INTERMEDIATE COURSE
(UNDER REVISED SCHEME OF EDUCATION AND TRAINING)

GROUP – I

REVISION TEST PAPERS
NOVEMBER, 2020

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

(Set up by an Act of Parliament)

New Delhi

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REVISION TEST PAPER, NOVEMBER, 2020 – OBJECTIVE & APPROACH

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

I Objective of Revision Test Paper

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

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

The primary objectives of the RTP are:

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

RTPs contain the following:

(i) Planning and preparing for examination

(ii) Subject-wise guidance – An overview

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

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

(v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed

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answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

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

II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is in an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

Examination tips

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

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

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- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

III. Subject-wise Guidance – An Overview

PAPER – 1 : ACCOUNTING

The Revisionary Test Paper (RTP) of Accounting is divided into two parts viz Part I - Relevant announcement stating Applicability and Non-Applicability for November, 2020 examination and Part II –Questions and Answers.

It may be noted that the July, 2019* edition of the Study Material is relevant for November, 2020 Examination.

Part I of the Revisionary Test consists of the relevant notifications and information applicable and not applicable for November, 2020 examination. It also contains the topics excluded from the syllabus of this paper from November, 2020 Examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November, 2020 examination. The brief summary of the same has been given as under:

A. Applicable for November, 2020 examination:

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

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

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

IV. Amendment in Higher Education Cess as per Finance Act, 2018

V. Amendment in AS 11 "The Effects of Changes in Foreign Exchange Rates"

VI. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)

VII. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

* Chapter 8 'Redemption of Debentures' has been revised and uploaded on the BoS Knowledge portal.

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B. Not applicable for November, 2020 examination:

I. Ind ASs issued by the Ministry of Corporate Affairs.

Exclusion of Accounting Standards and topics from the Curriculum of Accounting with effect from May, 2020 Examination

The following topics/ sub-topics/ Accounting Standards have been excluded from the Curriculum of Accounting w.e.f. May, 2020 Examination:

- Application of Accounting Standards: AS 4; AS 5; AS 17 and AS 22;
- Accounting for Tax: Concept of deferred tax asset and deferred tax liability in line with AS 22 under Company Accounts;
- Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

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

Question No.	Topic
1.	Financial Statements of Companies
2.	Managerial Remuneration
3.	Cash Flow Statement
4.	Profit or Loss prior to Incorporation
5.	Accounting for Bonus Issue
6.	Right Issue
7.	Redemption of Preference Shares
8.	Redemption of Debentures
9.	Investment Accounts
10.	Insurance Claim for Loss of Stock
11.	Hire purchase Transactions
12.	Departmental Accounts
13.	Branch Accounting
14.	Accounts from Incomplete Records
15	Framework for Preparation and Presentation of Financial Statements and Accounting Standards
16-20	Accounting Standards

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

PAPER – 2: CORPORATE AND OTHER LAWS

In the paper of Corporate and Other Laws, for the 'Company Law' portion, the objective is 'To develop an understanding of the provisions of company law and acquire the ability to address application-oriented issues' and for 'Other Laws' the objective is 'To develop an understanding of the provisions of select legislations and acquire the ability to address application-oriented issues, and to develop an understanding of the rules for interpretation of statutes'. The students need to prepare on basis of the objective entrusted in the syllabus for the subject. Students should also give importance to the terms/definitions for proper conceptualization of the answers. Students have to focus their study based on the major legal provisions, case laws, if any, and understand their practical implications. Also, Language is an important point of concern. This problem among many of the candidates can be overcome by way of practice writing and also undertaking self-examination by going through Revisionary Test Papers (RTP).

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

Generally, the RTP is divided into two parts -

Part I: Containing the relevant legislative amendments which are applicable for November, 2020 examinations.

It consists of the relevant Notifications and information applicable for November, 2020 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November, 2020 examinations.

Part II: Topic wise questions with detailed answers

RTP is broadly categorised into two divisions – Division A (Multiple Choice Question-Integrated Case Scenario and Independent MCQs) and Division B (Detailed Questions) with their answers. The sequencing of Division B is as follows:

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QUESTION NO.	ABOUT THE QUESTION
1 – 7	Based on the Companies Act, 2013
8-9	Deals with the Indian Contract Act, 1872.
10	Deals with the Negotiable Instruments Act,1881
11	Based on the General Clauses Act, 1897
12	Interpretation of Statutes, Deeds and Documents

Guidance on the citation of the Case Laws and Section

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

PAPER – 3: COST AND MANAGEMENT ACCOUNTING

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

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

Qs No.	Topic	About the Problem
1.	Material Cost	Calculation of Level of Inventory.
2.	Employee cost	Calculation of Employee wages.
3.	Overheads	Computation of Machine hour rate.
4.	Activity Based Costing (ABC) Method	Calculation cost driver rate and total & unit cost using ABC method.
5.	Cost Sheet	Preparation of Cost Sheet.
6.	Cost Accounting System	Preparation of Memorandum reconciliation Account.
7.	Batch Costing	Application of Batch Costing.
8.	Job Costing	Preparation of Job Cost Sheet.

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9.	Process Costing	Preparation of process account.
10.	Joint product & By Product	Net realizable method of Joint Cost Allocation
11.	Service Costing	Application of operating costing.
12.	Standard Costing	Calculation of Material, Labour and overhead variances.
13.	Marginal Costing	Determination of BEP, Number of units, and Profits.
14.	Budget and Budgetary Control	Preparation of product- wise profitability statement on marginal costing and Preparation of Budget.
15(a)	Cost Concepts	Discretionary Cost Centre and Investment Centre
15(b)	Contract Costing	Cost Plus Contract.
15(c)	Budget and Budgetary Control	Zero-based budgeting.
15(d)	Operation costing	Example of industries where operation costing is applied. .

PAPER – 4: TAXATION

Section A: Income-tax Law (60 Marks)

The Income-tax law, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019 and significant notifications, circulars and other legislative amendments upto 30.4.2020 are relevant for November, 2020 Examination. The relevant assessment year for November, 2020 examination is A.Y. 2020-21.

The August, 2019 edition of the Study Material, comprising of three modules (Modules 1-3), is applicable for November, 2020 Examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines"** in the above Study Material.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2019, the Finance (No.2) Act, 2019 and latest notifications and circulars have been given in *italics/**bold italics***. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem solving skills. Compare your answers with the answers given to test your level of understanding.

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Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination. Before you work out the questions in Part II of the RTP, do read the Statutory Update given in Part I.

Note* – (1)** *Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are* ***not *applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is* ***not*** *applicable.*

(2) *Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are* ***not*** *applicable for November, 2020 examination.*

Section B: Indirect Taxes (40 Marks)

For Section B: Indirect Taxes of Paper 4: Taxation, provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020*, including significant notifications and circulars issued up to 30th April 2020, are applicable for November 2020 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines for November, 2020 Examination"**. The same is given as part of "**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2020 - Intermediate (New) Examination"** appended at the end of this Revision Test Paper.

** The amendments made by the Finance (No. 2) Act, 2019 in the CGST Act and the IGST Act have become effective from 01.01.2020. However, amendments made by the Finance (No. 2) Act, 2019 - to the extent included in the syllabus read with the Study Guidelines - in sections 39 and 50 of the CGST Act, 2017 have not become effective as on 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.*

The August, 2019 edition of the Study Material** for New Intermediate Course Paper 4: Taxation, Section B: Indirect Taxes is also applicable for IIPCC Paper 4: Taxation Section B: Indirect Taxes. The Study Material has been divided into two modules for ease of handling by students.

Study Material is based on the provisions of the CGST Act and IGST Act as amended upto 30.04.2019. The amendments made by the notifications and circulars issued between 01.05.2019 and 30.04.2020 in GST laws are given in the Statutory Update web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

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***It may be noted that in the August 2019 Edition of the Study Material, the erstwhile provisions of the CGST Act have been compared with the provisions as amended vide the Finance (No.2) Act, 2019, at the end of the relevant Chapters. Therefore, the same are not included in the Statutory Update. Students should read the amended provisions given at the end of the relevant Chapters in place of the erstwhile provisions discussed in the main body of the Chapters.*

However, the amendments which have not become effective till 30.04.2020, as mentioned above, should not be referred to as the same are not applicable for November 2020 examinations. For ease of reference, the Chapters of the Study Material which cover the said amendments (which have not become effective till 30.04.2020) are given below:

Chapter 9: Payment of Tax [Amendment in section 50 of the CGST Act]

Chapter 10: Returns

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

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

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PAPER – 1: ACCOUNTING

ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY FOR NOVEMBER 2020 EXAMINATION

A. <u>Applicable for November, 2020 examination</u>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"(ii) the company has not committed any default in payment of dues to any bank

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or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

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

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

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

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

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

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

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

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

IV. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate dividend tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

V. Amendment in AS 11 "The Effects of Changes in Foreign Exchange Rates"

In exercise of the powers conferred by clause (a) of sub-section (1) of section 642 of the Companies Act, 1956, the Central Government, in consultation with National Advisory Committee on Accounting Standards, hereby made the amendment in the Companies (Accounting Standards) Rules, 2006, in the "ANNEXURE", under the heading "ACCOUNTING STANDARDS" under "AS 11 on The Effects of Changes in Foreign Exchange Rates", for the paragraph 32, the following paragraph shall be substituted, namely :-

"32. An enterprise may dispose of its interest in a non-integral foreign operation through sale, liquidation, repayment of share capital, or abandonment of all, or part of, that operation. The payment of a dividend forms part of a disposal only when it constitutes a return of the investment. Remittance from a non-integral foreign operation by way of repatriation of accumulated profits does not form part of a disposal unless it constitutes return of the investment. In the case of a partial disposal, only the proportionate share of the related accumulated exchange differences is included in the gain or loss. A write-down of the carrying amount of a non-integral foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognized at the time of a write-down".

VI. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)

A listed company, while issuing bonus shares to its members, must comply with the following requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:

Regulation 293 - Conditions for Bonus Issue

Subject to the provisions of the Companies Act, 2013 or any other applicable law, a listed issuer shall be eligible to issue bonus shares to its members if:

(a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve;

(b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

(c) it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;

(d) any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up;

(e) any of its promoters or directors is not a fugitive economic offender.

Regulation 294 - Restrictions on a bonus issue

(1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the

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convertible part thereof.

(2) The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.

(3) A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalized for this purpose.

(4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.

(5) If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.]

<u>Regulation 295 - Completion of a bonus issue</u>

(1) An issuer, announcing a bonus issue after approval by its board of directors and not requiring shareholders' approval for capitalization of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors: Provided that where the issuer is required to seek shareholders' approval for capitalization of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation:

For the purpose of a bonus issue to be considered as 'implemented' the date of commencement of trading shall be considered.

(2) A bonus issue, once announced, shall not be withdrawn.

VII. Companies (Share Capital and Debentures) Amendment Rules, 2019 – reg. Debenture Redemption Reserve

In exercise of the powers conferred by sub-sections (1) and (2) of section 469 of the Companies Act, 2013 (18 of 2013), the Central Government made the Companies (Share Capital and Debentures) Amendment Rules, 2019 dated 16th August, 2019 to amend the Companies (Share Capital and Debentures) Rules, 2014. As per the

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Companies (Share Capital and Debentures) Amendment Rules, under principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely: -

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

   (i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

   (ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

   (iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases - (A) in case of public issue of debentures – A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank; B. for other listed companies; (B) in case of privately placed debentures, for companies specified in sub-items A and B.

   (iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) -

      (A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

      (B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

   (v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub clause (iii) of clause (b) or

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item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:— (A) in deposits with any scheduled bank, free from any charge or lien; (B) in unencumbered securities of the Central Government or any State Government; (C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882; (D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures."

NOTE: Chapter 8 "Redemption of Debentures" of the Intermediate Paper 1: Accounting Study Material (Module II) has been revised and uploaded on the BoS Knowledge Portal of the Institute's website. It is advised to refer the updated chapter uploaded on the BoS Knowledge Portal of the Institute's website at the link: https://resource.cdn.icai.org/55831bos45229cp8.pdf.

B. Not applicable for November, 2020 examination

Non-Applicability of Ind AS for November, 2020 Examination

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for November, 2020 Examination.

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Exclusion of Accounting Standards and topics from the Curriculum of Accounting w.e.f. May, 2020 Examination

The following topics/ sub-topics/ Accounting Standards have been excluded from the Curriculum of Accounting:

- Application of Accounting Standards: AS 4; AS 5; AS 17 and AS 22;
- Accounting for Tax: Concept of deferred tax asset and deferred tax liability in line with AS 22 under Company Accounts;
- Dissolution of partnership firms including piecemeal distribution of assets; Amalgamation of partnership firms; Conversion of partnership firm into a company and Sale to a company; Issues related to accounting in Limited Liability Partnership.

NOTE: July 2019 Edition of the Study Material on Paper 1 Accounting is applicable for Nov 2020 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

1. On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances

	₹
Equity shares capital (fully paid shares of ₹ 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation	15,75,000
(Secured by hypothecation of Plant & Machinery - Repayable within one year ₹ 3,00,000)	
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses	
(Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

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Debit Balances :

	₹
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

(i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.

(ii) Cost of Building ₹ 42,00,000

Cost of Plant & Machinery ₹ 73,50,000

Cost of Furniture & Fixture ₹ 6,56,250

(iii) Trade receivables for ₹ 5,70,000 are due for more than 6 months.

(iv) The amount of Balances with Bank includes ₹ 27,000 with a bank which is not a scheduled Bank and the deposits of ₹ 7,50,000 are for a period of 9 months.

(v) Unsecured loan includes ₹ 3,00,000 from a Bank and ₹ 1,50,000 from related parties.

You are not required to give previous year figures. You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013.

Managerial Remuneration

2. Kartik Ltd. is a non-investment company and 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	270
Paid up Preference share capital	45

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Reserves (including Revaluation reserve ₹ 22.5 lakhs)	337.5
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
Application money pending allotment	1620
Accumulated losses not written off	45
Investments	405

Kartik Ltd. has only one whole-time director, Mr. Kumar. You are required to calculate the amount of maximum remuneration that can be paid to him as per provisions of the Companies Act, 2013, if no special resolution is passed at the general meeting of the company in respect of payment of remuneration.

Cash Flow Statement

3 Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	₹ in '000	₹ in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894
Sale of Investments (Cost ₹ 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		1,152
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	,
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	450	(27,756)
Balance as on 31.03.2020		1,458

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Profit/Loss prior to Incorporation

4. Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	₹		₹
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		
To Depreciation on fixed assets	14,400		
To Net profit	1,31,400		
	4,80,000		4,80,000

Additional information:

(a) Sales ratio between pre and post incorporation periods was 1:3.

(b) Rent of office building was paid @ ₹ 3,000 per month up to September, 2019 and thereafter it was increased by ₹ 600 per month.

(c) Travelling expenses include ₹ 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.

(d) Depreciation include ₹ 900 for assets acquired in the post incorporation period.

(e) Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of ₹ 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

5. Following is the extract of the Balance Sheet of Madhu Ltd.as at 31st March, 2020

	₹
Authorized capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
	64,50,000
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 2020 after bonus issue.

Right Issue

6. Omega company offers new shares of ₹ 100 each at 25% premium to existing shareholders on the basis one for five shares. The cum-right market price of a share is ₹ 200.

You are required to calculate the (i) Ex-right value of a share; (ii) Value of a right share?

Redemption of Preference Shares

7. The following are the extracts from the Balance Sheet of Hari Ltd. as on 31st March, 2020:

Share capital: 75,000 Equity shares of ₹10 each fully paid – ₹7,50,000; 2,250 10% Redeemable preference shares of ₹100 each fully paid – ₹ 2,25,000.

Reserve & Surplus: Capital reserve – ₹1,50,000; General reserve –₹ 1,50,000; Profit and Loss Account – ₹1,12,500.

On 1st April 2020, the Board of Directors decided to redeem the preference shares at premium of 10% by utilization of reserves.

You are required to prepare necessary Journal Entries including cash transactions in the books of the company.

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Redemption of Debentures

8. XYZ Ltd. has issued 1,000, 12% convertible debentures of ₹ 100 each redeemable after a period of five years. According to the terms & conditions of the issue, these debentures were redeemable at a premium of 5%. The debenture holders also had the option at the time of redemption to convert 20% of their holdings into equity shares of ₹ 10 each at a price of ₹ 20 per share and balance in cash. Debenture holders amounting ₹ 20,000 opted to get their debentures converted into equity shares as per terms of the issue. You are required to calculate the number of shares issued and cash paid for redemption of ₹ 20,000 debenture holders.

Investment Accounts

9. (a) In 2018, Royal Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, M/s. Kumar purchased 10,000 of these debentures at ₹ 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at ₹ 106 (cum-interest) price.

   You are required to prepare Investment (Debentures) Account in the books of M/s. Kumar for the period 1st December, 2019 to 1st March, 2020.

   (b) Mr. X acquires 200 shares of a company on cum-right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Insurance Claim for loss of stock

10. Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged. The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2019	3,55,250
Cost of stock on 31st March, 2020	3,95,050
Purchases during the year ended 31st March, 2020	28,39,800
Purchases from 1st April, 2020 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2020 to the date of fire	1,000
Sales for the year ended 31st March, 2020	40,00,000

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Sales from 1st April, 2020 to the date of fire	22,68,000

Shyam had taken the fire insurance policy for ₹ 2,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

Hire Purchase Transactions

11. X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000. The hire purchaser charged depreciation @ 20% on diminishing balance method. 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 diminishing balance method. 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 and book value of car left with the hire purchaser and (ii) Profit or loss to hire purchaser on two cars taken back by the hire vendor.

Departmental Accounts

12. Department X sells goods to Department Y at a profit of 50% on cost and to Department Z at 20% on cost. Department Y sells goods to Department X and Z at a profit of 25% and 15% respectively on sales. Department Z charges 30% profit on cost to Department X and 40% profit on sale to Y.

    Stocks lying at different departments at the end of the year are as under:

	Dept. X	Dept. Y	Dept. Z
	₹	₹	₹
Transfer from Department X		75,000	48,000
Transfer from Department Y	50,000		82,000
Transfer from Department Z	52,000	56,000	

Calculate the unrealized profit of each department and also total unrealized profit.

Accounting for Branches

13. M & S Co. of Lucknow has an integral foreign branch in Canberra, Australia. At the end of 31st March 2020, the following ledger balances have been extracted from the books of the Lucknow office and the Canberra branch.

	Lucknow office (₹ In thousand)		*Canberra Branch (Aust. Dollars in thousand)*	
	Dr.	*Cr.*	*Dr.*	*Cr.*
Capital		1,500		

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Reserves & Surplus		1,500		
Land	500			
Buildings (Cost)	1,000			
Buildings - Accumulated Dep.		200		
Plant and Machinery (Cost)	2,500		200	
Plant and Machinery - Accumulated Dep.		600		130
Debtors/Creditors	280	200	60	30
Stock as on 1- 4-2019	100		20	
Branch Stock Reserve		4		
Cash & Bank Balances	10		10	
Purchases/Sales	240	520	20	123
Goods sent to Branch		100	5	
Managing Partner's Salary	30			
Wages and Salaries	75		45	
Rent			12	
Office Expenses	25		18	
Commission Receipts		256		100
Branch/HO Current Account	120			7
	4,880	4,880	390	390

You are required to convert the Branch Trial Balance given above into rupees by using the following exchange rates:

Opening rate	1 A $ = ₹ 50
Closing rate	1 A $ = ₹ 53
Average rate	1 A $ = ₹ 51.00
for Fixed Assets	1 A $ = ₹ 46.00

Accounts from Incomplete Records

14. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2019:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000

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Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	2,80,000		2,80,000

They give you the following additional information:

(i) Sales and purchases for the year ended 31st March, 2019 were ₹ 3,00,000 and ₹ 2,40,000 respectively.

(ii) Stock level is maintained uniformly in value throughout all over the year.

(iii) Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

(iv) Sales in the current year will increase by 43.75% in volume.

(v) Rate of gross profit remains the same.

(vi) Business Expenditures are ₹ 50,000 for the year and all expenditures are paid in cash.

(vii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2020.

Framework for Preparation and Presentation of Financial Statements

15. (a) With regard to financial statements name any four.

   (i) Users

   (ii) Qualitative characteristics

   (iii) Elements

Accounting Standards

(b) What are the issues, with which Accounting Standards deal?

AS 1 Disclosure of Accounting Policies

16. (a) What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

AS 2 Valuation of Inventories

(b) 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, 2020.

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	₹ Per unit
Raw Material X	
Cost price	400
Freight Inward	40
Replacement cost	320
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 25,000 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 Net realizable value of Chemical Y is ₹ 600 per unit.

AS 10 Property, Plant and Equipment

17. Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose at ₹ 45,000 per month.

    The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

    You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

AS 11 The Effects of Changes in Foreign Exchange Rates

18. (a) Classify the following items as monetary or non-monetary item:

    Share Capital

    Trade Receivables

    Investment in Equity shares

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Fixed Assets.

(b)

	Exchange Rate per $
Goods purchased on 1.1.2019 for US $ 15,000	₹ 75
Exchange rate on 31.3.2019	₹ 74
Date of actual payment 7.7.2019	₹ 73

You are required to ascertain the loss/gain to be recognized for financial years 2018-19 and 2019-20 as per AS 11.

AS 12 Accounting for Government Grants

19. (a) How would you treat the following in the accounts in accordance with AS 12 'Government Grants'?

(i) ₹ 35 Lakhs received from the Local Authority for providing Medical facilities to the employees.

(ii) ₹ 100 Lakhs received as Subsidy from the Central Government for setting up a unit in notified backward area.

AS 13 Accounting for Investments

(b) A Ltd. on 1-1-2020 had made an investment of ₹ 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2020 became ₹ 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-2020 as per AS 13 considering this downfall in the value of shares as non-temporary?

AS 16 Borrowing Costs

20. (a) Vital Limited borrowed an amount of ₹150 crores on 1.4.2019 for construction of boiler plant @ 10% p.a. The plant is expected to be completed in 4 years. Since the weighted average cost of capital is 13% p.a., the accountant of Vital Ltd. capitalized ₹ 19.50 crores for the accounting period ending on 31.3.2020. Due to surplus fund out of ₹150 crores, an income of ₹ 1.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(b) When capitalization of borrowing cost should cease as per Accounting Standard 16? Explain in brief.

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SUGGESTED ANSWERS/HINTS

1..

Om Ltd.

Balance Sheet as on 31st March, 2020

		Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities				
1		Shareholders' funds		
	a	Share capital	1	1,04,89,500
	b	Reserves and Surplus	2	32,34,000
2		Non-current liabilities		
	a	Long-term borrowings	3	25,45,500
3		Current liabilities		
	a	Trade Payables		21,00,000
	b	Other current liabilities	4	3,00,000
	c	Short-term provisions	5	12,25,350
		Total		1,98,94,350
Assets				
1		Non-current assets		
		a Property, Plant and Equipment	6	1,12,12,500
		b Intangible assets (Patents & Trade Marks)		6,00,000
2		Current assets		
	a	Inventories	7	26,25,000
	b	Trade receivables	8	21,00,000
	c	Cash and cash equivalents	9	29,08,500
	d	Short-term loans and advances		4,48,350
		Total		1,98,94,350

Notes to accounts

			₹
1	**Share Capital** Equity share capital		

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	Issued, subscribed and called up		
	10,50,000 Equity Shares of ₹ 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		1,04,89,500
2	**Reserves and Surplus**		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		32,34,000
3	**Long-term borrowings**		
	Secured		
	Term Loans		
	Loan from State Finance Corporation		
	(₹ 15,75,000 less ₹ 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		25,45,500
4	**Other current liabilities**		
	Loan Instalment repayable within one year		3,00,000
5	**Short-term provisions**		
	Provision for taxation		12,25,350
6	**Property, Plant and Equipment**		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500

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	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		1,12,12,500
7	**Inventories**		
	Raw Material		5,25,000
	Finished goods		21,00,000
			26,25,000
8	**Trade receivables**		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		21,00,000
9	**Cash and cash equivalents**		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 7,50,000	25,66,500	
	with others	27,000	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

2. Calculation of effective capital and maximum amount of monthly remuneration

	(₹ in lakhs)
Paid up equity share capital	270
Paid up Preference share capital	45
Reserve excluding Revaluation reserve (337.5- 22.5)	315
Securities premium	90
Long term loans	90
Deposits repayable after one year	45
	855
Less: Accumulated losses not written off	(45)
Investments	(405)
Effective capital for the purpose of managerial remuneration	405

Kartik Ltd. is incurring losses and no special resolution has been passed by the company for payment of remuneration. Effective capital of the company is less than 5 crores,

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maximum remuneration payable to the Managing Director should be @ ₹ 60,00,000 per annum. (Revaluation reserve and application money pending allotment are not included while computing effective capital of Kartik Ltd.)

3. Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020

Cash flows from operating activities	(₹ '000)	(₹ '000)
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	(1,035)	
Cash generated from operations	4,932	
Income taxes paid	(2,187)	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	
Sale of investments	153	
Net cash used in investing activities		(882)
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	(720)	
Net cash used in financing activities		(720)
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		315
Cash and cash equivalents at end of period		1,458

4. Statement showing calculation of profits for pre and post incorporation periods for the year ended 31.3.2020

Particulars	Pre-incorporation period ₹	Post- incorporation period ₹
A. Gross profit (1:3)	1,20,000	3,60,000

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Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	4,500	9,900
B.	1,00,800	2,47,800
Pre-incorporation profit (A less B)	19,200	
Post-incorporation profit (A less B)		1,12,200

Working Notes:

1. **Time Ratio**

   Pre incorporation period = 1st April, 2019 to 31st July, 2019 i.e. 4 months

   Post incorporation period is 8 months; Time ratio is 1: 2.

2. **Rent**

		₹
Rent for pre-incorporation period (₹ 3,000 x 4)		12,000 (pre)
Rent for post incorporation period		
August,2019 & September, 2019 (₹ 3,000 x 2)	6,000	
October,2019 to March,2020 (₹ 3,600 x 6)	21,600	27,600 (post)

3. **Travelling expenses and sales promotion expenses**

	Pre ₹	Post ₹
Traveling expenses ₹ 18,000 (i.e. ₹ 25200 - ₹ 7200) distributed in 1:2 ratio	6,000	12,000

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Sales promotion expenses ₹ 7,200 distributed in 1:3 ratio	1,800	5,400

4. Interest paid to vendor till 30th September, 2019

	Pre ₹	Post ₹
Interest for pre-incorporation period ₹ 6,300x 4/6	4,200	
Interest for post incorporation period i.e. for August, 2019 & September, 2019 = ₹ 6,300x 2/6		2,100

5. Depreciation

		Pre ₹	Post ₹
Total depreciation	14,400		
Less: Depreciation exclusively for post incorporation period	900		900
	13,500		
Depreciation for pre-incorporation period (13,500x4/12)		4,500	
Depreciation for post incorporation period (13,500x8/12)		____	9,000
		4,500	9,900

5. Journal Entries in the books of Madhu Ltd.

			₹	₹
1-4-2020	Equity share final call A/c	Dr.	8,10,000	
	To Equity share capital A/c			8,10,000
	(For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated….)			
20-4-2020	Bank A/c	Dr.	8,10,000	
	To Equity share final call A/c			8,10,000
	(For final call money on 4,05,000 equity shares received)			
	Securities Premium A/c	Dr.	1,12,500	
	Capital redemption reserve A/c	Dr.	1,80,000	
	General Reserve A/c	Dr.	5,40,000	

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	Profit and Loss A/c (b.f.)	Dr.	1,80,000	
	To Bonus to shareholders A/c			10,12,500
	(For making provision for bonus issue of one share for every four shares held)			
	Bonus to shareholders A/c	Dr.	10,12,500	
	To Equity share capital A/c			10,12,500
	(For issue of bonus shares)			

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	60,00,000
Issued and subscribed capital	
36,000 12% Preference shares of ₹₹10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500
(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

6. **Ex-right value of the shares**

= (Cum-right value of the existing shares + Rights shares x Issue Price) / (Existing No. of shares + No. of right shares) = (₹ 200 X 5 Shares + ₹ 125 X 1 Share) / (5 + 1) Shares = ₹ 1,125 / 6 shares = ₹ 187.50 per share.

Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 200 – ₹ 187.50 = ₹ 12.50 per share.

7. **In the books of Hari Limited**

Journal Entries

Date 2020	Particulars		Dr. (₹)	Cr. (₹)
April 1	10% Redeemable Preference Share Capital A/c	Dr.	2,25,000	
	Premium on Redemption of Preference	Dr.	22,500	

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	Shares To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)			2,47,500
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	2,47,500	 2,47,500
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	1,50,000 75,000	 2,25,000
	Profit & Loss A/c To Premium on Redemption of Preference Shares A/c (Being premium on redemption charged to Profit and Loss A/c)	Dr.	22,500	 22,500

Note: Capital reserve cannot be utilized for transfer to Capital Redemption Reserve.

8.

	Number of debentures
Debenture holders opted for conversion (20,000 /100)	200
Option for conversion	20%
Number of debentures to be converted (20% of 200)	40
Redemption value of 40 debentures at a premium of 5% [40 x (100+5)]	₹ 4,200
Equity shares of ₹ 10 each issued on conversion [₹ 4,200/ ₹ 20]	210 shares

Calculation of cash to be paid : ₹

Number of debentures	200
Less: number of debentures to be converted into equity shares	(40)
	160

Redemption value of 160 debentures (160 × ₹ 105) ie. ₹ 16,800.

9. (a) Investment Account in the books of M/s Kumar

for the period from 1st December 2019 to 1st March, 2020
(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2019	To Bank A/c (W.N.1)	10,00,000	20,000	9,90,000	1.03.2020	By Bank A/c (W.N.2)	10,00,000	50,000	10,10,000
1.3.2020	To Profit & loss A/c		30,000	20,000					
		10,00,000	50,000	10,10,000			10,00,000	50,000	10,10,000

Working Notes:

(i)	Cost of 12% debentures purchased on 1.12.2019		₹
	Cost Value (10,000 ×₹101)	=	10,10,000
	Less: Interest (10,000 x 100 x12% x 2/12)	=	(20,000)
	Total	=	9,90,000
(ii)	Sale proceeds of 12% debentures sold on 1st March, 2020		₹
	Sales Price (10,000 ×₹106)	=	10,60,000
	Less: Interest (10,000 x 100 x12% x 5/12)	=	(50,000)
	Total	=	10,10,000

(b) As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹50,000. In this case, out of sale proceeds of ₹ 15,000, ₹ 10,000 may be applied to reduce the carrying amount to bring it to the market value ₹50,000 and ₹ 5,000 would be credited to the profit and loss account.

10. Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300

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Less: Advertisement	(20,500)			
Drawings	(1,000)	16,33,850		
To Gross Profit [30% of Sales] [W N]		6,80,400		
		27,09,300		27,09,300

Statement of Insurance Claim

	₹
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	(54,000)
stock destroyed	3,87,300

Application of Average Clause

Amount of Insurance claim= ₹ 3,87,300/ 4,41,300 X 2,50,000 = ₹ 2,19,409 (rounded off)

Working Note:

Trading Account for the year ended 31st March, 2020

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	12,00,000		
	43,95,050		43,95,050

Rate of Gross Profit in 2019-2020

$\frac{\text{Gross Profit}}{\text{Sales}} \times 100$ = 12,00,000/40,00,000 x 100 = 30%

11.

		₹
(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
	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
(ii)	Book value of one car as calculated 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 (i) above	1,96,000
	Hence, loss to hire purchaser on cars taken back by hire vendor = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000

12. Calculation of unrealized profit of each department and total unrealized profit

	Dept. X	Dept. Y	Dept. Z	Total
	₹	₹	₹	₹
Unrealized Profit of:				
Department X		75,000 x 50/150 = 25,000	48,000 x 20/120 = 8,000	33,000
Department Y	50,000 x .25 = 12,500		82,000 x .15 = 12,300	24,800
Department Z	52,000 x 30/130 = 12,000	56,000 x 40/100 = 22,400		34,400
				92,200

13. **M & S Co. Ltd.**

Canberra, Australia Branch Trial Balance

As on 31st March 2020

	($ 'thousands)				(₹ 'thousands)
	Dr.	Cr.	Conversion rate per $	Dr.	Cr.
Plant & Machinery (cost)	200		₹ 46	9,200	
Plant & Machinery (Accumulated Dep.)		130	₹ 46		5,980
Debtors/Creditors	60	30	₹ 53	3,180	1,590

Stock (1.4.2019)	20		₹ 50	1,000	
Cash & Bank Balances	10		₹ 53	530	
Purchase / Sales	20	123	₹ 51	1,020	6,273
Goods received from H.O.	5		Actual	100	
Wages & Salaries	45		₹ 51	2,295	
Rent	12		₹ 51	612	
Office expenses	18		₹ 51	918	
Commission Receipts		100	₹ 51		5,100
H.O. Current A/c		7	Actual		120
				18,855	19,063
Foreign Exchange Loss (bal. fig.)				208	
	390	390		19,063	19,063

14. Trading and Profit and Loss account for the year ending 31st March, 2020

Particulars		₹	Particulars	₹
To Opening Stock		40,000	By Sales	4,31,250
To Purchases		3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)		86,250		
		4,71,250		4,71,250
To Business Expenses		50,000	By Gross Profit b/d	86,250
To Depreciation on:				
Machinery	6,500			
Building	5,000	11,500		
To Net profit		24,750		
		86,250		86,250

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year	3,00,000
B	Purchases	2,40,000

C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000
D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹\ 60,000}{₹\ 3,00,000} \times 100$	20%
(ii)	Calculation of sales during current year	₹
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 43.75 %	1,05,000
C	Cost of goods sold during Current Year	3,45,000
D	Add: Gross profit @ 25% on cost (20% on sales)	86,250
E	Sales for current year [C+D]	4,31,250

15. (a) (i) Users of financial statements:

Investors, Employees, Lenders, Supplies/Creditors, Customers, Government & Public

(ii) Qualitative Characteristics of Financial Statements:

Understandability, Relevance, Comparability, Reliability & Faithful Representation

(iii) Elements of Financial Statements:

Asset, Liability, Equity, Income/Gain and Expense/Loss

(b) 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.

16. (a) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:

(i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.

(ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

(iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.

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(b) Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. 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	320	3,20,000
Finished Goods Y	2,400	600	14,40,000
Total Value of Closing Stock			17,60,000

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward	40
Cost	440
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	16
Cost	656

17. Calculation of Cost of Machinery

Particulars		₹
Purchase Price	Given	1,58,00,000
Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

18. (a)

Share capital	Non-monetary
Trade receivables	Monetary
Investment in equity shares	Non-monetary
Fixed assets	Non-monetary

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(b) As per AS 11 on 'The Effects of Changes in Foreign Exchange Rates', all foreign currency transactions should be recorded by applying the exchange rate on the date of transactions. Thus, goods purchased on 1.1.2019 and corresponding creditors would be recorded at ₹ 11,25,000 (i.e. $15,000 × ₹ 75)

According to the standard, at the balance sheet date all monetary transactions should be reported using the closing rate. Thus, creditors of US $15,000 on 31.3.2019 will be reported at ₹ 11,10,000 (i.e. $15,000 × ₹ 74) and exchange profit of ₹ 15,000 (i.e. 11,25,000 – 11,10,000) should be credited to Profit and Loss account in the year 2018-19.

On 7.7.2019, creditors of $15,000 is paid at the rate of ₹ 73. As per AS 11, exchange difference on settlement of the account should also be transferred to Profit and Loss account. Therefore, ₹ 15,000 (i.e. 11,10,000 – 10,95,000) will be credited to Profit and Loss account in the year 2019-20.

19. (a) (i) ₹ 35 lakhs received from the local authority for providing medical facilities to the employees is a grant received in the nature of revenue grant. Such grants are generally presented as a credit in the profit and loss statement, either separately or under a general heading such as 'Other Income'. Alternatively, ₹ 35 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(ii) As per AS 12 'Accounting for Government Grants', where the government grants are in the nature of promoters' contribution, i.e. they are given with reference to the total investment in an undertaking or by way of contribution towards its total capital outlay and no repayment is ordinarily expected in respect thereof, the grants are treated as capital reserve which can be neither distributed as dividend nor considered as deferred income. In the given case, the subsidy received from the Central Government for setting up a unit in notified backward area is neither in relation to specific fixed asset nor in relation to revenue. Thus, amount of ₹ 100 lakhs should be credited to capital reserve.

(b) A limited invested ₹ 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1.2020 to 31.3.2020), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long-term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2020 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long-term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

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Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognize the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quiet a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs as the downfall in the value of shares is not temporary. The reduction of ₹ 200 lakhs in the carrying value of long-term investment will be charged to the profit and loss account.

20. (a) Para 10 of AS 16 'Borrowing Costs' states that to the extent the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset should be determined as the actual borrowing costs incurred on that borrowing during the period less any income on the temporary investment of those borrowings. The capitalization rate should be the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Hence, in the above case, treatment of accountant of Vital Ltd. is incorrect. The amount of borrowing costs capitalized for the financial year 2019-20 should be calculated as follows:

Actual interest for 2019-20 (10% of ₹ 150 crores)	₹ 15.00 crores
Less: Income on temporary investment from specific borrowings	(₹ 1.50 crores)
Borrowing costs to be capitalized during year 2019-2020	₹ 13.50 crores

(b) Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might still continue. If minor modifications such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete. When the construction of a qualifying asset is completed in parts and a completed part is capable of being used while construction continues for the other parts, capitalization of borrowing costs in relation to a part should cease when substantially all the activities necessary to prepare that part for its intended use or sale are complete.

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PAPER – 2: CORPORATE AND OTHER LAWS

PART I: ANNOUNCEMENTS STATING APPLICABILITY FOR NOVEMBER, 2020 EXAMINATIONS

Applicability for November, 2020 examinations

The Study Material (July 2019 edition) is applicable for November, 2020 examinations. This study material is updated for all amendments till 30th April, 2019. Further, all relevant amendments/ circulars/ notifications etc. in the Company law part and the Other Laws portion, for the period 1st May 2019 to 30th April, 2020 are mentioned below:

PART I- COMPANY LAW

THE COMPANIES ACT, 2013

I. Chapter 2: Incorporation of Company and Matters Incidental thereto

Amendments related to - Notification G.S.R. 357(E) dated 10th May, 2019

The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fifth Amendment Rules, 2019.

In the Companies (Incorporation) Rules, 2014, Rule 8 has been fully substituted by Rule 8, Rule 8A and Rule 8B.

[Note: On page 2.19 of the Study Material, under the heading of **Undesirable names**, 'the words and combinations thereof which shall not be used in the name of a company depicting the same meaning unless the previous approval of the Central Government has been obtained for the use of any such word or expression', were earlier covered under Rule 8. As per the amendment now they are dealt in with Rule 8B.]

II. Chapter 3: Prospectus and Allotment of Securities

Amendments related to - Companies (Amendment) Act, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

1. In **section 26-**

- **(i)** in sub-sections (4), (5) and (6), for the word "registration", the word "filing" shall be substituted;
- **(ii)** sub-section (7) shall be omitted

[Amendment to be incorporated on Pg. 3.7 and 3.8 of SM]

2. In **section 29-**

- **(i)** in sub-section (1), in clause (b), the word "public" shall be omitted;
- **(ii)** after sub-section (1), the following sub-section shall be inserted, namely:-

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"(1A) In case of such class or classes of unlisted companies as may be prescribed, the securities shall be held or transferred only in dematerialised form in the manner laid down in the Depositories Act, 1996 and the regulations made thereunder.".

[Amendment to be incorporated on Pg. 3.9 of SM]

3. In **section 35**, in sub-section (2), in clause (c), for the words "delivery of a copy of the prospectus for registration", the words "filing of a copy of the prospectus with the Registrar" shall be substituted.

[Amendment to be incorporated on Pg. 3.23 of SM]

III. Chapter 4: Share Capital and Debentures

Amendments related to - Notification G.S.R. 574(E) dated 16th August, 2019

The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Amendment Rules, 2019.

In the Companies (Share Capital and Debentures) Rules, 2014:

1. In **Rule 4**, in sub-rule (1),

(i) for clause (c), the following clause shall be substituted, namely:-

"(c) the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent. of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;";

(ii) clause (d) shall be omitted.

[Enforcement Date: 16th August, 2019]

[Amendment to be incorporated on Pg. 4.5 of SM]

2. In the principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely:-

"(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-

(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;

(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under;-

(i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;

(ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as

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applicable to Non –Banking Finance Companies registered with Reserve Bank of India.

(iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases-

(A) in case of public issue of debentures –

A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank;

B. for other listed companies;

(B) in case of privately placed debentures, for companies specified in sub-items A and B.

(iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) –

(A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.

(B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;

(v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of subclause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):

Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.

(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:—

(A) in deposits with any scheduled bank, free from any charge or lien;

(B) in unencumbered securities of the Central Government or any State Government;

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(C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;

(D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:

Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.

(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.

(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.“

[Enforcement Date: 16th August, 2019]

[Amendment to be incorporated on Pg. 4.44 of SM]

IV. Chapter 7: Management and Administration

Amendments related to - Companies (Amendment) Act, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

In **section 90,**

(i) after sub-section (4), the following sub-section shall be inserted, namely:-

“(4A) Every company shall take necessary steps to identify an individual who is a significant beneficial owner in relation to the company and require him to comply with the provisions of this section.”;

[Amendment to be incorporated on Pg. 7.13 of SM]

(ii) after sub-section (9), as so substituted, the following sub-section shall be inserted, namely:

“(9A) The Central Government may make rules for the purposes of this section.”

[Amendment to be incorporated on Pg. 7.14 of SM]

(iii) in sub-section (11), after the word, brackets and figure “sub-section (4)”, the words, brackets, figure and letter “or required to take necessary steps under sub-section (4A)” shall be inserted.

[Amendment to be incorporated on Pg. 7.14 of SM]

V. Chapter 9: Accounts of Companies

(A) Amendments related to - Notification G.S.R. 390(E) dated 30th May, 2019

The Central Government has amended the Schedule VII of the Companies Act, 2013.

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In the said Schedule VII, after item (xi) and the entries relating thereto, the following item and entries shall be inserted, namely:

"(xii) disaster management, including relief, rehabilitation and reconstruction activities."

[Enforcement Date: 30th May, 2019]

[Amendment to be incorporated on Pg. 9.38 of SM]

(B) **Amendments related to -** Notification G.S.R. 776(E) dated 11th October, 2019

The Central Government has amended the Schedule VII of the Companies Act, 2013.

In the said Schedule VII, for item (ix) and the entries relating thereto, the following item and entries shall be substituted, namely:

"(ix) Contribution to incubators funded by Central Government or State Government or any agency or Public Sector Undertaking of Central Government or State Government, and contributions to public funded Universities, Indian Institute of Technology (IITs), National Laboratories and Autonomous Bodies (established under the auspices of Indian Council of Agricultural Research (ICAR), Indian Council of Medical Research (ICMR), Council of Scientific and Industrial Research (CSIR), Department of Atomic Energy (DAE), Defence Research and Development Organisation (DRDO), Department of Biotechnology (DBT), Department of Science and Technology (DST), Ministry of Electronics and Information Technology) engaged in conducting research in science, technology, engineering and medicine aimed at promoting Sustainable Development Goals (SDGs)."

[Enforcement Date: 11th October, 2019]

[Amendment to be incorporated on Pg. 9.38 of SM]

(C) **Amendments related to -** Companies (Amendment) Act, 2019

Following sections of the Companies Act, 2013 have been amended by the Companies (Amendment) Act, 2019 through *Notification No. S.O. 2947(E) dated 14th August, 2019* [the sections contained therein shall deemed to have come into force on 15th August, 2019]

In **section 132**—

(i) after sub-section (1), the following sub-section shall be inserted, namely:—

"(1A) The National Financial Reporting Authority shall perform its functions through such divisions as may be prescribed."

[Amendment to be incorporated on Pg. 9.16 of SM]

(ii) after sub-section (3), the following sub-sections shall be inserted, namely:—

"(3A) Each division of the National Financial Reporting Authority shall be presided over by the Chairperson or a full-time Member authorised by the Chairperson.

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(3B) There shall be an executive body of the National Financial Reporting Authority consisting of the Chairperson and full-time Members of such Authority for efficient discharge of its functions under sub-section (2) [other than clause (a)] and sub-section (4).";

[Amendment to be incorporated on Pg. 9.17 of SM]

(iii) in sub-section (4), in clause (c), for sub-clause (B), the following sub-clause shall be substituted, namely:—

"(B) debarring the member or the firm from—

I. being appointed as an auditor or internal auditor or undertaking any audit in respect of financial statements or internal audit of the functions and activities of any company or body corporate; or

II. performing any valuation as provided under section 247,

for a minimum period of six months or such higher period not exceeding ten years as may be determined by the National Financial Reporting Authority.".

[Amendment to be incorporated on Pg. 9.18 of SM]

(D) **Amendments related to -** Notification G.S.R. 636(E) 5th September, 2019

The Central Government has amended the National Financial Reporting Authority Rules, 2018, by the National Financial Reporting Authority (Amendment) Rules, 2019.

In the National Financial Reporting Authority Rules, 2018, after clause (c) of sub-rule (1) of **rule 3**, the following explanation shall be inserted, namely:-

"Explanation.- For the purpose of this clause, "banking company" includes 'corresponding new bank' as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 (5 of 1970) and clause (b) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980 (40 of 1980) and 'subsidiary bank' as defined in clause (k) of section 2 of the State Bank of India (Subsidiary Bank) Act, 1959 (38 of 1959).".

[Enforcement Date: 5th September, 2019]

[Amendment to be incorporated on Pg. 9.19 of SM]

(E) **Amendments related to -** Notification G.S.R. 803 (E) dated 22nd October, 2019 w.e.f. 1st December , 2019

The Central Government has amended the Companies (Accounts) Rules, 2014, by the Companies (Accounts) Amendment Rules, 2019.

In the Companies (Accounts) Rules, 2014, in rule 8, in sub-rule (5), after clause (iii), the following clause shall be inserted namely:—

"(iiia) a statement regarding opinion of the Board with regard to integrity, expertise and experience (including the proficiency) of the independent directors appointed during the year".

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Explanation.—For the purposes of this clause, the expression "proficiency" means the proficiency of the independent director as ascertained from the online proficiency self-assessment test conducted by the institute notified under sub-section (1) of section 150.

[Amendment to be incorporated on Pg. 9.26 of SM]

(F) Amendments related to - Notification G.S.R. 313(E).—dated 26th May, 2020

The Central Government has amended the Schedule VII of the Companies Act, 2013.

In Schedule VII, item (viii), after the words "Prime Minister's National Relief Fund", the words "or Prime Minister's Citizen Assistance and Relief in Emergency Situations Fund (PM CARES Fund)" shall be inserted.

[Enforcement Date: 28th March, 2020]

[Amendment to be incorporated on Pg. 9.38 of SM]

PART II- OTHER LAWS

[I] THE INDIAN CONTRACT ACT, 1872

Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.

As per the Jammu and Kashmir Reorganisation Act, 2019, in the Indian Contract Act, 1872, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted.

Now, Section 1 will be read as under,

'**Short title**- This Act may be called the Indian Contract Act, 1872.

Extent, Commencement- It extends to the whole of India and it shall come into force on the first day of September, 1872.

Saving- Nothing herein contained shall affect the provisions of any Statute, Act or Regulation not hereby expressly repealed, nor any usage or custom of trade, nor any incident of any contract, not inconsistent with the provisions of this Act.'

[II] THE GENERAL CLAUSES ACT, 1897

Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.

As per the Jammu and Kashmir Reorganisation Act, 2019, the General Clauses Act, 1897 has been extended as a whole.

 # Here, SM means Study Material (i.e. Page number of the Study material in reference to relevant provisions)

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PART II: QUESTIONS AND ANSWERS

QUESTIONS

Division A: Case Scenario/ Multiple Choice Questions

1. Mr. B R Mohanty, around two-decade back; along with two of his elder brothers and few friends, who are pharma and chemical engineers by profession promoted two companies; first being Well-Mount Limited (WML) dealing in wellness products and pharmaceuticals; whereas other is Tex-Mount Limited (TML) dealing in textile products. During these two decades, both WML and TML has grown magnificently as both the sectors expanded beyond imagination. Both companies went public and stock of same listed on leading stock exchanges of countries.

   TML did well in the past and emerged as a major export unit but in recent years the textile sector witness stiff competition due to new entrants. The increased cost of the workforce and other input materials is also made sector unprofitable and recent lockdown hit the sector further adversely. TML's bottom line for the current financial year is red. TML was declaring dividends since the very first year of operation and willing to continue the tradition considering dividend as signalling effect to an investor for valuation purpose. Rate of dividend for the recent five years was 9%, 10%, 8%, 5% and 2% (9% being five years ago and 2% being the previous year) respectively. The management at TML decided to declare dividends out of the profit of previous years. TML deals in export hence came under the scanner of enforcement authority, who seek financial statements and books of accounts of TML for scrutiny for the last 10 preceding financial years. In response to notice, TML furnish financial statements and books of accounts for last 8 immediately preceding financial years only, stating as per its Article of Association; TML is required to maintain and keep the books of accounts for 8 immediately preceding financial years only and that too without any record of vouchers pertaining to such accounts.

   WML is doing well, it seizes outbreak of COVID-19 as a business opportunity and registers significant growth in both top and bottom line. For the past many years, WML declare a dividend at a constant rate of 20%. During the financial year 2019-20, WML earns a profit of 580 Crores. Board of directors of WML declares 25% dividend without transferring any % to reserve on 15th June, 2020. On 14th July, 2020 some of the amount remaining unpaid, due to operation of law; has been transferred to unpaid dividend account on 20th July, 2020. CA. Dev was appointed as auditor under section 139 of Companies Act, 2013 of WML in individual capacity during 17th AGM for against the financial year 2018-19.

   A. In case of TML, which of the following statements are correct regarding the declaration of dividend?

   (i) TML can't declare the dividend because it earns a loss in the current financial year.

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(ii) TML can declare the dividend but only up to 9%

(iii) TML can declare the dividend but only up to 5%

(iv) TML can declare the dividend but only up to 6.8%

B. CA. Dev, who is the auditor of WML have to vacate the office of the auditor in and can be reappointed again only in

(i) 22nd AGM and 27th AGM

(ii) 27th AGM and 32nd AGM

(iii) 22nd AGM and 23rd AGM

(iv) 22nd AGM and can't be re-appointed again.

C. In case of WML, which of the following statements is correct regarding the declaration of dividend?

(i) WML can't declare the dividend at a rate more than 20%

(ii) WML can declare the dividend out current year's profit but it needs to transfer sum equal to 20% to reserve first.

(iii) WML can declare the dividend out current year's profit but it needs to transfer sum equal to 10% of paid-up share capital to reserve first.

(iv) WML can declare the dividend out of current years' profit without transferring any % to reserve.

D. In case of TML, regarding maintenance and keeping the books of account; which of the following statements hold truth?

(i) TML needs to maintain and keep the books of account for 10 preceding financial years, hence TML violate the law.

(ii) TML doesn't violate the provision of law because it keeps the books of account for 8 immediate preceding financial years.

(iii) TML violate the provision of law because it keeps the books of account for 8 immediately preceding financial years without keeping relevant vouchers in the record pertaining to such books of account.

(iv) TML doesn't violate the provision of law because it is complying to its Article of Association.

E. Regarding declaration and distribution of dividend by WML, which of the following statements is correct from the view of the timeline?

(i) WML violates the law, because some of the dividend remain unpaid; irrespective of reason for non-payment

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(ii) WML violates the law, because unpaid dividend need to transfer to unpaid dividend account by 19th July 2020.

(iii) WML doesn't violate the law, because an unpaid dividend transferred to unpaid dividend account prior to 21st July 2020.

(iv) WML doesn't violate the law, because an unpaid dividend can be transferred to unpaid dividend account at any time within 90 days from the date of declaration.

2. Mr. Purshottam Prasad, a business graduate from leading B-School, running the chain of restaurants; as sole proprietor concern; based in Chennai. Mr. Prasad being dynamic businessman, in order to develop the business; decided to give corporate form to his business; but concerned with dilution of the control over business decisions.

Mr. Prasad, during some journey met Mr. Chinmay Dass; who is school days friend of Mr. Prasad and presently working in one of leading corporate advisory firm. Mr. Prasad seeks advice from Mr. Dass, regarding conversion of sole proprietorship concern to company and also explain his intention to keep the entire control in his hand. Mr. Dass told, about new type of company; which can be formed under Companies Act, 2013; One Person Company (OPC). Mr. Dass quoted section 2 (62), which define 'one person company', a company which has only one person as a member.

Mr. Prasad, felt OPC is correct form of business for him, hence promotes an OPC 'Casa Hangout Private Limited' (One Person Company) on 14th September 2019, to which he sold his sole proprietor business and himself became sole member. Mr. Prasad, appointed his younger son Mr. Vijay, who was 21 year old then; as Nominee to OPC. Mr. Anand who is old friend of Mr. Prasad was appointed as director of OPC, Mr. Prasad himself also become director of company.

Mr. Vijay is professional photographer, and for some certification course went to abroad on 23rd October 2019. He came back on 1st of March 2020. He established photo-studio in form of OPC 'Best Click (OPC) Private Limited' on 20th March 2020, in which Mr. Prasad is nominee and he became sole member. In mean time, Mr. Vijay also gave his consent as nominee to another OPC in which his elder brother Mr. Shankar is sole member.

Mr. Prasad met an accident on 25th March, 2020, in which he lost his life. Nomination clause invoked, resultantly Mr. Vijay has to take charge over 'Casa Hangout (OPC) Private Limited' (One Person Company) as member with immediate effect. On 30th March, 2020 Mr. Shankar was appointed as new nominee to 'Casa Hangout (OPC) Private Limited', who gave written consent on 31st March 2020. Mr. Shankar who is investment banker by profession, is of opinion that 'Casa Hangout (OPC) Private Limited' need to amend its object clause and add 'carry out investment in securities of body corporate' as one of object.

Financial Period closed on 31st March 2020. Financial statements of 'Casa Hangout (OPC) Private Limited', which is not containing cash flow statement; signed by Mr. Anand (who left as only director after death of Mr. Prasad).

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A. With reference to appointment of Mr. Vijay and Mr. Shankar as nominee to 'Casa Hangout (OPC) Private Limited', out of followings, who is eligible to be nominee of OPC?

(i) Any natural person excluding minor

(ii) Any legal person excluding minor

(iii) Any natural person, who is resident of India; but excluding minor

(iv) Any natural person, who is resident as well as citizen of India; but excluding minor

B. Mr. Shankar if wish to withdraw his consent as nominee, can do so; by giving written notice to

(i) Director of OPC and to sole member of company

(ii) Director of OPC and to Registrar of companies

(iii) Sole member of company and to OPC

(iv) Sole member of company and to Registrar of companies

C. With reference to legal position of Mr. Vijay as member/s and nominee/s to various OPCs, Which of the following statement is correct in reference to ceiling limit in relation to membership and being nominee to OPC? A person, other than minor; at specific point of time;

(i) Can be member in any number of OPCs but nominee in one OPC

(ii) Can be member in one OPC and nominee in any number of OPCs

(iii) Can be member in one OPC and nominee in another one OPCs

(iv) Can be member and nominee both in any number of OPCs

D. Which of following statement is correct, in reference to requirement for financial Statements of 'Casa Hangout (OPC) Private Limited'

(i) Must be signed by one director

(ii) Must be signed by at-least by two directors

(iii) Must contain cash flow statement as part of financial statements

(iv) None of the above

E. With reference to opinion of Mr. Shankar to add 'carry out investment in securities of body corporate' object, 'Casa Hangout (OPC) Private Limited'

(i) Can't carry out non-banking financial investment activities & investment in securities of body corporate

(ii) Can't carry out non-banking financial investment, but can invest in securities of body corporate'

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(iii) Can carry-out non-banking financial investment & invest in securities of body corporate'

(iv) None of the above

3. A is residing in Delhi and has a house in Mumbai. A appoints B by a power of attorney to take care of his house. State the nature of agency created between A and B:

(a) Implied agency

(b) Agency by ratification

(c) Agency by necessity

(d) Express agency

4. One Person Company shall file a copy of the duly adopted financial statements to the Registrar in:

(a) 30 days of the date of meeting in which it was adopted

(b) 90 days of the date of meeting in which it was adopted

(c) 90 days from the closure of the financial statement

(d) 180 days from the closure of the financial statement

5. A guarantee which extend to a series of transactions is called

(a) Special Guarantee

(b) Continuing Guarantee

(c) Specific Guarantee

(d) None of the above

6. An aid that expresses the scope, object and purpose of the Act—

(a) Title of the Act

(b) Heading of the Chapter

(c) Preamble

(d) Definitional sections

7. Roma along with her six friends has got incorporated Roma Trading Ltd. in May 2019. She kept the paid-up share capital at ₹ 30 lacs. Further, in April 2020, she noticed that in the last financial year, the turnover of the company was well below ₹ 2 crores. Advise whether the company can be treated as a 'small company'.

(a) Roma Trading Ltd. is definitely a 'small company' since its paid-up capital is much below ₹ 50 lacs and also its turnover has not exceeded the threshold limit of ₹ 2 crores.

(b) The concept of 'small company' is applicable only in case of a private limited company/OPC and therefore, despite meeting the criteria of 'small company' it being a public limited company cannot enjoy benefits of 'small company'.

(c) Unlike a private limited company/OPC which automatically becomes a 'small company' as soon as it meets the criteria of 'small company', Roma Trading Ltd. being a public limited company has to maintain the norms applicable to a 'small company' continuously for two years so that, thereafter, it is treated as a 'small company'.

(d) If all the shareholders of Roma Trading Ltd. give an undertaking to the ROC stating that they will not let the paid share capital and also turnover exceed the limits applicable to a 'small company' in the next two years, then it can be treated as a 'small company'.

8. Red Flag Ltd., which has its registered office at Delhi and having 12500 members is holding its Annual General Meeting in Ashoka Hotel. Despite swanky arrangements most of the members did not turn up and quorum was not present within half an hour of the schedule time of the meeting, as a result meeting was adjourned. However, due to heavy booking schedule, hotel authorities could not make available, for adjourned meeting, sufficient space in the same hall where meeting was originally called but allowed conduct of meeting in a different hall on a different floor next week at same time. Please advise the option available to board:

(a) The meeting stands adjourned automatically to the same place and time next week as per provisions of law. There is no alternate but to hold meeting in the same hall,

(b) As same banquet hall is not available meeting can be held at different place as may be decided appropriate by the Board,

(c) As the same hall is not available to conduct meeting after one week, a fresh notice of 21 days is needed for a different location,

(d) As the same hall is not available to conduct the meeting, the company needs to conduct meeting electronically through internet and give sufficient notice to shareholders,

9. Shreyas Mechanics Limited owns a plot of land which was purchased long before. As the property rates are going up, it is decided to revalue the plot at fair value which is moderately ten times the original price, thus resulting in a revaluation profit of ₹ 20,00,000. The Board of Directors is keen to utilize ₹ 20,00,000 along with free reserves of ₹ 24,00,000 for declaration of dividend at the forthcoming Annual General Meeting (AGM) to be held on 28th September, 2019. Advise the company.

(a) ₹ 20,00,000 are to be excluded from the distributable profits as the same cannot be utilized towards declaration of dividend.

(b) Only 25% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.

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(c) Up to 50% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.

(d) Up to 60% of ₹ 20,00,000 can be utilized as distributable profits towards declaration of dividend.

Division B: Descriptive questions

The Companies Act, 2013

1. Vijay, a member of Mayur Electricals Ltd. gave in writing to the company that the notice for any general meeting be sent to him only by registered post at his residential address at Kanpur for which he deposited sufficient money. The company sent notice to him by ordinary mail under certificate of posting. Vijay did not receive this notice and could not attend the meeting and contended that the notice was improper.

   Decide:

   (i) Whether the contention of Vijay is valid.

   (ii) Will your answer be the same if Vijay remains in London for two months during the notice of the meeting and the meeting held?

2. Shekhar Limited appointed an individual firm, Suresh & Company, Chartered Accountants, as Auditors of the company at the Annual General Meeting held on 30th September, 2019. Mrs. Kamala, wife of Mr. Suresh, invested in the equity shares having face value of ₹ 1 lakh of Shekhar Limited on 15th October, 2019. But Suresh & Company continues to function as statutory auditors of the company. Advice.

3. The Board of Directors of Ramesh Ltd. proposes to issue the prospectus inviting offers from the public for subscribing the shares of the Company. State the reports which shall be included in the prospectus for the purposes of providing financial information under the provisions of the Companies Act, 2013.

4. Surya Ltd. is engaged in the manufacture of consumer goods and has got a good brand value. Over the years, it has built a good reputation and its Balance Sheet as at March 31, 2019 shows the following position:

   Authorized Share Capital (25,00,000 equity shares of face value of ₹ 10/- each) ₹ 2,50,00,000

   Issued, subscribed and paid-up capital (10,00,000 equity shares of face value of ₹10/- each, fully paid-up) ₹ 1,00,00,000

   Free Reserves ₹ 3,00,00,000

   The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013. Discuss.

5. State, with reasons, whether the following statements are true or false?

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(i) XYZ Private Limited may accept the deposits from its members to the extent of ₹ 60.00 Lakh, if the aggregate of its paid-up capital, free reserves and security premium account is ₹ 60.00 Lakh.

(ii) A Government Company, which is eligible to accept deposits under Section 76 of the Companies Act, 2013 cannot accept deposits from public exceeding 25% of the aggregate of its paid- up capital, free reserves and security premium account.

6. What are the powers of Registrar to make entries of satisfaction and release of charges in the absence of any intimation from the company. Discuss this matter in the light of provisions of the Companies Act, 2013.

7. Chetan Ltd. issued a notice for holding its Annual general meeting on 7th November 2019. The notice was posted to the members on 16th October 2019. Some members of the company allege that the company had not complied with the provisions of the Companies Act, 2013 with regard to the period of notice and as such the meeting was valid. Referring to the provisions of the Act, decide:

   (i) Whether the meeting has been validly called?

   (ii) If there is a shortfall, state and explain by how many days does the notice fall short of the statutory requirement?

   (iii) Can the delay in giving notice be condoned?

Other Laws

8. Sandeep guarantees for Gaurav, a retail textile merchant, for an amount of ₹ 1,00,000, for which Sharma, the supplier may from time to time supply goods on credit basis to Gaurav during the next 3 months.

   After 1 month, Sandeep revokes the guarantee, when Sharma had supplied goods on credit for ₹ 40,000. Referring to the provisions of the Indian Contract Act, 1872, decide whether Sandeep is discharged from all the liabilities to Sharma for any subsequent credit supply. What would be your answer in case Gaurav makes default in paying back Sharma for the goods already supplied on credit i.e. ₹ 40,000?

9. Raj gives his umbrella to Manoj during raining season to be used for two days during Examinations. Manoj keeps the umbrella for a week. While going to Raj's house to return the umbrella, Manoj accidently slips and the umbrella is badly damaged. Taking into account the provisions of the Indian Contract Act, 1872, who will bear the loss and why?

10. Rahul drew a cheque in favour of Aman. After having issued the cheque; Rahul requested Aman not to present the cheque for payment and gave a stop payment request to the bank in respect of the cheque issued to Aman. Decide, under the provisions of the Negotiable Instruments Act, 1881 whether the said acts of Rahul constitute an offence?

11. Referring to the provisions of the General Clauses Act, 1897, find out the day/ date on which the following Act/Regulation comes into force. Give reasons also.

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(1) An Act of Parliament which has not specifically mentioned a particular date.

(2) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fifth Amendment) Regulations, 2015 was issued by SEBI vide Notification dated 14th August, 2015 with effect from 1st January, 2016.

12. 'Preamble does not over-ride the plain provision of the Act.' Comment. Also give suitable example.

SUGGESTED ANSWERS/HINTS

Division A –Answers to Case Scenario/ Multiple Choice Question

1. A. (iii)

B. (i)

C. (iv)

D. (iii)

E. (iii)

2. A. (iv)

B. (iii)

C. (iii)

D. (i)

E. (i)

3. (d)

4. (d)

5. (b)

6. (c)

7. (b)

8. (b)

9. (a)

Division B –Answers to Descriptive Type Questions

1. According to section 20(2) of the Companies Act, 2013, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed.

Provided that a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

Thus, if a member wants the notice to be served on him only by registered post at his residential address at Kanpur for which he has deposited sufficient money, the notice must be served accordingly, otherwise service will not be deemed to have been effected.

Accordingly, the questions as asked may be answered as under:

(i) The contention of Vijay shall be tenable, for the reason that the notice was not properly served.

(ii) In the given circumstances, the company is bound to serve a valid notice to Vijay by registered post at his residential address at Kanpur and not outside India.

2. **Disqualification of auditor:** According to section 141(3)(d)(i) of the Companies Act, 2013, a person who, or his relative or partner holds any security of the company or its subsidiary or of its holding or associate company a subsidiary of such holding company, which carries voting rights, such person cannot be appointed as auditor of the company. Provided that the relative of such person may hold security or interest in the company of face value not exceeding 1 lakh rupees as prescribed under the Companies (Audit and Auditors) Rules, 2014.

   In this case, Mr. Suresh, Chartered Accountants, did not hold any such security. But Mrs. Kamala, his wife held equity shares of Shekhar Limited of face value ₹ 1 lakh, which is within the specified limit.

   Further Section 141(4) provides that if an auditor becomes subject, after his appointment, to any of the disqualifications specified in sub-section 3 of section 141, he shall be deemed to have vacated his office of auditor. Hence, Suresh & Company can continue to function as auditors of the Company even after 15th October, 2019 i.e. after the investment made by his wife in the equity shares of Shekhar Limited.

3. As per section 26(1) of the Companies Act, 2013, every prospectus issued by or on behalf of a public company either with reference to its formation or subsequently, or by or on behalf of any person who is or has been engaged or interested in the formation of a public company, shall be dated and signed and shall state such information and set out such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government.

   Provided that until the Securities and Exchange Board specifies the information and reports on financial information under this sub-section, the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, in respect of such financial information or reports on financial information shall apply.

   Prospectus issued make a declaration about the compliance of the provisions of this Act and a statement to the effect that nothing in the prospectus is contrary to the provisions of

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this Act, the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 and the rules and regulations made thereunder.

Accordingly, the Board of Directors of Ramesh Ltd. who proposes to issue the prospectus shall provide such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government in compliance with the above stated provision and make a declaration about the compliance of the above stated provisions.

4. According to Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of -

(i) its free reserves;

(ii) the securities premium account; or

(iii) the capital redemption reserve account.

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Conditions for issue of Bonus Shares: No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless—

(i) it is authorised by its Articles;

(ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;

(iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

(iv) it has not defaulted in respect of payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;

(v) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;

(vi) it complies with such conditions as may be prescribed.

But the company has to ensure that the bonus shares shall not be issued in lieu of dividend.

To issue bonus shares, company will need reserves of ₹ 50,00,000 (half of ₹1,00,00,000), which is available with the company. Hence, after following the above compliances on issuing bonus shares under the Companies Act, 2013, Surya Ltd. may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

5. **(i)** As per the provisions of Section 73(2) of the Companies Act, 2013 read with Rule 3 of the Companies (Acceptance of Deposits) Rules, 2014, as amended by the Companies (Acceptance of Deposits) Amendment Rules, 2016, a company shall accept any deposit from its members, together with the amount of other deposits outstanding as on the date of acceptance of such deposits not exceeding thirty five

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per cent of the aggregate of the Paid-up share capital, free Reserves and securities premium account of the company. Provided that a private company may accept from its members monies not exceeding one hundred per cent of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

Therefore, the given statement of eligibility of XYZ Private Ltd. to accept deposits from its members to the extent of ₹ 60.00 lakh is True.

(ii) A Government company is not eligible to accept or renew deposits under section 76, if the amount of such deposits together with the amount of other deposits outstanding as on the date of acceptance or renewal exceeds thirty five per cent of the aggregate of its Paid-up share capital, free Reserves and securities premium account of the company.

Therefore, the given statement prescribing the limit of 25% to accept deposits is False.

6. Section 83 of the Companies Act, 2013 empowers the Registrar to make entries with respect to the satisfaction and release of charges even if no intimation has been received by him from the company.

Accordingly, with respect to any registered charge if an evidence is shown to the satisfaction of Registrar that the debt secured by charge has been paid or satisfied in whole or in part or that the part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking, then he may enter in the register of charges a memorandum of satisfaction that:

- the debt has been satisfied in whole or in part; or
- the part of the property or undertaking has been released from the charge or has ceased to form part of the company's property or undertaking.

This power can be exercised by the Registrar despite the fact that no intimation has been received by him from the company.

Information to affected parties: The Registrar shall inform the affected parties within 30 days of making the entry in the register of charges.

Issue of Certificate: As per Rule 8 (2), in case the Registrar enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge in Form No. CHG-5.

7. According to section 101(1) of the Companies Act, 2013, a general meeting of a company may be called by giving not less than clear twenty-one days' notice either in writing or through electronic mode in such manner as may be prescribed.

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Also, it is to be noted that 21 clear days mean that the date on which notice is served and the date of meeting are excluded for sending the notice.

Further, Rule 35(6) of the Companies (Incorporation) Rules, 2014, provides that in case of delivery by post, such service shall be deemed to have been effected in the case of a notice of a meeting, at the expiration of forty eight hours after the letter containing the same is posted.

Hence, in the given question:

(i) A 21 days' clear notice must be given. In the given question, only 19 clear days' notice is served (after excluding 48 hours from the time of its posting and the day of sending and date of meeting). Therefore, the meeting was not validly called.

(ii) As explained in (i) above, notice falls short by 2 days.

(iii) The Companies Act, 2013 does not provide anything specific regarding the condonation of delay in giving of notice. Hence, the delay in giving the notice calling the meeting cannot be condoned.

8. **Discharge of Surety by Revocation:** As per section 130 of the Indian Contract Act, 1872 a specific guarantee cannot be revoked by the surety if the liability has already accrued. A continuing guarantee may, at any time, be revoked by the surety, as to future transactions, by notice to the creditor, but the surety remains liable for transactions already entered into.

As per the above provisions, liability of Sandeep is discharged with relation to all subsequent credit supplies made by Sharma after revocation of guarantee, because it is a case of continuing guarantee.

However, liability of Sandeep for previous transactions (before revocation) i.e. for ₹ 40,000 remains. He is liable for payment of ₹ 40,000 to Sharma because the transaction was already entered into before revocation of guarantee.

9. It is the duty of bailee to return, or deliver according to the bailor's directions, the goods bailed without demand, as soon as the time for which they were bailed, has expired, or the purpose for which they were bailed has been accomplished. [Section 160 of the Indian Contract Act, 1872]

If, by the default of the bailee, the goods are not returned, delivered or tendered at the proper time, he is responsible to the bailor for any loss, destruction or deterioration of the goods from that time. [Section 161]

In the instant case, Manoj shall have to bear the loss since he failed to return the umbrella within the stipulated time and Section 161 clearly says that where a bailee fails to return the goods within the agreed time, he shall be responsible to the bailor for any loss, destruction or deterioration of the goods from that time notwithstanding the exercise of reasonable care on his part.

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10. As per the facts stated in the question, Rahul (drawer) after having issued the cheque, informs Aman (drawee) not to present the cheque for payment and as well as gave a stop payment request to the bank in respect of the cheque issued to Aman.

Section 138 of the Negotiable Instruments Act, 1881, is a penal provision in the sense that once a cheque is drawn on an account maintained by the drawer with his banker for payment of any amount of money to another person out of that account for the discharge in whole or in part of any debt or liability, is informed by the bank unpaid either because of insufficiency of funds to honour the cheques or the amount exceeding the arrangement made with the bank, such a person shall be deemed to have committed an offence.

Once a cheque is issued by the drawer, a presumption under Section 139 of the Negotiable Instruments Act, 1881 follows and merely because the drawer issues a notice thereafter to the drawee or to the bank for stoppage of payment, it will not preclude an action under Section 138.

Also, Section 140 of the Negotiable Instruments Act, 1881, specifies absolute liability of the drawer of the cheque for commission of an offence under the section 138 of the Act. Section 140 states that it shall not be a defence in a prosecution for an offence under section 138 that the drawer had no reason to believe when he issued the cheque that the cheque may be dishonoured on presentment for the reasons stated in that section.

Accordingly, the act of Rahul, i.e., his request of stop payment constitutes an offence under the provisions of the Negotiable Instruments Act, 1881.

11. **(1)** According to section 5 of the General Clauses Act, 1897, where any Central Act has not specifically mentioned a particular date to come into force, it shall be implemented on the day on which it receives the assent of the President in case of an Act of Parliament.

(2) If any specific date of enforcement is prescribed in the Official Gazette, the Act shall come into enforcement from such date.

Thus, in the given question, the SEBI (Issue of Capital and Disclosure Requirements) (Fifth Amendment) Regulations, 2015 shall come into enforcement on 1st January, 2016 rather than the date of its notification in the gazette.

12. **Preamble:** The Preamble expresses the scope, object and purpose of the Act more comprehensively. The Preamble of a Statute is a part of the enactment and can legitimately be used as an internal aid for construing it. However, the Preamble does not over-ride the plain provision of the Act. But if the wording of the statute gives rise to doubts as to its proper construction, **for example**, where the words or phrase has more than one meaning and a doubt arises as to which of the two meanings is intended in the Act, the Preamble can and ought to be referred to in order to arrive at the proper construction.

In short, the Preamble to an Act discloses the primary intention of the legislature but can only be brought in as an aid to construction if the language of the statute is not clear. However, it cannot override the provisions of the enactment.

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Example: Use of the word 'may' in section 5 of the Hindu Marriage Act, 1955 provides that "a marriage may be solemnized between two Hindus….." has been construed to be mandatory in the sense that both parties to the marriage must be Hindus as defined in section 2 of the Act. It was held that a marriage between a Christian male and a Hindu female solemnized under the Hindu Marriage Act was void. This result was reached also having regard to the preamble of the Act which reads: 'An Act to amend and codify the law relating to marriage among Hindus" [*Gullipoli Sowria Raj V. Bandaru Pavani, (2009)*].

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PAPER – 3: COST AND MANAGEMENT ACCOUNTING

QUESTIONS

Material Cost

1. A company uses four raw materials A, B, C and D for a particular product for which the following data apply :–

Raw Material	Usage per unit of product (Kg.)	Re-order Quantity (Kg.)	Price per Kg. (₹)	Delivery period (in weeks)			Re-order level (Kg.)	Minimum level (Kg.)
				Minimum	Average	Maximum		
A	12	12,000	12	2	3	4	60,000	?
B	8	8,000	22	5	6	7	70,000	?
C	6	10,000	18	3	5	7	?	25,500
D	5	9,000	20	1	2	3	?	?

Weekly production varies from 550 to 1,250 units, averaging 900 units of the said product. What would be the following quantities:–

(i) Minimum Stock of A?

(ii) Maximum Stock of B?

(iii) Re-order level of C?

(iv) Average stock level of A?

(v) Re-order level of D?

(vi) Minimum Stock level of D?

Employee Cost

2. GZ Ld. pays the following to a skilled worker engaged in production works. The following are the employee benefits paid to the employee:

(a)	Basic salary per day	₹1,000
(b)	Dearness allowance (DA)	20% of basic salary
(c)	House rent allowance	16% of basic salary
(d)	Transport allowance	₹50 per day of actual work
(e)	Overtime	Twice the hourly rate (considers basic and DA), only if works more than 9 hours a day otherwise no overtime allowance. If works for more than 9 hours a day then overtime is considered after 8^{th} hours.

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(f)	Work of holiday and Sunday	Double of per day basic rate provided works atleast 4 hours. The holiday and Sunday basic is eligible for all allowances and statutory deductions.
(h)	Earned leave & Casual leave	These are paid leave.
(h)	Employer's contribution to Provident fund	12% of basic and DA
(i)	Employer's contribution to Pension fund	7% of basic and DA

The company normally works 8-hour a day and 26-day in a month. The company provides 30 minutes lunch break in between.

During the month of August 2020, Mr.Z works for 23 days including 15th August and a Sunday and applied for 3 days of casual leave. On 15th August and Sunday he worked for 5 and 6 hours respectively without lunch break.

On 5th and 13th August he worked for 10 and 9 hours respectively.

During the month Mr. Z worked for 100 hours on Job no.HT200.

You are required to CALCULATE:

(i) Earnings per day

(ii) Effective wages rate per hour of Mr. Z.

(iii) Wages to be charged to Job no.HT200.

Overheads: Absorption Costing Method

3. You are given the following information of the three machines of a manufacturing department of X Ltd.:

	Preliminary estimates of expenses (per annum)			
	Total (₹)	Machines		
		A (₹)	B (₹)	C (₹)
Depreciation	2,00,000	75,000	75,000	50,000
Spare parts	1,00,000	40,000	40,000	20,000
Power	4,00,000			
Consumable stores	80,000	30,000	25,000	25,000
Insurance of machinery	80,000			
Indirect labour	2,00,000			
Building maintenance expenses	2,00,000			

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Annual interest on capital outlay	1,00,000	40,000	40,000	20,000
Monthly charge for rent and rates	20,000			
Salary of foreman (per month)	42,000			
Salary of Attendant (per month)	12,000			

(The foreman and the attendant control all the three machines and spend equal time on them.)

The following additional information is also available:

	Machines		
	A	B	C
Estimated Direct Labour Hours	1,00,000	1,50,000	1,50,000
Ratio of K.W. Rating	3	2	3
Floor space (sq. ft.)	40,000	40,000	20,000

There are 12 holidays besides Sundays in the year, of which two were on Saturdays. The manufacturing department works 8 hours in a day but Saturdays are half days. All machines work at 90% capacity throughout the year and 2% is reasonable for breakdown.

You are required to :

CALCULATE predetermined machine hour rates for the above machines after taking into consideration the following factors:

- An increase of 15% in the price of spare parts.
- An increase of 25% in the consumption of spare parts for machine 'B' & 'C' only.
- 20% general increase in wages rates.

Activity Based Costing

4. KD Ltd. is following Activity based costing. Budgeted overheads, cost drivers and volume are as follows:

Cost pool	Budgeted overheads (₹)	Cost driver	Budgeted volume
Material procurement	18,42,000	No. or orders	1,200
Material handling	8,50,000	No. of movement	1,240
Maintenance	24,56,000	Maintenance hours	17,550
Set-up	9,12,000	No. of set-ups	1,450
Quality control	4,42,000	No. of inspection	1,820

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The company has produced a batch of 7,600 units, its material cost was ₹24,62,000 and wages ₹4,68,500. Usage activities of the said batch are as follows:

Material orders	56
Material movements	84
Maintenance hours	1,420 hours
Set-ups	60
No. of inspections	18

Required:

(i) CALCULATE cost driver rates.

(ii) CALCULATE the total and unit cost for the batch.

Cost Sheet

5. The following details are available from the books of R Ltd. for the year ending 31st March 2020:

Particulars	Amount (₹)
Purchase of raw materials	84,00,000
Consumable materials	4,80,000
Direct wages	60,00,000
Carriage inward	1,72,600
Wages to foreman and store keeper	8,40,000
Other indirect wages to factory staffs	1,35,000
Expenditure on research and development on new production technology	9,60,000
Salary to accountants	7,20,000
Employer's contribution to EPF & ESI	7,20,000
Cost of power & fuel	28,00,000
Production planning office expenses	12,60,000
Salary to delivery staffs	14,30,000
Income tax for the assessment year 2019-20	2,80,000
Fees to statutory auditor	1,80,000
Fees to cost auditor	80,000
Fees to independent directors	9,40,000
Donation to PM-national relief fund	1,10,000

Value of sales	2,82,60,000
Position of inventories as on 01-04-2019:	
- Raw Material	6,20,000
- W-I-P	7,84,000
- Finished goods	14,40,000
Position of inventories as on 31-03-2020:	
- Raw Material	4,60,000
- W-I-P	6,64,000
- Finished goods	9,80,000

From the above information PREPARE a cost sheet for the year ended 31st March 2020.

Cost Accounting System

6. A manufacturing company disclosed a net loss of ₹6,94,000 as per their cost accounts for the year ended March 31,2020. The financial accounts however disclosed a net loss of ₹10,20,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the sets of accounts.

	(₹)
(i) Factory Overheads under-absorbed	80,000
(ii) Administration Overheads over-absorbed	1,20,000
(iii) Depreciation charged in Financial Accounts	6,50,000
(iv) Depreciation charged in Cost Accounts	5,50,000
(v) Interest on investments not included in Cost Accounts	1,92,000
(vi) Income-tax provided	1,08,000
(vii) Interest on loan funds in Financial Accounts	4,90,000
(viii) Transfer fees (credit in financial books)	48,000
(ix) Stores adjustment (credit in financial books)	28,000
(x) Dividend received	64,000

PREPARE a memorandum Reconciliation Account.

Batch Costing

7. A Ltd. manufactures mother boards used in smart phones. A smart phone requires one mother board. As per the study conducted by the Indian Cellular Association, there will be a demand of 180 million smart phones in the coming year. A Ltd. is expected to have a market share of 5.5% of the total market demand of the mother boards in the coming

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year. It is estimated that it costs ₹6.25 as inventory holding cost per board per month and that the set-up cost per run of board manufacture is ₹33,500.

(i) COMPUTE the optimum run size for board manufacturing?

(ii) Assuming that the company has a policy of manufacturing 80,000 boards per run, CALCULATE how much extra costs the company would be incurring as compared to the optimum run suggested in (i) above?

Job Costing

8. AP Ltd. received a job order for supply and fitting of plumbing materials. Following are the details related with the job work:

Direct Materials

AP Ltd. uses a weighted average method for the pricing of materials issues.

Opening stock of materials as on 12th August 2020:

- 15mm GI Pipe, 12 units of (15 feet size) @ ₹600 each
- 20mm GI Pipe, 10 units of (15 feet size) @ ₹ 660 each
- Other fitting materials, 60 units @ ₹ 26 each
- Stainless Steel Faucet, 6 units @ ₹ 204 each
- Valve, 8 units @ ₹ 404 each

Purchases:

On 16th August 2020:

- 20mm GI Pipe, 30 units of (15 feet size) @ ₹ 610 each
- 10 units of Valve @ ₹ 402 each

On 18th August 2020:

- Other fitting materials, 150 units @ ₹ 28 each
- Stainless Steel Faucet, 15 units @ ₹ 209 each

On 27th August 2020:

- 15mm GI Pipe, 35 units of (15 feet size) @ ₹ 628 each
- 20mm GI Pipe, 20 units of (15 feet size) @ ₹ 660 each
- Valve, 14 units @ ₹ 424 each

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Issues for the hostel job:

On 12th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- Other fitting materials, 18 units

On 17th August 2020:

- 15mm GI Pipe, 8 units of (15 feet size)
- Other fitting materials, 30 units

On 28th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- 15mm GI Pipe, 10 units of (15 feet size)
- Other fitting materials, 34 units
- Valve, 6 units

On 30th August 2020:

- Other fitting materials, 60 units
- Stainless Steel Faucet, 15 units

Direct Labour:

Plumber: 180 hours @ ₹100 per hour (includes 12 hours overtime)

Helper: 192 hours @ ₹70 per hour (includes 24 hours overtime)

Overtimes are paid at 1.5 times of the normal wage rate.

Overheads:

Overheads are applied @ ₹26 per labour hour.

Pricing policy:

It is company's policy to price all orders based on achieving a profit margin of 25% on sales price.

You are required to

(a) CALCULATE the total cost of the job.

(b) CALCULATE the price to be charged from the customer.

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Process Costing

9. M Ltd. produces a product-X, which passes through three processes, I, II and III. In Process-III a by-product arises, which after further processing at a cost of ₹85 per unit, product Z is produced. The information related for the month of August 2020 is as follows:

	Process-I	Process-II	Process-III
Normal loss	5%	10%	5%
Materials introduced (7,000 units)	1,40,000	-	-
Other materials added	62,000	1,36,000	84,200
Direct wages	42,000	54,000	48,000
Direct expenses	14,000	16,000	14,000

Production overhead for the month is ₹2,88,000, which is absorbed as a percentage of direct wages.

The scrapes are sold at ₹10 per unit

Product-Z can be sold at ₹135 per unit with a selling cost of ₹15 per unit

No. of units produced:

Process-I- 6,600; Process-II- 5,200, Process-III- 4,800 and Product-Z- 600

There is not stock at the beginning and end of the month.

You are required to PREPARE accounts for:

(i) Process-I, II and III

(ii) By-product process.

Joint Products & By Products

10. ABC Ltd. operates a simple chemical process to convert a single material into three separate items, referred to here as X, Y and Z. All three end products are separated simultaneously at a single split-off point.

Product X and Y are ready for sale immediately upon split off without further processing or any other additional costs. Product Z, however, is processed further before being sold. There is no available market price for Z at the split-off point.

The selling prices quoted here are expected to remain the same in the coming year. During 2019-20, the selling prices of the items and the total amounts sold were:

X – 186 tons sold for ₹3,000 per ton

Y – 527 tons sold for ₹2,250 per ton

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Z – 736 tons sold for ₹1,500 per ton

The total joint manufacturing costs for the year were ₹12,50,000. An additional ₹ 6,20,000 was spent to finish product Z.

There were no opening inventories of X, Y or Z at the end of the year. The following inventories of complete units were on hand:

X 180 tons

Y 60 Tons

Z 25 tons

There was no opening or closing work-in-progress.

Required:

COMPUTE the cost of inventories of X, Y and Z and cost of goods sold for year ended March 31, 2020, using Net realizable value (NRV) method of joint cost allocation.

Service Costing

11. A transport company has 20 vehicles, the capacities are as follows:

No. of Vehicles	Capacity per vehicle
5	9 MT
6	12 MT
7	15 MT
2	20 MT

The company provides the goods transport service between stations 'A' to station 'B'. Distance between these stations is 100 kilometers. Each vehicle makes one round trip per day on an average. Vehicles are loaded with an average of 90 per cent of capacity at the time of departure from station 'A' to station 'B' and at the time of return back loaded with 70 per cent of capacity. 10 per cent of vehicles are laid up for repairs every day. The following information is related to the month of August, 2020:

Salary of Transport Manager	₹ 60,000
Salary of 30 drivers	₹ 20,000 each driver
Wages of 25 Helpers	₹ 12,000 each helper
Loading and unloading charges	₹ 850 each trip
Consumable stores (depends on running of vehicles)	₹ 1,35,000
Insurance (Annual)	₹ 8,40,000
Road Licence (Annual)	₹ 6,00,000
Cost of Diesel per litre	₹ 78

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Kilometres run per litre each vehicle	5 Km.
Lubricant, Oil etc.	₹ 1,15,000
Cost of replacement of Tyres, Tubes, other parts etc. (on running basis)	₹ 4,25,000
Garage rent (Annual)	₹ 9,00,000
Routine mechanical services	₹ 3,00,000
Electricity charges (for office, garage and washing station)	₹ 55,000
Depreciation of vehicles (on time basis)	₹ 6,00,000

There is a workshop attached to transport department which repairs these vehicles and other vehicles also. 40 per cent of transport manager's salary is debited to the workshop. The transport department has been apportioned ₹88,000 by the workshop during the month. During the month operation was for 25 days.

You are required:

(i) CALCULATE per ton-km operating cost.

(ii) DETERMINE the freight to be charged per ton-km, if the company earned a profit of 25 per cent on freight.

Standard Costing

12. Following are the standard cost for a product-X:

	(₹)
Direct materials 10 kg @ ₹ 90 per kg	900
Direct labour 8 hours @ ₹100 per hour	800
Variable Overhead 8 hours @ ₹15 per hour	120
Fixed Overhead	400
	2,220

Budgeted output for the year was 2,000 units. Actual output is 1,800 units.

Actual cost for year is as follows:

	(₹)
Direct Materials 17,800 Kg @ ₹ 92 per Kg.	16,37,600
Direct Labour 14,000 hours @ ₹ 104 per hour	14,56,000
Variable Overhead incurred	2,17,500
Fixed Overhead incurred	7,68,000

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You are required to CALCULATE:

(i) Material Usage Variance

(ii) Material Price Variance

(iii) Material Cost Variance

(iv) Labour Efficiency Variance

(v) Labour Rate Variance

(vi) Labour Cost Variance

(vii) Variable Overhead Cost Variance

(viii) Fixed Overhead Cost Variance.

Marginal Costing

13. J Ltd. manufactures a Product-Y. Analysis of income statement indicated a profit of ₹ 250 lakhs on a sales volume of 5,00,000 units. Fixed costs are ₹1,000 lakhs which appears to be high. Existing selling price is ₹680 per unit. The company is considering revising the profit target to ₹ 700 lakhs. You are required to COMPUTE –

(i) Break- even point at existing levels in units and in rupees.

(ii) The number of units required to be sold to earn the target profit.

(iii) Profit with 10% increase in selling price and drop in sales volume by 10%.

(iv) Volume to be achieved to earn target profit at the revised selling price as calculated in (ii) above, if a reduction of 10% in the variable costs and ₹ 170 lakhs in the fixed cost is envisaged.

Budget and Budgetary Control

14. The information of Z Ltd. for the year ended 31st March 2020 is as below:

	Amount (₹)
Direct materials	17,50,000
Direct wages	12,50,000
Variable factory overhead	9,50,000
Fixed factory overhead	12,00,000
Other variable costs	6,00,000
Other fixed costs	4,00,000
Profit	8,50,000
Sales	70,00,000

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During the year, the company manufactured two products, X and Y, and the output and cost were:

	X	Y
Output (units)	8,000	4,000
Selling price per unit (₹)	600	550
Direct material per unit (₹)	140	157.50
Direct wages per unit (₹)	90	132.50

Variable factory overheads are absorbed as a percentage of direct wages and other variable costs are computed as:

Product X – ₹40 per unit and Product Y- ₹70 per unit.

For the FY 2020-21, due to a pandemic, it is expected that demand for product X and Y will fall by 20% & 10% respectively. It is also expected that direct wages cost will raise by 20% and other fixed costs by 10%. Products will be required to be sold at a discount of 20%.

You are required to:

(i) PREPARE product- wise profitability statement on marginal costing method for the FY 2019-20 and

(ii) PREPARE a budget for the FY 2020-21.

Miscellaneous

15. (a) DISCUSS short notes on (i) Discretionary Cost Centre and (ii) Investment Centre

(b) DESCRIBE the three advantages of Cost-plus contract.

(c) STATE the advantages of Zero-based budgeting.

(d) DESCRIBE Operation costing with two examples of industries where operation costing is applied.

SUGGESTED HINTS/ANSWERS

1. (i) Minimum stock of A

Re-order level – (Average consumption × Average time required to obtain delivery)

= 60,000 kg. – (900units × 12 kg. × 3 weeks) = 27,600 kg.

(ii) Maximum stock of B

Re-order level + Re-order quantity– (Min. Consumption × Min. Re-order period)

= 70,000 kg.+ 8,000 kg– (550units ×8 kg.× 5 weeks).

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=78,000–22,000 = 56,000 kg.

(iii) Re-order level of C

Maximum re-order period × Maximum Usage

= 7 weeks × (1,250units × 6 kg.) = 52,500 kg.

OR

= Minimum stock of C+(Average consumption × Average delivery time)

= 25,500 kg.+ [(900 units ×6 kg.)×5 weeks] =52,500 kg.

(iv) Average stock level of A

$$= \frac{\text{Minimum stock + Maximum stock}}{2} \quad \text{(Refer to Working Note)}$$

$$= \frac{27,600 + 58,800}{2} = 43,200 \text{ kg.}$$

Working note

Maximum stock of A = ROL + ROQ – (Minimum consumption × Minimum re-order period)

= 60,000 kg. + 12,000 kg. – [(550units × 12 kg.) × 2 weeks] = 58,800 kg.

(v) Re-order level of D

Maximum re-order period × Maximum Usage

= 3 weeks × (1,250 units × 5 kg.) = 18,750 kg

(vi) Minimum stock of D

Re-order level – (Average consumption × Average time required to obtain delivery)

= 18,750 kg. – (900units × 5 kg. × 2 weeks) = 9,750 kg.

2. Workings:

1. Normal working hours in a month = (Daily working hours – lunch break) × no. of days

   = (8 hours – 0.5 hours) × 26 days = 195 hours

2. Hours worked by Mr.Z = No. of normal days worked + Overtime + holiday/ Sunday worked

   = (21 days × 7.5 hours) + (9.5 hours + 8.5 hours) + (5 hours + 6 hours)

   = 157.5 hours + 18 hours + 11 hours = 186.50 hours.

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(i) Calculation of earnings per day

Particulars	Amount (₹)
Basic salary (₹1,000 × 26 days)	26,000
Dearness allowance (20% of basic salary)	5,200
	31,200
House rent allowance (16% of basic salary)	4,160
Employer's contribution to Provident fund (12% × ₹31,200)	3,744
Employer's contribution to Pension fund (7% × ₹31,200)	2,184
	41,288
No. of working days in a month (days)	26
Rate per day	1,588
Transport allowance per day	50
Earnings per day	**1,638**

(ii) Calculation of effective wage rate per hour of Mr. Z:

Particulars	Amount (₹)
Basic salary (₹1,000 × 26 days)	26,000
Additional basic salary for Sunday & holiday (₹1,000 × 2 days)	2,000
Dearness allowance (20% of basic salary)	5,600
	33,600
House rent allowance (16% of basic salary)	4,480
Transport allowance (₹50 × 23 days)	1,150
Overtime allowance (₹160 × 2 × 2 hours)*	640
Employer's contribution to Provident fund (12% × ₹33,600)	4,032
Employer's contribution to Pension fund (7% × ₹33,600)	2,352
Total monthly wages	46,254
Hours worked by Mr. Z (hours)	186.5
Effective wage rate per hour	**248**

*(Daily Basic + DA) ÷ 7.5 hours

= (1,000+200) ÷ 7.5 = ₹160 per hour

(iii) Calculation of wages to be charged to Job no. HT200

= ₹ 248 × 100 hours = ₹ 24,800

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3. (a) **Computation of Machine Hour Rate**

	Basis of apportionment	Total (₹)	Machines		
			A (₹)	B (₹)	C (₹)
(A) Standing Charges					
Insurance	Depreciation Basis (3:3:2)	80,000	30,000	30,000	20,000
Indirect Labour	Direct Labour (2:3:3)	2,40,000	60,000	90,000	90,000
Building maintenance expenses	Floor Space (2:2:1)	2,00,000	80,000	80,000	40,000
Rent and Rates	Floor Space (2:2:1)	2,40,000	96,000	96,000	48,000
Salary of foreman	Equal	5,04,000	1,68,000	1,68,000	1,68,000
Salary of attendant	Equal	1,44,000	48,000	48,000	48,000
Total standing charges		14,08,000	4,82,000	5,12,000	4,14,000
Hourly rate for standing charges			247.43	262.83	212.53
(B) Machine Expenses:					
Depreciation	Direct	2,00,000	75,000	75,000	50,000
Spare parts	Final estimates	1,32,250	46,000	57,500	28,750
Power	K.W. rating (3:2:3)	4,00,000	1,50,000	1,00,000	1,50,000
Consumable Stores	Direct	80,000	30,000	25,000	25,000
Total Machine expenses		8,12,250	3,01,000	2,57,500	2,53,750
Hourly Rate for Machine expenses			154.52	132.19	130.26
Total (A + B)		22,20,250	7,83,000	7,69,500	6,67,750
Machine Hour rate			**401.95**	**395.02**	**342.79**

Working Notes:

(i) Calculation of effective working hours:

No. of full off-days = No. of Sunday + No. of holidays

= 52 + 12 = 64 days

No. of half working days = 52 days – 2 holidays = 50 days

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No. of full working days	= 365 days – 64 days – 50 days = 251 days
Total working Hours	= {(251 days × 8 hours) + (50 days × 4 hours)}
	= 2,008 hours + 200 = 2,208 hours.
Total effective hours	= Total working hours × 90% - 2% for break-down
	= 2,208 hours × 90% - 2% (2,208 hours × 90%)
	= 1,987.2 hours – 39.74 hours
	= 1947.46 or Rounded up to 1948 hours.

(ii) Amount of spare parts is calculated as under:

	A (₹)	B (₹)	C (₹)
Preliminary estimates	40,000	40,000	20,000
Add: Increase in price @ 15%	6,000	6,000	3,000
	46,000	46,000	23,000
Add: Increase in consumption @ 25%	–	11,500	5,750
Estimated cost	46,000	57,500	28,750

(iii) Amount of Indirect Labour is calculated as under:

	(₹)
Preliminary estimates	2,00,000
Add: Increase in wages @ 20%	40,000
	2,40,000

(iv) Interest on capital outlay is a finance cost, therefore it has been excluded from the cost accounts.

4. (i) Calculation of cost driver rate:

Cost pool	Budgeted overheads (₹)	Cost driver	Cost driver rate (₹)
Material procurement	18,42,000	1,200	1,535.00
Material handling	8,50,000	1,240	685.48
Maintenance	24,56,000	17,550	139.94
Set-up	9,12,000	1,450	628.97
Quality control	4,42,000	1,820	242.86

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(ii) Calculation of cost for the batch:

Particulars	**Amount (₹)**	**Amount (₹)**
Material cost		24,62,000.00
Wages		4,68,500.00
Overheads:		
- Material procurement (₹1,535×56 orders)	85,960.00	
- Material handling (₹685.48×84 movements)	57,580.32	
- Maintenance (₹139.94×1,420 hours)	1,98,714.80	
- Set-up (₹628.97×60 set-ups)	37,738.20	
- Quality control (₹242.86×18 inspections)	4,371.48	3,84,364.80
Total Cost		33,14,864.80
No. of units		7,600
Cost per units		436.17

5. Statement of Cost of R Ltd. for the year ended 31st March, 2020:

Sl. No.	**Particulars**	**Amount (₹)**	**Amount (₹)**
(i)	Material Consumed:		
	- Raw materials purchased	84,00,000	
	- Carriage inward	1,72,600	
	Add: Opening stock of raw materials	6,20,000	
	Less: Closing stock of raw materials	(4,60,000)	87,32,600
(ii)	Direct employee (labour) cost:		
	- Direct wages	60,00,000	
	- Employer's Contribution towards PF & ESIS	7,20,000	67,20,000
(iii)	Direct expenses:		
	- Consumable materials	4,80,000	
	- Cost of power & fuel	28,00,000	32,80,000
	Prime Cost		1,87,32,600
(iv)	Works/ Factory overheads:		
	- Wages to foreman and store keeper	8,40,000	

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	- Other indirect wages to factory staffs	1,35,000	9,75,000
	Gross factory cost		1,97,07,600
	Add: Opening value of W-I-P		7,84,000
	Less: Closing value of W-I-P		(6,64,000)
	Factory Cost		1,98,27,600
(v)	Research & development cost paid for improvement in production process		9,60,000
(vi)	Production planning office expenses		12,60,000
	Cost of Production		2,20,47,600
	Add: Opening stock of finished goods		14,40,000
	Less: Closing stock of finished goods		(9,80,000)
	Cost of Goods Sold		2,25,07,600
(vii)	Administrative overheads:		
	- Salary to accountants	7,20,000	
	- Fees to statutory auditor	1,80,000	
	- Fees to cost auditor	80,000	
	- Fee paid to independent directors	9,40,000	19,20,000
(viii)	Selling overheads& Distribution overheads:		
	- Salary to delivery staffs		14,30,000
	Cost of Sales		2,58,57,600
	Profit (balancing figure)		24,02,400
	Sales		2,82,60,000

Note: Income tax and Donation to PM National Relief Fund is avoided in the cost sheet.

6. Memorandum Reconciliation Accounts

Dr. Cr.

	(₹)		**(₹)**
To Net Loss as per Costing books	6,94,000	By Administration overheads over recovered in cost accounts	1,20,000

To	Factory overheads under absorbed in Cost Accounts	80,000	By	Interest on investment not included in Cost Accounts	1,92,000
To	Depreciation under charged in Cost Accounts	1,00,000	By	Transfer fees in Financial books	48,000
To	Income-Tax not provided in Cost Accounts	1,08,000	By	Stores adjustment (Credit in financial books)	28,000
To	Interest on Loan Funds in Financial Accounts	4,90,000	By	Dividend received in financial books	64,000
			By	Net loss as per Financial books	10,20,000
		14,72,000			14,72,000

7. (i) Computation of optimum run size

Optimum run size or Economic Batch Quantity (EBQ) = $\sqrt{\frac{2 \times D \times S}{C}}$

Where, D = Annual demand i.e. 5.5% of 18,00,00,000 = 99,00,000 units

S = Set-up cost per run = ₹33,500

C = Inventory holding cost per unit per annum

= ₹6.25 × 12 months = ₹75

$$\text{EBQ} = \sqrt{\frac{2 \times 99,00,000 \text{ units} \times ₹33,500}{₹\ 75}} = 94,042.5 \text{ units or } 94,043 \text{ units}$$

(ii) Calculation of Total Cost of set-up and inventory holding

	Batch size	**No. of set-ups**	**Set-up Cost (₹)**	**Inventory holding cost (₹)**	**Total Cost (₹)**
A	80,000 units	124 $\left(\frac{99,00,000}{80,000}\right)$	41,54,000 (124 × ₹33,500)	30,00,000 $\left(\frac{80,000 \times ₹75}{2}\right)$	71,54,000
B	94,043 units	106 $\left(\frac{99,00,000}{94,043}\right)$	35,51,000 (106 × ₹33,500)	35,26,612.5 $\left(\frac{94,043 \times ₹75}{2}\right)$	70,77,612.50
	Extra Cost (A – B)				76,387.50

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8. (a) Calculation of Total Cost for the Job:

Particulars	Amount (₹)	Amount (₹)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	
- Other fitting materials (Working Note- 3)	3,866.07	
- Stainless steel faucet 15 units × $\left(\frac{6 \times ₹204 + 15 \times ₹209}{21 \text{units}}\right)$	3,113.57	
- Valve 6 units × $\left(\frac{8 \times ₹404 + 10 \times ₹402 + 14 \times ₹424}{32 \text{units}}\right)$	2,472.75	23,091.95
Direct Labour:		
- Plumber [(180 hours × ₹100) + (12 hours × ₹50)]	18,600.00	
- Helper [(192 hours × ₹70) + (24 hours × ₹35)]	14,280.00	32,880.00
- Overheads[₹26 × (180 + 192) hours]		9,672.00
Total Cost		**65,643.95**

(b) Price to be charged for the job work:

	Amount (₹)
Total Cost incurred on the job	65,643.95
Add: 25% Profit on Job Price $\left(\frac{65,643.95}{75\%} \times 25\%\right)$	21,881.32
	87,525.27

Working Note:

1. Cost of 15mm GI Pipe

Date		Amount (₹)
17-08-2020	8 units × ₹ 600	4,800.00
28-08-2020	10 units × $\left(\frac{4 \times ₹600 + 35 \times ₹628}{39 \text{units}}\right)$	6,251.28
		11,051.28

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2. **Cost of 20mm GI Pipe**

Date		Amount (₹)
12-08-2020	2 units × ₹ 660	1,320.00
28-08-2020	2 units × $\left(\frac{8\times ₹660+30\times ₹610+20\times ₹660}{58\,\text{units}}\right)$	1,268.28
		2,588.28

3. **Cost of Other fitting materials**

Date		Amount (₹)
12-08-2020	18 units × ₹ 26	468.00
17-08-2020	30 units × ₹ 26	780.00
28-08-2020	34 units × $\left(\frac{12\times ₹26+150\times ₹28}{162\,\text{units}}\right)$	946.96
30-08-2020	60 units × $\left(\frac{12\times ₹26+150\times ₹28}{162\,\text{units}}\right)$	1,671.11
		3,866.07

9. (i) **Process-I A/c**

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Materials	7,000	1,40,000	By Normal loss (5% of 7,000)	350	3,500
To Other materials	-	62,000	By Process-II*	6,600	3,35,955
To Direct wages	-	42,000	By Abnormal loss*	50	2,545
To Direct expenses	-	14,000			
To Production OH (200% of ₹42,000)	-	84,000			
	7,000	3,42,000		7,000	3,42,000

* $\frac{₹(3,42,000-3,500)}{(7,000-350)\,\text{units}}$ = ₹50.9022

Process-II A/c

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-I A/c	6,600	3,35,955	By Normal loss (10% of 6,600)	660	6,600

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To Other materials	-	1,36,000	By Process-III**	5,200	5,63,206
To Direct wages	-	54,000	By Abnormal loss**	740	80,149
To Direct expenses	-	16,000			
To Production OH (200% of ₹54,000)	-	1,08,000			
	6,600	6,49,955		6,600	6,49,955

** $\frac{₹(6,49,955-6,600)}{(6,600-660)\text{units}}$ = ₹108.3089

Process-III A/c

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-I A/c	5,200	5,63,206	By Normal loss (5% of 5,200)	260	2,600
To Other materials	-	84,200	By Product-X***	4,800	8,64,670
To Direct wages	-	48,000			
To Direct expenses	-	14,000	By Product-Z# (₹35×600)	600	21,000
To Production OH (200% of ₹48,000)	-	96,000			
To Abnormal gain***	460	82,864			
	5,660	8,88,270		5,660	8,88,270

*** $\frac{₹(8,05,406-2,600-21,000)}{(5,200-260-600)\text{units}}$ = ₹180.1396

Realisable value = ₹135 – (85+15) = ₹35

(ii) **By-Product Process A/c**

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-III A/c	600	21,000	By Product-Z	600	81,000
To Processing cost	-	51,000			

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To Selling expenses	-	9,000			
	600	81,000		600	81,000

10. (i) (a) Statement of Joint Cost allocation of inventories of X, Y and Z
(By using Net Realisable Value Method)

	Products			Total
	X	Y	Z	
	(₹)	(₹)	(₹)	(₹)
Final sales value of total production (Working Note 1)	10,98,000 (366 × ₹3,000)	13,20,750 (587 × ₹2,250)	11,41,500 (761 × ₹1,500)	35,60,250
Less: Additional cost	--	--	(6,20,000)	(6,20,000)
Net realisable value (at split-off point)	10,98,000	13,20,750	5,21,500	29,40,250
Joint cost allocated (Working Note 2)	4,66,797	5,61,496	2,21,707	12,50,000

Cost of goods sold as on March 31, 2020
(By using Net Realisable Value Method)

	Products			Total
	X	Y	Z	
	(₹)	(₹)	(₹)	(₹)
Allocated joint cost	4,66,797	5,61,496	2,21,707	12,50,000
Additional costs	--	--	6,20,000	6,20,000
Cost of goods available for sale (CGAS)	4,66,797	5,61,496	8,41,707	18,70,000
Less: Cost of ending inventory (Working Note 1)	2,29,571 (CGAS×49.18%)	57,385 (CGAS × 10.22%)	27,692 (CGAS × 3.29%)	3,14,648
Cost of goods sold	2,37,226	5,04,111	8,14,015	15,55,352

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Working Notes

1. **Total production of three products for the year 2019-2020**

Products	Quantity sold in tones	Quantity of ending inventory in tons	Total production	Ending inventory percentage (%)
(1)	(2)	(3)	(4) = [(2) + (3)}	(5) = (3)/ (4)
X	186	180	366	49.18
Y	527	60	587	10.22
Z	736	25	761	3.29

2. **Joint cost apportioned to each product:**

$$\frac{\text{Total Joint cost}}{\text{Total Net Realisable Value}} \times \text{Net Realisable Value of each product}$$

$$\text{Total cost of Product X} = \frac{₹\ 12,50,000}{₹\ 29,40,250} \times ₹10,98,000 = ₹4,66,797$$

$$\text{Total cost of Product Y} = \frac{₹\ 12,50,000}{₹\ 29,40,250} \times ₹13,20,750 = ₹5,61,496$$

$$\text{Total cost of Product Z} = \frac{₹\ 12,50,000}{₹\ 29,40,250} \times ₹5,21,500 = ₹2,21,707$$

11. (i) **Operating Cost Sheet for the month of August, 2020**

	Particulars	Amount (₹)
A.	**Fixed Charges:**	
	Manager's salary (₹60,000 × 60%)	36,000
	Drivers' Salary (₹20,000 × 30 drivers)	6,00,000
	Helpers' wages (₹12,000 × 25 helpers)	3,00,000
	Insurance (₹8,40,000 ÷ 12 months)	70,000
	Road licence (₹6,00,000 ÷ 12 months)	50,000
	Garage rent (₹9,00,000 ÷ 12 months)	75,000
	Routine mechanical services	3,00,000
	Electricity charges (for office, garage and washing station)	55,000
	Depreciation of vehicles	6,00,000
	Apportioned workshop expenses	88,000
	Total (A)	21,74,000

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B.	**Variable Charges:**	
	Loading and unloading charges (Working Note 1)	7,65,000
	Consumable Stores	1,35,000
	Cost of diesel (Working Note 2)	14,04,000
	Lubricant, Oil etc.	1,15,000
	Replacement of Tyres, Tubes & other parts	4,25,000
	Total (B)	28,44,000
C.	**Total Cost (A + B)**	**50,18,000**
D.	Total Ton-Kms. (Working Note 3)	9,43,200
E.	**Cost per ton-km. (C ÷ D)**	**5.32**

(ii) Calculation of Chargeable Freight

Cost per ton-km.	₹ 5.32
Add: Profit @ 25% on freight or 33⅓% on cost	₹ 1.77
Chargeable freight per ton-km.	**₹ 7.09**

Working Notes:

1. Wages paid to loading and unloading labours

Numbers of vehicles available per day × No. of days × trips × wages per trip

(20 vehicles × 90%) × 25 days × 2 trips × ₹850

18 × 25 × 2 × 850 = ₹7,65,000

2. Cost of Diesel:

Distance covered by each vehicle during August, 2020

= 100 k.m. × 2 × 25 days × 90% = 4,500 km.

Consumption of diesel = $\frac{4{,}500 \text{k.m.} \times 20 \text{vehicles}}{5 \text{k.m.}} = 18{,}000$ litres.

Cost of diesel = 18,000 litres × ₹ 78 = ₹14,04,000.

3. Calculation of total ton-km:

Total Ton-Km. = Total Capacity × Distance covered by each vehicle × Average Capacity Utilisation ratio.

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$$= \left[(5 \times 9\text{ MT}) + (6 \times 12\text{MT}) + (7 \times 15\text{ MT}) + (2 \times 20\text{ MT})\right] \times 4{,}500\text{k.m} \times \frac{(90\% + 70\%)}{2}$$

$$= (45 + 72 + 105 + 40) \times 4{,}500 \text{ k.m.} \times 80\%$$

= 262 × 4,500 × 80%.

= 9,43,200 ton-km.

12. **(i)** Material Usage Variance = Std. Price (Std. Quantity – Actual Quantity)

= ₹ 90 (18,000 kg. – 17,800 kg.)

= ₹ 18,000 (Favourable)

(ii) Material Price Variance = Actual Quantity (Std. Price – Actual Price)

= 17,800 kg. (₹ 90 – ₹ 92) = ₹ 35,600 (Adverse)

(iii) Material Cost Variance = Std. Material Cost – Actual Material Cost

= (SQ × SP) – (AQ × AP)

= (18,000 kg. × ₹ 90) – (17,800 kg. × ₹ 92)

= ₹ 16,20,000 – ₹ 16,37,600

= ₹17,600 (Adverse)

(iv) Labour Efficiency Variance = Std. Rate (Std. Hours – Actual Hours)

= ₹ 100 (1,800 units × 8 – 14,000 hrs.)

= ₹ 100 (14,400 hrs. – 14,000 hrs.)

= ₹ 40,000 (Favourable)

(v) Labour Rate Variance = Actual Hours (Std. Rate – Actual Rate)

= 14,000 hrs. (₹ 100 – ₹104)

= ₹ 56,000 (Adverse)

(vi) Labour Cost Variance = Std. Labour Cost – Actual Labour Cost

= (SH × SR) – (AH × AR)

= (14,400 hrs. × ₹ 100) – (14,000 hrs. × ₹ 104)

= ₹ 14,40,000 – ₹ 14,56,000

= ₹16,000 (Adverse)

(vii) Variable Cost Variance = Std. Variable Cost – Actual Variable Cost

= (14,400 hrs. × ₹ 15) – ₹ 2,17,500

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= ₹ 1,500 (Adverse)

(viii) Fixed Overhead Cost Variance = Absorbed Fixed Overhead – Actual Fixed Overhead

= (1,800 units × ₹400) - ₹ 7,68,000

= ₹ 7,20,000 – ₹ 7,68,000 = ₹ 48,000 (Adverse)

13. Sales Volume 5,00,000 Units

Computation of existing contribution

Particulars	**Per unit (₹)**	**Total (₹ In lakhs)**
Sales	680	3,400
Fixed Cost	200	1,000
Profit	50	250
Contribution	250	1,250
Variable Cost (Sales – Contribution)	430	2,150

(i) Break even sales in units = $\frac{\text{Fixed Cost}}{\text{Contribution per unit}} = \frac{₹10,00,00,000}{₹250}$ = 4,00,000 units

Break even sales in rupees = 4,00,000 units × ₹ 680 = ₹ 2,720 lakhs

OR

P/V Ratio = $\frac{250}{680} \times 100$ = 36.76%

B.EP (Rupees) = $\frac{\text{Fixed Cost}}{\text{P / VRatio}} = \frac{10,00,00,000}{36.76\%}$ = ₹ 2,720 lakhs (approx.)

(ii) Number of units sold to achieve a target profit of ₹700 lakhs:

Desired Contribution = Fixed Cost + Target Profit

= 1,000 L + 700 L = 1,700 L

Number of units to be sold = $\frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{17,00,00,000}{250}$ = 6,80,000 units

(iii) Profit if selling price is increased by 10% and sales volume drops by 10%:

Existing Selling Price per unit = ₹ 680

Revised selling price per unit = ₹ 680 × 110% = ₹748

Existing Sales Volume = 5,00,000 units

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Revised sales volume = 5,00,000 units – 10% of 5,00,000 = 4,50,000 units.

Statement of profit at sales volume of 4,50,000 units @ ₹ 748 per unit

Particulars	Per unit (₹)	Total (₹ In lakhs)
Sales	748	3,366
Less: Variable Costs	430	1,935
Contribution	318	1,431
Less: Fixed Cost		1,000
Profit		**431**

(iv) Volume to be achieved to earn target profit of ₹700 lakhs with revised selling price and reduction of 10% in variable costs and ₹170 lakhs in fixed cost:

Revised selling price per unit = ₹748

Variable costs per unit existing = ₹430

Revised Variable Costs

Reduction of 10% in variable costs = ₹ 430 – 10% of 430

= ₹ 430 – ₹43

= ₹387

Total Fixed Cost (existing) = ₹ 1,000 lakhs

Reduction in fixed cost = ₹ 170 lakhs

Revised fixed cost = ₹ 1,000 lakhs – ₹ 170 lakhs = ₹830 lakhs

Revised Contribution (unit) = Revised selling price per unit – Revised Variable Costs per units

Revised Contribution per unit = ₹ 748 – ₹ 387 = ₹ 361

Desired Contribution = Revised Fixed Cost + Target Profit

= ₹ 830 lakhs + ₹700 lakhs = ₹1,530 lakhs

No. of units to be sold $= \frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{₹15,30,00,000}{₹361} = 4,23,823 \text{ units}$

14. (i) **Product-wise Profitability Statement for the FY 2019-20:**

Particulars	Product-X (₹)	Product-Y (₹)	Total (₹)
Output (units)	8,000	4,000	
Selling price per unit	600	550	
Sales value	48,00,000	22,00,000	70,00,000

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Direct material	11,20,000 (₹140×8,000)	6,30,000 (₹157.50×4,000)	17,50,000
Direct wages	7,20,000 (₹90×8,000)	5,30,000 (₹132.5×4,000)	12,50,000
Variable factory overheads	5,47,200 (76%of 7,20,000)	4,02,800 (76%of 5,30,000)	9,50,000
Other variable costs	3,20,000 (₹40×8,000)	2,80,000 (₹70×4,000)	6,00,000
Contribution	20,92,800	3,57,200	24,50,000
Fixed factory overheads	-	-	12,00,000
Other fixed costs	-	-	4,00,000
Profit			**8,50,000**

(ii) Preparation of Budget for the FY 2020-21:

Particulars	Product-X (₹)	Product-Y (₹)	Total (₹)
Output (units)	6,400 (8,000×80%)	3,600 (4,000×90%)	
Selling price per unit	480 (600×80%)	440 (550×80%)	
Sales value	30,72,000	15,84,000	46,56,000
Direct material	8,96,000 (₹140×6,400)	5,67,000 (₹157.50×3,600)	14,63,000
Direct wages per unit	6,91,200 (₹108×6,400)	5,72,400 (₹159×3,600)	12,63,600
Variable factory overheads	5,25,312 (76%of 6,91,200)	4,35,024 (76%of 5,72,400)	9,60,336
Other variable costs	2,56,000 (₹40×6,400)	2,52,000 (₹70×3,600)	5,08,000
Contribution	7,03,488	(2,42,424)	4,61,064
Fixed factory overheads	-	-	12,00,000
Other fixed costs (110%of ₹4,00,000)	-	-	4,40,000
Profit/ (Loss)			**(11,78,936)**

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15. (a) (i) **Discretionary Cost Centre:** The cost centre whose output cannot be measured in financial terms, thus input-output ratio cannot be defined. The cost of input is compared with allocated budget for the activity. Example of discretionary cost centres are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.

(ii) **Investment Centres:** These are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions. The performance of these responsibility centres are measured on the basis of Return on Investment (ROI) besides profit. Examples of investment centres are Maharatna, Navratna and Miniratna companies of Public Sector Undertakings of Central Government.

(b) Advantages of Cost plus contracts are as follows:

(i) The Contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.

(ii) It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.

(iii) Contractee can ensure himself about 'the cost of the contract', as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of the contract.

(c) The advantages of zero-based budgeting are as follows:

- It provides a systematic approach for the evaluation of different activities and ranks them in order of preference for the allocation of scarce resources.
- It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way.
- It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.
- The areas of wasteful expenditure can be easily identified and eliminated.
- Departmental budgets are closely linked with corporation objectives.
- The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfillment of the objectives of traditional budgeting but it can also be used for a variety of other purposes.

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(d) This product costing system is used when an entity produces more than one variant of final product using different materials but with similar conversion activities. This means conversion activities are similar for all the product variants but materials differ significantly. Operation Costing method is also known as Hybrid product costing system as materials costs are accumulated by job order or batch wise but conversion costs i.e. labour and overheads costs are accumulated by department, and process costing methods are used to assign these costs to products. Moreover, under operation costing, conversion costs are applied to products using a predetermined application rate. This predetermined rate is based on budgeted conversion costs.

The two examples of industries are Ready made garments and Jewellery making.

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PAPER 4: TAXATION

SECTION A: INCOME TAX LAW

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2019 and the Finance (No. 2) Act, 2019, including significant notifications/circulars and legislative amendments made upto 30th April, 2020, are applicable for November, 2020 examination. The relevant assessment year for November, 2020 examination is A.Y.2020-21. The August 2019 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance Act, 2019 and Finance (No. 2) Act, 2019 and hence, the same is relevant for November 2020 examination.

The significant notifications/circulars and legislative amendments made upto 30.04.2020 which are relevant for November, 2020 examination but not covered in the August 2019 edition of the Study Material, are given hereunder:

Chapter 1: Basic Concepts

The August, 2019 edition of the Study Material contains the CBDT Press Release dated 24.8.2019, at Pg.4.362 of Module 2. According to this Press Release, the enhanced surcharge of 25% and 37% on Income-tax, as the case may be, applicable where the total income of Individuals/HUFs/AOPs/BoIs/Artificial Juridical Persons exceeds ₹ 2 crore and ₹ 5 crore, respectively, has been withdrawn on income-tax payable at special rates on short-term capital gain under section 111A and long-term capital gains under section 112A arising from the transfer of equity share in a company or unit of an equity-oriented fund/ business trust, which has been subject to securities transaction tax.

Consequently, the manner of computation of surcharge on income-tax, in case of Individuals/ HUFs/AOPs/BoIs/Artificial Juridical Persons for A.Y.2020-21 would be as follows:

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	**Applicable rate of surcharge**
(i)	Where the total income (including income under section 111A and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	• STCG u/s 111A ₹ 30 lakhs; • LTCG u/s 112A ₹ 25 lakhs; and • Other income ₹ 40 lakhs	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 95 lakhs.

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<table>
<tr><td>(ii)</td><td>Where total income (including income under section 111A and 112A) exceeds ₹ 1 crore but does not exceed ₹ 2 crore</td><td>15%</td><td>STCG u/s 111A ₹ 60 lakhs;
LTCG u/s 112A ₹ 65 lakhs; and
Other income ₹ 50 lakhs</td><td>Surcharge would be levied@15% on income-tax computed on total income of ₹ 1.75 crores.</td></tr>
<tr><td rowspan="2">(iii)</td><td>Where total income (excluding income under section 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore</td><td>25%</td><td rowspan="2">STCG u/s 111A ₹ 54 lakh;
LTCG u/s 112A ₹ 55 lakh; and
Other income ₹ 3 crores</td><td rowspan="2">Surcharge would be levied @15% on income-tax on:
STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and
LTCG of ₹ 55 lakhs chargeable to tax u/s 112A.
Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income</td></tr>
<tr><td>The rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A</td><td>Not exceeding 15%</td></tr>
<tr><td rowspan="2">(iv)</td><td>Where total income (excluding income under section 111A and 112A) exceeds ₹ 5 crore</td><td>37%</td><td rowspan="2">STCG u/s 111A ₹ 50 lakhs;
LTCG u/s 112A ₹ 65 lakhs; and
Other income ₹ 6 crore</td><td rowspan="2">Surcharge@15% would be levied on income-tax on:
STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and
LTCG of ₹ 65 lakhs chargeable to tax u/s 112A.
Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.</td></tr>
<tr><td>Rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A</td><td>Not exceeding 15%</td></tr>
</table>

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(v)	Where total income (including income under section 111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	• STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore	Surcharge would be levied@15% on income-tax computed on total income of ₹ 2.25 crore.

Chapter 4 Unit 3: Profits and gains from Business and Profession

Increased rate of depreciation in respect of motor vehicles acquired and put to use during the period from 23.8.2019 to 31.3.2020 [Notification 69/2019 dated 20.9.2019]

	Particulars	**Depreciation allowable as a % of WDV**
(i)	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 ***Note*** *– For motor buses, motor lorries and motor taxis used in a business of running them on hire, except those covered in (i) above, the rate of depreciation would continue to be 30%.*	45%
(ii)	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 ***Note*** *– For motor cars, other than those used in a business of running them on hire, acquired or put to use on or after 1.4.1990, except those covered in (ii) above, the rate of depreciation would continue to be 15%*	30%

Chapter 4 Unit 4 : Capital Gains

Notification of Cost Inflation Index for Financial Year 2019-20 [Notification No. 63/2019, dated 12.9.2019]

Clause (v) of Explanation to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette,

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specify in this behalf, having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the financial year 2019-20 as 289.

S.No.	Financial Year	Cost Inflation Index	S.No.	Financial Year	Cost Inflation Index
1	2001-02	100	11	2011-12	184
2	2002-03	105	12	2012-13	200
3	2003-04	109	13	2013-14	220
4	2004-05	113	14	2014-15	240
5	2005-06	117	15	2015-16	254
6	2006-07	122	16	2016-17	264
7	2007-08	129	17	2017-18	272
8	2008-09	137	18	2018-19	280
9	2009-10	148	**19.**	**2019-20**	**289**
10	2010-11	167			

Chapter 4 Unit 5 : Income from Other Sources

Notification of class of persons, receipt of immovable property from whom would not attract the provisions of section 56(2)(x) [Notification No. 96/2019 dated 11.11.2019]

Section 56(2)(x) brings to tax under the head "Income from Other Sources", any sum of money received without consideration, if the aggregate value exceeds ₹ 50,000 or value of immovable property being land or building or both, received without consideration, if the stamp duty value exceeds ₹ 50,000. It also brings to tax, in a case where immovable property is received for inadequate consideration, the difference between the stamp duty value and actual sale consideration, if the stamp duty value exceeds such consideration and such excess amount is more than higher of ₹ 50,000 and 5% of sale consideration.

The proviso to section 56(2)(x), however, lists out the circumstances under which any sum of money or value of property would not be chargeable to tax under the head "Income from other sources". The Finance (No.2) Act, 2019 has inserted clause (XI) to the proviso to provide that any sum of money or value of property would not be chargeable to tax in the hands of the recipient if it is received from such class of persons and subject to such conditions, as may be prescribed.

Accordingly, the Central Government has, vide this notification, inserted Rule 11UAC to provide that the provisions of section 56(2)(x) shall **not** apply to any immovable property, being land or building or both, received by a resident of an unauthorised colony in the National Capital Territory of Delhi, where the Central Government by notification in the Official Gazette, regularised the transactions of such immovable property based on the latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration for conferring or recognising right of ownership or transfer or mortgage in regard to such immovable property in favour of such resident.

Meaning of the terms "Resident" and "Unauthorised colony":

Term	Meaning
Resident	A person having physical possession of property on the basis of a registered sale deed or latest set of Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user;
Unauthorised colony	A colony or development comprising of a contiguous area, where no permission has been obtained for approval of layout plan or building plans and has been identified for regularisation of such colony in pursuance to the notification number S.O. 683(E), dated the 24th March, 2008, of the Delhi Development Authority.

Permissible "Other electronic modes" prescribed for the purpose of certain sections [Notification No. 8/2020, dated 29.01.2020]

The following sections have been amended by the Finance (No.2) Act, 2019 to permit payment/ receipt referred to therein by other electronic modes to be prescribed, in addition to account payee cheque/bank draft and Electronic Clearing System (ECS) through bank account.

Section	Description of payment/receipt	Study Material Page no.
35AD(8)	Mode of payment of an amount exceeding ₹ 10,000 in a day for capital expenditure in respect of specified business	4.231
40A(3)/(3A)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day towards any expenditure (exceeding ₹ 35,000 in a day, in case of payment to transport operator)	4.277
43(1)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day to a person for acquisition of asset (for inclusion in actual cost for computing depreciation)	4.201

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44AD(1)	Receipts, included in "turnover/gross receipts", qualifying for computation of presumptive income @ concessional rate of 6%	4.299
43CA	Mode of payment of part or whole of consideration for transfer of stock-in trade, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing profits and gains from business or profession	4.290
50C	Mode of payment of part or whole of consideration for transfer of capital asset, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing capital gains	4.420
56(2)(x)	Mode of receipt of part or whole of consideration for transfer of immovable property, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of computing income under the head "Income from other sources".	4.490
80JJAA	Mode of payment of emoluments to additional employees employed during the previous year to qualify for deduction	7.56

Accordingly, the CBDT has, vide this notification, inserted Rule 6ABBA to prescribe the following electronic modes through which payment can be made or money can be received, for the purposes of above sections cited in the above table -

(a) Credit Card;

(b) Debit Card;

(c) Net Banking;

(d) IMPS (Immediate Payment Service);

(e) UPI (Unified Payment Interface);

(f) RTGS (Real Time Gross Settlement);

(g) NEFT (National Electronic Funds Transfer), and

(h) BHIM (Bharat Interface for Money) Aadhar Pay.

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***Note** – Consequent to insertion of Rule 6ABBA, Rule 6DD which specifies the cases and circumstances where disallowance under section 40A(3) would not be attracted, has been amended w.e.f. 29.1.2020 to omit clause (j) thereof providing for exclusion of payment required to be made on a day on which the banks were closed either on account of holiday or strike from the purview of section 40A(3). Accordingly, w.e.f. 29.1.2020, payment in excess of the prescribed limit made otherwise than by prescribed modes on a day on which the banks are closed on account of holiday or strike would attract disallowance under section 40A(3).*

Chapter 9: Advance Tax, Tax Deduction at Source and Introduction to Tax Collection at Source

Tax deducted at source on cash withdrawals [Section 194N]

The Finance (No. 2) Act, 2019 has inserted section 194N, with effect from 1.9.2019 to require every person, being a banking company, a co-operative society engaged in carrying on the business of banking or a post office who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ₹ 1 crore. The deduction is to be made at the time of payment of such sum.

- **Clarification as to the applicability of section 194N and manner of computing the threshold limit of ₹ 1 crore thereunder, where cash withdrawals have taken place prior to 1.9.2019 [Press Release dated 30.8.2019]**

  The CBDT has, vide Press Release dated 30.8.2019, clarified that section 194N is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N. However, since the threshold of ₹ 1 crore is with respect to the previous year 2019-20, calculation of amount of cash withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn ₹ 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, TDS@2% shall apply on all subsequent cash withdrawals.

- **No tax is required to be deducted at source under section 194N on cash withdrawals by persons or class of persons as notified by the Central Government [Notification No. 68/2019 dated 18.9.2019, Notification No. 70/2019 dated 20.09.2019 & Notification No. 80/2019, dated 15.10.2019]**

  The proviso to section 194N provides that no tax is, however, required to be deducted at source on payments made to *inter alia* such other person or class of persons as notified, in consultation with the RBI, by the Central Government.

  Accordingly, the Central Government has, vide these notifications, after consultation with the Reserve Bank of India (RBI), specified –

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I. **Cash Replenishment Agencies (CRA's) and franchise agents of White Label Automated Teller Machine Operators (WLATMO's)** maintaining a separate bank account from which withdrawal is made only for the purposes of replenishing cash in the Automated Teller Machines (ATM's) operated by such WLATMO's and the WLATMO have furnished a certificate every month to the bank certifying that the bank account of the CRA's and the franchise agents of the WLATMO's have been examined and the amounts being withdrawn from their bank accounts has been reconciled with the amount of cash deposited in the ATM's of the WLATMO's.

II. **Commission agent or trader, operating under Agriculture Produce Market Committee (APMC), and registered under any Law relating to Agriculture Produce Market** of the concerned State, who has intimated to the banking company or co-operative society or post office his account number through which he wishes to withdraw cash in excess of ₹ 1 crore in the previous year along with his Permanent Account Number (PAN) and the details of the previous year and has certified to the banking company or co-operative society or post office that the withdrawal of cash from the account in excess of ₹ 1 crore during the previous year is for the purpose of making payments to the farmers on account of purchase of agriculture produce and the banking company or co-operative society or post office has ensured that the PAN quoted is correct and the commission agent or trader is registered with the APMC, and for this purpose necessary evidences have been collected and placed on record.

III. (a) the authorised dealer and its franchise agent and sub-agent; and

(b) **Full-Fledged Money Changer (FFMC)** licensed by the RBI and its franchise agent;

Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

(i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or

(ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and sub-agent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

"Authorised dealer" means any person who is authorised by the RBI as an authorised dealer to deal in foreign exchange [Section 10(1) of the Foreign Exchange Management Act, 1999].

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- **Information to be furnished where tax is not deductible or deductible at lower rate under section 194N [Notification No. 98/2019, dated 18.11.2019]**

  The proviso to section 194N provides that no tax is, however, required to be deducted at source on any payment made to -

  (i) the Government

  (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post-office

  (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the RBI guidelines.

  (iv) any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the RBI under the Payment and Settlement Systems Act, 2007.

  (v) such other person or class of persons notified by the Central Government in consultation with the RBI.

  Accordingly, the CBDT has, vide this notification, inserted clause (ix) in Rule 31A(4) to provide that the deductor, at the time of preparing statement of tax deducted at source, shall furnish the particulars of amount paid or credited on which tax was not deducted in view of the exemption provided in point no. (iii) or (iv) above or in view of the Notification No. 80/2019, dated 15.10.2019 issued under point (v) above.

- **Person to whom credit to be given for tax deduction at source and payment thereof under section 194N [Notification No. 74/2019, dated 27.9.19]**

  Rule 37BA provides the manner of giving credit for tax deducted and remitted to the Central Government i.e., it specifies the person to whom credit for tax deducted is to be given and also the assessment year for which the credit may be given.

  Accordingly, the CBDT has, vide this notification, inserted sub-rule (3A) in Rule 37BA, to provide that, for the purposes of section 194N, credit for tax deducted at source shall be given to the person from whose account tax is deducted and paid to the Central Government account for the assessment year relevant to the previous year in which such tax deduction is made.

Time limit, form and manner of depositing tax deducted at source under section 194M prescribed [Notification No. 98/2019, dated 18.11.2019]

Section 194M, inserted with effect from 1.9.2019, provides for deduction of tax at source @5% by an individual or a HUF responsible for paying any sum during the financial year to any resident –

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(i) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or

(ii) by way of commission (not being insurance commission referred to in section 194D) or brokerage; or

(iii) by way of fees for professional services.

Only individuals and HUFs (other than those who are required to deduct income-tax as per the provisions of section 194C or 194H or 194J) are required to deduct tax in respect of the above sums payable during the financial year to a resident, if the aggregate of such sums, credited or paid, exceed ₹ 50 lakhs.

Consequent to insertion of section 194M, the CBDT has, vide this notification, amended Rule 30, 31 and 31A in the following manner to specify the time limit for depositing the tax deducted at source, challan-cum- statement, certificate for deduction of tax at source:

Rule No.	Provision
Rule 30(2C)	**Time limit and prescribed form for remittance of TDS** Any sum deducted under section 194M shall be paid to the credit of the Central Government **within a period of thirty days** from the end of the month in which the deduction is made and shall be accompanied by a challan-cum statement in Form No. 26QD.
Rule 30(6C)	**Manner of remittance of TDS** Where tax deducted is to be deposited accompanied by a challan-cum-statement in Form No.26QD, the amount of tax so deducted shall be deposited to the credit of the Central Government by **remitting it electronically within thirty days** from the end of the month in which the deduction is made into the Reserve Bank of India or the State Bank of India or any authorised bank.
Rule 31(3C)	**Certificate for deduction of tax at source and time limit for furnishing such certificate to the payee** Every person responsible for deduction of tax under section 194M shall furnish the certificate of deduction of tax at source **in Form No.16D** to the payee **within fifteen days** from the due date for furnishing the challan-cum-statement in Form No.26QD under rule 31A after generating and downloading the same from the web portal specified by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) or the person authorised by him.

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Rule 31A(4C)	**<u>Time limit and manner of submission of Challan-cum Statement</u>** Every person responsible for deduction of tax at source under section 194M shall furnish to the Principal Director General of Income-tax (Systems) or Director General of Income-tax (System) or the person authorised by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) a challan-cum statement in Form No.26QD electronically in accordance with the procedures, formats and standards specified under Rule 31A(5) **<u>within thirty days</u>** from the end of the month in which the deduction is made.

Chapter 10: Provisions for filing return of income and self-assessment

Manner for allotment of PAN to a person who has not been allotted a PAN but possesses Aadhaar number [Notification No. 59/2019, dated 30.8.2019]

The Finance (No.2) Act, 2019, has inserted sub-section (5E) to section 139A, w.e.f. 1.9.2019, to provide *inter alia* that every person who is required to furnish or intimate or quote his PAN and who has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar Number in lieu of the PAN and such person would be allotted a PAN in such manner as may be prescribed.

Rule 114(4) requires submission of application for allotment of PAN by the applicant in the prescribed form accompanied by the prescribed documents as proof of identity, address and date of birth of such applicant.

The CBDT has, vide this notification, inserted sub-rule (1A) to Rule 114 w.e.f. 1.9.2019 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN in accordance with section 139A(5E), shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents under Rule 114.

Further, sub-rule (1B) has also been inserted in Rule 114 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents under Rule 114.

Date for intimation of Aadhaar number to the prescribed authority extended [Notification No. 107/2019, dated 30.12.2019]

As per section 139AA(2), every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide Notification No. 31/2019, dated 31.03.2019, notified that every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain

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Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) on or before 30th September, 2019.

The Central Government has, vide Notification No. 75/2019, dated 28.9.2019 further extended the date from 30th September 2019 to 31st December 2019.

This date has further been extended by the Central Government, vide this notification, from 31st December 2019 to 31st March 2020.

Note *– Subsequently, this date has been further extended to* ***31st March, 2021***.

Notwithstanding the last date of intimating/linking of Aadhaar Number with PAN being 31.03.2021, it is clarified that w.e.f. 01.04.2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted.

Note – *(1) Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are not applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is not applicable.*

(2) Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are not applicable for November, 2020 examination.

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

1. Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During the previous year 2019-20, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares amounting to ₹ 1,06,500. He earned interest of ₹ 4,82,778 on saving account.

   Further, he has provided the following other information for filing his return of income:

   He does not receive house rent allowance from his employer. Mr. A took a loan from State Bank of India on 27th October 2017 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹ 1,50,000 towards principal amount during the previous year 2019-20.

   Mr. A has made the following payments towards medical insurance premium for health policies taken for his family members:

   Medical premium for his brother: ₹ 13,500 (by cheque)

   Medical premium for his parents: ₹ 17,670 (by cheque)

   Medical premium for self and his wife: ₹ 21,000 (by cheque).

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He also incurred ₹ 6,400 towards preventive health check-up of his wife in cash. He deposited ₹ 1,00,000 towards PPF. He also deposited ₹ 50,000 and 2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion the balance amount of tax, if any he will pay on 27 July 2020 (i.e. before the due date for filing of return of income).

From the details given above, choose the most appropriate option to the questions given below:

(i) Compute the amount of deduction available to Mr. A under Chapter VI-A for the assessment year 2020-21:

(a) ₹ 2,04,070

(b) ₹ 2,42,670

(c) ₹ 2,52,670

(d) ₹ 2,02,670

(ii) Assuming Mr. A pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate and amount of TDS?

(a) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 3,250 every month i.e., at the time of payment of such rent

(b) Yes, Mr. A is liable to deduct TDS @10% amounting to ₹ 6,500 every month i.e., at the time of payment of such rent

(c) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 39,000 in the month of March 2020

(d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of accounts audited under section 44AB

(iii) What would be the amount of net tax payable for the assessment year 2020-21 in the hands of Mr. A?

(a) Tax payable of ₹ 78,230

(b) Tax payable of ₹ 60,290

(c) Tax payable of ₹ 49,530

(d) Tax payable of ₹ 67,470

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(iv) Compute the amount of interest chargeable under section 234B on account of short payment of advance tax:

(a) ₹ 1,980

(b) Nil

(c) ₹ 3,130

(d) ₹ 2,410

2. Ms. Chanchal, aged 45, provides the following data of her gross receipts for the financial year 2018-19 and 2019-20. She is engaged in agency business along with providing services as tarot card reader.

F.Y.	Receipts from business (₹)	Receipts from profession (₹)	Total Gross Receipts (₹)
2018-19	78,00,000	43,00,000	1,21,00,000
2019-20	85,00,000	47,00,000	1,32,00,000

During the F.Y. 2019-20, she paid an amount of ₹ 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential house property for which she paid ₹ 2,50,000.

Further, on 28.05.2019 she sold one commercial property for ₹ 50,00,000. The value adopted for stamp duty was ₹ 52,00,000. It was purchased for ₹ 40,00,000 on 28.04.2017. (Cost Inflation Index for F.Y. 2019-20: 289, F.Y. 2017-18: 272).

The brought forward long-term capital loss from unlisted shares of F.Y. 2018-19 is ₹ 7,80,000.

During the year, Ms. Chanchal incurred a loss of ₹ 70,00,000 while trading in the agricultural commodity derivatives (no CTT paid).

From the details given above, choose the most appropriate option to the questions given below:

(i) Is Ms. Chanchal liable to tax audit under the Income-tax Act, 1961 for the P.Y. 2019-20?

(a) Yes, as the total gross receipts exceeds ₹ 1,00,00,000

(b) No, as the gross receipts from business or profession are below the specified threshold limits.

(c) Yes, as the gross receipts from business exceed ₹ 50,00,000

(d) Yes, as the gross receipts from profession exceed ₹ 25,00,000

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(ii) What is the total amount of tax to be deducted by Ms. Chanchal for P.Y. 2019-20?

(a) ₹ 1,200

(b) ₹ 26,200

(c) Nil

(d) ₹ 27,400

(iii) What is the amount and nature of Capital gain chargeable to tax in the hands of Ms. Chanchal?

(a) ₹ 10,00,000 and Short-term capital gain.

(b) ₹ 12,00,000 and Short-term capital gain.

(c) ₹ 7,50,000 and Long-term capital gain.

(d) ₹ 9,50,000 and Long-term capital gain.

(iv) What is the amount of losses which can be carried forward to A.Y. 2021-22, assuming that business income is ₹ 45,00,000 and income from profession is ₹ 25,00,000 for the P.Y. 2019-20?

(a) ₹ 7,80,000 under section 74

(b) ₹ 70,00,000 under section 73

(c) ₹ 30,000 under section 74

(d) ₹ 30,000 under section 74 and ₹ 70,00,000 under section 73

3. Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2019 acquired at a cost of ₹ 49.25 lakhs on 13.09.2018 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2019 acquired at a cost of ₹ 46 lakhs on 15.02.2018 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2020-21? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289.

(a) Short-term capital gain of ₹ 9.75 lakhs

(b) Short-term capital gain of ₹ 7 lakhs

(c) Long-term capital gain of ₹ 4,12,500

(d) Long-term capital gain of ₹ 5,29,196

4. Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2018 for ₹ 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2019 for ₹ 550 per share. X Ltd. declared dividend @ ₹ 65 per share on 20.07.2019, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at ₹ 475 per share on 28.09.2019 and the balance 200

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equity shares at ₹ 450 per share on 28.10.2019. Apart from above mentioned information, Mr. Shaurya was having only long-term capital gains from sale of unlisted shares of ₹ 50,000. Assuming that Mr. Shaurya has no other income, his total income for A.Y. 2020-21 is –

(a) ₹ 7,500

(b) ₹ 27,000

(c) ₹ 50,000

(d) ₹ 30,000

5. An amount of ₹ 40,000 was paid to Mr. X on 1.7.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2020, from which tax@10% (amounting to₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2020. The interest chargeable under section 201(1A) would be:

(a) ₹ 1,080

(b) ₹ 860

(c) ₹ 1,620

(d) ₹ 840

6. Mr. Nishant, a resident but not ordinarily resident for the previous year 2018-19 and resident and ordinarily resident for the previous year 2019-20 has received rent from property in Canada amounting to ₹ 1,00,000 during the P.Y.2018-19. He has deposited the same in a bank in Canada. During the financial year 2019-20, he remitted this amount to India through approved banking channels. Is such rent taxable in India, and if so, how much and in which year?

(a) Yes; ₹ 70,000 was taxable in India during the previous year 2018-19.

(b) Yes; ₹ 1,00,000 was taxable in India during the previous year 2018-19.

(c) Yes; ₹ 70,000 was taxable in India during the previous year 2019-20.

(d) No; such rent is not taxable in India either during the previous year 2018-19 or during the previous year 2019-20.

7. Mr. Dinesh, a resident in India, has gross total income of ₹ 2,30,000 comprising of interest on saving A/c and rental income during the previous year 2019-20. He incurred expenditure of ₹ 2,00,000 for his son for a study tour to Europe. Whether he is required to file return of income for the assessment year 2020-21? If yes, what is the due date?

(a) Yes, 31st July of A.Y

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(b) Yes, 30th September of A.Y

(c) Yes, 31st October of A.Y

(d) No, he is not required to file return of income

8. Mr. Nihar maintains a Savings A/c and a Current A/c in Mera Bank Ltd. The details of withdrawals on various dates during the previous year 2019-20 are as follows:

Date of Cash withdrawal	Saving Account	Current account
05.04.2019	15,00,000	-
10.05.2019	-	22,00,000
25.06.2019	20,00,000	-
17.07.2019	-	5,00,000
28.10.2019	35,00,000	-
10.11.2019	-	38,00,000
12.12.2019	25,00,000	-

Is Mera Bank Limited required to deduct tax at source on the withdrawals made by Mr. Nihar during the previous year 2019-20? If yes, what would the amount of tax deducted at source?

(a) No, TDS is not required to be deducted as the aggregate cash withdrawal on or after 1.9.2019 does not exceed ₹ 1 crore

(b) No, TDS is not required to be deducted as the cash withdrawal does not exceed ₹ 1 crore neither in saving account nor in current account

(c) TDS of ₹ 60,000 is required to be deducted.

(d) TDS of ₹ 1,20,000 is required to be deducted.

DESCRIPTIVE QUESTIONS

9. You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2019-20.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2019.

Following details are made available to you for the previous year 2019-20:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh	16th August, 2019

Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh	21st January, 2020

In June, 2019, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the previous year 2019-20, he was present in India for 425 days. During the last seven previous years preceding the previous year 2019-20, he was present in India for 830 days.

10. Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:

    (i) Rent received for letting out agricultural land for a movie shooting.

    (ii) Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.

11. Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2019-20:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2020-21.

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12. Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

	(Value in ₹)		
Particulars	**House – I**	**House – II**	**House-III**
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2020-21 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum.

13. Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2019. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2019-20. Discuss the tax implications under the provisions of the Income-tax Act, 1961.

14. Mr. Krishan, residing in Indore, provides the following information for the financial year 2019-20:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2018-19	10,000
Speculation business loss of assessment year 2019-20	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2020-21 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

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15. Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2020:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2019-20 including interest of ₹ 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2020 and for the other on 31.12.2020)		
	Salary to manager by way of a single cash payment	21,000	
(viii)	The WDV of the assets (as on 1.4.2019) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2019 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2015. He received arrears of rent in respect of the said property in October, 2019.		1,15,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	

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(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income of the Mr. Suraj for the assessment year 2020-21 and the closing WDV of each block of assets.

SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(d)
	(ii)	(c)
	(iii)	(c)
	(iv)	(b)
2.	(i)	(b)
	(ii)	(c)
	(iii)	(c)
	(iv)	(c)

MCQ No.	Most Appropriate Answer
3.	(b)
4.	(b)
5.	(b)
6.	(d)
7.	(d)
8.	(d)

DESCRIPTIVE QUESTIONS

9. Determination of residential status of Mr. Dinesh for the P.Y. 2019-20

As per *Explanation 1* to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per *Explanation 2* to section 6(1)[1], in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

[1] read with Rule 126 of Income-tax Rules, 1962

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In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2019 and ending on 21st January, 2020 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2019-20.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2019, such period has also to be excluded for computing his period of stay in India during the P.Y.2019-20.

Consequently, the period of stay in India during the P.Y. 2019-20 would be 180 days [i.e., 366 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a **non-resident** for A.Y. 2020-21.

Since the residential status of Mr. Dinesh is "non-resident" for A.Y. 2020-21 consequent to his number of days of stay in India in P.Y. 2019-20, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

10. (1) Rent received for letting out agricultural land for a movie shooting:

As per section 2(1A), "agricultural income" means, *inter alia*,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does **not** constitute agricultural income.

(2) Income from sale of seedlings in a nursery:

As per *Explanation 3* to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

11. Computation of income chargeable under the head "Salaries" of Mr. Neeraj for A.Y.2020-21

Particulars	₹
Basic Salary	5,40,000

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Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
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	2,000
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. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 ×12] as per Rule 3(2)	28,800
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 and details of usage are not available	5,000
Gross Salary	**10,60,300**
Less: **Deductions under section 16**	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	**10,06,300**

***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 ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of*

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₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

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 ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

12. In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Deemed to be let-out) **[See Working Note below]**	82,600
Income from house property	**52,600**

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) **[See Working Note below]**	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	**46,940**

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OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Deemed to be let-out) **[See Working Note below]**	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for **repair of self-occupied property**, the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	**40,000**

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2020-21.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV)			
Expected rent is the GAV of house property			
Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	**1,00,000**	**1,74,200**	**1,18,000**
Less: **Deductions under section 24**			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	**70,000**	**46,940**	**82,600**

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13. In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2019 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted[2].

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

14. Computation of Gross Total Income of Mr. Krishan for A.Y. 2020-21

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	5,000	
	4,55,000	

[2] It was so held by the Apex Court in *CIT vs. Keshavji Morarji (1967) 66 ITR 142.*

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Less: Unabsorbed depreciation brought forward from A.Y.2018-19 as per section 32(2)	10,000	
		4,45,000
Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2019-20 set-off as per the provisions of section 73(2)	30,000	
Speculation business loss to be carried forward	(5,000)	
		Nil
Gross Total Income		**4,45,000**

Losses eligible for carry forward to A.Y.2021-22

	Particulars	₹
(1)	**Loss from speculation business to be carried forward as per section 73** Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2023-24	**5,000**
(2)	**Loss on maintenance of race horses to be carried forward as per section 74A(3)** Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2024-25	**15,000**
(3)	**Loss from gambling can neither be set-off nor be carried forward.**	

15. Computation of total income of Mr. Suraj for the A.Y.2020-21

Particulars	₹	₹
Income from house property		
Arrears of rent	1,15,000	
(taxable under section 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2019-20)		
Less: Deduction@30%	34,500	**80,500**

Income chargeable under this head			
Profits and gains of business or profession			
Income from wholesale business			
Net profit as per books		5,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction			
- Depreciation as per books		34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)		3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000		21,000	
- 20% of car expenses for personal use		8,000	
		6,26,500	
Less: Depreciation allowable **(Note 1)**		2,37,600	
		3,88,900	
Income from firm			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm **(Note 2)**	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	**6,08,900**
Income from other sources			
Interest on bank fixed deposit (Gross)		45,000	
Interest on saving bank account		12,300	
Interest on income-tax refund		2,300	59,600
Gross total income			**7,49,000**
Less: Deduction under Chapter VIA **(Note 3)**			2,25,000
Total Income			**5,24,000**

Notes:

(1) Depreciation allowable under the Income-tax Rules, 1962

		Opening WDV	Rate		Depre-ciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000

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Block 2	Motor Car [since acquired during the period 23.8.2019 to 31.3.2020, it is eligible for higher depreciation of 30%]	6,80,000	30%	1,02,000 [50% of 30% is allowable, since it is put to use for less than 180 days]	81,600	5,98,400
	Less: 20% disallowance for personal use			20,400		
					2,37,600	**8,32,400**

(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Suraj.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
	1,30,000	
Since the maximum deduction under section 80C and 80CCE is ₹ 1,50,000, the entire sum of ₹ 1,30,000 would be allowed as deduction		1,30,000
Under section 80D		
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of ₹ 50,000		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTA		
Interest on saving bank account, restricted to		10,000
Total deduction		**2,25,000**

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SECTION B: INDIRECT TAXES

QUESTIONS

(1) All questions should be answered on the basis of the provisions of GST law as amended by the Finance (No. 2) Act, 2019, which have become effective till 30.04.2020, and significant notifications and circulars issued upto 30.04.2020.

(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. PTL Pvt. Ltd. is a retail store of merchandise located in 25 States and/or UTs in the country. For the purpose of clearance of stock of merchandise and to attract consumers, PTL Pvt. Ltd. launched scheme of "Buy One Get One Free" for the same type of merchandise, for instance, one shirt to be given free with purchase of one shirt. For saving cost, PTL Pvt. Ltd. directly purchases merchandise from the manufacturers.

   In the month of May, in order to save employee cost, PTL Pvt. Ltd. purchased a tempo traveller worth ₹ 12,00,000 with seating capacity of 25 persons (including driver) for transportation of its employees. Further, for ensuring the well-being of its employees, PTL Pvt. Ltd. voluntarily obtained the health insurance cover of ₹ 2,00,000 for each employee in the same month. The premium of ₹ 1,500 per employee has been paid by the company for 100 employees.

   In the month of July, Mr. Raghav, a customer of the company, filed a law suit in the Court, against the company for not supplying goods of the value of ₹ 1,00,000. PTL Pvt. Ltd. engaged Mr. Ram, an advocate, to represent it in Court for an agreed consideration of ₹ 25,000. As per the terms of the contract, Mr. Ram issued an invoice on 5th July. However, consideration was not paid till February next year.

   Note - All the amounts given above are excluding taxes and all transactions are intra-State transactions. Rates of tax are CGST - 9% and SGST – 9%. However, for tempo traveller, the rates of taxes are CGST - 14% and SGST – 14%.

   In relation to the above, answer the following questions:

   (i) With respect to "Buy One, Get One free" offer, which of the following statements is true:

      (a) It will not be considered as supply at all since no consideration is involved in one of the items.

(b) Supply of item for which consideration is charged is a supply under section 7 of the CGST Act, 2017 while supply of the other item supplied free of cost is not a supply.

(c) These are two individual supplies where a single price is charged for the entire supply. Since a single price is charged, the same will always be taxed as a mixed supply.

(d) These are two individual supplies where a single price is charged for the entire supply. Their taxability will depend upon as to whether the supply is a composite supply or a mixed supply.

(ii) Eligible input tax credit for the month of May (i) on the purchase of tempo traveller and (ii) on health insurance premium paid (assuming that all other conditions, for availing input tax credit have been complied with) is:

(a) (i) CGST - Nil, SGST - Nil and (ii) CGST - Nil, SGST - Nil

(b) (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - Nil, SGST - Nil

(c) (i) CGST - Nil, SGST - Nil and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000

(d) (i) CGST - ₹ 1,68,000, SGST - ₹1,68,000 and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000

(iii) Which of the following statements is true in respect of the services of advocate availed by the company?

(a) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt Ltd. ITC availed thereon is to be added to its output tax liability with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.

(b) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. ITC availed thereon is to be added to output tax liability of PTL Pvt Ltd. with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.

(c) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt. Ltd. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.

(d) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.

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2. Mr. Kumar started interior designing practice from the month of January. His turnover up to the month of March was ₹ 12,50,000. On 30th June, his turnover exceeded ₹ 20,00,000 & reached to ₹ 20,05,000. Mr. Kumar applied for GST registration (as regular taxpayer) on 15th July and registration was granted to him on 25th July.

On 16th July, he entered into a contract for designing the flat of Mr. Shyam. The service was completed on 22nd July and Mr. Kumar issued invoice on the same day for ₹ 6,00,000. On 5th July, Mr. Kumar purchased capital goods amounting to ₹ 4,50,000 and from 25th July to 31st July, he availed services amounting to ₹ 1,75,000 for the purpose of completing the service.

On 1st August, Mr. Kumar got another contract for interior designing from Mr. Ram, which he accepted on 2nd August. The service was completed on 6th August and invoice was issued on 7th August for ₹ 5,00,000. Payment was received on 29th August.

Note: All values are excluding taxes, unless specifically mentioned. Mr. Kumar makes only intra-State outward supplies and all purchases are also intra-State. Rates of tax are CGST - 9% and SGST – 9%.

In relation to the above, answer the following questions:

(i) The effective date of registration for Mr. Kumar is-

(a) 30th June

(b) 15th July

(c) 25th July

(d) 16th July

(ii) Mr. Shyam can issue a revised tax invoice till-

(a) 23rd October

(b) 8th September

(c) 25th September

(d) 25th August

(iii) Eligible input tax credit available with Mr. Kumar for the month of July is-

(a) CGST ₹ 40,500 & SGST ₹ 40,500

(b) CGST ₹ 15,750 & SGST ₹ 15,750

(c) CGST ₹ 56,250 & SGST ₹ 56,250

(d) CGST ₹ 36,000 & SGST ₹ 36,000

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(iv) The time of supply of services provided by Mr. Kumar to Mr. Ram is-

(a) 7th August

(b) 1st August

(c) 29th August

(d) 06th August

(v) If instead of opting for regular scheme, Mr. Kumar opts to pay tax under section 10(2A) of the CGST Act, 2017, the tax liability for the month of July will be-

(a) CGST Nil and SGST Nil

(b) CGST ₹ 54,000 & SGST ₹ 54,000

(c) CGST ₹ 18,000 & SGST ₹ 18,000

(d) CGST ₹ 78,150 & SGST ₹ 78,150

3. During the month of May, Z Ltd. sold goods to Y Ltd. for ₹ 2,55,000 and charged GST @ 18%. However, owing to some defect in the goods, Y Ltd. returned the goods by issuing debit note of ₹ 40,000 in the same month. Z Ltd. records the return of goods by issuing a credit note of ₹ 40,000 plus GST in the same month. In this situation, GST liability of Z Ltd. for the month of May will be-

(a) ₹ 45,900

(b) ₹ 38,700

(c) ₹ 53,100

(d) ₹ 40,000

4. C & Co., a registered supplier in Delhi, opted for composition levy under sub-sections (1) and (2) of section 10 of the CGST Act, 2017. It sold goods in the fourth quarter of a financial year for ₹ 15,00,000 (exclusive of GST). The applicable GST rate on these goods is 12%. C & Co. purchased goods from Ramesh & Co., registered in Delhi, for ₹ 9,55,000 on which Ramesh & Co. had charged CGST of ₹ 57,300 and SGST of ₹ 57,300. C & Co. had also purchased goods from E & Co., registered in Haryana, for ₹ 2,46,000 on which E & Co. had charged IGST of ₹ 29,520. GST liability of C & Co. for the fourth quarter of the financial year is-

(a) CGST ₹ 7,500 & SGST ₹ 7,500

(b) CGST ₹ 3,180 & SGST ₹ 32,700

(c) CGST ₹ 32,700 & SGST ₹ 3,180

(d) CGST Nil and SGST Nil

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5. Mr. Raghu avails services of Mr. Raja, a Chartered Accountant, as under-

(i)	Audit of financial accounts	₹ 55,000
(ii)	Tax audit and annual filing	₹ 10,000
(iii)	Income-tax return filing of Mr. Raghu's wife	₹ 5,000

All the above amounts are exclusive of taxes and the applicable rate of GST on these services is 18%.

The accountant of Mr. Raghu has booked the entire expenses of ₹ 70,000 plus GST in the books of account. Mr. Raghu is eligible to take input tax credit of -

(a) ₹ 13,500

(b) ₹ 11,700

(c) ₹ 9,900

(d) ₹ 1,800

6. TT Pvt. Ltd., registered in Rajasthan, furnished following information for the month of June:

(i) Inter-State sale of goods for ₹ 1,25,000 to JJ Enterprises registered in Haryana

(ii) Inter-State purchases of goods from XYZ company, registered in Punjab, for ₹ 40,000

(iii) Intra-State purchases of goods from RR Traders, registered in Rajasthan, for ₹ 65,000

The applicable rate of GST is 18%. All the above amounts are exclusive of taxes. GST liability payable in cash is-

(a) CGST ₹ 1,800 & SGST ₹ 1,800

(b) SGST ₹ 3,600

(c) IGST ₹ 3,600

(d) CGST ₹ 3,600

7. Pradeep Traders, registered in Haryana, sold goods for ₹ 2,05,000 to Balram Pvt. Ltd. registered in Uttar Pradesh (GST is leviable @ 5% on said goods). As per the terms of sales contract, Pradeep Traders has to deliver the goods at the factory of Balram Pvt. Ltd. For this purpose, Pradeep Traders has charged freight of ₹ 2,400 from Balram Pvt. Ltd. GST is leviable @ 12% on freight. What would be the net GST liability to be paid in cash in this case assuming that the amounts given herein are exclusive of GST?

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(a) IGST-₹ 37,332

(b) IGST-₹ 10,370

(c) CGST-₹ 18,666 and SGST-₹ 18,666

(d) CGST-₹ 5,185 and SGST-₹ 5,185

8. Prem & Sons had taken GST registration on 1st January, but failed to furnish GST returns for the next 6 months. Owing to this, the proper officer cancelled its registration on 25th July and served the order for cancellation of registration on 31st July. Now, Prem & Sons wants to revoke the cancellation of registration. Prem & Sons can file an application for revocation of cancellation of registration on or before.

(a) 30th August

(b) 29th August

(c) 29th September

(d) 29th October

9. XX, registered in Delhi, purchased books from PC Traders, registered in Uttar Pradesh. Books are exempt from GST. XX arranged the transport of these books from a goods transport agency (GTA) which charged a freight of ₹ 9,000 for the same. GST is payable @ 5% on such GTA services. Which of the following statement is correct in the given context:

(a) GST of ₹ 450 is payable by XX on revere charge basis.

(b) Supply of goods and supply of GTA service is a composite supply wherein supply of goods is the principal supply and since principal supply is an exempt supply, no tax is payable on freight.

(c) Since exempt goods are being transported, service provided by GTA for transporting the same is also exempt.

(d) GST of ₹ 450 is payable by the GTA.

10. Kalim & Associates made an application for cancellation of GST registration in the month of March due to closure of its business. Its application for cancellation of GST registration was approved on 14th September. In the given case, Kalim & Associates is:

(a) required to file Final Return on or before 13th December

(b) not required to file Final Return

(c) required to file Final Return on or before 30th September

(d) required to file Final Return on or before 14th December

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11. (a) Babla & Bros. is exclusively engaged in making exempt supply of goods and is thus, not registered under GST. On 1st October, the exemption available on its goods gets withdrawn. On that day, the turnover of Babla & Bros. was ₹ 50 lakh. Examine the eligibility of Babla & Bros. for availing ITC, if any.

(b) Mamta Sales trades in exempt goods and provides taxable services. It is registered under GST. On 1st October, the exemption available on its goods gets withdrawn. Analyze the scenario and determine the eligibility of Mamta Sales for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.

12. Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October. However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. Total GST involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. GST involved in such bill is ₹ 2,700.

Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services.

Do you think Suhasini is right? Explain with reasons.

13. 'XY' of Kolkata is engaged in supply of various goods and services. It pays GST under regular scheme. The following information is provided by it for the month of July:

Payments	**Amount (₹)**	**Receipts**	**Amount (₹)**
Inter-State purchases of office stationery	1,40,000	Inter-State supply of office stationery	2,00,000
Repairing of lorry used to transport goods from warehouse to clients' location [Intra-State supply]	1,00,000	Intra-State supply of 500 combi packs containing one calculator and one diary	4,00,000
		Intra-State supply of services of business correspondent to Shubhvidhi Bank with respect to accounts in its urban area branch	1,00,000

The following additional information is provided by 'XY' in relation to the above receipts and payments:

(i) 10% of the inter-State supply of office stationery are made to unregistered persons.

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(ii) Each combi pack (containing a calculator and a diary) is priced at ₹ 800. The calculator and the diary are individually priced at ₹ 700 and ₹ 200 respectively.

(iii) An invoice of ₹ 40,000 towards purchase of office stationery is missing and no other tax paying document is available in respect of such goods.

(iv) All the figures mentioned above are exclusive of taxes, wherever applicable.

(v) Rates of CGST, SGST and IGST for all services, office stationery and calculator are 9%, 9% and 18% respectively. Rates of CGST, SGST and IGST for diary are 14%, 14% and 28% respectively.

(vi) Subject to the information given above, all the necessary conditions for availing input tax credit have been fulfilled.

Details of opening balances of input tax credit as on 1st July is given hereunder:

Tax	Amount (₹)
CGST	5,000
SGST	5,000
IGST	80,000

Compute the minimum net GST [CGST, SGST or IGST, as the case may be] payable in cash by 'XY' for the month of July.

14. Mutiservices Private Ltd., registered in Punjab, is engaged in supplying a variety of services. Its turnover was ₹ 35 lakh in the preceding financial year. It has provided the following information for the month of April:

Particulars	Amount (₹)
Fee for the coaching provided to students for competitive exams. The coaching centre is run by Mutiservices Private Ltd. in Punjab (Intra-State transaction)	6,24,000
Receipts for services provided in relation to conduct of examination in Pureit University, Delhi (providing education recognized by Indian law), being an inter-State transaction	19,200
Amount received for transportation of students and faculty from their residence to Lotus Public School - a higher secondary school – and back (Intra-State transaction)	24,000
Amount received for providing the security and housekeeping services in Dhaani Public School – a pre-school (Intra-State transaction)	36,000

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Note: Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively. All the amounts given above are exclusive of taxes.

Compute the total GST liability of Multiservices Private Ltd. for the month of April.

15. The due date for payment of tax by a person paying tax under section 10 of the CGST Act, 2017, i.e. a composition supplier is aligned with the due date of return to be filed by the said person. Discuss the correctness or otherwise of the statement.

SUGGESTED ANSWERS

1. (i) (d)

(ii) (b)

(iii) (c)

2. (i) (a)

(ii) (d)

(iii) (c)

(iv) (a)

(v) (c)

3. (b)

4. (a)

5. (b)

6. (c)

7. (b)

8. (a)

9. (a)

10. (d)

11. (a) Since the exemption available on goods being supplied by Babla & Bros. is withdrawn, it becomes liable to registration as its turnover has crossed the threshold limit (for registration) on the day when the exemption is withdrawn.

Assuming that Babla & Bros. applies for registration within 30 days of 1st October and it obtains such registration, it will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which it becomes liable to pay tax, i.e. 30th September [Section 18(1)(a) of the CGST Act, 2017]. Input tax paid on capital goods will not be available as input tax credit in this case.

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(b) If the exempt supply made by a registered person becomes a taxable supply, provisions of section 18(1)(d) of the CGST Act, 2017 become applicable. In the given case, since Mamta Sales is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d), Mamta Sales will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relatable to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable, i.e. 30th September. Input tax credit on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

12. The amount available in the electronic credit ledger, i.e. input tax credit may be used for making any payment towards output tax. Output tax, in relation to a taxable person, means the tax chargeable on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis.

Therefore, input tax credit cannot be used to pay the tax liability under reverse charge. The same is always required to be paid through electronic cash ledger and not electronic credit ledger. Thus, Suhasini is wrong and she should pay GST of ₹ 2,700 on security service through electronic cash ledger.

13. Computation of minimum net GST payable in cash by 'XY' for the month of July

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Inter-State supply of stationery [Note 1]	2,00,000			36,000 (2,00,000 x 18%)
Intra-State supply of 500 combi packs of calculators and diaries [Note-2]	4,00,000 (500 x 800)	56,000 (4,00,000 x 14%)	56,000 (4,00,000 x 14%)	
Intra-State supply of services of business correspondent to a Shubhvidhi Bank with respect to accounts in its urban area branch [Note-3]	1,00,000	9,000 (1,00,000 x 9%)	9,000 (1,00,000 x 9%)	
Total tax liability		*65,000*	*65,000*	*36,000*
Input tax credit (ITC)				
Brought forward ITC		5,000	5,000	80,000
Inter-State purchase of office stationery [Note-4]	1,00,000			18,000
Intra-State repairing of lorry used for transportation of goods [Note-5]	1,00,000	9,000	9,000	

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Total ITC		*14,000*	*14,000*	*98,000*
Minimum net GST payable in cash				
Total tax liability		65,000	65,000	36,000
IGST credit being set off against IGST liability				(36,000)
IGST credit being used to pay CGST and SGST liability in any order and in any proportion		(11,000)	(51,000)	
CGST and SGST credit being used to pay CGST and SGST liability respectively		(14,000) CGST	(14,000) SGST	
Minimum net GST payable in cash		**40,000**	**Nil**	**Nil**

Notes:-

1. Taxable supplies made by a registered person are liable to tax irrespective of whether they are made to a registered person or to an unregistered person.
2. Supply of calculator and diary as a combi pack with a single price of ₹ 800 is a mixed supply. Being a mixed supply comprising of two supplies, it shall be treated as supply of that particular supply which attracts highest rate of tax.
3. Services provided by a business facilitator/ business correspondent to a banking company only with respect to accounts in its rural area branch are exempt and not with respect to accounts in its urban area branch .
4. ITC can be taken only on the basis of a valid tax paying document. Thus, ITC will not be available on goods for which the invoice is missing.
5. ITC on motor vehicles used for transportation of goods is allowed. Further, ITC is allowed on repair and maintenance services relating to motor vehicles, ITC on which is allowed.

Note: IGST credit, after being set off against IGST liability, can be utilised against CGST and SGST liability in any order and in any proportion. Thus, there cannot be one answer for the minimum net CGST and SGST payable in cash as the amount of CGST and SGST liabilities are the same as also the amount of ITC for CGST and SGST is also the same.

14. Computation of net GST liability of Multiservices Private Ltd. for the month of April:

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Fee for the coaching provided to	6,24,000	56,160	56,160	

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students for competitive exams [Note-1]				
Services towards conduct of examination in Pureit University, Delhi [Note-2]	19,200			-
Services of transportation of students and faculty from their residence to Lotus Public School and back [Note-3]	24,000			-
Security and housekeeping services in Dhaani Public School [Note-4]	36,000	-	-	
Total GST liability		**56,160**	**56,160**	

Notes:-

1. Coaching centre run by Mutiservices Private Ltd. is not an educational institution since competitive exam coaching does not lead to grant of a qualification recognized by law. Therefore, fee received for coaching provided at such coaching centre is taxable.
2. Since Pureit University provides qualification recognized by law, it is an educational institution and services provided to an educational institution, in relation to conduct of examination by such institution are exempt from GST.
3. Since Lotus Public School provides education up to higher secondary school, it is an educational institution and services of transportation of students, faculty and staff provided to an educational institution are exempt.
4. Since Dhaani Public School provides pre-school education, it is an educational institution. Security and housekeeping services provided within the premises of an educational institution are exempt.

15. The statement is not correct. Every registered person paying tax under section 10, i.e. a composition supplier, is required to file a return annually in Form GSTR-4. Form GSTR-4 for a financial year should be furnished by 30th April of the succeeding financial year. However, a composition supplier is required to pay his tax on a quarterly basis. A quarterly statement for payment of self-assessed tax in GST CMP-08 is required to be furnished by 18th day of the month succeeding such quarter.

Therefore, while the return is to be furnished annually, payment of tax needs to be made on a quarterly basis, by a composition supplier.

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Applicability of Standards/Guidance Notes/Legislative Amendments etc.
for November, 2020 Examination - Intermediate Level (New Course)

Paper 1: Accounting

List of Applicable Accounting Standards

AS 1: Disclosure of Accounting Policies

AS 2: Valuation of Inventories

AS 3: Cash Flow Statements

AS 10: Property, Plant and Equipment

AS 11: The Effects of Changes in Foreign Exchange Rates

AS 12: Accounting for Government Grants

AS 13: Accounting for Investments

AS 16: Borrowing Costs

Applicability of the Companies Act, 2013 and other Legislative Amendments for November, 2020 Examination

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authorities up to 30th April, 2020 will be applicable for November, 2020 Examination.

Non-Applicability of Ind AS

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 do not form part of the syllabus and hence are not applicable.

Paper 2: Corporate and Other Laws

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the Economic Laws, as amended by concerned authority, including significant notifications and circulars issued up to 30th April 2020 are applicable for November, 2020 examination.

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Inclusions /Exclusions from the syllabus

(1)	(2)	(3)
Chapters/Topics of the syllabus	**Inclusions** **(Provisions which are included from the corresponding chapter/topic of the syllabus)**	**Exclusions** **(Provisions which are excluded from the corresponding chapter/ topic of the syllabus)**
Part I: Company Law		
Companies Act, 2013 (Sections 1 to 148)	The entire content included in the July 2019 edition of the Study Material and the Legislative amendments given in the RTP for November, 2020, shall only be relevant for the said examinations.	**(i)** Sections 24, 30, 33, 38 & 41 [from chapter 3- Prospectus and Allotment of Securities] **(ii)** Sections 44, 45, 60, 65 & 72 [from chapter 4 - Share capital and Debentures] **(iii)** Section 75 [from chapter 5 - Acceptance of deposits by companies] **(iv)** Section 81 & 85 [from chapter 6- Registration of Charges] Also, except the Relevant rules as covered in the July 2019 edition of the Study Material and the RTP for November, 2020, all other Rules of the Companies Act, 2013 are excluded.
Part II: Other Laws		
1. The Indian Contract Act, 1872 (Specific contracts from section 123 onwards)	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in the July 2019 edition of the Study Material and the RTP for November, 2020, shall only be relevant for the said examinations.	Questions that involve the reference or questions entirely based on Sections 1 to 122 of the Indian Contract Act, 1872, may be avoided.
2. The Negotiable Instruments Act, 1881	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety).	-

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	The entire content included in the July 2019 edition of the Study Material and the Legislative amendments given in the RTP for November, 2020, shall only be relevant for the said examinations.	
3. The General Clauses Act, 1897	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in the July 2019 edition of the Study Material and the RTP for November, 2020, shall only be relevant for the said examinations.	-
4. Interpretation of Statutes	Content of this chapter of the Study Material covers the significant rules and principles of interpretation in a broad manner. Thus, the content of the chapter as included in the study material may be taken into consideration.	-

Note: July 2019 edition of the Study Material is relevant for November, 2020 examinations. The amendments - made after the issuance of this Study Material - to the extent covered in the RTP for November, 2020 examinations shall also be relevant for the said examinations.

Paper 4: Taxation

Section A: Income-tax Law

Applicability of the Finance Act, Assessment Year etc. for November, 2020 Examination

The provisions of income-tax law, as amended by the Finance Act, 2019 and the Finance (No.2) Act, 2019 including significant circulars, notifications, press releases issued and other legislative amendments made upto 30th April, 2020, are applicable for November, 2020 examination. The relevant assessment year for income-tax is A.Y. 2020-21.

Note *– The August, 2019 edition of the Study Material for Intermediate (New) Paper 4A is based on the provisions of income-tax law, as amended by the Finance Act, 2019 and the Finance (No.2) Act, 2019 and hence, the same is relevant for November, 2020 examination. The same is available at https://www.icai.org/post.html?post_id=15923. The initial pages of the Study Material available at https://resource.cdn.icai.org/56458bos45796mod1initpages.pdf contains the Study Guidelines which specifies the list of topic-wise exclusions from the scope of syllabus.*

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The significant notifications, circulars, press releases issued and legislative amendments made upto 30th April, 2020, but not covered in the August, 2019 edition would be webhosted as Statutory Update for November, 2020 examination at the BoS Knowledge Portal. This update is relevant and important for November, 2020 examination.

Section B: Indirect Taxes

Applicability of the GST law

The provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020, including significant circulars and notifications issued up to 30th April 2020, are applicable for November 2020 examination.

List of topic-wise exclusions from the syllabus

(1)	(2)	(3)
S. No. in the syllabus	**Topics of the syllabus**	**Exclusions** **(Provisions which are excluded from the corresponding topic of the syllabus)**
2(ii)(c)	Charge of tax including reverse charge	**CGST Act, 2017** (i) Rate of tax prescribed for supply of **goods*** (ii) Rate of tax prescribed for supply of **services*** (iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) **IGST Act, 2017** (iv) Rate of tax prescribed for supply of **goods** (v) Rate of tax prescribed for supply of **services** (vi) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3) (vii) Determination of nature of supply – Inter-State supply; Intra-State supply; Supplies in territorial waters (viii) Special provision for payment of tax by a supplier of online information and database access or retrieval [OIDAR] services
2(ii)(d)	Exemption from tax	**CGST Act, 2017 & IGST Act, 2017** Exemptions for supply of **goods**
2(iii)	Basic concepts of time and value of supply	**CGST Act, 2017 & CGST Rules, 2017** (i) Provisions relating to change in rate of tax in respect of supply of goods or services (ii) Chapter IV: Determination of Value of Supply [Rules 27-35] of CGST Rules, 2017

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2(iv)	Input tax credit	**CGST Act, 2017 read with CGST Rules, 2017** (i) Input tax credit provisions in respect of inputs and capital goods sent for job work (ii) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD] (iii) Manner of recovery of credit distributed in excess (iv) Manner of determination of input tax credit in respect of inputs, input services and capital goods and reversal thereof in respect of real estate projects (v) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar
2(viii)	Returns	**CGST Act, 2017 read with CGST Rules, 2017** (i) Furnishing of GSTR-2, GSTR-1A, GSTR-3 (ii) Matching, reversal & reclaim of input tax credit (iii) Matching, reversal & reclaim of reduction in output tax liability
2(ix)	Payment of tax	**CGST Act, 2017** (i) Tax deduction at source (ii) Collection of tax at source

***Rates specified for computing the tax payable under composition levy are included in the syllabus.**

Notes:

(1) Applicability of the Finance (No. 2) Act, 2019

(i) The amendments made by the Finance (No. 2) Act, 2019 in the Central Goods and Services Tax Act, 2017 [hereinafter referred to as CGST Act, 2017] and the Integrated Goods and Services Tax, 2017 [hereinafter referred to as IGST Act, 2017] have become effective from 01.01.2020. Therefore, the amendments made vide the Finance (No. 2) Act, 2019, to the extent included in the syllabus read with the Study Guidelines, are applicable for November 2020 examinations.

However, amendments made by the Finance (No. 2) Act, 2019 - to the extent included in the syllabus read with the Study Guidelines - in sections 39 and 50 of the CGST Act, 2017 have not become effective as on 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.

(ii) Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 introduced vide Chapter V of the Finance (No. 2) Act, 2019 is not applicable for November 2020 examinations.

(2) The syllabus includes select provisions of the CGST Act, 2017 and IGST Act, 2017 and not the entire CGST Act, 2017 and the IGST Act, 2017. The provisions covered in any

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topic(s) of the syllabus which are related to or correspond to the topics not covered in the syllabus shall also be excluded.

(3) In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded. For example, since provisions relating to ISD and tax collection at source are excluded from the topics "Input tax credit" and "Payment of tax including reverse charge" respectively, the provisions relating to (i) registration of ISD and person required to collect tax at source and (ii) filing of returns by an ISD and submission of TCS statement by an electronic commerce operator required to collect tax at source are also excluded from the topics "Registration" and "Returns" respectively.

(4) August 2019 edition of the Study Material is relevant for May 2020 and November 2020 examinations. The amendments in the GST law - made after the issuance of this Study Material - to the extent covered in the Statutory Update for November 2020 examination alone shall be relevant for the said examination. The Statutory Update shall be hosted on the BoS Knowledge Portal.

Though the Statutory Update for November 2020 examination shall provide the precise scope and coverage of the amendments, for the sake of clarity, it may be noted that the following amendments shall not be applicable for November 2020 examinations:

(i) The amendments made in the various provisions of the GST law namely, composition scheme, input tax credit, returns, interest on delayed payment of tax, e-way bill etc., for providing relief to the taxpayers in view of spread of Novel Corona Virus (COVID-19)

(ii) The amendments relating to transition plan with respect to Jammu and Kashmir reorganization w.e.f. 31.10.2019

(iii) The amendments providing the special procedure for taxpayers in Dadra and Nagar Haveli and Daman and Diu consequent to merger of the two UTs

(iv) The amendment specifying due dates for filing of GSTR-3B in a staggered manner for taxpayers having annual turnover below ₹ 5 crore in previous financial year

(5) The provisions of CGST Act, 2017 and the rules issued thereunder and IGST Act, 2017 and the rules issued thereunder, to the extent included in the August 2019 edition of the Study Material (**except** the exclusions mentioned herein) and the Statutory Update for November 2020 examination shall alone be relevant for the said examination.

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