0.3501	0.2693
PV	(5850)	1756.85	1351.44	1039.22	799.63	672.98
PV of benefits	5620.12					

$$\text{IRR} = 20\% + 10\% \times \frac{1066.94}{1296.82} = 28.23\%$$

(iii) Advise: The Company should go ahead with replacement project, since it is positive NPV decision.

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

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

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

(b) Problem;-

(i) Customer A is taking 1000 TV sets whether credit is given or not. Customer C is taking 1000 TV sets at credit for 60 days. Hence A also may demand credit for 60 days compulsorily.

(ii) B will take 2500 TV sets at credit for 90 days whereas C would lift 1500 sets only. In such case B will demand further relaxation in credit period i.e. B may ask for 120 days credit.

9. (i) Statement showing Working Capital for each policy

(₹ in crores)

	Working Capital Policy		
	Conservative	**Moderate**	**Aggressive**
Current Assets: (i)	4.50	3.90	2.60
Fixed Assets: (ii)	2.60	2.60	2.60
Total Assets: (iii)	7.10	6.50	5.20
Current liabilities: (iv)	2.34	2.34	2.34
Net Worth: (v)=(iii)-(iv)	4.76	4.16	2.86
Total liabilities: (iv)+(v)	7.10	6.50	5.20
Estimated Sales: (vi)	12.30	11.50	10.00
EBIT: (vii)	1.23	1.15	1.00
(a) Net working capital position: (i)-(iv)	2.16	1.56	0.26
(b) Rate of return: (vii)/(iii)	17.3%	17.7%	19.2%
(c) Current ratio: (i)/(iv)	1.92	1.67	1.11

(ii) Statement Showing Effect of Alternative Financing Policy

(₹ in crores)

Financing Policy	Conservative	Moderate	Aggressive
Current Assets: (i)	3.90	3.90	3.90
Fixed Assets: (ii)	2.60	2.60	2.60
Total Assets: (iii)	6.50	6.50	6.50
Current Liabilities: (iv)	2.34	2.34	2.34
Short term Debt: (v)	0.54	1.00	1.50
Long term Debt: (vi)	1.12	0.66	0.16

Equity Capital (vii)	2.50	2.50	2.50
Total liabilities	6.50	6.50	6.50
Forecasted Sales	11.50	11.50	11.50
EBIT: (viii)	1.15	1.15	1.15
Less: Interest short-term debt: (ix)	0.06 (12% of ₹ 0.54)	0.12 (12% of ₹ 1.00)	0.18 (12% of ₹ 1.50)
Long term debt : (x)	0.18 (16% of ₹ 1.12)	0.11 (16% of ₹ 0.66)	0.03 (16% of ₹ 0.16)
Earning before tax: (xi) - (ix+x)	0.91	0.92	0.94
Tax @ 35%	(0.32)	(0.32)	(0.33)
Earning after tax: (xii)	0.59	0.60	0.61
(a) Net Working Capital Position: (i)-[(iv)+(v)]	1.02	0.56	0.06
(b) Rate of return on Equity shareholders' capital: (xii)/(vii)	23.6%	24%	24.4%
(c) Current Ratio: [(i)/(iv)+(v)]	1.35%	1.17	1.02

10. (i) The profit maximisation is not an operationally feasible criterion." This statement is true because profit maximisation can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner's economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:

(i) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?

(ii) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.

(iii) It ignores the risk factor.

(iv) The term maximization is also vague.

(ii) The term trading on equity means debts are contracted and loans are raised mainly on the basis of equity capital. Those who provide debt have a limited share in the firm's earning and hence want to be protected in terms of earnings and values represented by equity capital. Since fixed charges do not vary with firms earnings before interest and tax, a magnified effect is produced on earning per share. Whether the leverage is favourable, in the sense, increase in earnings per share more proportionately to the increased earnings before interest and tax, depends on the profitability of investment proposal. If the rate of returns on investment exceeds their explicit cost, financial leverage is said to be positive.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR NOVEMBER, 2018 EXAMINATIONS

Applicability for November, 2018 examinations

The Study Material (July 2015 edition), Practice Manual (April 2016 edition) along with the "Supplementary Study Paper for November 2017 examinations and onwards" is relevant for November 2018 examinations. Supplementary Study Paper 2017 contains all relevant amendments/ circulars/ notifications etc. in the Business and the Company law part made from 1st May 2015 to 30th April, 2017. Further, all relevant amendments/ circulars/ notifications etc. in the Business Law and Company law part for the period 1st May 2017 to 30th April, 2018 are mentioned below:

Relevant Legislative amendments from 1st May, 2017 to 30th April, 2018				
The Companies Act, 2013/ Corporate Laws				
Sl. No.	**Amendments related to**	**Relevant Amendments**	**Page no. #**	**Earlier Law**
1.	Exemptions to Government Companies Vide Notification G.S.R. 582(E) Dated 13th June, 2017	The Central Government amends the Notification G.S.R. 463(E), dated 5th June 2015, whereby Exceptions, Modifications and Adaptations were provided in case of Government companies. Following is the amendments: In sub-section (2) of section 96, for the words "such other place as the Central Government may approve in this behalf", the words "such other place within the city, town or village in which the registered office of the company is situate or such other place as the Central Government may approve in this behalf" shall be substituted.	Pg 6.128 of SM and Pg 12 of SSP.	Such other place as the Central Government may approve in this behalf.

	Insertion of Paragraph 2A in the principal notification G.S.R. 463(E), dated 5th June 2015	The aforesaid exceptions, modifications and adaptations (i.e. as given in Notification G.S.R. 463(E), dated 5th June 2015 and Notification G.S.R. 582(E) Dated 13th June, 2017) shall be applicable to a Government company which has not committed a default in filing of its financial statements under section 137 of the Companies Act or annual return under section 92 of the said Act with the Registrar.		
2.	Exemptions to Private Companies Vide Notification G.S.R. 583(E) Dated 13th June, 2017	The Central Government amends the Notification G.S.R. 464(E), dated 5th June 2015 whereby Exceptions, Modifications and Adaptations were provided in case of Private companies. Following are the amendments: (1) In Chapter V, clauses (a) to (e) of sub-section (2) of section 73, shall not apply to a private company- (A) which accepts from its members monies not exceeding one hundred per cent. of aggregate of the paid up share capital, free reserves and securities premium account; or (B) which is a start-up, for five years from the date of its incorporation; or (C) which fulfils all of the following conditions, namely:- (a) which is not an associate or a subsidiary company of any other company; (b) if the borrowings of such a company from	Pg 15 of SSP and 6.63 of SM	(1) Clause (a) to (e) of Section 73 provides conditions for acceptance of deposits from members. Notification dated 5th June, 2015, provided that Clause (a) to (e) of Sub-section 2 of Section 73 shall not apply to private Companies which accepts from its members monies not exceeding one hundred per cent, of aggregate of the paid up share capital and free reserves, and

		banks or financial institutions or any body corporate is less than twice of its paid up share capital or fifty crore rupees, whichever is lower; and (c) such a company has not defaulted in the repayment of such borrowings subsisting at the time of accepting deposits under this section: Provided that the company referred to in clauses (A), (B) or (C) shall file the details of monies accepted to the Registrar in such manner as may be specified. (2) In Chapter VII, clause (g) of sub-section (1) of section 92, shall apply to private companies which are small companies, namely:- "(g) aggregate amount of remuneration drawn by directors;" (3) In Chapter VII, proviso to sub-section (1) of section 92, For the proviso, the following proviso shall be substituted, namely:- "Provided that in relation to One Person Company, small company and private company (if such	Pg 6.124 Pg 6.125	such company shall file the details of monies so accepted to the Registrar in such manner as may be specified. (2) clause (g) of sub-section (1) of section 92 is read as "remuneration of directors and key managerial personnel" (3) Whereas with respect to One Person Company and small company, the annual return

		private company is a start-up), the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company."		shall be signed by the company secretary, or where there is no company secretary, by the director of the company.
	Insertion of Paragraph 2A in the principal notification G.S.R. 464(E), dated 5th June 2015	The aforesaid exceptions, modifications and adaptations shall be applicable to a Private company which has not committed a default in filing of its financial statements under section 137 or annual return under section 92 of the said Act with the Registrar.		
3.	Vide notification S.O. 3086(E) dated 20th September 2017	The Central Government hereby appoints the 20th September, 2017 as the date on which proviso to clause (87) of section 2 of the said Act shall come into force.	Pg 6.8	Earlier not notified
4.	Companies (Amendment) Act, 2017	Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2017 with effect from 26th January, 2018 [Notification S.O. 351 (E)] and from 9th February, 2018 [Notification S. O. 630 (E)]		
		1. In **section 2** of the Companies Act, 2013 (hereinafter referred to as the principal Act)- **Enforcement Date: 9th February, 2018**		
		(i) in **clause (30)**, the following proviso shall be inserted, namely:	**(i)** Pg 6.103 of SM	**(i)** –

		"Provided that— (a) the instruments referred to in Chapter III-D of the Reserve Bank of India Act, 1934; and (b) such other instrument, as may be prescribed by the Central Government in consultation with the Reserve Bank of India, issued by a company, shall not be treated as debenture;";		
		(ii) in **clause (46)**, the following Explanation shall be inserted, namely:— 'Explanation.— For the purposes of this clause, the expression "company" includes any body corporate;';	**(ii)** Pg 6.8 of SM	**(ii)** –
		(iii) in **clause (71)**, in sub-clause (a), after the word "company;", the word "and" shall be inserted;	**(iii)** Pg 6.8 of SM and Pg 8 of SSP	**(ii)** –
		(iv) in **clause (72)**, in the proviso, in clause (A), after the words "State Act", the words "other than this Act or the previous company law" shall be inserted;	**(iv)** Pg 6.15 of SM	**(iv)** Provided that no institution shall be so notified unless— (A) it has been established or constituted by or under any Central or State Act;
		(v) in **clause (85)-** (a) in sub-clause (i), for the words "five crore rupees", the words "ten crore rupees" shall be substituted;	**(v)** Pg 6.8 of SM	**(v)** (i) **paid-up share capital** of which does not exceed fifty lakh rupees or such

		(b) in sub-clause (ii),- (A) for the words "as per its last profit and loss account", the words "as per profit and loss account for the immediately preceding financial year" shall be substituted; (B) for the words "twenty crore rupees", the words "one hundred crore rupees" shall be substituted;		higher amount as may be prescribed which shall not be more than **five crore rupees**; or (ii) **turnover** of which as per its last profit and loss account does not exceed two crore rupees or such higher amount as may be prescribed which shall not be more than **twenty crore rupees**:
		2. After section 3 of the principal Act, the following section shall be inserted, namely:- "**3A**. If at any time the number of members of a company is reduced, in the case of a public company, below seven, in the case of a private company, below two, and the company carries on business for more than six months while the number of members is so reduced, every person who is a member of the company during the time that it so carries on business after those six months and is cognisant of the fact that it is carrying on business with less than seven members	After page 6.16 SM	-

		or two members, as the case may be, shall be severally liable for the payment of the whole debts of the company contracted during that time, and may be severally sued therefor.". **Enforcement Date: 9th February, 2018**		
		3. In **section 4** of the principal Act, in sub-section (5), for clause (i), the following shall be substituted, namely:- "(i) Upon receipt of an application under sub-section (4), the Registrar may, on the basis of information and documents furnished along with the application, reserve the name for a period of twenty days from the date of approval or such other period as may be prescribed: Provided that in case of an application for reservation of name or for change of its name by an existing company, the Registrar may reserve the name for a period of sixty days from the date of approval." **Enforcement Date: 26th January, 2018**	Pg 6.27 of SM	Clause (i) of sub section (5) of section 4 was given as: **"(b) Upon receipt of an application under sub-section (4), the Registrar may, on the basis of information and documents furnished along with the application, reserve the name for a period of sixty days from the date of the application."**
		4. In **section 21** of the principal Act, for the words "an officer of the company", the words "an	Pg 6.40 of SM	(ii) **an officer of the company** duly authorised

		officer or employee of the company" shall be substituted **Enforcement Date: 9th February, 2018**		by the Board in this behalf.
		5. In **section 35** of the principal Act, in sub-section (2), after clause (b), the following clause shall be inserted, namely:- "(c) that, as regards every misleading statement purported to be made by an expert or contained in what purports to be a copy of or an extract from a report or valuation of an expert, it was a correct and fair representation of the statement, or a correct copy of, or a correct and fair extract from, the report or valuation; and he had reasonable ground to believe and did up to the time of the issue of the prospectus believe, that the person making the statement was competent to make it and that the said person had given the consent required by sub-section (5) of section 26 to the issue of the prospectus and had not withdrawn that consent before delivery of a copy of the prospectus for registration or, to the defendant's knowledge,	Pg 6.53 of SM	-

		before allotment thereunder.". **Enforcement Date: 9th February, 2018**		
		6. In **section 47**, in sub-section (1), for the words, figures and brackets "provisions of section 43 and sub-section (2) of section 50", the words, figures and brackets "provisions of section 43, sub-section (2) of section 50 and sub-section (1) of section 188" shall be substituted. **Enforcement Date: 9th February, 2018**	Pg 6.84 of SM	In Point (i) of Para 3.4, the following may be added, " Subject to the provisions of section 43, sub-section (2) of section 50 and sub-section (1) of section 188,"

		7. In **section 53** of the principal Act,-
		(i) in sub-section (2), for the words "discounted price", the word "discount" shall be substituted;
		(ii) after sub-section (2), the following sub-section shall be inserted, namely:-
		"(2A) Notwithstanding anything contained in sub-sections (1) and (2), a company may issue shares at a discount to its creditors when its debt is converted into shares in pursuance of any statutory resolution plan or debt restructuring scheme in accordance with any guidelines or directions or regulations specified by the Reserve
			Pg 6.89 of SM	For (i)
				Any share issued by a company at a **discounted price** shall be void.
				
				For (ii): -

		Bank of India under the Reserve Bank of India Act, 1934 or the Banking (Regulation) Act, 1949.". **Enforcement Date: 9th February, 2018**		
		8. In **section 62** of the principal Act,- (i) in sub-section (1), in clause (c), for the words "of a registered valuer subject to such conditions as may be prescribed", the words and figures "of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed" shall be substituted; (ii) for sub-section (2), the following sub-section shall be substituted, namely:- "(2) The notice referred to in sub-clause (i) of clause (a) of sub-section (1) shall be dispatched through registered post or speed post or through electronic mode or courier or any other mode having proof of delivery to all the existing shareholders at least three days before the opening of the issue.". **Enforcement Date: 9th February, 2018**	Pg 6.85 of SM	**(i)** (c) **to any persons, if it is authorised by a special resolution**, ….. is determined by the valuation report **of a registered valuer** subject to such conditions as prescribed ……… the Companies (Share capital and Debentures) Rules, 2014. **(ii)** **The notice of offer of shares shall be despatched through registered post or speed post or through electronic mode to all the existing shareholders at least three days before the opening of the issue.**

		9. In **section 76A** of the principal Act,- (a) in clause (a), for the words, “one crore rupees”, the words “one crore rupees or twice the amount of deposit accepted by the company, whichever is lower” shall be substituted; (b) in clause (b),- (i) for the words "seven years or with fine", the words "seven years and with fine" shall be substituted; (ii) the words "or with both" shall be omitted **Enforcement Date: 9th February, 2018**	Pg 10 of SSP	(a) the company …..shall not be less than **one crore rupees** but which may extend to ten crore rupees; and (b) every officer …….with imprisonment which may extend to **seven years or with fine** which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees, **or with both**
		10. In section 100 of the principal Act, in sub-section (1), the following proviso shall be inserted, namely:- "Provided that an extraordinary general meeting of the company, other than of the wholly owned subsidiary of a company incorporated outside India, shall be held at a place within India.". **Enforcement Date: 9th February, 2018**	Pg 6.130 of SM	- The amendment to be added in Point (1)
		11. In section 101 of the principal Act, in sub-section (1), for the proviso, the following proviso shall be substituted, namely:-	Pg 6.135 of SM	**However, section also provides that a general meeting may be called after giving a**

		"Provided that a general meeting may be called after giving shorter notice than that specified in this sub-section if consent, in writing or by electronic mode, is accorded thereto- (i) in the case of an annual general meeting, by not less than ninty-five per cent. of the members entitled to vote thereat; and (ii) in the case of any other general meeting, by members of the company- (a) holding, if the company has a share capital, majority in number of members entitled to vote and who represent not less than ninety-five per cent. of such part of the paid-up share capital of the company as gives a right to vote at the meeting; or (b) having, if the company has no share capital, not less than ninety-five per cent. of the total voting power exercisable at that meeting: Provided further that where any member of a company is entitled to vote only on some resolution or resolutions to be moved at a meeting and not on the others, those members shall be		**shorter notice if consent is given in writing or by electronic mode by not less than ninety-five per cent. of the members entitled to vote at such meeting.**

		taken into account for the purposes of this sub-section in respect of the former resolution or resolutions and not in respect of the latter.". **Enforcement Date: 9th February, 2018**		
		12. In section 110 of the principal Act, in sub-section (1), the following proviso shall be inserted, namely:- "Provided that any item of business required to be transacted by means of postal ballot under clause (a), may be transacted at a general meeting by a company which is required to provide the facility to members to vote by electronic means under section 108, in the manner provided in that section.". **Enforcement Date: 9th February, 2018**	Pg 6.163 of SM	-
5.	Notification G.S.R. 49 (E) dated 20th January, 2018	The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Amendment Rules, 2018 vide Notification G.S.R. 49(E), dated 20th January, 2018. It shall come into force on 26th January, 2018. Following are the amendments:	Pg 26 of SSP	-

		"In the principal rules, in rule 38, the following proviso shall be inserted- **(i)** in sub-rule (1), after the proviso, the following proviso shall be inserted, namely:- "provided further that in case of incorporation of a company having more than seven subscribers or where any of the subscriber to the MOA/AOA is signing at a place outside India, MOA/AOA shall be filed with INC-32 (SPICe) in the respective formats as specified in Table A to J in Schedule I without filing form INC-33 and INC-34"; **(ii)** In sub-rule (2), after the proviso, the following proviso shall be inserted, namely:- 'Provided further that in case of companies incorporated, with effect from the 26th day of January, 2018, with a nominal capital of less than or equal to rupees ten lakhs or in respect of companies not having a share capital whose number of members as stated in the articles of association does not exceed twenty, fee on INC-32 (SPICe) shall not be applicable"."		

6.	'Reservation of Name of Company' Notification G.S.R. 284(E) dated 23rd March, 2018	Rule 9: **Reservation of name** An application for reservation of name shall be made through the web service available at www.mca.gov.in by using [form RUN](Reserve Unique Name) along with fee as provided in the Companies (Registration offices and fees) Rules, 2014, which may either be approved or rejected, as the case may be, by the Registrar, Central Registration Centre after allowing re--submission of such application within fifteen days for rectification of the defects, if any.	Pg 6.27 of SM	- (This Rule may read with respect to point (iv) Requirement for reservation of the name of the company)
The Employees' Provident Funds and Miscellaneous Provisions Act, 1952				
7.	Amendments vide the Finance Act, 2017 (wef 26.5.2017)	The following amendments have been carried out in the Employees' Provident Funds and Miscellaneous Provisions Act, 1952: (1) in section 2, for clause (m), the following clause shall be substituted, namely: (m) "Tribunal" means the Industrial Tribunal referred to in section 7 D; (2) for section 7D, the following section shall be substituted, namely:-	- Pg 4.19	(1) "Tribunal" means the Employees' Provident Funds Appellate Tribunal constituted under section 7D (2) **Employees' Provident Fund Appellate**

		"7D. The Industrial Tribunal constituted by the Central Government under sub-section (1) of section 7A of the Industrial Disputes Act, 1947 shall, on and from the commencement of Part XIV of Chapter VI of the Finance Act, 2017, be the Tribunal for the purposes of this Act and the said Tribunal shall exercise the jurisdiction, powers and authority conferred on it by or under this Act."		**Tribunal (Section 7D)**: The Central Government may, by notification in the Official Gazette, constitute one or more Appellate Tribunals to be known as the Employees' Provident Funds Appellate Tribunal *to* exercise the powers and discharge the functions conferred on such Tribunal by this Act and every such Tribunal shall have jurisdiction in respect of establishments situated in such area as may be specified in the notification constituting the Tribunal. A Tribunal shall consist of one person only to be appointed by the Central Government. A person shall not be qualified for appointment as the Presiding

		(3) sections 7E, 7F, 7G and 7H shall be omitted	Pg 4.19	Officer of a Tribunal (hereinafter referred to as the Presiding Officer), unless he is, or has been, or is qualified to be a Judge of a High Court; or a District Judge. (3) The Study material contains only the citation of sections numbers 7E, 7F, 7G and 7H.
		(4) for section 18A, the following section shall be substituted, namely:— "18A. The authorities referred to in section 7A and every inspector shall be deemed to be a public servant within the meaning of section 21 of the Indian Penal Code."	Pg 4.33	(4) **Presiding Officer and other officers to be public servants (Section 18A)**: The Presiding Officer of a Tribunal, its officers and other employees, the authorities referred to in Section 7-A and every inspector shall be deemed to be public servants within the meaning of Section 21 of the Indian Penal Code.

The Payment of Gratuity Act, 1972				
8.	The Payment of Gratuity (Amendment) Act, 2018	The Ministry of Law and Justice has made the following amendments to the Payment of Gratuity Act, 1972 through the Payment of Gratuity (Amendment) Act, 2018 which received the assent of the President of India on 28th March, 2018 and was published in the Official Gazette on 29th March, 2018.		
		1. In section 2, for clause (k), the following clause shall be substituted, namely:— '(k) "notification" means a notification published in the Official Gazette and the expression "notified" shall be construed accordingly;'	Pg 5.5 of SM	- Include section 2(k) in the SM
		2. In section 2A of the principal Act, in sub-section (2), in the Explanation, in clause (iv), for the words "twelve weeks", the words "such period as may be notified by the Central Government from time to time" shall be substituted.	Pg 5.6 of SM	♦ in the case of a female, she has been on maternity leave; so, however, that the total period of such maternity leave does not exceed **twelve weeks**.
		3. In section 4 of the principal Act, in sub-	Pg 5.9 of SM	*The Payment of Gratuity*

		section (3), for the words "ten lakh rupees", the words "such amount as may be notified by the Central Government from time to time" shall be substituted.		*(Amendment) Act,* ***2010*** has amended section 4(3) of the Payment of Gratuity Act, 1972 by which the maximum amount of gratuity payable to an employee shall not exceed rupees **ten lakhs**.

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

PART – II : QUESTIONS AND ANSWERS

QUESTIONS

PART – A: BUSINESS LAWS

The Indian Contract Act,1872

1. Mridul, a transporter was entrusted with the duty of transporting tomatoes from a rural farm to a city by Akshat. Due to heavy rains, Mridul was stranded for more than two days. Mridul sold the tomatoes below the market rate in the nearby market where he was stranded fearing that the tomatoes may perish. Can Akshat recover the loss from Mridul on the ground that Mridul had acted beyond his authority?

2. Explaining the provisions of the Indian Contract Act, 1872, answer the following:

   (i) A contracts with B for a fixed price to construct a house for B within a stipulated time. B would supply the necessary material to be used in the construction. C guarantees A's performance of the contract. B does not supply the material as per the agreement. Is C discharged from his liability?

   (ii) C, the holder of an over due bill of exchange drawn by A as surety for B, and accepted by B, contracts with X to give time to B. Is A discharged from his liability?

The Negotiable Instruments Act, 1881

3. Mr. Varun draws a cheque of ₹ 11,000 and gives to Mr. Abhi by way of gift. State with reason whether -

(1) Mr. Abhi is a holder in due course as per the Negotiable Instrument Act, 1881?

(2) Mr. Abhi is entitled to receive the amount of ₹ 11,000 from the bank?

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

The Payment of Bonus Act, 1965

4. On 1st January, 2015, Stellar Industries Ltd. agreed with the employees for payment of an annual bonus linked with production or productivity instead of bonus based on profits subject to the limits of 30% of their salary/ wages during the relevant accounting year. It was also agreed by the employees that they will not claim minimum bonus stated under section 10 of the Payment of Bonus Act, 1965. As per the aforesaid agreement the employees claimed bonus but the company refused to honour the agreement. On refusal of the company the employees moved to the court for relief. Decide as per the provisions of the Payment of Bonus Act, 1965 whether the employees will get the relief. Also, decide whether in spite of the aforesaid agreement whether the employees are still entitled to receive minimum bonus.

The Employees' Provident Funds and Miscellaneous Provisions Act, 1952

5. Mr. Suresh, an employee working in an establishment covered by the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, leaves his employment and takes up employment in another establishment. State in this connection:

   (i) How shall the amount accumulated to his P.F. Account be transferred?

   (ii) What steps shall be taken if the establishment in which he has joined is not covered by the Act?

   (iii) What would be your answer if the establishment in which he was previously working is not covered by the Act?

The Payment of Gratuity Act, 1972

6. Mr. Green, an employee of Yellow Ltd. becomes disabled due to a disease and is unable to do the same work. He was then re-employed on the reduced wage. How the gratuity of Mr. Green shall be, computed under the provisions of the Payment of Gratuity Act, 1972?

The Companies Act, 2013

7. Earth Ltd., a Public Company offer the new shares (further issue of shares) to persons other than the existing shareholders of the Company. Can these shares be offered to the Preference Shareholders?

8. Examine the validity of the following with reference to the relevant provisions of the Companies Act, 2013:

   (i) The Board of Directors of a company refuse to convene the extraordinary general meeting of the members on the ground that the requisitionists have not given reasons for the resolution proposed to be passed at the meeting.

(ii) The Board of Directors refuse to convene the extraordinary general meeting on the ground that the requisitions have not been signed by the joint holder of the shares.

(iii) Adjournment of extraordinary general meeting called upon the requisition of members on the ground that the quorum was not present at the meeting.

9. M/s. Tulip Ltd. maintains its Register of Members at its registered office in Mumbai. A group of members residing in Kolkata want to keep the register of members at Kolkata.

   (i) Explain with provisions of Companies Act, 2013, whether the company can keep the Registers and Returns at Kolkata.

   (ii) Does Mr. Rich, holding 400 shares of total worth ₹ 4000 only, has the right to inspect the Register of Members?

10. Large Limited has a paid-up equity capital and free reserves to the extent of ₹ 50,00,000. The company is planning to buy-back shares to the extent of ₹ 4,50,000. The company approaches you for advice with regard to the following

   (i) Is special resolution required to be passed?

   (ii) What is the time limit for completion of buy-back?

   (iii) What should be ratio of aggregate debts to the paid-up capital-and free reserves after buy-back??

PART – B: ETHICS

11. "Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management." Do you agree? Give reasons.

12. What do you understand by the term 'discrimination' in employment as sometime found in an establishment? Explain the basic elements of 'discrimination'.

13. Intimidation threats may occur when an accounting professional may be prohibited from acting objectively by threats, actual or perceived. Give two examples of each such threats when the accounting professional is working as:

   (i) An Auditor;

   (ii) An Employee in a Company

14. What is meant by 'Environmental ethics'? How does its non-adoption lead to 3 Ps Viz., Polluter Pays and Principles? Explain.

15. What is the role of the following factors in shaping the direction of the CSR domain:

   (i) Accountability Throughout the Value Chain

   (ii) Advances in Information Technology.

PART – C: COMMUNICATION

16. Explain the elements that can be used to influence an organisational culture.

17. What skills are needed for effective critical thinking?
18. Negotiation is said to be an art of finding a mutually acceptable agreement between parties. What are the various approaches through which the process of negotiation can be made acceptable?
19. State with reasons whether following statements are correct or incorrect.
    (i) Rumours and gossips are synonymous.
    (ii) Lying breaks down the trust between individuals.
20. Mr. Yash has not received a dividend warrant of ₹ 1,700 for 170 shares of Cloth Fabrics Ltd. Draft an indemnity bond, to be given to the company for seeing release of Dividend.

SUGGESTED ANSWERS/HINTS

1. An agent has the authority in an emergency to do all such acts as a man of ordinary prudence would, for protecting his principal from losses under similar circumstances.

In the instant case, Mridul, the agent, was handling perishable goods like 'tomatoes' and can decide the time, date and place of sale, not necessarily as per instructions of Akshat, the principal, with the intention of protecting Akshat from losses.

Here, Mridul acts in an emergency as a man of ordinary prudence, so Akshat will not succeed against him for recovering the loss.

2. **(i)** According to Section 134 of the Indian Contract Act, 1872, the surety is discharged by any contract between the creditor and the principal debtor, by which the principal debtor is released or by any act or omission of the creditor, the legal consequence of which is the discharge of the principal debtor. In the given case, B does not supply the necessary material as per the agreement. Hence C is discharged from his liability.

(ii) According to Section 136 of the Indian Contract Act, 1872, where a contract to give time to the principal debtor is made by the creditor with a third person and not with the principal debtor, the surety is not discharged. In the given question the contract to give time to the principal debtor is made by the creditor with X who is a third person. X is not the principal debtor. Hence, A is not discharged.

3. According to section 9 of the Negotiable Instrument Act, 1881, "Holder in due course" means-

- any person
- who for consideration
- becomes the possessor of a promissory note, bill of exchange or cheque (if payable to bearer), or the payee or endorsee thereof, (if payable to order),
- before the amount mentioned in it became payable, and

- without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

In the instant case, Mr. Varun draws a cheque of ₹ 11,000 and gives to Mr. Abhi by way of gift.

(i) Mr. Abhi is holder but not a holder in due course since he did not get the cheque for value and consideration.

(ii) Mr. Abhi's title is good and bonafide. As a holder he is entitled to receive ` 11,000 from the bank on whom the cheque is drawn.

4. As per section 31A of the Payment of Bonus Act, 1965, there may be an agreement or settlement by the employees with their employer for payment of an annual bonus linked with production or productivity in lieu of bonus based on profits, payable under the Act. When such an agreement has been entered into, the employees are entitled to receive bonus as per terms of the agreement/ settlement, subject to the following restrictions imposed by section 31A.

(a) Any such agreement/settlement whereby the employees relinquish their right to receive minimum bonus under section 10, shall be null and void in so far as it purports to deprive the employees of the right of receiving minimum bonus.

(b) If the bonus payable under such agreement exceeds 20% of the salary/ wages earned by the employees during the relevant accounting year, such employees are not entitled to the excess over 20% of salary/wages.

In the given case Stellar Industries Ltd. agreed with the employees for payment of annual bonus linked with production or productivity instead of profits subject to the limit of 30% of their salary/wages during the relevant accounting year. According to Section 31A, the maximum bonus under this provision that can be given cannot exceed 20% of the salary/wages earned by the employee during the relevant accounting year. Hence, the maximum bonus may be paid up to 20% of the salary/ wages. If the company enters into agreement to pay more than 20%, then it will be against the provisions of the Payment of Bonus Act, 1965, therefore cannot be enforced.

The employees of Stellar Industries Ltd. also agreed not to claim minimum bonus as stated in Section 10 of the Payment of Bonus Act, 1965, shall also be null and void as it purports to deprive the employees of their right of receiving minimum bonus. Hence, relief may be given by the court, by enforcing the payment of bonus to the employees, based on the production or productivity, as agreed, plus minimum bonus payable under the Payment of Bonus Act, 1965, subject to maximum of 20%.

5. Transfer of accumulated amount to the credit of Employees' Provident Funds on change of employment

Section 17 A (1) provides that where an employee employed in an establishment to which this Act applies leaves his employment and obtains re-employment in another establishment to which this Act does not apply, the amount of accumulations to the credit of such employee in the provident fund of the establishment left by him shall be transferred, within such time as may be specified by the Central Government in this behalf, to the credit of his account in the provident fund of the establishment in which he is re-employed, if the employee so desires and the rules in relation to that provident fund permit such transfer.

Similarly under sub section (2) where an employee employed in an establishment to which this Act does not apply leaves his employment and obtains re- employment in another establishment to which this Act applies, the amount of accumulations to the credit of such employee in the provident fund of the establishment left by him may, if the employee so desires and the rules in relation to such provident fund permit, be transferred to the credit of his account in the Fund or as the case may be, in the provident fund of the establishment in which he is re-employed.

6. **Computation of Gratuity of a disabled employee:** According to Section 4 (4) of the Payment of Gratuity Act, 1972, when an employee becomes disabled due to any accident or disease and is not in a position to do the same work and re-employed on reduced wages on some other job, the gratuity will be calculated in two parts :-

   - **For the period preceding the disablement**: on the basis of wages last drawn by the employee at the time of his disablement.
   - **For the period subsequent to the disablement**: On the basis of the reduced wages as drawn by him at the time of the termination of services.

   In the case of *Bharat Commerce and Industries Vs. Ram Prasad*, it was decided that if for the purposes of computation of quantum of the amount of gratuity the terms of agreement or settlement are better than the Act, the employee is entitled for that benefit.

   As per section 4(3), the maximum amount of gratuity payable to an employee shall not exceed such amount as may be notified by the Central Government from time to time.

7. **Issue of Further Shares:** Section 62 (1) (a) of the Companies Act, 2013 provides that if, at any time, a company having a share capital proposes to increase its subscribed capital by the issue of further shares, such shares should be offered to the existing equity shareholders of the company as at the date of the offer, in proportion to the capital paid up on those shares.

   However, certain exceptions have been provided in the Companies Act, 2013 when such further shares of a company may-be offered to other persons as well. These are as under-

   (a) Under section 62 (1) (b) issue of further shares may be offered to employees under a scheme of employees' stock option subject to a special resolution passed by the company and subject to such conditions as may be prescribed.

   (b) Under section 62 (1) (c) such shares may be offered to any persons, if it is authorised by a special resolution, either for cash or for a consideration other than cash, if the price of such shares is determined by the valuation report of a registered valuer, subject to the compliance with the applicable provisions of Chapter III and any other conditions as may be prescribed.

(c) if any equity shareholder to whom the shares are offered in terms of section 62 (1) (a) as described above, declines such offer, the Board of Directors may dispose of the shares in such manner as is not disadvantageous to the shareholders or to the company.

Preference Shareholders - whether (Further Issue of Capital) can be offered to: From the wordings of Section 62 (1) (c), it is quite clear that these shares can be issued to any persons who may be preference shareholders as well provided such issue is authorized by a special resolution of the company and are issued on such conditions as may be prescribed.

8. As per Section 100 (2) of the Companies Act 2013, the Board of directors must convene a general meeting upon requisition by the stipulated minimum number of members. Further section 100 (3) the requisition, made under sub-section (2) for convening an extra ordinary general meeting of members, shall set out the matters for the consideration of which the meeting is to be called and shall be signed by the requisitionists and sent to the registered office of the company. The requisitioning members are not required to give reasons for the resolutions proposed so long as the matters are to be dealt with at the meeting are disclosed and the statement in terms of section 102 (1), setting out all material facts relating to each item of business to be transacted is attached to the requisition. This is essential as each such business transacted will be a special business and will require such statement to be sent along with the notice for the meeting.

Based on the above provisions of the Companies Act, 2013 the validity of the cases presented in the question would be as under:

(i) In view of the above law, the board of directors cannot refuse to convene the meeting if the reasons for the resolution are not given. What is required to be stated is the objects of the meeting, i.e., the matters for the consideration of which the meeting and resolutions to be passed. It is also reasonable to assume that the statement of all material facts on the proposed resolution should also be given by the requisitionists as the Board may not be able to prepare such statement as it is not proposing the resolution in the first place. The material information regarding the resolution basically means the justification for the resolution which need not be given.

In given problem (i) the Board of Directors cannot refuse to convene the meeting because reasons for the resolution is not given.

(ii) Where two or more persons hold any shares or interest in a company jointly, a requisition, or notice calling a meeting, signed by one or some of them shall, for the purposes of this section, have the same force and effect as if it had been signed by all of them. On the basis of above section the Board of Directors has no right to refuse to convene the meeting in the given problem (ii).

(iii) As per Section [1]103 (2) (b) of the Companies Act, 2013, if the quorum is not present within half an hour from the appointed time for holding a meeting of the company, the meeting, if called on the requisition of members, shall stand cancelled. Therefore, the meeting stands cancelled and the stand taken by the Board of Directors to adjourn it, is not proper in the given problem (iii).

9. **(i)** **Maintenance of the Register of Members etc.**: As per section 94(1) of the Companies Act, 2013, the registers required to be kept and maintained by a company under section 88 and copies of the annual return filed under section 92 shall be kept at the registered office of the company:

Provided that such registers or copies of return may also be kept at any other place in India in which more than one-tenth of the total number of members entered in the register of members reside, if approved by a special resolution passed at a general meeting of the company.

So, Tulip Ltd. can also keep the registers and returns at Kolkata after compliance with the above provisions, provided more than one-tenth of the total number of members entered in the register of members reside in Kolkata.

(ii) As per section 94(2) of the Companies Act, the registers and their indices, except when they are closed under the provisions of this Act, and the copies of all the returns shall be open for inspection by any member, debenture-holder, other security holder or beneficial owner, during business hours without payment of any fees and by any other person on payment of such fees as may be prescribed.

Accordingly, a director Mr. Rich, who is a shareholder of the company, has a right to inspect the Register of Members during business hours without payment of any fees, as per the provisions of this section.

10. Section 68(2) of the Companies Act, 2013 deals with the Conditions required for buy-back of shares.

As per the Act, the company shall not purchase its own shares or other specified securities unless-

(a) The buy-back is authorized by its articles;

(b) A special resolution has been passed at a general meeting of the company authorizing the buy-back: except where—

(1) the buy-back is, ten per cent or less of the total paid-up equity capital and free reserves of the company; and

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[1]Vide Notification G.S.R. 464 (E) dated 5th June 2015, in case of private companies section 103 shall apply unless otherwise specified in respective sections or the articles of the company provide otherwise.

(2) such buy-back has been authorised by the Board by means of a resolution passed at its meeting;

Time limit for Completion of Buy Back: As per section 68(4), every buy-back shall be completed within a period of one year from the date of passing of the special resolution, or as the case may be, the resolution passed by the Board under sub-section (2).

Ratio of aggregate debts: Provision also specifies that ratio of the aggregate debts (secured and unsecured) owed by the company after buy back is not more than twice the paid up capital and its free reserves. However, Central Government may prescribe higher ratio of the debt for a class or classes of companies.

As per the stated facts, Large Ltd. has a paid up equity capital and free reserves to the extent of ₹ 50,00,000. The company planned to buy back shares to the extent of ₹ 4,50,000.

Referring to the above provisions, the answers will be as follows:

1. No, special resolution will not be required as the buyback is less than 10% of the total paid-up equity capital and free reserves (50,00,000x10/100= 5,00,000) of the company, but such buy back must be authorized by the Board by means of a resolution passed at its meeting.
2. Time limit for completion of buy back will be- within a period of one year from the date of passing of the resolution by the Board.
3. The ratio of the aggregate debts (secured and unsecured) owed by the company after buy back should not be more than twice the paid up capital and its free reserves.

The above buy-back is possible when backed by the authorization by the articles of the company.

11. "Ethics programs are not helping to manage values associated with quality management, strategic planning and diversity management".

No. This is an incorrect statement.

Reason: Ethics programs help identifying the preferred values and ensuring that organizational behaviours are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours with preferred values and then providing training to all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviours to be aligned with values, including quality management, strategic planning and diversity management.

For example, total quality management initiatives include high priority on certain operating values, e.g. trust among stakeholders, performance, reliability, measurement and feedback.

12. The root meaning of the term discriminate is "to distinguish one object from another". Employment discrimination is treating one person better than another because of their age, gender, race, religion or other protected class of status. Discrimination in employment is wrong because it violates the basic principle of equality. Discrimination is to treat people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favour on a basis other than individual merit.

Elements of Discrimination: Generally, the discrimination means to distinguish one object from another or treating people differently. It is usually intended to refer to the wrongful act of making a difference in treatment or favour on a basis other than individual merit. Such discrimination may also be related in employment in business organization. The elements which create discrimination may be summarized as follows:

(i) If the decision against one or more employees is taken which is not based on individual merit, such as the ability to perform a given job, seniority or other morally legitimate qualification.

(ii) If the decision has been derived solely from racial or sexual prejudice, false stereotypes other kind of morally unjustified attitude against members of which the employee belongs.

(iii) If the decision has a harmful or negative impact on the interests of the employees, perhaps costing them jobs, promotions or better pay.

Discrimination in employment is wrong because it violates the basic principle of justice by differentiating between people on the basis of characteristics (race or sex) that are not relevant to the tasks they must perform. Looking to these aspects law has also been changed to conform to these moral requirements and to minimize the discrimination in employment in this respect.

13. (i) Intimidation threat for finance and accounting professionals working as auditors:

(a) Being threatened with dismissal or replacement;

(b) Being threatened with litigation;

(c) Being pressured to reduce inappropriately the extent of work performed in order to reduce fees;

(ii) Intimidation threat for finance and accounting professionals working as employees:

(a) Threat of dismissal or replacement of the finance and accounting professional or a close or immediate family member over a disagreement about the application of an accounting principle or the way in which financial information is to be reported for external use as well as for decision making purposes.

(b) A dominant personality attempting to influence the decision making process, for example with regard to the exclusion of irrelevant costs from projected cost estimates..

14. Ecological ethics is based on the idea that the environment should be protected not only for the sake of human beings but also for its own sake. The issue of environmental ethics goes beyond the problems relating to protection of environment or nature in terms of pollution, resource utilization or waste disposal.

Business and Industry are closely linked with environment and resource utilization. Production process and strategy for eco-friendly technologies throughout the product life cycle and minimization of waste play major role in protection the environment and conservation of resources. Business, Industry and multinational corporations have to recognize environmental management as the priority area and a key determinant to sustainable development. Sound management of wastes is among the major environmental issues for maintaining the quality of Earth's environment and achieving sustainable development.

If the environmental costs are properly reflected in the prices paid for goods and services then companies and ultimately the consumer would adjust market behaviour in a way that would reduce damage to environment, pollution and waste production. Price signal will also influence behaviour to avoid exploitation or excessive utilization of natural resources. Such measures would facilitate the approach of "Polluter Pays Principle". Removing subsidies that encourage environmental damage is another measure.

15. **(i)** **Accountability Throughout the Value Chain:** Over the past several years, the CSR agenda has been characterized by the expansion of boundaries of corporate accountability. Stakeholders increasingly hold companies accountable for the practices of their business partners throughout the entire value chain with special focus on suppliers, environmental, labour, and human rights practices.

(ii) **Advances in Information Technology:** The rapid growth of information technology has also served to sharpen the focus on the link between business and corporate social responsibility. Just as email, mobile phones and the Internet speed the pace of change and facilitate the growth of business, they also speed the flow of information about a company's CSR record.

16. **Elements influencing organisational Culture:** There are number of elements that can be used to describe or influence Organizational Culture. Some of these are:

- *The Paradigm:* What the organization is about; what it does; its mission; its values.
- *Control Systems:* The processes in place to monitor what is going on.
- *Organizational Structures:* Reporting lines, hierarchies, and the way that work flows through the business.

- *Power Structures:* Who makes the decisions and how power is distributed across the organization.
- *Symbols:* These include the logos and designs, but would extend to symbols of power, such as car parking spaces and executive washrooms!
- *Rituals and Routines:* Management meetings, board reports and so on may become more habitual than necessary.
- *Stories and Myths:* build up about people and events, and convey a message about what is valued within the organization.

Communicating the corporate culture effectively is paramount. For example, at General Electric (GE), corporate values are so important to the company, that Jack Welch, the former legendary CEO of the company, had them inscribed and distributed to all GE employees at every level of the company.

17. The skills needed for effective critical thinking are:

1. Analyze Cause and Effect: You must be able to separate the motive or reason for an action or event (the cause) from the result or outcome (the effect).
2. Classify and Sequence: You must be able to group items or sort them according to similar characteristics.
3. Compare and Contrast: You must be able to determine how things are similar and how they are different.
4. Infer: You must be skilled in reasoning and extending logic to come up with plausible options or outcomes.
5. Evaluate: You must be able to determine sound criteria for making choices and decisions.
6. Observe: You must be skilled in attending to the details of what actually happened.
7. Predict: You must be able to finding and analyze trends, and extend these to make sensible predictions about the future.
8. Rationalize: You must be able to apply the laws of reason (induction, deduction, analogy) in to judge an argument and determine its merits.
9. Prioritize: You must be able to determine the importance of an event or situation and put it in the correct perspective.
10. Summarize: You must be able to distill a brief report of what happened or what you have learned.
11. Synthesize: You must be able to identify new possible outcome by using pieces of information that you already know.

18. Negotiation: Negotiation is a common way of settling issues between two or more disagreeing parties. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

Approaches: Negotiation can be approached in four ways. Each of these approaches produces a different outcome.

Win-Lose Orientation: This is the approach taken by competitive communicators. The win-lose orientation is based on the assumption that only one side can reach its goals and that any victory by that party will be matched by the other's loss. Despite the fact that it produces losers as well as winners, a win-lose orientation can sometimes be the best approach to negotiating. For example, in a one-time commercial transaction (the sale of a car, for instance), concern for helping the other party may take a back seat in getting the best possible deal, without violation of ethical values.

Lose-Lose Orientation: With a lose-lose orientation, a conflict plays out in a way that damages both parties to such a degree that everyone feels like a loser. Nobody starts out seeking a lose-lose outcome, of course, but sometimes when people feel that a negotiating partner is blocking them, they wind up seeking revenge. For example, if customers feel cheated, they are likely to tell others about their dissatisfaction, costing the company future business.

Compromise: Sometimes it seems better to compromise than to fight battles in a competitive manner and risk a lose-lose outcome. There are cases in which compromise is the best obtainable outcome-usually when disputed resources are limited or scarce. For example, if two managers, both of whom need a separate full-time secretary but budget restrictions make this impossible, they may have to compromise by sharing one secretary.

Win-Win Orientation: A win-win approach differs significantly from the preceding negotiating styles. It is a collaborative approach to negotiation and assumes that solutions can be reached that satisfy the needs of all the parties. Most importantly, it looks beyond the conflicting means of both parties (my way versus your way) and focuses on satisfying the ends each is seeking. The key is to avoid taking polar positions (arguing over means) and instead to identify the ends or goals of both parties.

19. (i) The given statement "Rumour and gossip are synonymous" is INCORRECT.

Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same network, there is a distinction between the terms. Rumours tend to focus on events and information, whereas gossip focuses on people. Even though managers usually treat the information as "yet to be confirmed", it may cloud judgments about the employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.

(ii) The given statement "Lying breaks down the trust between individuals" is CORRECT.

A lie is a false statement intended to deceive. Of all the ethical dilemmas, lying would appear to be the least morally perplexing. Most would agree that "one ought not to lie". Yet lies in business are more common that many would care to admit. Lying break down the trust between individuals, shaking the foundation of ethical communication.

20. Indemnity Bond

Mr. Yash S/o ………………….. R/o ………………… do hereby agree to indemnify the Cloth Fabrics Ltd. for any loss that may occur for seeking release of dividend for 170 shares of ₹ 1700.

I further declare that personally I have not received the dividend warrant in question.

Mr. Yash

Date: Signature

Place:

PAPER 4: TAXATION

SECTION A: INCOME TAX

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2017, including significant notifications/ circulars issued upto 30th April, 2018, are applicable for November, 2018 examination. The relevant assessment year for November, 2018 examination is A.Y.2018-19. The significant notifications/circulars issued upto 30.04.2018, relevant for November, 2018 examination, but not covered in the July 2017 edition of the Study Material, are given hereunder:

CHAPTER 2: RESIDENCE AND SCOPE OF TOTAL INCOME

Clarification regarding liability to income-tax in India of a non-resident seafarer receiving remuneration in NRE (Non-Resident External) account maintained with an Indian Bank [Circular No.13/2017, dated 11.04.2017 and Circular No.17/2017, dated 26.04.2017]

Income by way of salary, received by non-resident seafarers, for services rendered outside India on-board foreign ships, is being subjected to tax in India for the reason that the salary has been received by the seafarer into the NRE bank account maintained in India by the seafarer. On receiving representations in this regard, the CBDT has examined the matter. It noted that section 5(2)(a) of the Income-tax Act, 1961 provides that only such income of a non-resident shall be subjected to tax in India that is either received or is deemed to be received in India.

Accordingly, the CBDT has, vide this circular, clarified that that salary accrued to a non-resident seafarer for services rendered outside India on a foreign going ship (with Indian flag or foreign flag) shall not be included in the total income merely because the said salary has been credited in the NRE account maintained with an Indian bank by the seafarer.

CHAPTER 4: HEADS OF INCOME
UNIT IV: CAPITAL GAINS

Long-term specified asset notified for the purpose of claiming exemption under section 54EC [Notification No. 47/2017, dated 08.06.2017 and Notification No. 79/2017, dated 08.08.2017]

Section 54EC provides exemption from chargeability of capital gain from the transfer of a long-term capital asset where the assessee has invested the whole or any part of the capital gain in a long-term specified asset. As per clause (ba) of *Explanation* to section 54EC "long term specified asset" means any bond redeemable after three years and issued on or after 01.04.07 by the National Highways Authority of India (NHAI) or by the Rural Electrification Corporation Limited (RECL) or any other bond notified by the Central Government in this behalf.

Accordingly, the Central Government has, vide these notifications, notified any bond redeemable after three years and issued by the **Power Finance Corporation Limited** on or after 15.06.17 or by the **Indian Railway Finance Corporation Limited** on or after 08.08.17 as 'long-term specified asset'.

CHAPTER 4: HEADS OF INCOME
UNIT V: INCOME FROM OTHER SOURCES

Clarification regarding trade advance not to be treated as deemed dividend under section 2(22)(e) – [Circular No. 19/2017, dated 12.06.2017]

Section 2(22)(e) provides that "dividend" includes any payment by a company in which public are not substantially interested, of any sum by way of **advance or loan** to a shareholder who is the beneficial owner of shares holding not less than 10% of the voting power, or to any concern in which such shareholder is a member or a partner and in which he has a substantial interest or any payment by any such company on behalf, or for the individual benefit, of any such shareholder, to the extent to which the company in either case possesses accumulated profits.

The CBDT observed that some Courts in the recent past have held that trade advances in the nature of commercial transactions would not fall within the ambit of the provisions of section 2(22)(e) and such views have attained finality.

In view of the above, the CBDT has, vide this circular, clarified that it is a settled position that trade advances, which are in the nature of commercial transactions, would not fall within the ambit of the word 'advance' in section 2(22)(e) and therefore, the same would not to be treated as deemed dividend.

CHAPTER 7: DEDUCTIONS FROM GROSS TOTAL INCOME

Contributory Health Service Scheme notified for the purpose of section 80D [Notification No. 9 /2018 dated 16-2-2018]

Under section 80D, a deduction to the extent of ₹ 25,000 (₹ 30,000, in case of resident senior citizens) is allowed in respect of premium paid to effect or keep in force an insurance on the health of self, spouse and dependent children or any contribution made to the Central Government Health Scheme or such other health scheme as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification, notified the Contributory Health Service Scheme of the Department of Atomic Energy, contribution to which would qualify for deduction under section 80D.

CHAPTER 9: ADVANCE TAX AND TAX DEDUCTION AT SOURCE

Deduction of tax at source on interest income accrued to minor child, where both the parents have deceased [Notification No. 05/2017, dated 29.05.2017]

Under Rule 31A(5) of the Income-tax Rules, 1962, the Director General of Income-tax (Systems) is authorized to specify the procedures, formats and standards for the purposes of furnishing and verification of, *inter alia*, the statements and shall be responsible for the day-to-day administration in relation to furnishing and verification of the statements in the manner so specified.

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), specified that in case of minors where both the parents have deceased, TDS on the interest income accrued to the minor is required to be deducted and reported against PAN of the minor child unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

Deduction of tax at source on interest on deposits made under Capital Gains Accounts Scheme, 1988 where depositor has deceased - Notification No. 08/2017, dated 13.09.2017

The Principal Director General of Income-tax (Systems) has, in exercise of the powers delegated by the CBDT under Rule 31A(5), vide this notification, specified that in case of deposits under the Capital Gains Accounts Scheme, 1988 where the depositor has deceased:

(i) TDS on the interest income accrued for and upto the period of death of the depositor is required to be deducted and reported against PAN of the depositor, and

(ii) TDS on the interest income accrued for the period after death of the depositor is required to be deducted and reported against PAN of the legal heir,

unless a declaration is filed under Rule 37BA(2) that credit for tax deducted has to be given to another person.

No requirement to deduct tax at source under section 194-I on remittance of Passenger Service Fees (PSF) by an Airline to an Airport Operator [Circular No. 21/2017, dated 12.06.2017]

Section 194-I requires deduction of tax at source at specified percentage on any income payable to a resident by way of rent. *Explanation* to this section defines the term "rent" as any payment, by whatever name called, under any lease, sub-lease, tenancy or any other agreement or arrangement for the use of any (a) land; or (b) building; or (c) land appurtenant to a building; or (d) machinery; (e) plant; (f) equipment (g) furniture; or (h) fitting, whether or not any or all of them are owned by the payee.

The primary requirement of any payment to qualify as rent is that the payment must be for the use of land and building and mere incidental/minor/insignificant use of the same while providing other facilities and service would not make it a payment for use of land and buildings so as to attract section 194-I.

Accordingly, the CBDT has, *vide* this circular, clarified that the provisions of section 194-I shall **not** be applicable on payment of PSF by an airline to Airport Operator.

Clarification regarding TDS on Goods and Services Tax (GST) component comprised in payments made to residents [Circular No. 23/2017 dated 19.07.2017]

The CBDT had, vide Circular No. 1/2014 dated 13.01.2014, clarified that wherever in terms of the agreement or contract between the payer and the payee, the service tax component comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such service tax component.

In order to harmonize the same treatment with the new system for taxation of services under the GST regime w.e.f. 01.07.2017, the CBDT has, vide this circular, clarified that wherever in terms of the agreement or contract between the payer and the payee, the component of 'GST on services' comprised in the amount payable to a resident is indicated separately, tax shall be deducted at source on the amount paid or payable without including such 'GST on services' component.

GST shall include Integrated Goods and Services Tax, Central Goods and Services Tax, State Goods and Services Tax and Union Territory Goods and Services Tax.

Further, for the purposes of this Circular, any reference to "service tax" in an existing agreement or contract which was entered into prior to 01.07.2017 shall be treated as "GST on services" with respect to the period from 01.07.2017 onward till the expiry of such agreement or contract.

Guidance on income-tax deduction from salaries under section 192 during the financial year 2017-18 [Circular No. 29/2017, dated 05-12-2017]

This CBDT Circular contains the rates for deduction of income-tax from the payment of income chargeable under the head "Salaries" during the financial year 2017-18 and explains certain provisions of the Income-tax Act, 1961 and Income-tax Rules, 1962, including the broad scheme of TDS from Salaries, persons responsible for deducting tax at source from Salaries and their duties, computation of income under the head "Salaries" etc.

Students may read/download this circular by using the following link - https://www.incometaxindia.gov.in/communications/circular/circular29_2017.pdf

CHAPTER 10: PROVISIONS FOR FILING RETURN OF INCOME

Persons who are not required to quote Aadhar Number or Enrolment ID in application form for allotment of PAN and in return of income [Notification No. 37/2017 dated 11.05.2017]

Section 139AA requires every person who is eligible to obtain Aadhar Number to mandatorily quote Aadhar Number or Enrolment ID of Aadhar application form, on or after 1st July, 2017 in the application form for allotment of PAN and in the return of income. However, this provision shall not applicable to such person or class or classes of persons or any State or part of any State as may be notified by the Central Government.

Accordingly, the Central Government has, vide this notification effective from 01.07.2017, notified that the provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

Income Tax Return Forms notified for Assessment Year 2018-19 [Notification No. 16/2018, dated 3-4-2018]

The CBDT has notified Income-tax Return Forms (ITR Forms) for the Assessment Year 2018-19 *vide* this Notification. The ITR Forms and its applicability have been detailed below:

ITR Form No	Applicability
1	A one page simplified ITR 1 (SAHAJ) can be filed by an individual who **is resident other than not ordinarily resident**, having income from salaries, one house property, income from other sources (interest etc.). and having total income upto ₹ 50 lakh.
2	Individuals and HUFs having not having income from business or profession shall be eligible to file ITR 2.
3	Individuals and HUFs having income under the head "Profits and gains of business or profession" have to file ITR 3.
4	ITR 4 (SUGAM) can be used by eligible assessees having presumptive income from business or profession. Thus, eligible assessees having only presumptive income under section 44AD, 44ADA or 44AE, under the head "Profits and gains of business or profession" have to file return in ITR 4. In addition, they may have salary income, income from house property and income from other sources (excluding winnings from lottery and income from race horses, income taxable under section 115BBDA and income of the nature referred to in section 115BBE). Any person having agricultural income in excess of ₹ 5,000 cannot use ITR 4. Further, a person claiming relief of foreign tax paid under section 90, 90A or 91 cannot use this form. Also, this form cannot be used by a resident having any asset (including financial interest in any entity) located outside India or signing authority in any account located outside India and by a resident having income from any source outside India.
5	ITR 5 can be used by persons other than individual, HUF, company and person filing Form ITR 7.
6	ITR 6 can be used by companies other than companies claiming exemption under section 11.
7	ITR 7 can be used by persons including companies required to furnish return under sections 139(4A) or 139(4B) or 139(4C) or 139(4D) or 139(4E) or 139(4F).

All these ITR Forms are to be filed electronically. However, where return is furnished in ITR Form-1 (SAHAJ) or ITR-4 (SUGAM), the following persons have an option to file return in paper form:

(i) an Individual of the age of 80 years or more at any time during the previous year; or

(ii) an Individual or HUF whose income does not exceed five lakh rupees and who has not claimed any refund in the Return of Income.

Amendments to the Tax Return Preparer Scheme, 2006 as notified u/s 139B [Notification No. 4/2018, dated 19-01-2018]

Section 139B provides that for the purpose of enabling any specified class or classes of persons in preparing and furnishing returns of income, the CBDT may, without prejudice to the provisions of section 139, frame a Scheme, by notification in the Official Gazette, providing that such persons may furnish their returns of income through a Tax Return Preparer (TRP) authorised to act as such under the Scheme.

Accordingly, *vide Notification No 358/2006 dated 28.11.2006*, the CBDT had notified the "Tax Return Preparer Scheme, 2006". Later on, the said scheme was amended vide Notification No 84/2010 dated 22.11.2010. Vide this notification, the said scheme is further amended so as to widen the scope of the Scheme. The amended portion is given in ***bold italics*** in the second column below:

Particulars	Contents
Applicability of the scheme	The scheme is applicable to all eligible persons.
Eligible person	Any person being an individual or a Hindu undivided family.
Tax Return Preparer	Any individual who has been issued a "Tax Return Preparer Certificate" and a "unique identification number" under this Scheme by the Partner Organisation to carry on the profession of preparing the returns of income in accordance with the Scheme. However, the following person are not entitled to act as TRP: (i) any officer of a scheduled bank with which the assessee maintains a current account or has other regular dealings. (ii) any legal practitioner who is entitled to practice in any civil court in India. (iii) an accountant.
Educational qualification for Tax Return Preparers	***An individual, who holds a bachelor degree from a recognised Indian University or institution, or has passed the intermediate level examination conducted by the Institute of Chartered Accountants of India or the Institute of Company Secretaries of India or the Institute of Cost Accountants of India, shall be eligible to act as TRP.***
Preparation of and furnishing the Return of Income by the TRP	An eligible person may, at his option, furnish his return of income u/s 139 for any assessment year after getting it prepared through a TRP:

	However, the following eligible persons (an individual or a HUF) cannot furnish a return of income for an assessment year through a TRP: (i) who is carrying out business or profession during the previous year and accounts of the business or profession for that previous year are required to be audited under section 44AB or under any other law for the time being in force; or (ii) who is not a resident in India during the previous year. An eligible person cannot furnish a revised return of income for any assessment year through a TRP unless he has furnished the original return of income for that assessment year through such or any other TRP. Further, a return of income which is required to be furnished in response to a notice under section 142(1)(i) or under section 148 or under section 153A cannot be prepared or furnished through a TRP.

***Note** - The limit for gratuity notified under the Payment of Gratuity Act, 1972 has been increased from ₹ 10 lakh to ₹ 20 lakh with effect from 29.3.2018.*

PART II: QUESTIONS AND ANSWERS

QUESTIONS

1. Mr. Sahil, a citizen of India, serving in the Ministry of Human Resources in India, was transferred to Indian Embassy in Germany on 15th March 2017. His income during the financial year 2017-18 is given here under:

Particulars	₹
Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	4,80,000
Interest accrued on National Saving Certificate	25,600
Interest on Post office savings bank account	3,200
Salary from Government of India	8,15,000
Foreign Allowances from Government of India	9,00,000

Mr. Sahil did not come to India during the financial year 2017-18. Compute his Gross Total Income for the Assessment year 2018-19.

2. Mr. Charan grows paddy and uses the same for the purpose of manufacturing of rice in his own Rice Mill. He furnished the following details for the financial year 2017-18:

   - Cost of cultivation of 40% of paddy produce is ₹ 9,00,000 which is sold for ₹ 18,50,000.
   - Cost of cultivation of balance 60% of paddy is ₹ 14,40,000 and the market value of such paddy is ₹ 28,60,000.
   - Incurred ₹ 3,60,000 in the manufacturing process of rice on the balance (60%) paddy. The rice was sold for ₹ 38,00,000.

   Compute the Business income and Agricultural Income of Mr. Charan for A.Y. 2018-19.

3. You are required to compute the income chargeable under the head Salaries in the hands of Mr. Narayan for the assessment year 2018-19 from the following details pertaining to the financial year 2017-18:

Particulars	₹
Basic salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	25,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Narayan paid by employer	42,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

4. Mr. Ranjan owns a shop whose construction got completed in August 2016. He took a loan of ₹ 22 lakhs from Bank of Baroda on 1-8-2015 and had been paying interest calculated at 9% per annum.

   During the financial year 2017-18, the shop was let out at a monthly rent of ₹ 45,000. He paid municipal tax of ₹ 18,000 each for the financial year 2016-17 and 2017-18 on 25-5-2017 and 15-4-2018, respectively.

Compute income under the head 'House Property' of Mr. Ranjan for the Assessment year 2018-19, assuming that the entire amount of loan is outstanding on the last day of the current previous year.

5. Mr. Chauhan is having a trading business and his Trading and Profit & Loss Account for the financial year 2017-18 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,50,000	By Sales	2,70,00,000
To Purchase	2,49,00,000	By Closing stock	1,00,000
To Gross profit	20,50,000		
Total	**2,71,00,000**	**Total**	**2,71,00,000**
Salary to employees (Including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest on bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income-tax	1,00,000		
To Net profit	11,50,000		
Total	**20,50,000**	**Total**	**20,50,000**

Other information:

(i) He incurred expenditure on furniture & fixtures of ₹ 35,000, which is paid in cash on 25.7.2017 to M/s Décor World.

(ii) Depreciation allowable ₹ 40,000 [excluding depreciation on furniture & fixtures refer in (i) above] as per Income-tax Rules, 1962.

(iii) No deduction of tax at source on payment of interest on bank loan has been made.

(iv) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income. Further, employees contribution of ₹ 25,000 was also deposited after the due date of filing return of income.

Compute business income of Mr. Chauhan for the Assessment Year 2018-19.

6. Mr. Sahu entered into an agreement with Mr. Devansh to sell his residential house located at New Delhi on 27.07.2017 for ₹ 82,00,000. Mr. Devansh was handed over the possession of the property on 16.12.2017 and the registration process was completed on 24.02.2018.

   Mr. Devansh had paid the sale proceeds in the following manner;

   (i) 25% through account payee bank draft on the date of agreement.

   (ii) 50% on the date of the possession of the property.

   (iii) Balance after the completion of the registration of the title of the property.

   The value determined by the Stamp Duty Authority on 27.07.2017 was ₹ 92,00,000 whereas on 24.02.2018 it was ₹ 94,50,000.

   Mr. Sahu had acquired the property on 01.04.2002 for ₹ 21,00,000. After recovering the sale proceeds from Devansh, he purchased another residential house property in Navi Mumbai for ₹ 35,00,000.

   Cost Inflation Index for Financial Year(s)

2001-02	-	100
2002-03	-	105
2017-18	-	272

   Compute the total income of Mr. Sahu for the Assessment Year 2018-19 and his net tax liability/refund due for that year, assuming that he has earned income of ₹ 12,000 from Savings Bank A/c and received income of ₹ 84,000 (Net of TDS) from lotteries. Assume that the tax deductible at source, if any, on consideration for sale of residential house has been deducted.

7. (a) Mr. Pranav has 15% shareholding in TRP(P) Ltd. (engaged in trading business of toys) and has also 50% share in Pranav & Sons, a partnership firm. The accumulated profit of TRP(P) Ltd. is ₹ 30 lakh. Pranav & Sons had taken a loan of ₹ 35 lakh from TRP(P) Ltd.

   Examine whether the above loan can be treated as dividend as per the provisions of the Income-tax Act, 1961.

   (b) Discuss the taxability or otherwise in the hands of the recipients, as per the provisions of the Income-tax Act, 1961:

   (i) MNS Private Limited, a closely held company, issued 12,000 shares at ₹ 125 per share. (The face value of the share is ₹ 80 per share and the fair market value of the share is ₹ 110 per share).

   (ii) Mr. Arun received an advance of ₹ 56,000 on 11-09-2017 against the sale of his house. However, due to non-payment of instalment in time, the contract has cancelled and the amount of ₹ 56,000 was forfeited.

   (iii) Mr. Nitin, transferred a house property to his son Mr. Raj without consideration. The value of the house is ₹ 12 lacs as per the Registrar of stamp duty.

(iv) Mr. Tanmay gifted a refrigerator to his sister's daughter Tannu on her marriage. The fair market value of the refrigerator is ₹ 75,000.

8. Saharsh gifted ₹ 12 lakhs to his wife, Sandhya on her birthday on, 1st February, 2017. Sandhya lent ₹ 6,00,000 out of the gifted amount to Karuna on 1st April, 2017 for six months on which she received interest of ₹ 60,000. The said sum of ₹ 60,000 was invested in shares of a listed company on 3rd October, 2017, which were sold for ₹ 85,000 on 30th March, 2018. Securities transactions tax was paid on such sale. The balance amount of gift was invested on 1st April 2017, as capital by Sandhya in her new business. She suffered loss of ₹ 25,000 in the business in Financial Year 2017-18.

   In whose hands the above income and loss shall be included in Assessment Year 2018-19, assume that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

9. From following information furnished for the year ended 31-03-2018, compute the total income of Mr. Arihant for A.Y. 2018-19 and show the items eligible for carry forward and upto which assessment year:

Particulars	Amount (₹)
Long-term capital gain from sale of urban land	2,30,000
Long-term capital loss on sale of shares (STT not paid)	85,000
Long-term capital loss on sale of listed shares in recognized stock exchange (STT paid both at the time of acquisition and sale)	1,02,000
Loss from speculative business X	25,000
Income from speculative business Y	15,000
Loss from specified business covered under section 35AD	40,000
Income from salary	3,50,000
Loss from house property	2,20,000
Income from trading business	75,000

   Following are details of unabsorbed depreciation and the brought forward losses:

   (1) Unabsorbed depreciation of ₹ 11,000 pertaining to A.Y 2017-18.

   (2) Losses from owning and maintaining of race horses pertaining to A.Y. 2017-18 ₹ 5,000.

   (3) Brought forward loss from trading business ₹ 8,000 relating to A.Y.2014-15.

10. Mr. Anay manufactures toys in a factory located in Noida. His profit from the manufacture of toys for Assessment year 2018-19 is ₹ 1.85 crore and total turnover is ₹ 18.70 crore.

On 1st April 2017, there were 100 employees engaged in his factory. Due to increase in demand of his products, he employed 140 additional employees during the previous year 2017-18 comprises of:

(a) 15 casual employees employed on 15th April 2017 till 31st January 2018 on monthly emolument of ₹ 22,000 per month

(b) 40 regular employees employed on 1st May, 2017 on monthly emolument of ₹ 22,000 per month

(c) 25 contractual employees employed on 1st July 2017 for 2 years on monthly emolument of ₹ 15,000 per month

(d) 35 regular employees employed on 1st August, 2017 on monthly emolument of ₹ 30,000 per month

(e) 25 regular employees employed on 1st October, 2017 on monthly emolument of ₹ 22,000 per month

Compute the deduction under Section 80JJAA, if available to Mr. Anay for Assessment year 2018-19, assuming that monthly emoluments were paid by use of ECS. The regular and contractual employees participate in the recognised provident fund while casual employees do not.

Would your answer be different if Mr. Anay is engaged in the manufacture of apparel? Examine.

*[**Note** - Ignore the amount of deduction available under section 80JJAA to Mr. Anay, for the employees employed in preceding previous years, while computing the deduction under 80JJAA for the assessment year 2018-19]*

11. You are required to compute the total income and tax liability of Mr. Anoop, a resident individual aged 55 years, for the Assessment Year 2018-19 from the following information shown in his Profit and Loss Account for the year ended 31st March 2018:

(i) The net profit was ₹ 8,40,000.

(ii) Depreciation debited in the books of account was ₹ 1,05,000.

(iii) The following incomes were credited in the Profit & Loss Account:

(a) Interest on notified government securities ₹ 32,000

(b) Dividend from a foreign company ₹ 28,000.

(c) Gold chain worth ₹ 78,000 received as gift from his mother.

(iv) Interest on loan amounting to ₹ 82,000 was paid in respect of capital of ₹ 8,20,000 borrowed for the purchase of new plant & machinery which has been put to use on 12th April, 2018.

(v) General expenses included:

(a) An expenditure of ₹ 18,500 which was paid by a bearer cheque.

(b) Compensation of ₹ 4,500 paid to an employee while terminating his services in business unit.

Additional Information:

(1) Depreciation allowable as per Income-tax Act, 1961 was ₹ 1,16,000 [without considering depreciation on new plant & machinery referred to in (iv) above].

(2) He contributed the following amounts by cheque:

(a) ₹ 48,000 in Sukanya Samridhi Scheme in the name of his minor daughter Anya.

(b) ₹ 23,000 to the Clean Ganga Fund set up by the Central Government.

(c) ₹ 28,000 towards premium for health insurance and ₹ 2,500 on account of preventive health check up for self and his wife.

(d) ₹ 35,000 on account of medical expenses of his father aged 82 years (no insurance scheme had been availed on the health of his father).

12. Shurya Bank Ltd., a banking company to which the Banking Regulations Act, 1949 applies, has paid interest of ₹ 7,000 to Mr. Bhuwan, a resident Indian, from its Lucknow branch and ₹ 8,000 from Kanpur branch. If the bank has not adopted core banking solutions, is tax required to be deducted at source from such interest payments made on 31-3-2018? Examine the provisions of the Income-tax Act, 1961 in this regard.

Will your answer be different if the bank has adopted core banking solutions?

13. Mr. Shikhar, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2017-18.

Estimated tax liability for the financial year 2017-18	₹ 85,000
Tax deducted at source for this year	₹ 15,000

(i) Would your answer change if Mr. Shikhar is eligible for and has opted for presumptive tax provisions under section 44AD and his tax liability is entirely on account of such income (ignore TDS)?

(ii) What would be your answer if, instead of section 44AD, he is eligible for and has opted for presumptive tax provisions under section 44AE?

14. Mr. Atharv filed his return of income on 30th September, 2018 related to Assessment Year 2018-19. In the month of October 2018, his tax consultant found that the interest on fixed deposit was omitted in the tax return. Can Mr. Atharv file a revised return?

Assume that the due date for furnishing return of income in his case, was 31st July, 2018 and the assessment was not completed till the month of October 2018.

SUGGESTED ANSWERS

1. Mr. Sahil is a non-resident for the A.Y.2018-19, since he was not present in India at any time during the previous year 2017-18 [Section 6(1)].

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Gross Total Income of Mr. Sahil for A.Y. 2018-19

Particulars	₹
Salaries	
Salary from Government of India	8,15,000
(Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sahil, a citizen of India, even though he is a non-resident and rendering services outside India)	
Foreign Allowances from Government of India	Nil
[Any allowances or perquisites paid or allowed as such outside India by the Government of India to a citizen of India for rendering service outside India is exempt under section 10(7)].	
Income from House Property	
Rent from a house situated at Australia, received in Australia	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it is neither accruing or arising in India nor is it deeming to accrue or arise in India nor is it received in India)	
Income from Other Sources	
Interest accrued on National Savings Certificate is taxable[1]	25,600
Interest on Post office savings bank account – exempt upto ₹ 3,500	Nil
Gross Total Income	**8,40,600**

[1] *It is assumed that Mr. Sahil follows mercantile system of accounting.*

2. **Computation of Business Income and Agriculture Income of Mr. Charan for A.Y. 2018-19**

Particulars	Business Income	Agricultural Income	
	₹	₹	₹
Sale of Rice			
Business income			
Sale Proceeds of Rice	38,00,000		
Less: Market Value of paddy (60%)	28,60,000		
Less: Manufacturing expenses	3,60,000		
	5,80,000		
Agricultural Income			
Market value of paddy (60%)		28,60,000	
Less: Cost of cultivation		14,40,000	
			14,20,000
Sale of Paddy			
Agricultural Income			
Sale proceeds of paddy produce (40%)		18,50,000	
Less: Cost of cultivation		9,00,000	
			9,50,000
			23,70,000

3. **Computation of income chargeable under the head "Salaries" of Mr. Narayan for A.Y. 2018-19**

Particulars	₹
Basic Salary	7,20,000
Dearness allowance	3,60,000
Commission	60,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is an exempt perquisite to the extent of ₹ 15,000 [Clause (v) of proviso to section 17(2)]. Therefore, ₹ 10,000, being the reimbursement in excess of ₹ 15,000 is a taxable perquisite.	10,000

Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	1,500
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Narayan's birthday (entire amount is taxable since the perquisite value exceeds ₹ 5,000) as per Rule 3(7)(iv) **[See Note below]**	15,000
Life insurance premium of Mr. Narayan paid by employer is a taxable perquisite as per section 17(2)(v)	42,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee for both official and personal purposes – perquisite value would be ₹ 21,600 [₹1,800 ×12] as per Rule 3(2)	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes.	5,000
Gross Salary	**12,42,600**
Less: **Deductions under section 16**	
Entertainment allowance (deduction under section 16(ii) not allowable since Mr. Narayan is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	3,000
Income chargeable under the head "Salaries"	**12,39,600**

***Note**: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 15,000 was received by Mr. Narayan from his employer on the occasion of his birthday.*

Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 15,000 is liable to tax as perquisite.

***An alternate view** possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 10,000.*

In such case, the gross salary and net salary would be, ₹ 12,37,600 and ₹ 12,34,600, respectively.

4. Computation of income under the head "House Property" of Mr. Ranjan for A.Y.2018-19

Particulars	₹	₹
[2]Gross Annual Value (₹ 45,000 x 12)		5,40,000
Less: Municipal taxes **(See Working Note 1)**		18,000
Net Annual Value (NAV)		5,22,000
Less: Deductions under section 24		
(i) 30% of NAV	1,56,600	
(ii) Interest on housing loan **(See Working Note 2)**	2,24,400	
		3,81,000
Income chargeable under the head "House Property"		**1,41,000**

Working Notes:

(1)	**Municipal taxes deductible from Gross Annual Value** As per proviso to section 23(1), municipal taxes **actually paid by the owner during the previous year** is allowed to be deducted from Gross Annual Value. Accordingly, only ₹ 18,000 paid on 25.05.2017 is allowed to be deducted from Gross Annual Value, while computing income from house property of the previous year 2017-18.[3]	
(2)	**Interest on housing loan allowable as deduction under section 24**	
	As per section 24(b), interest for the current year (₹ 22,00,000 x 9%)	₹ 1,98,000
	Pre-construction interest For the period 01.08.2015 to 31.03.2016 (₹ 22,00,000 x 9% x 8/12) = ₹ 1,32,000 ₹ 1,32,000 allowed in 5 equal installments (₹ 1,32,000/5) from P.Y. 2016-17 to P.Y. 2020-21	₹ 26,400
		₹ 2,24,400
3.	Deduction under section 24(b), in respect of interest on housing loan for let out property, fully allowed without any limit.	

[2] *In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the Gross Annual Value*

[3] *The municipal tax of ₹ 18,000 paid on 15.4.2018 would be allowed as deduction while computing income from house property of the previous year 2018-19.*

5. Computation of Business Income of Mr. Chauhan for the A.Y. 2018-19

Particulars	₹	₹
Net profit as per Profit and Loss Account		11,50,000
***Add*: Expenses not deductible**		
Donation to Prime Minister Relief Fund (Refer Note 1)	1,00,000	
Provision for bad debts (Refer Note 2)	50,000	
Family planning expenditure incurred on employees (Refer Note 3)	20,000	
Depreciation as per Profit and Loss Account	30,000	
Income-tax (Refer Note 4)	1,00,000	
Employer's contribution to recognized provident fund (Refer Note 5)	25,000	3,25,000
		14,75,000
***Less*: Expense allowed**		
Depreciation as per Income-tax Rules, 1962 (Refer Note 6)		40,000
		14,35,000
***Add*:** Employee's contribution included in income as per Section 2(24)(x) (Refer Note 7)		25,000
Business Income		**14,60,000**

Notes:-

(1) Donation to Prime Minister Relief Fund is not allowed as deduction from the business income, since it is not incurred wholly and exclusively for business. It is allowed as deduction under section 80G from the gross total income.

(2) Provisions for bad debts is allowable as deduction under section 36(1)(viia) (subject to the limits specified therein) only in case of banks, public financial institutions, State Financial Corporation and State Industrial Investment Corporation. Therefore, it is not allowable as deduction in the case of Mr. Chauhan.

(3) Expenditure on family planning is allowed as deduction under section 36(1)(ix) only to a company assessee. Therefore, such expenditure is not allowable as deduction in the hands of Mr. Chauhan.

(4) Income-tax paid is not allowable as deduction as per the provisions of section 40(a)(ii).

(5) Since Mr. Chauhan's contribution (Employer's Contribution) to recognized provident fund is deposited after the due date of filing return of income, the same is disallowed as per provisions of section 43B, in computing business income of A.Y. 2018-19.

(6) As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds ₹ 10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on furniture & fixtures would not be allowed, since payment exceeding ₹ 10,000 (₹ 35,000 in this case) is made in cash. Therefore, no adjustment is required to be made in the amount of depreciation computed as per Income-tax Rules, 1962, since such amount does not include depreciation on furniture & fixtures.

(7) Employee's contribution is includible in the income of the employer by virtue of Section 2(24)(x). The deduction for the same is not provided for as it was deposited after the due date under the Provident Fund Act.

(8) TDS provisions under section 194A are not attracted in respect of payment of interest on bank loan. Therefore, disallowance under section 40(a)(ia) is not attracted in this case.

6. Computation of income chargeable under the head "Capital Gains" for A.Y. 2018-19

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 82 lakhs	
Value adopted by Stamp Valuation Authority	₹ 92 lakhs	
Full value of sale consideration [Higher of the above]		92,00,000
[As per section 50C, in case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration.		
In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 25% of ₹ 82 lakhs was paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]		
***Less:* Indexed cost of acquisition of residential house**		
[₹ 21 lakhs x 272/105]		54,40,000

Long-term capital gains [Since the residential house property was held by Mr. Sahu for more than 24 months immediately preceding the date of its transfer]		**37,60,000**
Less: Exemption under section 54		35,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.		
Long-term capital gains chargeable to tax		**2,60,000**
Income from Other Sources		
- Interest on Savings Bank A/c	12,000	
- Income from lotteries [₹ 84,000 x 100/70]	1,20,000	
[Under section 194B, tax @ 30% is required to be deducted at source on lottery income at the time of payment, if the amount exceeds ₹ 10,000]		1,32,000
Gross Total Income		**3,92,000**
Less: Deduction under Chapter VI-A: Under section 80TTA, in respect of interest on Savings bank a/c, restricted to		10,000
Total Income		**3,82,000**
Tax Liability		
Tax on total income of ₹ 2,000 i.e., excluding LTCG & lotteries income		Nil
Tax on long-term capital gains @ 20% ₹ 12,000 (₹ 2,60,000 less unexhausted basic exemption limit of ₹ 2,48,000 [₹ 2,50,000 - ₹ 2,000, being total income excluding LTCG & income from lotteries]		2,400
Tax on income from lotteries @ 30%		36,000
		38,400
Add: Education cess @ 2%		768
Add: Secondary and higher education cess @ 1%		384
Tax liability		**39,552**
Less: Tax deducted at source		
- under section 194B on income from lotteries		36,000
- under section 194-IA on transfer of residential house (1% of ₹ 82,00,000)		82,000
Tax refundable		**78,448**

7. **(a)** Section 2(22)(e) provides that any payment by a company, not being a company in which public are substantially interested, of any sum by way of advance or loan

- to a shareholder, being a person who is the beneficial owner of shares holding not less than 10% of voting power, or
- to any concern in which such shareholder is a partner and in which he has a substantial interest (i.e., he is beneficially entitled to not less than 20% of the income of such concern)

is deemed as dividend, to the extent the company possesses accumulated profits.

In the present case, the loan given by TRP(P) Ltd. to Pranav & Sons, a partnership firm would be deemed as dividend, since Mr. Pranav is the beneficial owner of 15% shareholding in TRP(P) Ltd. and also has substantial interest in Pranav & Sons (as he is beneficially entitled to 50% of the income of the firm).

However, the amount of loan would be deemed as dividend only to the extent TRP(P) Ltd. possesses accumulated profits. Therefore, out of the loan of ₹ 35 lakhs given to Pranav & Sons, only ₹ 30 lakhs, i.e., to the extent of accumulated profit of TRP(P) Ltd., would be deemed as dividend.

(b)

S. No.	Taxable / Not Taxable	Reason
(i)	**Taxable**	Since MNS Private Limited, a closely held company, issued 12,000 shares at a premium (i.e., issue price exceeds the face value of shares), the excess of the issue price of the shares over the fair market value would be taxable under section 56(2)(viib) in its hands under the head "Income from other sources". Therefore, ₹ 1,80,000 [12,000 × ₹ 15 (₹ 125 – ₹ 110)] shall be taxable as income in the hands of MNS Private Limited under the head "Income from other sources".
(ii)	**Taxable**	Any sum of money received as an advance or otherwise in the course of negotiations for transfer of a capital asset would be chargeable to tax under the head "Income from other sources", if such amount is forfeited and the negotiations do not result in transfer of such capital asset [Section 56(2)(ix)]. Therefore, the amount of ₹ 56,000 received as advance would be chargeable to tax in the hands of Mr. Arun under the head "Income from other sources", since it is forfeited on account of cancellation of contract for transfer of house, being a capital asset, due to non-payment of installment in time.

(iii)	**Not Taxable**	As per section 56(2)(x), immovable property received without consideration by any person from his relative is **not** taxable. In the present case, since Mr. Nitin is the father of Mr. Raj, ₹ 12 lakhs, being the stamp duty value of house property received, without consideration, would not be chargeable to tax in the hands of Mr. Raj.
(iv)	**Not Taxable**	Refrigerator is **not** included in the definition of "property", for the purpose of taxability under section 56(2)(x) in the hands of the recipient under the head "Income from other sources". Further, the same has been received by Tannu on occasion of her marriage from her maternal uncle, being a relative. Hence, ₹ 75,000, being the fair market value of refrigerator received without consideration from a relative on the occasion of a her marriage is not taxable in the hands of Tannu, even though its value exceeds ₹ 50,000.

8. In computing the total income of any individual, there shall be included all such income as arises directly or indirectly, to the spouse of such individual from assets transferred directly or indirectly, to the spouse by such individual otherwise than for adequate consideration or in connection with an agreement to live apart.

Interest on loan: Accordingly, ₹ 60,000, being the amount of interest on loan received by Mrs. Sandhya, wife of Mr. Saharsh, would be includible in the total income of Mr. Saharsh, since such loan was given by her out of the sum of money received as gift from her husband.

Loss from business: As per *Explanation 2* to section 64, income includes loss. Thus, clubbing provisions would be attracted even if there is loss and not income.

Thus, the entire loss of ₹ 25,000 from the business carried on by Mrs. Sandhya would be includible in the total income of Mr. Saharsh, since as on 1st April 2017, the capital invested was entirely out of the funds gifted by her husband.

Short-term capital gain: The short-term capital gain of ₹ 25,000 (₹ 85,000, being the sale consideration ***less*** ₹ 60,000, being the cost of acquisition) arising in the hands of Mrs. Sandhya from sale of shares acquired by investing the interest income of ₹ 60,000 earned by her (from the loan given out of the sum gifted to her by her husband), would not be included in the hands of Mr. Saharsh. Since securities transaction tax has been paid, such short-term capital gain on sale of listed shares is taxable@15%

Income from the accretion of the transferred asset is not liable to be included in the hands of the transferor and, therefore, such income is taxable in the hands of Mrs. Sandhya.

9. Computation of total income of Mr. Arihant for the A.Y. 2018-19

Particulars	₹	₹
Salaries		
Income from Salary	3,50,000	
Less: Loss from house property set-off against salary income as per section 71(3A), restricted to	2,00,000	1,50,000
Profits and gains of business or profession		
Income from trading business	75,000	
Less: Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business, as per section 72(1), since the eight-year time limit as specified under section 72(3), within which set-off is permitted has not expired.	8,000	
	67,000	
Less: Unabsorbed depreciation	11,000	56,000
Income from speculative business Y	15,000	
Less: Loss from speculative business X to be set-off as per section 73(1)	15,000	
Loss from speculative business X to be carried forward to A.Y.2019-20 as per section 73(2)	10,000	
Capital Gains		
Long term capital gain on sale of urban land	2,30,000	
Less: Long term capital loss on sale of shares (STT not paid) set-off as per section 70(3)]	85,000	1,45,000
Long-term capital loss of ₹ 1,02,000 on sale of listed shares on which STT is paid both at the time of acquisition and sale cannot be set-off against long-term capital gain on sale of urban land since loss from an exempt source cannot be set-off against profit from a taxable source.		
Total Income		**3,51,000**

Items eligible for carried forward to A.Y.2019-20

Particulars	₹
Loss from House Property As per section 71(3A), Loss from house property can be set-off against any other head of income to the extent of ₹ 2,00,000 only.	20,000

As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2026-27, in this case.	
Loss from speculative business X Loss from speculative business can be set-off only against profits from any other speculation business. As per section 73(2), balance loss not set-off can be carried forward to the next year for set-off against speculative business income of that year. Such loss can be carried forward for a maximum of four assessment years i.e., upto A.Y. 2022-23, in this case, as specified under section 73(4).	10,000
Loss from specified business under section 35AD Loss from specified business under section 35AD can be set-off only against profits of any other specified business. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set off against income from specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business .	40,000
Loss from the activity of owning and maintaining race horses Losses from the activity of owning and maintaining race horses (current year or brought forward) can be set-off only against income from the activity of owning and maintaining race horses. If it cannot be so set-off, it has to be carried forward to the next year for set-off against income from the activity of owning and maintaining race horses, if any, in that year. It can be carried forward for a maximum of four assessment years, i.e., upto A.Y.2021-22, in this case as specified under section 74A(3).	5,000

10.

Computation of deduction under section 80JJAA
Mr. Anay is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2018-19, as his total turnover from business exceeds ₹ 1 crore and he has employed "additional employees" during the P.Y.2017-18. Additional employee cost = [₹ 22,000 × 40 new regular employees × 11 months] + [₹ 15,000 per month × 9 months × 25 new contractual employees] = ₹ 96,80,000 + ₹ 33,75,000 = ₹ 1,30,55,000 Deduction under section 80JJAA = 30% of ₹ 1,30,55,000 = ₹ 39,16,500.

Working Note: Number of Additional employees employed during the P.Y.2017-18

Particulars	No. of additional employees	
Total number of additional employees employed during the year		140
Less: Casual workmen employed on 15th April 2017, who do not participate in the recognised provident fund	15	
Regular employees employed on 1st August 2017, since their total monthly emoluments exceed ₹ 25,000	35	
Regular employees employed on 1st October 2017, for a period of less than 240 days during the P.Y.2017-18	25	75
Total number of additional employees employed during the P.Y.2017-18		65

Yes, the answer would be different, if Mr. Anay is engaged in the business of manufacture of apparel. Since the number of days of employment in a year has been relaxed from 240 days to 150 days in case of apparel industry, wages paid to regular employees employed on 1.10.2017 would also qualify for deduction under section 80JJAA for A.Y. 2018-19.

Additional employee cost = ₹ 1,30,55,000 + ₹ 33,00,000 (₹ 22,000 x 6 x 25)

= ₹ 1,63,55,000

Deduction under section 80JJAA = 30% of ₹ 1,63,55,000 = ₹ 49,06,500

11. Computation of total income of Mr. Anoop for the Assessment Year 2018-19

Particulars	₹	₹	₹
Profits and gains from business or profession			
Net profit as per profit and loss account		8,40,000	
Less: **Income credited to profit and loss account but not taxable under this head**			
Interest on notified government securities	32,000		
Dividend from foreign company	28,000		
Gift of gold chain received from his mother	78,000	1,38,000	
		7,02,000	
Add: Depreciation debited in the books of account		1,05,000	
		8,07,000	

Add: **Expenses debited to profit and loss account but not allowable as deduction**			
Interest on capital borrowed for purchase of plant & machinery	82,000		
[As per the proviso to section 36(1)(iii), the interest on loan borrowed for purchase of new asset which is not put to use upto 31.3.2018 not allowable as deduction. The said amount has to be added to the cost of the asset[4]. Since the amount has been debited to profit and loss account, it has to be added back].			
Expenditure in excess of ₹ 10,000 paid by bearer cheque to be disallowed as per section 40A(3)	18,500		
Compensation paid to an employee on termination of his services in the business unit is allowable on the grounds of commercial expediency. Hence, no disallowance is attracted	-	1,00,500	
		9,07,500	
Less: Depreciation allowable under the Income-tax Act, 1961		1,16,000	7,91,500
[Depreciation on new plant & machinery would not be allowed, since it was not put to use during the previous year 2017-18]			
Income from Other Sources			
Interest on notified Government Securities, exempt under section 10(15)		-	
Dividend from foreign company [(not exempt under section 10(34)]		28,000	
Gift of gold chain received from his mother is not taxable, since mother is a relative [clause (I) of proviso to section 56(2)(x)]		-	28,000
Gross Total Income			**8,19,500**

[4] No depreciation is allowable on such amount since the asset was not put to use during the P.Y. 2017-18.

***Less*: Deductions under Chapter VI-A**			
Under section 80C			
Deposit in Sukanya Samridhi Scheme		48,000	
Under section 80D			
Medical insurance premium			
Self and wife ₹ 28,000 + ₹ 2,500 preventive health check up, subject to a maximum of	25,000		
Medical expenses of father, being a very senior citizen, ₹ 35,000, since there is no insurance policy in his name, restricted to	30,000	55,000	
Under section 80G			
Donation to Clean Ganga Fund (qualifies for 100% deduction)		23,000	1,26,000
Total Income			**6,93,500**
Tax on total income @ 5% on ₹ 2,50,000 (₹ 5,00,000 *less* ₹ 2,50,000, being the basic exemption limit) plus @20% on ₹ 1,93,500 (in excess of ₹ 5,00,000)			51,200
Add: Education cess @2%			1024
Add: Secondary and higher education cess @1%			512
Tax Payable			**52,736**
Tax Payable (rounded off)			**52,740**

12. Tax is deductible @10% under section 194A in respect of interest credited or paid by a banking company, if the same exceeds ₹ 10,000.

This threshold is with reference to interest credited or paid by a branch of the bank, where the bank has not adopted core banking solutions.

On the other hand, if the bank has adopted core banking solutions, then, the threshold of ₹ 10,000 would apply in respect of the aggregate interest credited or paid by all the branches of the bank.

Therefore, if Shurya Bank Ltd. has not adopted core banking solutions, it need not deduct tax on interest of ₹ 7,000 and ₹ 8,000 paid by its Lucknow Branch and Kanpur Branch, respectively, to Mr. Bhuwan, since the interest paid by each branch does not exceed ₹ 10,000.

However, if Shurya Bank Ltd. has adopted core banking solutions, it has to deduct tax at source@10% on ₹ 15,000 (₹ 7,000 + ₹ 8,000) under section 194A, since the aggregate interest paid by its Lucknow and Kanpur branches exceed ₹ 10,000.

13. Determination of Advance Tax Liability of Mr. Shikhar

Particulars	**₹**
Estimated tax liability for the financial year 2017-18	85,000
Less: Tax deducted at source	15,000
Tax payable	**70,000**

Due Date of installment	**Amount payable**	**₹**
On or before 15^{th} June, 2017	Not less than 15% of advance tax liability	10,500
On or before 15^{th} September, 2017	Not less than 45% of advance tax liability *less* amount paid in earlier installment	21,000 (₹ 31,500, being 45% of ₹ 70,000 - ₹ 10,500)
On or before 15^{th} December, 2017	Not less than 75% of advance tax liability *less* amount paid in earlier installment(s)	21,000 (52,500, being 60% of ₹ 70,000 - ₹ 31,500)
On or before 15^{th} March, 2018	Whole of the advance tax liability *less* amount paid in earlier installment(s)	17,500 (70,000, being 100% of ₹ 70,000 - ₹ 52,500)

In case he is eligible for presumptive tax provisions under section 44AD and his entire tax liability is on account of such income, he can pay his entire advance tax liability in one installment on or before 15.3.2018, without attracting interest under section 243C.

This benefit would, however, not be available if he is eligible for and has opted for presumptive tax provisions under section 44AE, in which case he has to pay his advance tax in four installments as indicated above, failing which interest under section 234C would be attracted.

14. As per section 139(5), if any person, having furnished a return under section 139(1), within the due date or a belated return under section 139(4), discovers any omission or any wrong statement therein, he may furnish a revised return at any time –

(a) before the end of the relevant assessment year or

(b) before the completion of assessment,

whichever is earlier.

For assessment year 2018-19, the belated return has to be **furnished before 31^{st} March 2019 or before completion of assessment**, whichever is earlier.

Since Mr. Atharv has filed **his return after 31.7.2018**, being the due date of filing return of income under section 139(1) in his case, **but before 31.3.2019/completion of assessment**, the said return is a **belated return**.

Thus, in the present case, Mr. Atharv **can file a revised return**, since he has found an omission in the belated return filed by him for A.Y.2018-19 and assessment is yet to be completed[5] and 31.3.2019, being the end of A.Y.2018-19 has not elapsed.

[5] As of October 2018

SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the position of GST law as amended up to 30.04.2018.

(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

1. M/s. Shri Durga Corporation Pvt. Ltd. is a supplier of goods and services at Kolkata. It has furnished the following information for the month of February, 20XX:

	Particulars	**Amount (₹)**
(i)	Intra-State sale of taxable goods including ₹ 1,00,000 received as advance in January, 20XX, the invoice for the entire sale value is issued on 15th February, 20XX	4,00,000
(ii)	Goods purchased from unregistered dealer on 20th February, 20XX (Inter-State purchases are worth ₹ 30,000 and balance purchases are intra-State)	1,00,000
(iii)	Services provided by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex (It is an intra-State transaction)	1,00,000
(iv)	Goods transport services received from a GTA. GTA is paying tax @12% (It is an inter-State transaction)	2,00,000

Compute net GST liability (CGST, SGST or IGST, as the case may be) of M/s Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX.

Assume the rates of GST, unless otherwise specified, as under:

CGST	9%
SGST	9%
IGST	18%

Note:-

(i) The turnover of M/s. Shri Durga Corporation Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.

(ii) All the amounts given above are exclusive of taxes.

2. Cloud Seven Private Limited, a registered supplier, is engaged in the manufacture of taxable goods. The company provides the following information pertaining to GST paid on the purchases made/input services availed by it during the month of February, 20XX :

	Particulars	GST paid (₹)
(i)	Trucks used for the transport of raw material	1,20,000
(ii)	Foods and beverages for consumption of employees working in the factory	40,000
(iii)	Inputs are to be received in five lots, out of which third lot was received during the month	80,000
(iv)	Membership of a club availed for employees working in the factory	1,50,000
(v)	Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000)	4,00,000
(vi)	Raw material (to be received in March, 20XX)	1,50,000

Determine the amount of input tax credit available with Cloud Seven Private Limited for the month of February, 20XX by giving necessary explanations for treatment of various items. All the conditions necessary for availing the input tax credit have been fulfilled.

3. M/s. Handsome and Likemi Company, a partnership firm at Mumbai is running a mobile phone showroom. Along with mobile phone showroom, it is also engaged in providing health and fitness services.

   Turnover of the mobile phone showroom was ₹ 78 lakh and receipts of the health and fitness service was ₹ 26 lakh in the preceding financial year.

   (i) With reference to the provisions of the CGST Act, 2017, examine whether the firm can opt for the composition scheme,

   (ii) Will your answer change, if the turnover of the mobile phone showroom was ₹ 74 lakh and receipts of the health and fitness service was ₹ 18 lakh in the preceding financial year?

   (iii) If M/s. Handsome and Likemi Company obtain separate registration for their mobile phone showroom & for health fitness centre, can it opt for composition scheme only for mobile phone showroom?

4. Luv & Kush Pvt. Ltd. of Srinagar, Jammu & Kashmir engaged in the supply of gifts items provides you the following details:-

S.No.	Particulars	Date
1.	Commencement of the business of supplying goods	01.08.20XX
2.	Turnover exceeds ₹ 10,00,000 on	15.08.20XX

3.	Turnover exceeds ₹ 20,00,000 on	05.09.20XX
4.	Application for registration made on	28.09.20XX
5.	Registration certificate granted on	06.10.20XX

The company seeks your advice as to how it should raise revised tax invoices for supplies made. Is there any specific provision for issuance of revised tax invoices to unregistered customers? Explain.

5. Red Pepper Ltd., Delhi, a registered supplier, is manufacturing taxable goods. It provides the following details of taxable inter-State supply made by it for the month of March, 20XX.

Particulars	**Amount in (₹)**
List price of goods supplied inter-state (exclusive of taxes)	15,00,000
Subsidy received from Central Government for supply of taxable goods to Government School.	2,10,000
Subsidy received from a NGO for supply of taxable goods to an old age home	50,000
Tax levied by Municipal Authority	20,000
Packing charges	15,000
Late fee paid by the recipient of supply for delayed payment of invoice	6,000

The list price of the goods takes into account the two subsidies received. However, the other charges/taxes/fee are charged to the customers over and above the list price. Calculate the value of taxable supply made by M/s Red Pepper Ltd. for the month of March, 20XX. Rate of IGST is 18%.

6. (i) Explain the meaning of the term "date of receipt of payment" as per section 13 of the CGST Act, 2017.

   (ii) List any four activities which shall be neither treated as supply of goods nor a supply of services under the GST law.

7. Examine whether GST is payable in the following independent supply of services:

   (i) Indiana Engineering College, a recognised educational institution, has conducted an entrance test examination for various courses run by it and charged entrance fees from the applicants.

   (ii) Ramfal Lalaji, an agriculturist, has stored sugarcane in a warehouse. He has taken fumigation services in the said warehouse from Gupta Pest Control Co. for which he paid the consideration of ₹ 6,000.

8. (i) With reference to the provisions of GST law, briefly answer the following questions:-

(a) Income is received by Maharashtra Government from renting of immovable property to Ganpati Morya Pvt. Ltd., registered in Maharashtra (Turnover of the company was ₹ 18 lakh in the preceding financial year). Is GST payable in the present case? If yes, who is liable to pay the same?

(b) Mr. Vivek Goyal, director of A2Z Pvt. Ltd. Company has received sitting fee amounting to ₹ 1 lakh from A2Z Pvt. Ltd for attending the Board meetings.

(ii) Explain the meaning of the term "input tax" under section 2(62) of CGST Act, 2017.

9. (i) Discuss the circumstances where registration is liable to be cancelled.

(ii) Explain the order in which liability of taxable person has to be discharged under GST laws.

10. Examine whether the activity of import of service in the following independent cases would amount to supply under section 7 of the CGST Act, 2017?

(i) Miss Shriniti Kaushik received vaastu consultancy services for her residence located at Bandra, Mumbai from Mr. Racheal of Sydney (Australia). The amount paid for the said service is 5,000 Australian dollar.

(ii) Miss Shriniti Kaushik received vaastu consultancy services for her residence located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia). Further, Miss Shriniti did not pay any consideration for the said service.

(iii) Miss Shriniti Kaushik received vaastu consultancy services for her business premises located at Bandra, Mumbai from her brother, Mr. Varun residing in Sydney (Australia). Further, Miss Shriniti did not pay any consideration for the said service.

SUGGESTED ANSWERS/HINTS

1. Computation of GST liability of M/s. Shri Durga Corporation Pvt. Ltd. for the month of February, 20XX

Particulars	**Value of Supply**	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Intra -State sale of taxable goods [Note-1]	4,00,000	36,000	36,000	
Goods purchased from unregistered dealer on 20th February, 20XX [Note-2]	Nil	Nil	Nil	
Services rendered by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex [Note-3]	1,00,000	9,000	9,000	
Goods transport services received from GTA [Note-4]	2,00,000			Nil

Total GST liability for the month of February, 20XX	45,000	45,000	Nil
Less: Input tax credit available [Note-5] (₹ 2,00,000 x 12%)	24,000		
Net GST liability for the month of February, 20XX	21,000	45,000	Nil

Notes:

1. Section 12 of CGST Act, 2017 read with *Notification No. 66/2017 CT dated 15.11.2017* provides that the time of supply for all suppliers of goods (excluding composition suppliers) is the time of issue of invoice, without any turnover limit. Thus, liability to pay tax on the advance received in January, 20XX will also arise in the month of February, when the invoice for the supply is issued.
2. All intra-State and inter-State procurements made by a registered person from unregistered person have been exempted from reverse charge liability, without any upper limit for daily procurements upto 30.06.2018*[1]. [*Notification No. 8/2017 CT (R) dated 28.06.2017 as amended and Notification No. 32/2017 IT(R) dated 13.10.2017 as amended]*
3. Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt vide *Notification No. 12/2017 CT(R) dated 28.06.2017*. Labour contracts **for repairing** are thus, taxable.
4. As per *Notification No. 13/2017 CT(R) dated 28.06.2017*, GST is payable by the recipient on reverse charge basis on the receipt of services of transportation of goods by road from a goods transport agency (GTA) provided such GTA has **not** paid GST @ 12%. Since in the given case, services have been received from a GTA who has paid GST @ 12%, reverse charge provisions will not be applicable.
5. Input tax credit is available for the services received from GTA. The input tax credit of IGST can be used against IGST, CGST and SGST in the respective order vide section 49(5) of CGST Act, 2017.

2. Computation of input tax credit (ITC) available with Cloud Seven Private Limited for the month of February, 20XX

Particulars	₹
Trucks used for the transport of raw material [Note-1]	1,20,000
Foods and beverages for consumption of employees working in the factory [Note-2]	Nil
Inputs are to be received in five lots, out of which third lot was received during the month [Note-3]	Nil

* The above exemptions have been extended till 30.09.2018 vide *Notification No. 12/2018 CT(R) dated 29.06.2018* and *Notification No. 13/2018 IT(R) dated 29.06.2018.*

Membership of a club availed for employees working in the factory [Note-4]	Nil
Capital goods (out of five items, invoice for one item was missing and GST paid on that item was ₹ 50,000) [Note-5]	3,50,000
Raw material to be received in March, 20XX [Note-6]	Nil
Total ITC	**4,70,000**

Notes:-

1. ITC on motor vehicles is disallowed in terms of section 17(5) of the CGST Act, 2017, except when they are used *inter alia*, for transportation of goods.
2. ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply- [Section 17(5)].
3. When inputs are received in instalments, ITC can be availed only on receipt of last instalment- [Section 16(2)].
4. Membership of a club is specifically disallowed under section 17(5) of the CGST Act, 2017.
5. ITC cannot be taken on missing invoice. The registered person should have the invoice in its possession to claim ITC [Section 16(2) of CGST Act, 2017] .
6. Input tax credit is available only upon the receipt of goods in terms of section 16(2) of CGST Act, 2017.

3. A registered person, whose aggregate turnover in the preceding financial year did not exceed ₹ 1 crore [₹ 75 lakh in case of special category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme vide section 10 of CGST Act, 2017.

However, he shall not be eligible to opt for composition scheme if, *inter alia,* he is engaged in the supply of services other than restaurant services.

(i) In the given case, since M/s Handsome and Likemi Company is engaged in supply of health and fitness service, it is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.

(ii) The answer will remain the same i.e., M/s. Handsome & Likemi Company will not be eligible to opt for composition scheme even with the change in the turnovers.

(iii) Where more than one registered persons are having the same Permanent Account Number, the registered person shall not be eligible to opt for composition scheme unless all such registered persons opt to pay tax under composition scheme.

Therefore, M/s. Handsome and Likemi Company will not be able to opt for composition scheme only for mobile phone showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of health and fitness service is ineligible for composition scheme, supply of mobile phones too becomes ineligible for composition scheme.

4. A supplier whose aggregate turnover in a financial year exceeds ₹ 20 lakh in a State/UT [₹ 10 lakh in special category states except Jammu & Kashmir and Uttarakhand] is liable to apply for registration within 30 days from the date of becoming liable to registration (i.e., the date of crossing the threshold limit of ₹ 20 lakh/ ₹ 10 lakh) vide section 22 of CGST Act, 2017.

Where the application is submitted within said period, the effective date of registration is the date on which the person becomes liable to registration; otherwise it is the date of grant of registration.

Every registered person who has been granted registration with effect from a date earlier than the date of issuance of registration certificate to him, may issue revised tax invoices in respect of taxable supplies effected during this period within 1 month from the date of issuance of registration certificate.

In the given case, Luv & Kush Pvt. Ltd is located in Jammu & Kashmir, a special category state. Though the turnover limit for special category states is ₹ 10 lakh, Jammu & Kashmir has opted for turnover limit of ₹ 20 lakh for the purpose of registration. Thus, since Luv & Kush Pvt. Ltd. has made the application for registration within 30 days of becoming liable for registration, the effective date of registration becomes the date on which the company becomes liable to registration i.e. 05.09.20XX.

Thus, Luv & Kush Pvt. Ltd. may issue revised tax invoices against the invoices already issued during the period between effective date of registration (05.09.20XX) and the date of issuance of registration certificate (06.10.20XX), within 1 month from 06.10.20XX.

Further, Luv & Kush Pvt. Ltd may issue a consolidated revised tax invoice in respect of all taxable supplies made to unregistered dealers during such period. However, in case of inter-State supplies made to unregistered dealers, a consolidated revised tax invoice cannot be issued if the value of a supply exceeds ₹ 2,50,000.

5. Computation of value of taxable supply made by Red Pepper Ltd. for the month of March, 20XX

Particulars	**₹**
List price of the goods	15,00,000
Add: Subsidy amounting to ₹ 2,10,000 received from Central Government	NIL
[Since subsidy is received from Government, the same is not includible in the value in terms of section 15 of the CGST Act, 2017]	
Subsidy received from NGO	50,000

[Since subsidy is received from a non-Government body, the same is includible in the value in terms of section 15 of the CGST Act, 2017]	
Tax levied by the Municipal Authority [Includible in the value as per section 15 of the CGST Act, 2017]	20,000
Packing charges [Being incidental expenses, the same are includible in the value as per section 15 of the CGST Act, 2017]	15,000
Late fees paid by recipient of supply for delayed payment [Includible in the value as per section 15 of the CGST Act, 2017] (assumed to be inclusive of taxes) [₹ 6,000 x 100/118] rounded off	5,085
Value of taxable supply	**15,90,085**

6. **(i)** “Date of receipt of payment” in terms of section 13 of CGST Act, 2017 refers to the

(a) date on which the payment is recorded in the books of account of the entity (supplier of service) that receives the payment, or

(b) the date on which the payment is credited to the entity’s bank account,

whichever is earlier.

(ii) Section 7(2)(a) of CGST Act, 2017 read with Schedule III specifies the activities or transactions which shall be treated neither as a supply of goods nor a supply of services:

1. Services by an employee to the employer in the course of or in relation to his employment.
2. Services by any court or Tribunal established under any law for the time being in force.
3. (a) Functions performed by the Members of Parliament, Members of State Legislature, Members of Panchayats, Members of Municipalities and Members of other local authorities;

   (b) Duties performed by any person who holds any post in pursuance of the provisions of the Constitution in that capacity; or

   (c) Duties performed by any person as a Chairperson or a Member or a Director in a body established by the Central Government or a State Government or local authority and who is not deemed as an employee before the commencement of this clause.
4. Services of funeral, burial, crematorium or mortuary including transportation of the deceased.

5. Sale of land and, subject to paragraph 5(b) of Schedule II, sale of building.

6. Actionable claims, other than lottery, betting and gambling.

[Note:- Any four points may be mentioned.]

7. (i) Services provided by an educational institution by way of conduct of entrance examination against consideration in the form of entrance fee are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended.

Since in the given case, services provided by Indiana Engineering College, an educational institution are by way of conduct of entrance examination against entrance fee, the same is exempt and thus, GST is not payable in this case.

(ii) Services by way of fumigation in a warehouse of agricultural produce are exempt from GST vide *Notification No. 12/2017 CT (R) dated 28.06.2017* as amended. In the present case, since Gupta Pest Control Co. provides services by way of fumigation in the warehouse of sugarcane [being an agricultural produce], said services are exempt and GST is not payable on the same.

8. (i) (a) *Notification No. 12/2017 CT (R) dated 28.06.2017* has *inter alia* exempted the services provided by the State Government to a business entity with an aggregate turnover of up to ₹ 20 lakh (₹ 10 lakh in case of a Special Category States) in the preceding FY. However, the same shall not apply to services by way of renting of immovable property.

In the given case, services by way of renting of immovable property is provided by Maharashtra Government to Ganpati Morya Pvt. Ltd, registered in Maharashtra. Therefore, the above exemption will not apply in this case even though the turnover of the company was less than ₹ 20 lakh in the preceding financial year. Thus, GST is payable in the given case.

Notification No. 13/2017 CT (R) dated 28.06.2017 as amended *inter alia* provides that reverse charge is applicable in case of services supplied by the State Government by way of renting of immovable property to a person registered under the Central Goods and Services Tax Act, 2017. Thus, GST is payable by Ganpati Morya Pvt. Ltd., being a registered person in the present case.

(b) *Notification No. 13/2017 CT (R) dated 28.06.2017 inter alia* provides that GST on supply of services by director of a company to the said company located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., A2Z Pvt. Ltd. Company.

(ii) As per section 2(62) of CGST Act, 2017, "**input tax"** in relation to a registered person, means the central tax, State tax, integrated tax or Union territory tax charged on any supply of goods or services or both made to him and includes—

(a) the integrated goods and services tax charged on import of goods;

(b) the tax payable under the provisions of sub-sections (3) and (4) of section 9;

(c) the tax payable under the provisions of sub-section (3) and (4) of section 5 of the IGST Act;

(d) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 9 of the respective SGST Act; or

(e) the tax payable under the provisions of sub-section (3) and sub-section (4) of section 7 of the UTGST Act,

but does not include the tax paid under the composition levy.

9. (i) Section 29(1) of the CGST Act, 2017 provides that the proper officer may, either on his own motion or on an application filed by the registered person or by his legal heirs, in case of death of such person, cancel the registration, in such manner and within such period as may be prescribed, having regard to the circumstances where:

(a) the business has been discontinued, transferred fully for any reason including death of the proprietor, amalgamated with other legal entity, demerged or otherwise disposed of; or

(b) there is any change in the constitution of the business; or

(c) the taxable person, other than the person registered under sub-section (3) of section 25, is no longer liable to be registered under section 22 or section 24

Further, section 29(2) of the CGST Act, 2017 provides that the proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,—

(a) a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or

(b) a person paying tax under section 10 has not furnished returns for three consecutive tax periods; or

(c) any registered person, other than a person specified in clause (b), has not furnished returns for a continuous period of six months; or

(d) any person who has taken voluntary registration under sub-section (3) of section 25 has not commenced business within six months from the date of registration;

or

(e) registration has been obtained by means of fraud, wilful misstatement or suppression of facts

Further, the proper officer shall not cancel the registration without giving the person an opportunity of being heard.

(ii) Section 49(8) of CGST Act, 2017 prescribes the chronological order in which the liability of a taxable person has to be discharged:

(a) self -assessed tax and other dues for the previous tax periods have to be discharged first.

(b) self -assessed tax and other dues for the current tax period have to be discharged next.

(c) Once these two steps are exhausted, thereafter any other amount payable including demand determined under section 73 or section 74 is to be discharged. In other words, the liability if any, arising out of demand notice and adjudication proceedings comes last. This sequence has to be mandatorily followed.

The expression "other dues" referred above mean interest, penalty, fee or any other amount payable under the Act or the rules made thereunder.

10. (i) Supply, under section 7 of the CGST Act, 2017, *inter alia,*

- includes import of services for a consideration
- even if it is not in the course or furtherance of business.

Thus, although the import of service for consideration by Miss. Shriniti Kaushik is not in course or furtherance of business, as the vaastu consultancy service has been availed in respect of residence, it would amount to supply.

(ii) Section 7 of the CGST Act, 2017 read with Schedule I provides that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

In the given case, import of service without consideration by Miss Shriniti from her brother – Mr. Varun [brother, being member of the same family, is a related person] will not be treated as supply as it is not in course or furtherance of business.

(iii) Section 7 of the CGST Act, 2017 read with Schedule I provides that import of services by a taxable person from a related person located outside India, without consideration is treated as supply if it is provided in the course or furtherance of business.

Thus, import of service without consideration by Miss Shriniti from her brother – Mr. Varun (brother, being member of the same family, is a related person) will be treated as supply as she receives vaastu consultancy service for her business premises, i.e. in course or furtherance of business.

Note: **GST law is in its nascent stage and has been subject to frequent changes. Although many clarifications have been issued in the last six months by way of FAQs or otherwise, many issues continue to arise on account of varying interpretations on several of its provisions. Therefore, alternate answers may be possible for the above questions depending upon the view taken.**