

PRIME ACADEMY
34th SESSION PROGRESS TEST – ADVANCED ACCOUNTING

No. of Pages: 7

Total Marks: 75
Time Allowed: 2Hrs

PART – A

1. AS-11 classifies foreign branches are classified as
 - a. Autonomous branches and non-autonomous branches
 - b. Uncontrolled and fully controlled branches
 - c. Statutory and non-statutory branches
 - d. Integral and non-integral foreign operation

2. If asset is carried at cost, cost and depreciation of tangible fixed assets is translated at
 - a. Average rate
 - b. Closing rate
 - c. Opening rate
 - d. Exchange rate at the date of purchase of asset.

3. Assets and liabilities of a non-integral operation should be converted at
 - a. Closing rate
 - b. Average rate
 - c. Opening rate
 - d. None of the above

4. Under debtors method, opening balance of debtors is
 - a. Debited to branch account
 - b. Credited to branch account
 - c. Debited to H.O account
 - d. Credited to H.O account

5. Inter branch transactions are usually adjusted as if they were entered only with
 - a. Branch office
 - b. Head office
 - c. Both a and b
 - d. None of the above

6. The possible reasons for disagreement between branch a/c in head office books and head office a/c in branch books on the closing rate could be
 - a. Goods dispatched by H.O not received by the branch
 - b. Receipt of income or payment or expense relating to branch transacted by H.O or vice versa
 - c. Sum remitted by H.O to branch or vice versa
 - d. All of the above

7. Under stock and debtors method, Goods lost in transit or stolen are credited to
 - a. Goods lost in transit a/c
 - b. Branch adjustment a/c
 - c. Branch stock a/c
 - d. Cash/bank a/c

8. Accounts of non-integral foreign operation are translated at _____ for balance sheet items both monetary and non-monetary
 - a. Opening exchange rate
 - b. Closing exchange rate
 - c. Average rate
 - d. Average rate subject to materiality

9. The amount paid at the time of entering the hire-purchase transaction for the goods purchased is known as
 - a. Cash price
 - b. Down payment
 - c. First installment
 - d. Hire purchase price

10. Total interest on hire purchased goods is the difference between
 - a. Hire purchase price and cash price
 - b. Hire purchase price and down payment
 - c. Cash price and first installment
 - d. Cash price and down payment

11. Depreciation on hire purchased asset is claimed by
 - a. Hire vendor
 - b. Hire purchaser
 - c. Both a & b
 - d. No depreciation is claimed until the last installment is paid.

12. Under installment payment system, ownership of goods
 - a. Is transferred at the time of payment of last installment
 - b. Is not transferred
 - c. Is transferred at the time of signing the contract
 - d. Is transferred at the time of payment of first installment

13. Depreciation on asset acquired on hire purchase must be calculated on
 - a. Cash price
 - b. Installment price
 - c. Hire purchase price
 - d. None of the above

14. Under interest suspense method, total interest payment is made is debited to
 - a. Hire vendor account
 - b. Hire purchase suspense account
 - c. Bank account
 - d. Profit and loss account

15. When goods are repossessed goods repossessed account is debited with
- Total Installments due
 - Installments due paid
 - Installments due but unpaid
 - Installments not due
16. On seizure of the goods by the hire vendor, the balance in the asset account is transferred to
- Profit and loss account
 - Hire vendor's account
 - Goods repossessed account
 - Hire purchase trading account
17. Under hire purchase system, asset account will be debited with the actual amount of intrinsic value and interest paid
- True
 - False
 - Partly true
 - None of the above
18. Balance in Hire purchase sales is credited to
- Hire-purchase trading account
 - Hire-purchase debtors account
 - Cash/bank
 - Profit and loss account
19. A sells a T.V the cash price of which is ₹ 3,000 and decides to charge 10% nominal interest. If the price is to be paid in 3 equal installments, determine the installment account. Calculate the amount payable for each installment.
- 3,000
 - 3,900
 - 1,200
 - 1,300
20. In the above question compute the true rate of interest
- 12%
 - 10%
 - 8%
 - 15%
21. Branch account under debtor's system is
- Real account
 - Personal account
 - Nominal account
 - None of the above
22. Current assets and current liabilities should be translated at
- Opening exchange rate
 - Closing exchange rate
 - Average rate
 - Average rate subject to materiality

23. The opening balance of debtors is ₹70,000; Closing balance is ₹ 95,000; Credit sales is ₹ 5,37,500. Cash collected from debtors is_____
- 5,62,500
 - 5,12,500
 - 7,02,500
 - 6,07,500
24. Ravi operated a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at retail price which is 20% plus wholesale price. What is the gross profit at the outlet?
- 125
 - 25
 - 100
 - 150
25. In the above question, the total gross profit made by outlet is ₹60,000. What is the retail sales value?
- 3,00,000
 - 3,24,000
 - 3,60,000
 - 3,50,000

(25x1 = 25 Marks)

PART – B

Question No.1 is compulsory and any three from the rest.

1. An Indian company has a branch at Washington. Its Trial Balance as at 30th September, 2011 is as follows:

	Dr. US \$	Cr. US
	\$	
Plant and machinery	2,40,000	–
Furniture and fixtures	16,000	–
Stock, Oct. 1, 2007	1,12,000	–
Purchases	4,80,000	–
Sales	–	8,32,000
Goods from Indian Co. (H.O.)	1,60,000	–
Wages	4,000	–
Carriage inward	2,000	–
Salaries	12,000	–
Rent, rates and taxes	4,000	–
Insurance	2,000	–
Trade expenses	2,000	–
Head Office A/c	–	2,28,000
Trade debtors	48,000	–
Trade creditors	–	34,000
Cash at bank	10,000	–
Cash in hand	2,000	–
	<u>10,94,000</u>	<u>10,94,000</u>

The following further information is given:

- a. Wages outstanding – \$ 2,000.
- b. Depreciate Plant and Machinery and Furniture and Fixtures @ 10 % p.a.
- c. The Head Office sent goods to Branch for ₹78,80,000.
- d. The Head Office shows an amount of ₹86,00,000 due from Branch.
- e. Stock on 30th September, 2011 – \$ 1,04,000.
- f. There were no in transit items either at the start or at the end of the year.
- g. On September 1, 2009, when the fixed assets were purchased, the rate of exchange was ₹38 to one \$.

On October 1, 2010, the rate was ₹39 to one \$.

On September 30, 2011, the rate was ₹41 to one \$.

Average rate during the year was ₹40 to one \$.

You are asked to prepare:

- (a) Trial balance incorporating adjustments given under 1 to 4 above, converting dollars into rupees.
- (b) Trading and Profit and Loss Account for the year ended 30th September, 2011.

(20 Marks)

2. Southern Taxi services Co. Ltd. Purchased 3 taxis on 1.1.2011 from the Western auto services on hire purchase system. It was agreed upon to make payment as under:

		₹
01.01.2011	On signing agreement	10,350
31.12.2011	At the end of the first year	19,965
31.12.2012	At the end of second year	19,965
31.12.2013	At the end of third year	<u>19,965</u>
	Total Hire purchase price	<u>70,245</u>

Nothing more was payable after 3rd installment. All the installments are duly paid by the Southern taxi services co. interest was reckoned @ 10% p.a Depreciation was charged at the rate of 20% p.a on diminishing balance. Southern taxi services close its books on 31st December every year. Prepare following accounts in the books of M/s Southern Taxi services Co.ltd up to 31.12.2013:- (1) Western auto services /c (2) Taxi a/c (10 Marks)

3. Sunil Ltd. has a Hire-purchase department. Goods are sold on hire-purchase at cost plus 60%. From the following particulars draft Hire-purchase trading account and compute profit or loss for the year ended 31st March, 2011:

Goods with customers on 1.4.2010 (installments are not due)	3,20,000
Installments due on 1.4.2010 (customers are paying)	20,000
Goods sold on hire-purchase during the year (i.e., from 1.4.2010 to 31.3.2011)	16,00,000
Cash received from customers 11,20,000	
Goods re-possessed from customers valued at 40%	16,000
Unpaid installments in respect of re-possessed goods	40,000
Goods with customers as on 31.3.2011 (at hire-purchase price)	7,20,000

(10 Marks)

4. The head office of a business and its branch keep their own books and each prepares its own profit and loss account. The following are the balances appearing in the two sets of books as on 31st December, 2010 after ascertainment of profit and after making all adjustments except those referred to below

	Head office (₹)		Branch (₹)	
Capital		1,00,000		
Fixed assets	36,000		16,000	
Stock	34,200		10,740	
Debtors and creditors	7,820	3,960	4,840	1,920
Cash	10,740		1,420	
P&L account		14,660		3,060
Branch office account	29,860			
H.O account				28,020

Prepare Balance sheet after considering the following adjustments:

- (a) On 31st December 2010 the branch had sent a cheque for ₹1,000 to the head office, not received by head-office nor credited to branch account till 3rd January 2011.
- (b) Goods valued at ₹840 had been forwarded by the head office to the branch and invoiced on 30th December 2010, but were not received by the branch nor dealt with in branch's books till 11th January, 2011.
- (c) The profit shown by the branch is to be transferred to the head office books.
- (d) Branch assets and liabilities are to be recorded in the books of head office.

(10 Marks)

5. Sundar & Co., with its Head Office at Bangalore has a branch at Mysore. Goods are invoiced to the Branch at cost plus 33 1/3%. The following information is given in respect of the branch for the year ended 31st March, 2011:

	₹
Goods sent to Branch (Invoice price)	4,80,000
Stock at Branch on 1.4.2010 (Invoice price)	24,000
Cash sales	1,80,000
Return of goods by customers to the Branch	6,000
Branch expenses (paid in cash)	53,500
Branch debtors balance on 1.4.2010	30,000
Discount allowed	1,000
Bad debts	1,500
Collection from Debtors	2,70,000
Branch debtors cheques returned dishonoured	5,000
Stock at Branch on 31.3.2011 (Invoice price)	48,000
Branch debtors balance on 31.3.2011	36,500

Prepare, under the Stock and Debtors system, the following Ledger Accounts in the books of the Head Office:

- (i) Mysore Branch Stock Account
- (ii) Mysore Branch Debtors Account
- (iii) Mysore Branch Adjustment Account.

Also compute shortage of Stock at Branch, if any.

(10 Marks)

PRIME ACADEMY
34th SESSION PROGRESS TEST-ADVANCED ACCOUNTS
SUGGESTED ANSWERS

PART - A

1. Integral and non-integral foreign operation
2. Exchange rate at the date of purchase of asset
3. Closing rate
4. Debited to branch account
5. Head office
6. All of the above
7. Branch stock a/c
8. Closing exchange rate
9. Down payment
10. Hire purchase price and cash price
11. Hire purchaser
12. Is transferred at the time of signing the contract
13. Cash price
14. Hire purchase suspense account
15. Installments due but unpaid
16. Hire vendor's account
17. False
18. Hire-purchase trading account
19. 1,300
20. 15%
21. Nominal account
22. Closing exchange rate
23. 5,12,500
24. 25
25. 3,60,000

PART-B

In the books of Indian Company - Washington Branch Trial Balance (in ₹)
as on 30th September, 2011

	Dr. US \$	Cr. US \$	Conversion rate	Dr. ₹	Cr. ₹
Plant	2,16,000		41	88,56,000	
Depreciation on plant and machinery	24,000		41	9,84,000	
Furniture and fixtures	14,400		41	5,90,400	
Depreciation on furniture and fixtures	1600		41	65,600	
Stock, Oct. 1, 2010	1,12,000		39	43,68,000	
Purchases	4,80,000		40	1,92,00,000	
Sales		8,32,000	40		3,32,80,000
Goods from Indian co.	1,60,000			78,80,000	
Wages	6,000		40	2,40,000	
Outstanding wages		2,000	41		82,000
Carriage inward	2,000		40	80,000	
Salaries	12,000		40	4,80,000	
Rent, rates and taxes	4,000		40	1,60,000	
Insurance	2,000		40	80,000	
Trade expenses	2,000		40	80,000	
Head office a/c		2,28,000			86,00,000
Trade debtors	48,000		41	19,68,000	
Trade creditors		34,000	41		13,94,000
Cash at bank	10,000		41	4,10,000	
Cash in hand	2,000		41	82,000	
Exchange gain (bal. fig)					21,68,000
				45524000	45524000

2. Southern taxi services

		Southern taxi a/c		
2011	To cash	10,350	By taxi	60,000
	To cash	19,965	By interest	4,965
	To balance c/d	34,650		
		64,965		64,965
2012				
	To cash	19,965	By balance b/d	34,650
	To balance c/d	18,150	By interest	3,465
		38,115		38,115
2013				
	To cash	19,965	By balance b/d	18,150
			By interest	1,815
		19,965		19,965

Interest account

2011			
To southern services	4,965	By Profit & Loss a/c	4,965
	4,965		4,965
2012			
To southern services	3,465	By Profit & Loss a/c	3,465
	3,465		3,465
2013			
To southern services	1,815	By Profit & Loss a/c	1,815
	1,815		1,815

Taxi account

2011			
To southern services	12,000	By Depreciation a/c	12,000
		By balance c/d	48,000
	60,000		60,000
2012			
To southern services	48,000	By Depreciation a/c	9,600
		By balance c/d	38,400
	48,000		48,000
2013			
To southern services	38,400	By Depreciation a/c	7,680
		By balance c/d	30,720
	38,400		38,400

Statement of interest calculation:

Year	Installment	Interest paid	Cash price paid
Third year	19,965	$19,965 \times 10/100 = ₹1,815$	$19,965 - 1815 = 18,150$
Second year	19,965	$(19,965 + 18,150) \times 10/100 = 3,465$	$19,965 - 3465 = 16,500$
First year	19,965	$(19,965 + 16,500 + 18,150) \times 10/100 = 4,965$	$19,965 - 4965 = 15,000$
Down payment	<u>10,350</u>	No interest	<u>10,350</u>
	<u>70,245</u>		<u>60,000</u>

3

In the books of Sunil Ltd.

Hire Purchase Trading Account for the year ended on 31st March, 2011

	₹		₹
To Hire Purchase Stock	3,20,000	By Hire Purchase	
		Stock Reserve (W.N.1)	1,20,000
To Instalments due	20,000	By Bank A/c (Cash received)	11,20,000
To Goods sold on Hire Purchase	16,00,000	By Goods Repossessed A/c	16,000

To Hire Purchase Stock Reserve (W.N.3)	2,70,000	By Goods sold on hire purchase (loading) (W.N.2)	6,00,000
To Profit and Loss A/c (balancing figure)	4,26,000	By Hire purchase stock	7,20,000
	<u>26,36,000</u>	By Instalments due (W.N.4)	<u>60,000</u>
			<u>26,36,000</u>

Working Notes:

		₹
1. Opening H.P. Stock reserve $3,20,000 \times 60/160$		1,20,000
2. Loading on goods sold on H.P. $16,00,000 \times 60/160$		6,00,000
3. Closing H.P. Stock reserve $7,20,000 \times 60/160$		2,70,000
4. Calculation of Instalments due at the end of the year		
Opening H.P. Stock + Opening Instalments due + H.P. Sales during the year		
(i.e., $3,20,000 + 20,000 + 16,00,000$)		19,40,000
Less: Cash received from customers	11,20,000	
Instalments unpaid for repossessed goods	40,000	
Closing balance of H.P. Stock	<u>7,20,000</u>	<u>18,80,000</u>
Closing Instalments Due		<u>60,000</u>

4. **In the books of H.O**

(i)	Branch fixed assets	16,000	
	Branch stock	10,740	
	Branch debtors	4,840	
	Branch cash	1,420	
	Cash in transit	1,000	
	Goods in transit	840	
	To Branch a/c	34,840	
(ii)	Branch a/c	1,920	
	To branch creditors	1,920	
(iii)	Branch a/c	3,060	
	To profit & loss a/c	3,060	

Balance Sheet
As at 31st December 2011

Liabilities			Assets		
Capital	1,00,000		Fixed assets		
+ H.O profit	14,660		- H.O	36,000	
+ Branch profit	3,060	1,17,720	- Branch	16,000	52,000
Creditors			Stock		
- H.O	3,960		- H.O	34,200	
- Branch	1,920	5,880	- Branch	10,740	
			- in transit	840	45,780
			Debtors		
			-H.O	7,820	
			- Branch	4,840	12,660
			Cash		
			- H.O	10,740	
			- Branch	1,420	
			- in transit	1,000	<u>13,160</u>
		<u>1,23,600</u>			<u>1,23,600</u>

5.

In the books of head office
Mysore Branch Stock Account

			₹	
To Balance b/d	4,000	By Bank A/c (Cash Sales)	1, 80,000	
To Goods sent to Branch A/c	4, 80,000	By Branch Debtors (Credit Sales)	2, 80,000	
To Branch Debtors	6,000	By Stock shortage:		
		- Branch P&L A/c	1,500*	
		- Branch Adj A/c (Loading)	500	2,000
		By Balance c/d	48,000	
	<u>5, 10,000</u>		<u>5, 10,000</u>	

Mysore Branch Debtors Account

To Balance b/d	30,000	By Bank A/c (Collection)	2, 70,000
To Bank A/c (dishonour of cheques) 5,000		By Branch Stock A/c	6,000
To Branch Stock A/c	2,80,000*	By Bad debts	1,500
		By Discount allowed	1,000
		By Balance c/d	36,500
	<u>3, 15,000</u>		<u>3,15,000</u>

Mysore Branch Adjustment Account

To Branch Stock A/c (loading of loss)	500*	By Stock Reserve A/c	6,000
To Stock Reserve	12,000	By Goods sent to Branch A/c	1,20,000
To Gross Profit c/d	1, 13,500		
	1, 26,000		1,26,000
To Branch Stock A/c (Cost of loss)	1,500	By Gross Profit b/d	1,13,500
To Branch Expenses	56,000		
To Net Profit (Transferred to General P & L A/c)	56,000		
	1,13,500		1,13,500

*Balancing figure.

Working Notes:

1. Credit Sales have not been given in the problem. So, the balancing figure of Branch Debtors Account is taken as credit sales
2. Loading is 33.33 % of Cost; i.e. 25% of invoice value
Loading on opening stock = 24,000 x 25% = 6,000
3. Loading on goods sent = 4,80,000 x 25% = 1,20,000
4. Loading on Closing Stock = ₹48,000 x 25% = ₹12,000
5. Total Branch Expenses = Cash expenses + Bad debt + Discount allowed
= ₹53,500 + ₹1,500 + ₹1,000 = ₹56,000
6. Gross Profit
Total sales (at invoice price)- Goods returned by customers (at invoice price) x
{(1,80,000+ ₹ 2,80,000)- ₹6,000} x 33.33/133.33 = ₹1,13,500(Approx)

PRIME ACADEMY
34th SESSION - PROGRESS TEST - LAW ,ETHICS & COMMUNICATION

No. of Pages: 5

Total Marks : 75

Time Allowed : 2 Hrs.

PART – A

1. Which one of the following is not the content of the memorandum of association
 - a. Name clause
 - b. The registered office clause
 - c. The objects clause
 - d. The board of directors clause

2. Which of the following is benefit from incorporation of a company
 - a. Loss of privacy
 - b. Possibilities of frauds
 - c. Greater public accountability
 - d. Independent legal entity

3. The charter of a company is its
 - a. Articles of association
 - b. Prospectus
 - c. Statement in lieu of prospectus
 - d. Memorandum of association

4. An act is said to be ultra virus a company when it is beyond the powers
 - a. Of the company
 - b. Of the directors
 - c. Of the directors but not the company
 - d. Conferred on the company by the articles

5. A company limited by shares
 - a. Has unlimited liability
 - b. Exists only in contemplation of law
 - c. Has a perpetual succession
 - d. Comes to an end on the death of all members

6. A private company can be converted into a public company under
 - a. Conversion by default
 - b. Conversion by operation law
 - c. Conversion by choice
 - d. Any of the above

7. Contract, which entered into, by agents or trustees on behalf of a prospective company it has come into existence are called
- Provisional contracts
 - Preliminary contracts
 - Both a & b
 - None of the above
8. A public company can commence business after receiving
- Certificate of incorporation
 - c. Both a & b
 - Certificate to commence business
 - d. None of the above
9. The minimum members of a private company is
- Three
 - Two
 - Seven
 - Nine
10. A resolution passed by 3/4th of members present is known as_____
- Ordinary resolution
 - Special resolution
 - Authorization
 - Alteration
11. Confirmation by_____is not essential for reduction of share capital
- Special resolution
 - Company law board
 - Ordinary resolution
 - Both a & b
12. An alteration of memorandum has the effect of
- Increasing the liability of a member
 - Shall not bind existing member
 - Pay money to company
 - All of the above
13. The liability of shareholders where the company limited by guarantee with share capital is
- To the extent of guarantee
 - Unpaid liability on share capital
 - Both a & b
 - As agreed upon

14. Conversion of private company into a public company requires
 - a. Alteration of memorandum of association
 - b. Alteration of prospectus
 - c. Alteration of articles of association
 - d. Alteration of name of the company

15. Change(voluntary) of name clause requires approval by
 - a. Ordinary resolution
 - b. Special resolution
 - c. Central government
 - d. Special resolution and central government

16. Ultravires statue
 - a. Cannot be ratified (illegal and void)
 - b. Cannot be ratified (void)
 - c. Can be ratified by altering articles by special resolution
 - d. If within the powers of company, it can be ratified

17. Ultravires MoA
 - a. Cannot be ratified (illegal and void)
 - b. Cannot be ratified (void)
 - c. Can be ratified by altering articles by special resolution
 - d. If within the powers of company, it can be ratified

18. Ultravires articles
 - a. Cannot be ratified (illegal and void)
 - b. Cannot be ratified (void)
 - c. Can be ratified by altering articles by special resolution
 - d. If within the powers of company, it can be ratified

19. A promoter's relationship is that of a _____
 - a. Agent
 - b. Trustee
 - c. Fiduciary
 - d. Solicitor

20. _____ contracts are contracts entered into by a public company after incorporation and before it is entitled to commence business
 - a. Provisional contracts
 - b. Preliminary contracts
 - c. Both a & b
 - d. None of the above

21. All seven signatures on a memorandum of association were forged by single person and a certificate of incorporation was obtained. Is the certificate valid?
- Yes
 - No
22. The promoter takes remuneration for his services by
- Selling his own property at profit to the company
 - By taking salary
 - In the form of sitting fees
 - Does not take remuneration
23. As per companies act, a private company must have paid up capital of
- One lakh
 - Two lakh
 - Five lakh
 - Six lakh
24. As per companies act, _____ number of directors retire by rotation in a public company
- $\frac{1}{3}$
 - $\frac{2}{3}$
 - $\frac{1}{2}$
 - 2
25. If the company is unable to obtain the certificate to commence business the provisional contract____
- Becomes binding on the company
 - Automatically lapses
 - Becomes ultra vires the act
 - Company can enforce the contract

(25x1=25 Marks)

PART B

Answer any five Questions

1. XYZ Co. Ltd. was in the process of incorporation. Promoters of the Company signed an agreement for the purchase of certain furniture for the Company and payment was to be made to the suppliers of furniture by the Company after incorporation. The Company was incorporated and the furniture was used by it. Shortly after incorporation, the Company went into liquidation and the debt could not be paid by the Company for the purchase of above furniture. As a result suppliers sued the promoters of the Company for the recovery of money. Examine whether promoters can be held liable for payment in the following cases: a. When the Company has already adopted the contract after incorporation? b. When the Company makes a fresh contract with the suppliers in terms of pre-incorporation contract?
(10 Marks)
2. X Ltd. was incorporated on 10th September 2010. A similar company with an identical name and same objects was also incorporated on 10th December 2010. X Ltd. came to know about this and filed a petition on 10th January, 2011. Explain remedies available to the first Company
(10 Marks)
3. (i) Eight signatories to the memorandum out of total ten were subsequently found to be forged. The memorandum was presented for registration and of registration was issued. The existence of the Company was disputed that the registration of the Company is void. Decide?
(5 Marks)
- (ii) The registered office clause of the memorandum of association of A Ltd. does not contained name of the city. Because of this registrar of Companies refused to register the memorandum of association. Is it Correct?
(5 Marks)
4. (i) It is not necessary to present a copy of Articles of Association to the Registrar of the Companies at the time of incorporation of the Public Company limited by shares.
(5 Marks)
- (ii) A Company, in which the directors hold majority of the shares, altered its articles so as to give power to directors to acquire shares of any shareholder, who competed with the Company's business, to transfer his shares, at their full value, to any nominee of the directors. S had some shares in the Company, and he was in competition with the Company. Is S bound by the alteration?
(5 Marks)
5. The Registrar of Companies issued a Certificate of Incorporation Actually on 8th January, 2011. However, by mistake, the certificate was dated "5th January, 2011". An allotment of shares was made before the Company was incorporated?
(10 Marks)
6. (i) In a private limited Company it is discovered that there are, in fact, 54 members. On an enquiry, it is ascertained that 6 of such members have been employees of the Company in the recent past and that they acquired their shares while they were still employees of the Company. Is it necessary to convert the Company into a public limited Company?
(5 Marks)
- (ii) On acceptance of deposits a private Company becomes a Public Company. Comment
(5 Marks)

PRIME ACADEMY
34th SESSION PROGRESS TEST – LAW ,ETHICS AND COMMUNICATION
SUGGESTED ANSWERS

Part A

- 1 The board of directors clause
- 2 Independent legal entity
- 3 Memorandum of association
- 4 Of the company
- 5 Has a perpetual succession
- 6 Any of the above
- 7 Preliminary contracts
- 8 Both a & b
- 9 two
- 10 Special resolution
- 11 Both a & b
- 12 All of the above
- 13 Both a & b
- 14 Alteration of articles of association
- 15 Special resolution and central government
- 16 Cannot be ratified (illegal and void)
- 17 Cannot be ratified (void)
- 18 Can be ratified by altering articles by special resolution
- 19 Fiduciary
- 20 Provisional contracts
- 21 No
- 22 Selling his own property at profit to the company
- 23 One lakh
- 24 2/3
- 25 Automatically lapses

Part B

- 1 The promoters remain personally liable on a contract made on behalf of a Company which is not yet in existence. Such a contract is deemed to have been entered into personally by the promoters and they are liable to pay damages for failure to perform the promises made in the Company's name, even though the contract expressly provided that only the Company shall be answerable for performance. Further, a Company cannot ratify a contract entered into by the promoters on its behalf before its incorporation. The Company can, if it desires, enter into a new contract, after its incorporation with the other party. The contract may be on the same basis and terms as given in the pre-incorporation contract made by the promoters. It is, therefore, safer for the promoters Acting on behalf of the Company about to be formed to provide in the contract that:

If the Company makes a fresh contract in terms of the pre-incorporation contract, the liability of the promoters shall come to an end; and if the Company does not make a fresh contract within a limited time, either of the parties may rescind the contract. Thus applying the above principles, the answers to the questions can be:

- (a) The promoters in the first case will be liable to the suppliers of furniture. There was no fresh contract entered into with the suppliers, by the Company. Therefore, promoters continue to be held liable in this case for the reasons given above.
 - (b) In the second case obviously the liability of promoters comes to an end provided the fresh contract was entered into on the same terms at that of pre-incorporation contract.
- 2 If a Company is inadvertently registered with a name which in the opinion of the Central Government, is identical with or too nearly resembles, the name by which a Company in existence has been previously registered, the Company registered later (Sec.22):
 - (a) Company may change its name, by ordinary resolution and with the previous approval of the Central Government.
 - (b) The change shall also be carried out if a direction is received from the Central government. When so directed by central government, the Company shall, by ordinary resolution and with the previous approval of the Central Government in writing, change its name or new name within a period of 3 months from the date of direction or the extended period.
 - (c) In the given case X Ltd. can complain to issue suitable directions to the Company incorporated on 10th September, 2010 for change of its name. In this case, the Company filed a petition on 10.1.2011 within 12 months of the date of registration of the second company and so complaint can be accepted.
- 3
 - (i) The certificate of incorporation issued by the ROC is conclusive evidence of all requirements of the act and rules thereunder for formation of the company having been complied with in respect of registration. The Company's registration cannot be void because, under Section 35 of the Act, a certificate of incorporation is a conclusive evidence of the fact that all the statutory requirements of the Act in relation to registration of the Company have been complied with. Therefore existence of the company cannot be challenged even though the signatories to the memorandum are forged.
 - (ii) No., Sec.13 states that the registered office clause shall contain the name of the State in which the registered office of the Company is situated. The situation clause specifies the state in which the registered office of the company is situated. Further, it may be noted that the address of the registered office is not stated in the memorandum of association. If this was done, every change there in would require the amendment.

Hence in the given case, registrar cannot refuse the registration of the Memorandum of the company.

- 4 (i) Sec.26 provides that the Companies limited by guarantee, private limited Companies, and unlimited Companies must have their own articles of association, while a public Company limited by shares may or may not have its own articles. Since in this case it is a public company limited by shares it is not necessary to present a copy of articles of association to ROC and in such a case Table A of Schedule I (Model articles) shall be deemed.
 - (ii) The power of the members to effect alteration in the Articles by passing special resolution is limited in as much as the alteration must be bonafide and in the interest of the Company. In the given case, alteration requires taking over the shares of only those who competed with the Company's business. Therefore, empowering the directors to take over shares of such members seems to be in the general interest of the Company as a whole and hence shall be valid. S shall be held bound by the alteration.
- 5 The allotment of shares is valid. Sec.35 of the Companies Act, 1956 provides that a certificate of incorporation issued by the Registrar in respect of any association shall be conclusive evidence of the fact that all the requirements of the Act have been complied within respect of registration, and that the association is a Company authorized to be registered and duly registered under the Act. (Jubilee cotton mills ltd. Vs Lewis)
- (a) The registrar issued a certificate of incorporation on Jan 8th but dated it Jan 5th. The allotment of shares made on or after Jan 5 is valid.
 - (b) On Jan 5th, the Company made an allotment of shares to its members. Held, that the certificate was conclusive evidence of incorporation on Jan 5th and that the allotment was not void on the ground that it was made before the company was incorporated because, under Section 35 of the Act, a certificate of incorporation is a conclusive evidence of the fact that all the statutory requirements of the Act in relation to registration of the Company have been complied with.
- 6 (i) As per Section 3(1)(iii), a Company to be registered as a private Company must restrict its membership to 50 only. But, however, in counting this number of 50 members, persons who are in employment of the company and persons who have formerly been in employment of the company, have been members while that employment and have continued to be members after that employment ceased are to be excluded. Thus, in the given case, the Company shall continue to be a private company. In the present case, there is no need for conversion, as the company has not violated sec 3(1)(iii). The number of members excluding the past employees is 48, which is well below the limit of 50 members.
- (ii) False. Not in all cases. A private Company becomes a public Co. on acceptance of deposits from public through issue of advertisement. If the company invites and accepts deposits, the company shall cease to be a private company. If the infringement were accidental, and if the central government is satisfied that it is just and equitable to grant relief, it may relieve the company on such terms and conditions as seem to the central government just, on an application from the company or any other person interested. However the private Co. can accept the deposit from its shareholders, directors, from their relatives. In such situations, private company does not become a public company.

PRIME ACADEMY
34th SESSION - PROGRESS TEST
COST ACCOUNTING AND FINANCIAL MANAGEMENT

No. of Pages: 7

Total Marks: 75
Time Allowed: 2Hrs

PART-A

1. Wage sheet is prepared by
 - a. Personnel department
 - b. Payroll department
 - c. Cost accounting department
 - d. Production department

2. Labour turnover is calculated by
 - a. Number of workers left/average number of workers
 - b. Number of additions/average number of workers
 - c. Number of workers replaced/average number of workers
 - d. None of the above

3. Which of the following methods of wage payment is most suitable where the speed of production is beyond the control of the worker?
 - a. Time rate system
 - b. Piece rate system
 - c. Halsey premium system
 - d. Both a & b

4. Which of the following methods of wage payment does not guarantee wages on time basis?
 - a. Halsey premium system
 - b. Rowan premium system
 - c. Piece rate system
 - d. Time rate system

5. Factory rent is apportioned based on
 - a. Insurable value
 - b. Number of employees
 - c. Potential demand
 - d. Floor area

6. Primary packing is an item of
 - a. Selling overhead
 - b. Prime cost
 - c. Distribution overhead
 - d. Administrative overhead

7. When factory overhead control account has an ending debit balance, factory overhead is
 - a. Over applied
 - b. under applied
 - c. either a or b
 - d. None of the above

8. Under applied or over applied factory overhead should be
 - a. Carried forward to next year
 - b. Shown as extraordinary item
 - c. Apportioned among cost of goods sold and applicable to inventory
 - d. Written off

9. Credit and collection cost is an item of
 - a. Selling overhead
 - b. Prime cost
 - c. Distribution overhead
 - d. Administrative overhead

10. Warehousing cost is an item of
 - a. Selling overhead
 - b. Prime cost
 - c. Distribution overhead
 - d. Administrative overhead

11. Which of the following is a service department?
 - a. Refining department
 - b. Machining department
 - c. Receiving department
 - d. Finishing department

12. Factory overhead should be absorbed on the basis of
 - a. Relationship to cost incurred
 - b. Direct labour hours
 - c. Direct labour cost
 - d. Machine hours

13. Maximum possible productive capacity of a plant when no operating time is lost is its
 - a. Practical capacity
 - b. Normal capacity
 - c. Theoretical capacity
 - d. Capacity based on sales expectancy

14. Salary of a foreman should be classified as a
- Fixed overhead
 - Variable overhead
 - Semi variable overhead
 - None of the above
15. When FIFO method is used in process costing, the opening stock costs are:
- Kept separate from the costs of the new product
 - Added to new costs
 - Subtracted from the new costs
 - Averaged with other costs to arrive at total costs
16. When average method is used in process costing, the opening stock costs are:
- Kept separate from the costs of the new product
 - Added to new costs
 - Subtracted from the new costs
 - Averaged with other costs to arrive at total costs
17. Under re-apportionment of service department expenses _____ method is used when different service department render service to each other, in addition to rendering services to production departments.
- Direct-redistribution method
 - Step method
 - Non-reciprocal method
 - Reciprocal service method
18. Which of the following is not a financial expense item
- Interest on loans or bank mortgages
 - Goodwill written off
 - Income tax
 - Charges in lieu of rent where premises are owned
19. In contract accounts, the value of the work-in-progress consists of
- The cost of work completed, both certified and uncertified
 - The cost of work not yet completed
 - The amount of profit taken as credit
 - All of the above

20. _____ is excess of contract price over estimated total cost of the contract
- Notional profit
 - c. Profit before Tax
 - Estimated profit
 - d. Retention Money
21. _____ method is used for apportionment of joint costs to joint products upto the split off point
- Market value method
 - Market value at the point of separation
 - Market value after processing
 - Net realisable value method
22. For reducing the labour cost per unit, which of the following factors is the most important
- Low wage rates
 - Higher input output ratio
 - Strict control
 - Long hours of work
23. The input-output ratio in case of labour means the ratio of
- The value of output to the wages paid
 - Standard time of the production to the actual time paid for
 - Abnormal idle time to normal idle time
 - Number of workers employed to the sanctioned strength
24. The worker is guaranteed daily wages under this system
- Accelerated premium system
 - Bedeaux system
 - Premium bonus system
 - Hayne's system
25. Which one of the following is an unavoidable cause for labour turnover
- Change of jobs for betterment
 - Shortage of raw material
 - Lack of training facilities
 - d.Lack of recreational facilities

(25x1=25 Marks)

PART B

Answer any four from the following.

1. The net profit of Rakesh Ltd. Appeared at ₹ 60,652 as per financial records for the year ended 31st March 2011. The cost books, however showed a net profit of ₹86,200 for the same period. A scrutiny of the figures from both the sets of accounts revealed the following facts:

	₹
Works overhead under-recovered in costs	1,560
Administrative overheads over recovered in costs	850
Depreciation charged in financial account	5,600
Depreciation recovered in costs	6,250
Interest on investments not included in costs	4,000
Loss due to obsolescence charges in financial accounts	2,850
Income-tax provided in financial accounts	20,150
Bank interest and transfer fee credited in financial books	375
Stores adjustment (credit) in financial books)	237
Value of opening stock in cost accounts:	24,800
Financial accounts:	26,300
Value of closing stock in cost accounts:	25,000
Financial accounts:	23,000
Interest charged in cost accounts	2,000
Goodwill written off	5,000
Loss on sale of furniture	600

Prepare a statement showing the reconciliation between the figures of net profit as per cost accounts and the figure of net profit as shown in the financial books. (12.5 marks)

2. A workman whose basic rate of pay is ₹10 per hour is working under rowan system of bonus. In addition, he gets dearness allowance of ₹20 per week of 48 hours. During one week he does the following jobs:
- Job 1001 for which 25 hours are allowed, he takes 20 hours
 - Job 1002 for which 30 hours are allowed, he takes 24 hours

During the week, his waiting time amounts to 4 hours. Find the worker's earnings and the amounts to be charged to each job and to overhead. (12.5 Marks)

3. Compute comprehensive machine hour rate from the following data:
- Total cost of machine to be depreciated ₹2,30,000
 - Life:10 years
 - Depreciation on straight line
 - Departmental overheads (annual):

- Rent 50,000
Heat and light 20,000
Supervision 1, 30,000
- e. Departmental area 70,000 square metres
Machine area 2,500 square metres
- f. 26 machines in the department
- g. Annual cost of reserve equipment for the machines ` 1,500
- h. Hours run on production 1,800
- i. Hours for setting and adjusting 200
- j. Power cost ₹0.50/ hour of running time
- k. Labour:
- When setting and adjusting, full time attention
 - When machine is producing, one worker can look after 3 machines
- l. Labour rate is ₹6/hour
- m. Using the machine hour rate as calculated above, work out the amount of factory overhead to be absorbed on the following:
- | | Total hours | Production time hours | setting up time hours | |
|------------|-------------|-----------------------|-----------------------|--------------|
| Job no.10 | 100 | 80 | 20 | |
| Job no. 20 | 100 | 70 | 30 | (12.5 Marks) |

4. The following details are given in respect of manufacturing unit for the month of April 2011:

- Opening work-in-progress 5000 units
 - Materials (100% complete) ₹ 18,750
 - Labour (60% complete) ₹ 7,500
 - Overheads (60% complete) ₹ 3,750
- Units introduced into the process 17,500 units
- 17,500 units are transferred to the next process
- Process costs for the period are:
 - Material ₹2,50,000
 - Labour ₹1,95,000
 - Overheads ₹ 97,500
- The stage of completion of units in closing WIP is estimated to be: material 100%, labour 50% and overheads 50%.

You are required to prepare a statement of equivalent units of production, statement of cost. Also find the value of output transferred, closing work-in-progress, using average cost method.

(12.5 Marks)

5. A company annually manufactures 1,000 toys at a cost of ₹400 per toy and there is home market for consuming the entire volume of production at the sale price of ₹425 per toy. In the end of December 2011, there is a fall in demand for home market which can consume 1,000 toys only at a sale price of ₹370 per toy. The analysis of the cost per 10,000 units is:

	₹
Material	1,50,000
Wages	1,10,000
Fixed Overheads	80,000
Variable overheads	60,000

The foreign market is explored and it is found that this market can consume 2,000 toys of the product if offered at a sale price of ₹350 per toy. It is also discovered that for additional 1,000 toys of the product (over initial 1,000 toys) the fixed overheads will increase by 10%. Is it worthwhile to try to capture the foreign market?

(12.5 marks)

PRIME ACADEMY
34th SESSION PROGRESS TEST - COST ACCOUNTING & FINANCIAL MANAGEMENT
SUGGESTED ANSWERS

PART A

- 1 Payroll department
- 2 Number of workers replaced/average number of workers
- 3 Time rate system
- 4 Piece rate system
- 5 Floor area
- 6 Prime cost
- 7 Under applied
- 8 Apportioned among cost of goods sold and applicable to inventory
- 9 Selling overhead
- 10 Distribution overhead
- 11 Receiving department
- 12 Relationship to cost incurred
- 13 Theoretical capacity
- 14 Semi variable overhead
- 15 Kept separate from the costs of the new product
- 16 Subtracted from the new costs
- 17 Reciprocal service method
- 18 Charges in lieu of rent where premises are owned
- 19 All of the above
- 20 Estimated profit
- 21 Market value at the point of separation
- 22 Higher input output ratio
- 23 Standard time of the production to the actual time paid for
- 24 Premium bonus system
- 25 Shortage of raw material

PART B

1. Reconciliation Statement

Profit as per Cost Accounts		
Add: (a) Administration overheads		
Over-recovered in Cost Accounts	850	86,200
(b) Depreciation overcharged in Cost Books:		
Cost Books	6,250	
Financial Books	<u>5,600</u>	
		650
(c) Receipts and gains credited in Financial Books but not shown in Cost Books:		
(i) Interest on investments	4,000	
(ii) Bank interest and transfer fees	375	
(iii) Stores adjustments	237	
(d) Interest charged in cost accounts	2,000	8,112
		<hr/>
		94,312
Less: (a) Works overhead under-recovered in Cost Books		
	1,560	
(b) Expenses and losses debited in Financial Books but excluded from Cost Books:		
(i) Income Tax	20,150	
(ii) Loss due to obsolescence	2,850	
(iii) Goodwill written off	5,000	
(c) Under-valuation of opening stock in cost accounts	1,500	
(d) Over-valuation of closing stock in cost accounts	2,000	
(e) Loss on the sale of furniture	<u>600</u>	<u>33,660</u>
		<hr/>
		<u>60652</u>

2. Worker's Earnings from Job 1001

Standard Time (S) = 25 hours; Actual Time (T) = 20 hours; Rate (R) = ₹ 10/ hour
 Wages for actual time = 20 hrs @ ₹ 10 /hour 200.00
 Premium according to Rowan system

$$= \frac{S-T}{S} \times T \times R = \frac{25-20}{25} \times 20 \times 10 \quad \text{40.00}$$

Proportion of Dearness Allowance = $20 \times \frac{25}{55} =$ 9.09

(Divide between two jobs in the ratio of time allowed
for the jobs i.e, 25 : 30)

Earnings from Job 1001 249.09

Worker's Earnings from Job 1002

S = 30 hours; T = 24 hours; R = ₹ 10 /hour

Wages for actual time = 24 hours @ ₹ 10 per hour 240.00

Premium according to Rowan system

$$= \frac{S-T}{S} \times T \times R = \frac{30-24}{30} \times 24 \times 10 = 40.80$$

Proportion of Dearness Allowance $20 \times \frac{30}{55}$ 10.91

Earnings from Job 1002 291.71

Waiting time to be charged to overhead 4 hrs. at ₹ 10 = ₹ 40

(Worker is to get wages for idle time and idle time is assumed as normal idle time).

Total Earnings of the Worker

	₹
Job 1001	249.09
Job 1002	291.71
Overhead	<u>40.00</u>
	<u>580.80</u>

3. (A) COMPUTATION OF COMPREHENSIVE MACHINE HOUR RATE

₹

Standing Charges:

Rent, Heat and Light $\left(\frac{70,000 \times 2,500}{70,000} \right) =$ 2,500

Supervision $\left(\frac{1,30,000}{26} \right) =$ 5,000

Depreciation 10% of ₹ 2,30,000 = 23,000

Reserve Equipment Cost $\left(\frac{1,500}{26} \right) =$ 58

Labour Cost during setting and adjustment:

200 Hours @ ₹ 6 1,200
31,758

Hourly Rate for Standing Charges (31,758/1,800)

17.64

Machine Expenses:

Power 0.50

Labour (1/3 of ₹ 6) 2.00

Comprehensive Machine Hour Rate 20.14

Note: It is assumed that there is no power cost when the machine is being set or adjusted.

(ii) If the machine hour rate as calculated in (i) is adopted, the overheads absorbed over the various jobs will be:

Job No.10 = 20.14 x 80 = ₹ 1,611.20

Job No.20 = 20.14 x 70 = ₹ 1,409.80

4. STATEMENT OF EQUIVALENT PRODUCTION (AVERAGE METHOD)

Input		Output		Equivalent Production			
Units	Details	Details	Units	Material		Labour & Overhead	
				Units	% of completion	Units	% of completion
5,000	Op.Stock to next process	Transferred	17,500	17,500	100	17,500	100
17,500	Introduced	Cl.stock	5,000	5,000	100	2,500	50
22,500			22,500	22,500	20,000		

STATEMENT OF COST FOR EACH ELEMENT

Elements of Cost	Cost of opening WIP	Cost in Process	Total Cost	Equivalent units	Cost per unit
Material	18,750	250,000	268,750	22,500	11.944
Labour	7,500	195,000	202,500	20,000	10.125
Overhead	3,750	97,500	101,250	20,000	5.063
Total	30,000	542,500	572,500		

STATEMENT OF APPORTIONMENT OF COST

Items	Elements	Equivalent units	Cost per unit	Cost	Total Cost
Units Transferred to Next process	Material	17,500	11.944	209,020	474,810
	Labour	17,500	10.125	177,188	
	Overhead	17,500	5.063	88,603	
Closing stock	Material	5,000	11.944	59,720	

	Labour	2,500	10.125	25,313	
	Overhead	2,500	5.063	12,658	97,690
					572,500

5. Analysis of Cost data for 1000 units

	Total(₹)	Cost per unit(₹)
Material	150000	150.00
Wages	110000	110.00
Variable Overheads	60000	60.00
Marginal Cost	320000	320.00
Fixed Overheads	80000	80.00
Total cost	400000	400.00

In 2011, selling price in the domestic market is ₹ 370 per toy which is more than the marginal cost of ₹ 320 per toy. Therefore it is desirable to continue the sales in the domestic market because every unit of sale will be contributing ₹ 50 per toy towards fixed cost.

Similarly, sales in the foreign market at a selling price of ₹ 350 per toy is advisable because selling price is more than the marginal cost. Sale of 2000 units in the foreign market will convert loss of ₹ 30,000 if sale is made only in the domestic market to a profit of ₹ 14,000 if sale of 2000 units is made in the foreign market along with sale of 1000 units in the domestic market as is evident from the table given below:

	<i>Sale in Home market</i>	<i>Sale in Foreign market</i>	<i>Total</i>
	<i>1,000 units</i>	<i>2,000 units</i>	
Sale (a)			
10,000 units at ₹ 370	370000	700000	1070000
20,000 units at ₹ 350			
Material	150000	300000	450000
Wages	110000	220000	330000

Variable Overheads	60000	120000	180000
Total Variable overheads(b)	<i>320000</i>	<i>640000</i>	<i>960000</i>
Contribution (a-b)	50000	60000	110000
Fixed Overheads	80000	16000	96000
Profit	-30000	44000	14000

PRIME ACADEMY
34th SESSION PROGRESS TEST INCOME TAX, VAT & SERVICE TAX

No. of Pages: 5

Total Marks: 75

Time Allowed: 2 Hrs

Part A

State True or False with reasons.

- a) VRNI Ltd. Started business on 25.04.11. So for A Ltd. Previous year will be considered as 25.04.11 to 31.3.12.
- b) The onus of responsibility to prove the residential status is on the Assessing Officer
- c) Aamir left India on 26th May, 2011 at 00.05 hours and came back on 29th November, 2011 at 23.45 hours. (Evidenced from the Passport and travel details). During the previous year 2011-12, Aamir claims that he was physically present in India for 180 clear days, and hence a Non-Resident.
- d) Salary due for the month of March, 2011 was received on 4th April, 2011. Hence, the assessee claims this income to be assessed during the previous year 2011-12 and not for the year 2010-11.
- e) Mr. Z, after his retirement, now resides in UK. He is in receipt of monthly Pension from his Indian Employer. Mr. Z claims that such income from pension should not be assessed to tax as an Indian income as it has neither received nor generated in India.
- f) Mr. B, an Indian citizen, is an employee at the Indian embassy in USA, is in receipt of salary including perquisites and allowances. He claims that his allowance or perquisites should be exempted from tax.
- g) An employee is in receipt of House Rent Allowance from his employer for the entire previous year, i.e. 12 months. He was actually residing in rented accommodation for 5 months. He claims exemption of HRA for 12 months.
- h) Un-commuted pension is not taxable for a Government employee .
- i) Rohit, has taken voluntary retirement from X Ltd and received VRS compensation. After a month, he has again joined Y Ltd. Which is under the control and supervision of same management, controlling X Ltd. He is justified in claiming exemption u/s 10(10C).
- j) Salary payable by a company to an Indian citizen for services rendered outside India is an Income which is Deemed to accrue or arise in India.

(10x2=20 Marks)

Fill up the blanks in the following sentence by using appropriate words/phrases:
Answer all five questions.

- 1) The Basic exemption from Income tax for a Resident Individual of the age of 80 years or more at any time during the previous year is -----.
- 2) Scholarship/stipend received by a student to meet the cost of education is ----- U/S ----- of the Income Tax Act,1961.
- 3) Surcharge on Income tax is payable by a Domestic company when the Total Income Exceeds-----.
- 4) A subsidy received from the Tea Board by an Assessee carrying on the Business of growing and Manufacturing tea for Re-plantation or replacement of bushes is -----.
- 5) Income of a Newly established undertaking in a Free Trade Zone is -----.

(5x1=5 Marks)

PART – B

Answer any Five questions.

- 1) (a) Mr. Aditya furnishes the following particulars in respect of a house property owned by him in Delhi.

	Amount ₹
Municipal Value	2,00,000
Fair Rent	2,40,000
Actual Rent (per month)	21,000
Municipal tax paid during the year	20,000

The tenant vacated the property on 31.10.2011 and thereafter the property was let out for ₹ 25,000 p.m. Aditya could not realize the rent for the months of September and October, 2011 due to the death of the earlier tenant.

- A) Compute the annual value of the property for the Assessment year 2011-12.
B) What will be your answer if the unrealized is 1 month instead of 2 months?

(6 Marks)

- (b) Define Application of Income and Diversion of Income with examples.

(4 Marks)

- 2) (a) Mr. Madhavan is an employee of Zumba Ltd. His basic pay is ₹24,000 p.a., Dearness Allowance ₹12,000 p.a.; Medical Allowance (fixed) ₹10,000 p.a.; Conveyance Allowance ₹6,000 p.a.; Professional Tax deducted from his salary ₹1,000 p.a.; Free lunch provided during office hours valued at ₹12,000 for a 300-working day year; free education for two children in a school owned and maintained by the employer – school tuition fee for both the children is estimated at ₹18,000 p.a. Is Mr. M a specified or non-specified employee?

(6 Marks)

- (b) State the persons who can be assessed to tax as a Deemed owner.

(4 Marks)

- 3) a) Mr. Hari retires on 15th October 2011, after serving 30 years and 7 months. He gets ₹5,80,000 as gratuity. His salary details are given below:

FY 2011-12-Salary ₹26,000 pm. D.A. 50% of salary, of which, 50% forms part of retirement benefits.

FY 2010-11:-Salary ₹24,000 pm. D.A. 50% of salary, of which 50% forms part of retirement benefits.

Determine his gross salary in the following cases:

- (i) He retires from government service .

- ii) He retires from seasonal factory in a private sector, covered under Payment of Gratuity Act, 1972.
- (iii) He retires from non-seasonal factory, covered by Payment of Gratuity Act, 1972.
- (iv) He retires from private sector, not covered by payment of Gratuity Act.

(8 Marks)

b) Ms.Rithika, was retrenched from service of "GO T TO GO Limited". Retrenchment compensation received ₹ 6,50,000. Amount determined under the Industrial Disputes Act, 1948 ₹ 5,75,000. What is the taxability?

(2 Marks)

- 4) (a) Calculate the perquisite value of the expenditure on medical treatment, which is assessable in the hands of an employee of a company, inclusive of the conditions to be satisfied:
Gross total income, inclusive of salary ₹2, 00,000

- (i) Amount spent on treatment of the employee's wife in a hospital maintained by the employer ₹20,000.
- (ii) Amount reimbursed by the employer on treatment of the employee's child in a hospital ₹14,000.
- (iii) Medical insurance premium reimbursed by the employer on a policy covering the employee, his wife and dependent parents ₹7,000.
- (iv) (i) Amount spent on medical treatment of the employee outside India ₹2,50,000 and (ii) spent on travel and stay abroad ₹90,000.
- (v) Amount spent on travel and stay abroad of attendant ₹60,000.

(6 Marks)

- (b) Mr. P has estates in Rubber, Tea and Coffee. He has also a nursery wherein he grows plants and sells. For the previous year ending 31.3.2012, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the Assessment year 2012-13:

Manufacture of Rubber ₹5, 00,000

Manufacture of Coffee grown and cured ₹3, 50,000

Manufacture of Tea ₹7, 00,000

Sale of Plants from Nursery ₹1, 00,000

(4 Marks)

- 5) (a) Mr.Ritesh is provided with an accommodation in Kolkata since April 2011. Salary ₹40,000 p.m. Cost of furniture provided ₹80,000. On 1st September, 2011, following a promotion with a increase in Salary by ₹15,000, he was transferred to Jharkhand (population less than 25 lakhs but more than 10 lakhs), and was also provided an accommodation there. Mr.Ritesh was allowed to retain the Kolkata accommodation till March, 2012. Compute taxable value of perquisite for accommodation possessed by the assessee.

(6 Marks)

- (b) under what circumstances is the income of a previous year is assessed to tax during that previous year ?

(4 Marks)

- 6) (a) Aniket joined a company on 1.7.2010 and was paid the following emoluments and allowed perquisites as under: Emoluments : Basic Pay ₹35,000 per month; D.A. ₹20,000 per month; Bonus ₹20,000 per month.

Perquisites:

- (i) Furnished accommodation owned by the employer and provided free of cost;
 - (ii) Value of furniture therein ₹3, 60,000; Hire charges of Furniture provided ₹20,000 p.a.
 - (iii) Motor car owned by the company (with engine c.c. less than 1.6 litres) along with chauffeur for official and personal use, expenses met by Employer.
 - (iv) Sweeper salary paid by company ₹ 1,500 per month; amount recovered @ ₹200 pm.
 - (v) Watchman salary paid by company Rs.1, 500 per month; amount recovered @ ₹ 300 pm.
 - (vi) Educational facility for 2 children provided free of cost. The school is owned and maintained by the company. Elder child studies in class V and younger child in class II. Tuition fee per month ₹1,600 & ₹900 respectively.
 - (vii) Loan of ₹5, 00,000 repayable within 7 years given on 1.10.2010 for purchase of a house. No repayment was made during the year; let charged by employer @ 2% p.a. Interest chargeable as per Income Tax Act @ 10% p.a.
 - (viii) Interest free loan for purchase of computer ₹50,000 given on 1.2.2011. No repayment was made during the year;
 - (ix) Corporate membership of a club. The initial fee of ₹1, 00,000 was paid by the company. Aniket paid the bills for his use of club facilities.
- You are required to compute the income of Aniket under the head "Salaries" in respect of assessment year 2011-12. (6 Marks)

(b) The books of account maintained by a National Political Party registered under the Representation of the People Act, 1951 for the year ended on 31-3-2012 disclose the following receipts:

- (i) Rent of property let out to a departmental store at Chennai. 10, 00,000
 - ii) Interest on deposits other than banks. 2, 00,000
 - (iii) Contribution from 100 persons (who have secreted their names) of 33, 00,000 ₹33,000 each
 - (iv) Contribution @ ₹22 each from 1,00,000 members in cash 22,00,000
 - (v) Net profit of cafeteria run in the premises at Delhi 3,00,000
- Compute the total income of the political party for the assessment year 2012-13, with reason for inclusion or otherwise. (4 Marks)

PRIME ACADEMY
34th SESSION PROGRESS TEST –INCOM TAX SERVICE TAX & VAT
SUGGESTED ANSWERS

PART A

Answers	Reason
1) (a) True	Previous Year for Newly established business From the date of setting up of the business to the end of the financial year in which business was set up.
2) (b) False	The onus of responsibility to prove the residential status is on the Assessee and not on the
3) (c) False	The day on which he leaves India shall be taken into account as the stay of the Individual in India. Hence, no. of days physically present in India would be 182 days (=30+ 31+30+31+31+26+3). He is a Resident.Assessing Officer
4) (d) False	Salary due in a previous year is taxable, even if it not received. Salary is taxable on due basis or on receipt basis, whichever is earlier. If an employee gets pension paid abroad in respect of services in India, the same will be deemed to accrue or arise in India.
5) (e) False	Hence, pension paid to Mr. Z is to be taxed as an Indian income.
6) (f) True	Any allowance or perquisites paid or allowed outside India by the Government to a citizen of India for rendering services outside India will be fully exempted.
7) (g) False	Exemption should be calculated in respect of the period during which rental accommodation is occupied by the employee during the previous year. Hence, the employee is not justified in his action.
8) (h) False	Un-commuted pension is taxable for both government and non-government retired employees as income from salaries
9) (i) False	An individual, who has retired under the Voluntary Retirement scheme, should not be employed in another company of the same management.
10) (j) True	Exempt U/S 10(7) for allowances or Perquisites. Perquisites.
1) ₹5Lacs	
2) Exempt: 10(16) of the Income Tax Act.	
3) ₹1Crore	
4) Exempt	
5) Exempt for 10 years but not beyond AY 2011-12.	

Part B

1)

a) Where Unrealized rent is deducted from Gross Annual Value

Computation of Annual Value:

Step I: Determine the value as per Section 23(1)(a)

It shall be ₹2,00,000 or ₹2,40,000 whichever is Higher. 2,40,000

Actual Rent recd/Receivable(21000*7+25000*5) 2,72,000

Gross Annual Value 2,72,000

Less: Unrealized Rent 42,000

Municipal Taxes 20,000 (62,000)

Net Annual Value 2,10,000

b) ₹2,72,000-21,000-20,000 2,31,000

b) Application of Income – is an obligation to apply income, which has accrued or has arisen or has been received amounts to merely the apportionment of income. Therefore the essentials of the concept of application of income under the provisions of the Income Tax Act are:

- (i) Income accrues to the assessee
- (ii) Income reaches the assessee
- (iii) Income is applied to discharge an obligation, whether self-imposed or gratuitous.

Diversion of Income – is an obligation to apply the income in a particular way before it is received by the assessee or before it has arisen or accrued to the assessee results in diversion of income. The source is charged with an overriding title, which diverts the income. Therefore the essentials are the following:

- (i) Income is diverted at source,
- (ii) There is an overriding charge or title for such diversion, and
- (iii) The charge / obligation is on the source of income and not on the receiver.

Examples of diversion by overriding title are -

- (i) Right of maintenance of dependants or of coparceners on partition
- (ii) Right under a statutory provision
- (iii) A charge created by a decree of a Court of law.

2)

a) Computation of Monetary Salary for the purpose of determining Specified/Non-specified Employee

Particulars	Amount (₹)
Basic Salary	24,000
Dearness Allowance	12,000
Medical Allowance (fixed)	10,000
Conveyance Allowance	6,000
Free – lunch provided during office hours – non-monetary benefits not considered for determining specified employee	n.a.
free education to two children in school owned and maintained by employer - non-monetary benefits not considered for determining specified employee	n.a.
Less: Professional Tax paid	(1,000)
Net Income from Salary (excluding non-monetary benefits)	51,000

Hence Mr.Madhavan is a "specified Employee" . However, if his Net Income from Salary Was equal to ₹50,000/- , or, less, then, he would be assessed as "Non-Specified Employee".

b) A person shall be considered as an owner of a property when the document of title to the property is registered in his name.

The person can be considered as a Deemed Owner, under the following circumstances, Income from House Property is taxable in the hands of the Individual, even if the property is not registered in his name —

- (i) Where the Property has been transferred to spouse for inadequate consideration other than in pursuance of an agreement to live apart.
- (ii) Where the Property is transferred to a minor child for inadequate consideration (except a transfer to minor married daughter)
- (iii) Where the Individual holds an impartible estate.
- (iv) Where the Individual is a member of Co-operative Society, Company, or other Association and has been allotted a house property by virtue of his being a member, even though the property is registered in the name of the Society / Company / Association.
- (v) Where the property has been transferred to the individual's name as part-performance of a contract u/s 53A of the Transfer of Property Act, 1882. (i.e. Possession of the Property has been transferred to Individual, but the Title Deeds have not yet been transferred).
- (vi) Where the Individual is a holder of a Power of Attorney enabling the right of possession or enjoyment of the property.
- (vii) Where the property has been constructed on a leasehold land.
- (viii) Where the ownership of the Property is under dispute.
- (ix) Where the property is taken on a lease for a period of not less than 12 years, then the lessee shall be deemed as the owner of the property.

3)

- a) (i) The amount of gratuity received as a Government employee is fully exempt from tax u/s 10(10)(i)
- (ii) As an employee of a seasonal factory, in a private sector, covered under the Payment of Gratuity Act, 1972

Computation of Taxable Gratuity
Particulars (Amount ₹)

Amount received as Gratuity ₹5,80,000

Less: Exemption u/s 10(10)(ii)

Least of the followings:

- (i) Actual amount received 5,80,000
- (ii) $7/26 \times \text{Last drawn salary} \times \text{No. of years of completed service or part thereof in excess of 6 months}$ [$31 \times 7/26 \times 31,500$] 2,62,903
- (iii) Maximum Limit 10,00,000

Taxable Gratuity 3,17,097 (₹5,80,000-₹2,62,903)

Note : Salary = Basic Pay + Dearness Allowance. In case of seasonal employment, instead of 15 days, 7 days shall be considered.

- (iii) As an employee of a non-seasonal factory, covered by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Amt in ₹
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Amount received as Gratuity	5,80,000
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Less: Exemption u/s 10(10)(ii)	
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Least of the followings:

- (i) Actual amount received 5,80,000
- (ii) $15/26 \times \text{Last drawn salary} \times \text{No. of years of completed service or part thereof in excess of 6 months}$ [$15/26 \times 31 \times 31,500$] 5,63,365
- (iii) Maximum Limit 10,00,000
- (iv) As an employee of a private sector, not covered by Payment of Gratuity Act, 1972

Computation of Taxable Gratuity

Particulars	Amt in ₹
Amount received as Gratuity	5,80,000
Less: Exemption u/s 10(10)(iii) Least of the followings:	
(i) Actual amount received	5,80,000
(ii) $1/2 \times \text{Average salary} \times \text{No. of fully completed years of service}$ [$1/2 \times 31,500 \times 30$]	4,72,500
(iii) Maximum Limit 10,00,000	4,72,500
Taxable Gratuity	1,07,500
Note: Salary = 10 months average salary preceding the month of retirement. = Basic Pay + Dearness Allowance considered for retirement benefits + commission (if received as a fixed percentage on turnover)	

b) Computation of Taxable Retrenchment Compensation

Particulars	Amount ₹
Amount received as Retrenchment Compensation	6,50,000
Less: Exemption u/s 10(10B): Least of the followings:	
(i) Actual amount received	6,50,000
(ii) Amount determined under the Industrial Disputes Act, 1948	5,75,000
(iii) Maximum Limit 5,00,000	5,00,000
Taxable Value	1,50,000

4)

a)	Amount	Taxability/Non-taxability
Computation of Taxable Value of Perquisite for expenses related to medical treatment Nature of Perquisites		
i	Treatment of employee's wife in a hospital maintained by employer	nil fully exempted
ii	Treatment of employee's child in a hospital, not maintained by the employer	nil Since the amount is less than Rs.15,000, it is exempted.
iii	Reimbursement of medical insurance premium	nil since medical insurance premium u/s 80D is paid on the employee and members of his family
iv	Expenses on medical treatment outside India	nil it is assumed that the whole of such expenditure is permitted by RBI
v	Amount spent on travel and stay abroad for the employee (referred as patient in this case)	nil not taxable as the gross total income does not exceed Rs.2,00,000
vi	Rs.	nil not taxable, as the gross total income does not exceed Rs.2,00,000

- (b) Growing and Mfrg of Rubber
 Agri. Income ₹.5L*65% = ₹. 3.25 L
 Non Agri. Inc ₹.5L*35% = ₹.1.75 L
 Grown and Cured Coffee
 Agri. Income ₹.3.50 L*75% = ₹. 2.625 L
 Non Agri. Inc ₹.3.50L*25% = ₹.0.875 L
 Growing and Mfr of Tea
 Agri. Income ₹.7L*60% = ₹.4.20 L
 Non Agri. Inc ₹.7L*40% = ₹.2.80 L

Growing and sale of plant by Nursery:
 Agri. Income ₹. 1L
 Non Agri. inc NIL

5)

a) Phase 1: Value of Furnished Accommodation (Kolkata) (April to September 2011)

Particulars	(amt in ₹)
Value of unfurnished accommodation (15% of 40,000 × 6 months)	36000
Add: Value of Furniture provided:	
10%p.a. of original cost of such furniture (10% of 80,000 x 6 months)	8000
Value of Furnished Accommodation	44,000
a) For the first 90 days of transfer: Where accommodation is provided both at existing place of work and in new place, the accommodation, which has lower value, shall be taxable.	
b) After 90 days: Both accommodations shall be taxable.	
Computation for the first 90 days of transfer:	
Lower of :	
(i) Value of accommodation at existing place of work	
(ii) Value of accommodation at new place.	

Value of accommodation at existing place of work (Kolkata)

15% of salary for 3 months (i.e. 90 days) = 15% of 55,000 × 3 months = 24,750

Add: Cost of furniture provided: 10% of 80,000 x 3 months = 24,000

Total Value of Perquisite 48,750

Value of accommodation at new work place (Jharkhand)

10% of salary for 3 months (i.e. 90 days) = 10% of 55,000 × 3 months = 16,500

Therefore, the assessee shall be assessed to tax on ₹16,500 (being the lower)

Value of accommodation at existing place of work (Kolkata)

15% of salary for 3 months (i.e. 90 days) = 15% of 55,000 × 3 months = 24,750

Add: Cost of furniture provided: 10% of 80,000 x 3 months = 24,000

Total Value of Perquisite 48,750

Value of accommodation at new work place (Jharkhand)

10% of salary for 3 months (i.e. 90 days) = 10% of 55,000 × 3 months = 16,500

Therefore, the assessee shall be assessed to tax on Rs 16,500 (being the lower)

Phase 3: Valuation of accommodation (after 90 days)

For Kolkata accommodation: 15% of 55,000 x 3 months = ₹24,750

Add: Cost of furniture provided: 10% x 80,000 x 3 months = ₹24,000

Total value of perquisite ₹48,750

For Jharkhand accommodation: 10% of 55,000 x 3 months = ₹16,500

Total value of perquisite:

Particulars Taxable value of

Perquisite

Phase 1: Accommodation in Kolkata 44,000

Phase 2: Accommodation in Jharkhand (being the lower during 90 days) 16,500

Phase 3: Accommodation in Kolkata 48,750 16500

Total Value of Taxable Perquisite 1,25,750

b) Previous year & Assessment year will be same in the following cases:

(i) Shipping business of nonresident [Section 172]

(ii) Persons leaving India [Section 174]

(iii) AOP or BOI or Artificial Juridical Person formed for a particular event or purpose [Sec. 174A]

(iv) Persons likely to transfer property to avoid tax [Section 175]

(v) Discontinued business [Section 176]

6)

a) Previous Year: 2011-12 Assessee : Mr. Aniket A.Y. 2012-13

Computation of Income under the head 'Salaries'	₹
(i) Basic Pay (35,000 × 9)	3,15,000
(ii) D.A. (20,000 × 9)	1,80,000
(iii) Bonus (20,000 × 9)	1,80,000
(iv) Value of furnished accommodation Note 1	1,28,250
(v) Motor car (1,800+900) × 9 m	24,300
(vi) Sweeper Salary (1,500-200) × 9 m	11,700
(vii) Watchman Salary (1,500-300) × 9 m	10,800
(viii) Education facility Note	25,400
(ix) Interest free housing loan Note 3	23,333
(x) Interest free computer loan Note 4	1,375
(xi) Corporate membership fee	1,00,000

Gross Salary 8,80,158

Note 1. Value of furnished accommodation:

Particulars	Amount
Salary for this purpose -	₹
Basic Salary (35,000 × 9)	3,15,000
D.A (assuming part of retirement benefits) (20,000 × 9)	1,80,000
Bonus (20,000 × 9)	<u>1,80,000</u>
Total	6,75,000

Assuming, Mr. Aniket stays in a city where population is more than 25,00,000 as per 2001 census,

Value of unfurnished accommodation = 15% of salary = 15% of 6,75,000 = ₹1,01,250

Value of furniture provided = 10% p.a. of actual cost = 10% of 3,60,000 × 9/12 = ₹27,000

(Assuming, value of furniture given in the problem represents actual cost.)

Value of rent free furnished accommodation = 1,01,250 (+) 27,000 = ₹1,28,250

Note 2. Value of Educational Facility

Where the school is owned and maintained by employer, if the cost of education provided is less than ₹1,000 p.m. then the value of perquisite is NIL. If the cost of education exceeds ₹1,000 p.m. then the value of perquisite will be equal to the actual cost of education provided in excess of ₹1,000 pm. per child maximum for two children. Value of perquisite for elder child = ₹16,000 – 1,000) × 9 months = 5,400. Value of perquisite for younger child = NIL, since tuition fee per month is less than ₹1,000.

Assuming, cost of education provided to Aniket's children is less than ₹1,000 p.m. value of perquisite provided is NIL.

Note 3. Interest free housing loan

Value of perquisite = Interest @ 10% p.a. less Actual interest charged = (10% – 2%) × ₹5,00,000 × 7/12 = ₹23,333.

Note 4. Interest free computer loan

Value of perquisite = Interest @ 16.50% p.a. less Actual interest charged = (16.50% – 0%) × ₹50,000 × 2/12 = ₹1,375.

b) Computation of income of National Political Party: AY 2011-2012

Particulars

- (a) Rent from property: Exempt under Sec. 13A
- (b) Income from business Profits of cafeteria 3,00,000
- (c) (c) Income other sources:
 - (i) Interest on deposit other than banks: Exempt under Sec. 13A
 - (ii) Contributions from 100 persons exceeding ₹22,000 each See Note below, 33,00,000

(iii) Contributions from 1,00,000 members: Exempt Sec. 13A . Total income 36,00,000

Note: Any income of a political party received by way of voluntary contributions is exempt, provided:

(i) it keeps and maintains such books of account and other documents as would enable the Assessing Officer to properly deduce its income there from;

(ii) it keeps and maintains a record, name and address of the person who has contributed in excess of ₹20,000; and

(iii) its accounts are audited by an accountant defined in Explanation below Sec. 288(2).

Thus, in order to claim exemption in respect of voluntary contributions exceeding ₹20,000, a political party is required to keep and maintain a record, and names, address of persons who have made such contributions. The legislative intention is to ensure that there is transparency in the process of collection of funds [Common Cause v. Vol. 222 ITR 260 (SC)]. Hence, no exemption can be allowed in respect of contributions exceeding ₹20,000 from persons who have secreted their names.