

**PRIME ACADEMY  
36TH SESSION PROGRESS TEST – ACCOUNTING**

**No. of Pages: 9**

**Total Marks: 75**

**Time Allowed: 2Hrs**

**PART - A**

- 1) What are of the below characteristics is not basic to Pvt. Ltd. Company?
  - a) Restricts the right to transfer its share
  - b) Limit the number of its member to fifty
  - c) Provide invitation to the public to subscribe for shares in or debentures of company
  - D) Prohibits only invitation or acceptance of from persons other than its member, directors or their relations.
  
- 2) Which of the following are basic concepts in accounting
  - a. Going concern
  - b. Accrual
  - c. Consistency
  - d. All of the above
  
- 3) Machinery spares which are not specific to a particular fixed assets should be treated as
  - a. Inventories and charged to Profit and Loss a/c
  - b. Capitalized as a separate fixed asset
  - c. Treated as Capital work in progress
  - d. Any of the above depending on the value of the asset
  
- 4) Interest and other borrowing cost for the purpose of inventory valuation are
  - a. Usually not included
  - b. Usually included
  - c. Included only if the inventories are manufactured
  - d. Included only if the amount is huge
  
- 5) Allocation of fixed production overheads for inventory valuation
  - a. Not considered. Only variable costs are considered
  - b. Allocated based on the normal capacity of production
  - c. Allocated based on actual production
  - d. Allocated based on Installed capacity
  
- 6) Retrospective effect should be given for depreciation for change in
  - a. Historic cost
  - b. Method of depreciation
  - c. Expected useful life
  - d. Both b and c

- 7) The following are the examples of the areas in which different accounting policies may be adopted by different enterprises
- Method of depreciation, depletion, amortization
  - Treatment of goodwill of a family
  - Treatment of personal expenses
  - All of the above
- 8) From accounting point of view, branches are not classified as
- Branches in respect of which the whole accounting records are kept at the HO
  - HO in respect of which the whole accounting records are kept at branches
  - Branches which maintain independent accounting records
  - Foreign branches
- 9) The accuracy of the trading results as disclosed by the branch account, so maintained, can be proved by preparing a
- Memorandum Ho trading and profit & loss account
  - Memorandum of HO and branch trading & loss account
  - Memorandum branch trading and profit & loss account
  - None of the above
- 10) For accounting point of view both hire purchase and installment payment system are same. Before accounting, we should know following things
- Cash price is that price which will be paid if any asset is purchased on cash without installment.
  - Hire price = cash price + interest for risk of giving asset on installment.
  - Down payment = Payment at the beginning of deal of hire purchase..
  - All of the above
- 11) There are four methods of accounting for hire purchase. In this which of the following is not the method of accounting, as prescribed by ICAI
- Cash Price Method
  - Interest Suspense Method
  - Stock and Debtor Method
  - P&L method
- 12) AS 2 applies to all inventories , except
- WIP arising under construction contract , including directly related services contract  
Revaluation reserve
  - Financial instrument
  - Biological assets
  - All of the above

- 13) Government grant received for the purchase of Capital asset should be
- Credited to Profit and Loss A/c
  - Credit to the cost of the asset
  - Treated as deferred income
  - Either b or c
- 14) In profit or loss prior to incorporation, the balance in the suspense account will always equal to the amt of \_\_\_\_\_ and \_\_\_\_\_ taken over remaining unadjusted at any time .
- CRS & DRS
  - DRS & CRS
  - Either a or b
  - Both a & b
- 15) Sale proceeds of right renounced in the market is
- Credited to P&L a/c
  - Credited to the cost of the original shares
  - Credited to the Capital reserve account
  - Any of the above depending on the value
- 16) A machine was purchased jointly by two companies. At the date of their balance sheet, how should the disclosure be made
- Only 50% of the book value to be disclosed
  - Full value of the machinery to be disclosed with other party as 50%
  - No disclosure to be made since machinery is not wholly owned
  - Either a or b
- 17) In case of integral foreign operations, cost of fixed asset should be recognized at
- Apply rate on date of purchase
  - Apply closing rate on which balance sheet is drawn
  - Apply opening rate
  - Apply the average rate of closing and opening
- 18) A change in method of depreciation can be provided only if
- required by statute,
  - for compliance with an accounting standard or
  - for appropriate presentation of the financial statements.
  - All of the above
- 19) Asset given free of cost is recorded in the books at
- Nominal value
  - Zero value
  - Not recorded
  - Either b or c

- 20) Foreign Branch operations functioning independently from the parent, the functional currency will be:
- Same as parent
  - Determined using the guidance for determining the entity's functional currency.
  - That of the country of incorporation
  - None of the above
- 21) Accounting method when goods have substantial sales under hire purchases system
- Cash price method & Interest suspense method
  - Debtors method & stock & debtors method
  - All of the above
  - Either a or c
- 22) Accounting method when goods have small sales under hire purchases system
- Cash price method & Interest suspense method
  - Debtors method & stock & debtors method
  - All of the above
  - Either a or c
- 23) Grants when refundable should be shown as
- Prior period item
  - Ordinary item
  - Extra ordinary item
  - Either b or c
- 24) Non-cash consideration on amalgamation should be accounted at
- Cost
  - Book value
  - Average of a and b
  - Fair value
- 25) Under consignment sales, revenue is recognized:
- When goods are sold to third party
  - On sending the consignment
  - When third party sells
  - Either a or b

**(25x1=25 Marks)**

PART – B

50 Marks

Question 1 is Compulsory. Answer any 3 questions from the rest  
All workings should form part of your answer

1) A: Following is the extract of the Balance Sheet of Flora Ltd., a listed company as at 31<sup>st</sup> March, 2012

Particulars	Amount `
Authorised Capital:	4,00,000
40,000, 12% Preference shares of ` 10 each	40,00,000
4,00,000, Equity shares of ` 10 each	44,00,000
	3,20,000
Issued and Subscribed Capital:	
32,000, 12% Preference shares of ` 10 each	
fully paid	36,00,000
3,60,000 Equity shares of ` 10 each fully paid- up	
Reserves and Surplus:	
Revaluation reserves	80,000
General reserve	5,00,000
Capital reserve	3,00,000
Securities premium	1,00,000
Profit & Loss (Cr.)	7,00,000
Secured Loan:	
12% Partly convertible debentures @ ` 10 each	20,00,000

on April 30, 2012 the company decided to capitalize its reserve by way of bonus at the rate 1:4 . security premium of ` 100000 includes the premium of ` 20000 for shares issued pursuant to the scheme of amalgamation. Capital reserve includes ` 160000, being profit on sale of plant & machinery. 20% of 12% debentures are convertible into equity shares of 10 fully paid on April 30,2012

State with the following reasons

- (i) Whether Revaluation Reserve be capitalised?
- (ii) How much amount of Capital reserve can be capitalised?
- (iii) How much amount of 'Securities Premium A/c' can be capitalised?
- (iv) Are the convertible debenture holders entitled to Bonus shares?
- (v) The minimum number of Equity shares to be issued by way of Bonus as on 30th April 2012

(vi) What should be the minimum amount of authorised capital, if the decision to issue Bonus shares gets implemented?

( 12 Marks )

b) Accent Ltd has a hire purchase department which fixes hire purchases price by adding 40% to the cost of goods. The following additional information is provided to you on 1<sup>st</sup> April 2011

Particulars	Amount `
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year :	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value unpaid of ` 5,600) goods repossessed due to defaults (hire-purchase instalments	7,800

On 31<sup>st</sup> March 2012

Goods out on hire-purchase (at hire-purchase price) 3,78,000

You are required to prepare hire trading account, ascertaining the profit made by the department during the year ended 31<sup>st</sup> March 2012

(8 Marks)

2. The following is the Balance Sheet of Bumbum Limited as at 31<sup>st</sup> March 2009

**Sources of Funds**

	Amount `
Authorized Capital	
50,000 Equity shares of ` 10 each	5,00,000
10,000 Preference shares of ` 100 each	10,00,000
Issued subscribed and paid up	15,00,000
30,000 Equity shares of ` 10 each	3,00,000
5000 redeemable 8% preference of 100 each	5,00,000

Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2500, 9% Debentures of ` 100 each	2,50,000
Sundry Creditors	<u>1,70,000</u>
	<u><b>26,50,000</b></u>
<b>Application of Funds</b>	
Fixed Assets (net)	7,80,000
Investments (market value ` 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	6,20,000
Cash & Bank balance	2,80,000
Preliminary expenses	1,40,000
	<u><b>26,50,000</b></u>

In Annual General Meeting held on 20<sup>th</sup> June 2009 the company passes the special resolution

- (i) To split equity share of ` 10 each into 5 equity shares of ` 2 each from 1<sup>st</sup> July 2009
- (ii) To redeem 8% preference shares at a premium of 5%.
- (iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at ` 10 per share or accept cash on redemption.
- (iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date. on 10<sup>th</sup> July, 2009 investments were sold for ` 5,55,000 and preference shares were redeemed. 40% of Debenture holders exercised their option to accept cash and their claims were settled on 1 august 2009 The company fixed 5 th September, 2009 as record date and bonus issue was concluded by 12<sup>th</sup> sept 2009

You are requested to journalize the above transaction including cash transactions and prepare Balance Sheet As at 30<sup>th</sup> sept, 2009. **(10 Marks)**

3

- a) Sun moon corporation sells goods on hire purchases. The hire purchases prices is cost plus 50% . from the following information, prepare hire purchases trading account for the year ended 31 st March 2010

Hire-purchase stock reserve on 1.4.2009	1,20,000
Instalments due on 1.4.2009	30,000
Goods sold on hire-purchase during the year	8,40,000
Instalments due on 31.3.2010	70,000
Hire-purchase stock reserve on 31.3.2010	1,80,000

- b) What are the three major consideration for the selection of any accounting principles and policies?
- A. Whether interest paid on loan utilized for acquiring inventory be capitalized to the cost of inventory?
  - B. Write short notes on the advantages and disadvantages of setting of Accounting standard? Any 3 on both the side

(10 Marks)

- 4) Freshlook Ltd. Was incorporated on 1.7.2009 and it took over the business of a vendor w.e.f 1.4.09. Following information was made available for the year ended 31.3.2010.

Gross profit Rs 98000, commission `2625, advertisement `5250, discount `350, directors fees `9000, salaries `18000, depreciation `2800. Insurance `600, preliminary expenses `700, rent & taxes `3000, bad debts `1250, Interest to vendor (upto to 1.10.2009) `2000 audit fee `2000 bad debt recovered (on 1-5-2009) `500 .

Following additional information was provided:

- 1.0. Average monthly turnover from sept onwards was double than that of average monthly turnover of the first 4 months. However, in August 2009, the turnover was 150% of the turnover in the following month
- 2.0 Rent for the first three month was paid @Rs 20 / month and thereafter .increased `50 per month
- 3.0 Bad debts for the period from sept 1,2009 to March 31, 2010 amt to `350 only



4.0 Audit fee was allocated on time basis.

You are required to find out the amt of profit for pre and post incorporation pd, clearly showing the basis of allocation.

(10 Marks)

5) Repairs Ltd is in the hands of the receiver for the debentures holder who holds the charge on all assets except uncalled capital. The following statement shows the position as regards creditors As on 30<sup>th</sup> June 2010.

<b>Liabilities</b>		<b>Assets</b>	
6,000 shares of ₹ 60 each, ₹ 30 paid up		Property, machinery and plant etc. (Cost	
First debentures	3,00,000	₹ 3,90,000)	
Second debentures	6,00,000	Estimated at	1,50,000
Unsecured creditors	4,50,000	Cash in hand of the receiver	2,70,000
		Charged under debentures	4,20,000
		Uncalled capital	1,80,000
			6,00,000
		Deficiency	7,50,000
	<b>13,50,000</b>		<b>13,50,000</b>

A Holds the first debentures for ₹ 3,00,000 and the second debentures for ₹ 300000. He is also an unsecured crs for ₹ 90000. B holds the second debentures for ₹ 300000 and unsecured crs for ₹ 60000.

The following scheme of reconstruction is proposed:

1.0 A is to cancel ₹ 210000 of the total debt owing to him, to bring ₹ 30000 in cash and to take 1<sup>st</sup> debentures (in cancellation of those already issued to him) for ₹ 510000 in satisfaction of all the claims

2.0 B is to accept ₹ 90,000 in cash in satisfaction of all claims by him.

3.0 in full settlement of 75% of the claims , unsecured crs(other than a&b) agreed to accept 4 shares of ₹ 7.5 each, fully paid against the claims for each of the shares of ₹ 60. The balance of 25% is to be postponed and to be payable at the end of the 3 yrs from the date of court approval of the scheme. the nominal share capital is to be increased accordingly.

4.0 uncalled capital is to be called up in full and ₹ 52.5 / share cancelled, thus making the shares of Rs 7.5 each.

GIVE NECESSARY JOURNAL ENTRIES.

(10 Marks)

**PRIME ACADEMY**  
**36th SESSION PROGRESS TEST - ACCOUNTING**  
**SUGGESTED ANSWERS**  
**PART A**

<b>Q.NO:</b>	<b>OPTION</b>
1	C.
2	C.
3	A.
4	A.
5	B.
6	B.
7	A.
8	B.
9	C.
10	D.
11	D.
12	D.
13	D.
14	B.
15	A.
16	D.
17	A.
18	D.
19	A.
20	B.
21	A.
22	B.
23	C.
24	D.
25	A.

**PART –B**

1.

a) (i)

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 " reserves created by revaluation of fixed assets Can not be capitalized."

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 " capital reserve " realized in cash can be utilized for issue of fully paid bonus shares.

Therefore ` 160000 Being profit on sale of plant , is a capital profit which has been realized in cash, can be utilized For issue of bonus shares. for the remaining balance in capital reserve account , no further details of its constituents have been given. therefore no comment on it can be made.

As per SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009 " security premium collected in cash can only be utilized for bonus issue , therefore, 80000(100000-20000) can be utilized for bonus issue

(ii) As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 , no company can issue bonus shares to its shareholders without extending similar benefit to convertible debentures holders, pending such conversion, necessary no. should be earmarked for convertible debentures holders.therefore, converible debentures holders are also entitled to the bonus shares in the same ratio as the equity shareholders.

(iii) **Minimum number of Equity shares to be issued as bonus shares**

		<i>In shares</i>
(iv)	Issue of Bonus Shares to existing Equity Shareholders	90000
	<i>Add:</i> Number of bonus shares to be issued after conversion of debentures( 20,00,000*20%/10)*1/4	
		<u>10000</u>
	Total bonus issue through equity shares	<u><b>100000</b></u>

(v) **Minimum Authorised Share Capital**

	Shares	
Equity share capital		
Existing Equity Shares	3,60,000	36,00,000
Bonus to Equity Shareholders	90,000	9,00,000
20% conversion of 12% Debentures	40,000	4,00,000
Bonus shares to be issued to Debenture holders after conversion	<u>10,000</u>	<u>1,00,000</u>
Authorised Equity Share Capital	<b>5,00,000</b>	<b>50,00,000</b>
Preference share capital		
12% Preference Shares	<u>40,000</u>	<u>4,00,000</u>
Minimum Authorised Capital		<u><b>54,00,000</b></u>

b)

**Accent LTD**

To Opening Balances :Hire purchase stock	2,10,000	By Opening hire purchase stock reserve	60,000
Instalments due	14000	By Bank (Instalments received)	8,20,000
To Goods sold on hire purchase	9,80,000	By Goods repossessed	7,800
To Closing hire purchase stock reserve (W.N.3)	1,08,000	By Goods sold on hire purchase(Loading)(W.N.2)	2,80,000
Profit and loss Account (Transfer of profit)	2,34,200	Closing Balances:	
		Hire purchase stock	3,78,000
		Instalments due (W.N.4)	8,400
	<u>15,46,200</u>		<u>15,46,200</u>

**WORKING NOTES**

(i)	Opening hire purchase stock reserve = $210000 \times 40/140$	60000
(ii)	Loading on goods sold= $980000 \times 40/140$	280000
(iii)	Closing hire purchases stock reserve = $378000 \times 40/140$	108000
(iv)	Closing installment due:	
	Opening hire purchase stock	210000
	Opening installment due	14000
	Goods sent on hire purchase	980000
		<u>1204000</u>
	Less: installment received	812000
	Unpaid installment on repossessed goods	5600
		-
	closing hire purchases stock	<u>378000</u>
		<u>1195600</u>
		<u>8400</u>

**2. Journal Entries in the books of Bumbum Limited**

Date	Particulars	LF	Amount `	Amount `
1.7.2009	ESC ( ` 10 each)	Dr	300000	300000
	To ESC ( ` 2 each) (Being subdivision of 30000 equity shares of ` 10 each into 150000 equity shares of ` 2 each)			
1.7.2009	8% PSC ( ` 100 each)	Dr.	500000	
	Premium on redemption of Preference Share	Dr.	25000	
	To Preference Share holders a/c (Amount payable to preference shares holders)			525000
1.7.2009	9% Debentures	Dr.	250000	
	To Debenture holders			250000
	(Amount payable to Debenture holders)			
10.7.2009	Cash a/c	Dr	555000	
	To Investments			490000
	To P & L a/c			65000
	(Being Investment sold at a profit of ` 65000 for the purpose of redemption of preference shares)			
10.7.2009	General Reserve	Dr.	500000	
	To Capital Redemption Reserve a/c (Being CRR a/c created for the purpose of redemption of pref. shares)			500000
10.7.2009	Security premium a/c	Dr.	25000	
	To Premium on redemption of pref. shares (Being premium on redemption of preference shares written off from security premium a/c)			25000
10.7.2009	Preference share holders a/c	Dr.	525000	

	To Cash a/c			525000
	(Being payment made to preference share holders)			
1.08.2009	Debenture holders a/c	Dr.	250000	
	To Cash a/c			100000
				30000
	To Equity shares capital a/c			120000
	To Security premium a/c			
	(Being payment made to 40% debenture holders in cash & 15000 equity shares of ` 2 each issued at ` 8 premium to rest of the debenture holders)			
5.09.2009	Capital Redemption Reserve -----	Dr.	110000	
	To Bonus to shareholders a/c			110000
	(Being a/c for issue of bonus shares in the ratio of 1:3 vide general body's resolution dated .....)			
12.09.2009	Bonus to Shareholders a/c -----	Dr.	110000	
	To Equity Share Capital a/c			110000
	(Being 55000 bonus Shares of ` 2 each issued vide board's resolution dated.....)			

BALANCE SHEET OF BUMBUM LTD. AS ON 30.9.2009

**Sources of Funds**

Authorized Capital	
250000 Equity Shares of ` 2 each	500000
10000 Preference shares of ` 100 each	1000000
	1500000
Issued Subscribed & paid up	
220000 Equity shares of ` 2 each	440000
(out of which 70000 shares of ` 2 each were issued for consideration other than cash)	
Reserve & Surplus	
Securities Premium a/c	695000
General Reserve	150000
P & L a/c	245000
CRR a/c	390000
Sundry Creditors	170000
	<u>20,90,000</u>

**Application of Funds**

Fixed Assets (Net)	780000
Deferred tax Asset	340000
Sundry Debtors	620000
Cash & Bank Balance W.N. (1)	210000

Preliminary Expenses

140000  
20,90,000

**W.N.  
(1)**

		<b>Cash A/c</b>			
To	Balance b/d	280000	By Preference Shareholders	525000	
"	Investments	490000	"	Debenture holders a/c	100000
"	P & L a/c	65000	"	Balance c/d	210000
		<u>835000</u>			<u>835000</u>

**3.**

**a)**

**Hire-Purchase Trading Account for the year ended 31.03.2010**

To H.P. Stock (Opening)	3,60,000	By H.P. Stock Reserve (Opening)	1,20,000
To Installment due(Opening)	30,000	By Bank (Cash Collected)	6,20,000
To Goods Sold on H.P.	8,40,000	By Goods Sold on H.P. (Loading)	2,80,000
To(Closing)H.P. Stock Reserve	1,80,000	By H.P. Stock (Closing)	5,40,000
To Profit & Loss A/c	2,20,000	By Installments due	70,000
	<u>16,30,000</u>		<u>16,30,000</u>

**Working Notes:**

**(i) Calculation of Opening and Closing H.P. Stock**

Opening Stock =	H.P. Stock Reserve $\times$ 150/50
=	1,20,000 $\times$ 150/50
=	3,60,000
Closing Stock =	H.P. Stock Reserve $\times$ 150/50
=	1,80,000 $\times$ 150/50
=	5,40,000

**(ii) Calculation of installments collected:**

H.P. Stock on 01.04.2009	3,60,000
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Installments due on 01.04.2009	30,000
Goods sold on H.P. basis	<u>8,40,000</u>
	12,30,000
Less: H.P. Stock on 31.03.2010	<u>5,40,000</u>
	6,90,000
Less: Installment due on 31.03.2010	<u>70,000</u>
Installment collected during the year	<u>6,20,000</u>

b) Three major consideration for selection of any accounting principles & policies

**PRUDENCE:**

**Is the inclusion of the degree of caution in the exercise of judgement needed in making estimates required under condition of uncertainty by exercising prudence, an enterprise does not recognise profits on the basis of anticipation. These are recognised only when realised though necessarily in cash. However, all known losses are anticipated and provided for.**

**SUBSTANCE OVER FORM:**

if information is to represent faithfully the transaction or events, it is essential that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form

**MATERIALITY**

The relevance of information is affected by its materiality. Information is material if its misstatement ie omission or erroneous statement, could influence the economic decision taken by the user, based on such financial statement the other qualitative characteristics of accounting information such as (i) relevance,(ii) neutrality (iii) completeness (iv) reliability

c. AS 2- provides that interest and other borrowing cost are usually considered as not relating to bringing the inventory to its present location & condition. Therefore such cost are usually not included.



d) Advantages

- i. Standards reduce to a reasonable extent or eliminate altogether confusing variations in the accounting treatment used to prepare financial statement.
- ii. There are certain area where important information are not statutorily required to be disclosed.
- iii. the application of accounting standard would, to a limited extent, facilitate comparison of financial statement of companies situated in different parts of the world and also of different companies situated in same country.

Disadvantages

- i. Alternative solutions to a certain accounting problems may each have arguments to recommend them. Therefore, the choice between different alternative accounting treatment may become difficult.
- ii. There may be a trend towards rigidity and away from flexibility in applying the accounting standards
- iii. accounting standards cannot override the statue. The standards are required to be framed within the ambit of prevailing statutes.

4.

Profit and Loss Account									
showing calculation of pre-incorporation and post-incorporation profit									
Particulars	Basis	Pre	Post	Particulars	Basis	Pre	Post		
To Commission	(1:6)	375	2,250	By Gross Profit	(1:6)	14,000	84,000		
To Advertisement	(1:6)	750	4,500	By Bad Debts Realised	Actual	500	-		
To Discount	(1:6)	50	300						
To Directors Fees	Actual	-	9,000						
To Salaries	(1:3)	4,500	13,500						
To Depreciation	(1:3)	700	2,100						
To Insurance	(1:3)	150	450						
To Preliminary Expenses	Actual	-	700						
To Rent	(W.N.3)	60	630						
To Taxes	(W.N.3)	578	1,732						
To Bad Debts	(W.N.4)	386	864						
To Interest to vendor(upto 1-10-2009)	(1:1)	1,000	1,000						
To Audit Fees	(1:3)	500	1,500						

To Capital reserve	5,451		
To Net profit	<u>14,500</u>	<u>45,474</u>	<u>14,500</u> <u>84,000</u>

**Working Notes:**

**1.0 Calculation of Sales Ratio:**

Let average monthly turnover during first four months (April, May, June and July) = ₹ 100

Average monthly turnover from September onwards =  $100 \times 2 = ₹ 200$

Monthly turnover during August = 150% of 200 = ₹ 300

Turnover during pre-incorporation period =  $100 \times 3 = ₹ 300$

Turnover during post-incorporation period (for July + August + September to March)

**2.0 Calculation of Time ratio:**

April 2009 to June 2009 : July 2009 to March 2010

3 months : 9 months or 1:3

**3.0 Break-up of Rent and Taxes:**

Rent =  $(20 \times 3) + (70 \times 9) = ₹ 690$

Taxes =  $3,000 - 690 = ₹ 2,310$ .

**4.0 Allocation of Bad Debts:**

Bad Debts from April to August =  $1,250 - 350 = ₹ 900$

Sales ratio upto August (i.e. April, May and June): (July and August)

$(100 + 100 + 100) : (100 + 300) = 3:4$

₹ 900 allocated in the ratio of 3:4 is ₹ 386 and ₹ 514

Post-incorporation bad debts =  $514 + 350 = ₹ 864$

and Pre-incorporation bad debts = ₹ 386

5.

**Journal Entries**

Particulars		Debit (Rs.)	Credit (Rs.)
First debentures A/c	Dr.	3,00,000	
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	90,000	
To A's A/c			6,90,000
(Being A's total liability ascertained)			
A's A/c	Dr.	2,10,000	
To Reconstruction A/c			2,10,000
(Being cancellation of debt upto Rs.2,10,000)			
Bank A/c	Dr.	30,000	
To A's A/c			30,000
(Being cash received in course of settlement)			
A's A/c	Dr.	5,10,000	
To First debentures A/c			5,10,000
(Being liability of a discharged against first debentures)			
Second debentures A/c	Dr.	3,00,000	
Unsecured creditors A/c	Dr.	60,000	
To B's A/c			3,60,000
(Being B's liability ascertained)			
B's A/c	Dr.	3,60,000	
To Bank A/c			90,000
To Reconstruction A/c			2,70,000
(Being B's liability discharged)			
Unsecured creditors A/c	Dr.	3,00,000	
To Equity share capital A/c			1,12,500
To Loan (Unsecured) A/c			75,000
To Reconstruction A/c			1,12,500
(Being settlement of unsecured creditors)			
Share final call A/c	Dr.	1,80,000	
To Share capital A/c			1,80,000
(Being final call money due)			
Bank A/c	Dr.	1,80,000	
To Share final call A/c			1,80,000
(Being final call money received)			
Share capital A/c (Face value Rs.60)	Dr.	3,60,000	
To Share capital (Face value Rs. 7.50)			45,000
To Reconstruction A/c			3,15,000

(Being share capital reduced to Rs.7.50 each)

Reconstruction A/c	Dr.	8,70,000	
To Profit and loss A/c			8,70,000
(Being reconstruction surplus used to write off losses)			

**Working Notes:**

**Settlement of claim of remaining unsecured creditors**

75% of ₹ 3,00,000	₹	2,25,000
Considering their claim for share of ₹ 60 each		
$2,25,000/60 = ₹ 3,750$ shares		
Less: Number of shares to be issued		
$3,750 \times 4 = 15,000$ shares of ₹ 7.5 each		
Total value= ₹ 15,000 x 7.50		<u>1,12,500</u>
Transferred to Reconstruction A/c		<u>1,12,500</u>

**Ascertainment of profit and loss A/c debit balance at the time of reconstruction.**

Liabilities	₹	Asset	₹
Share capital	1,80,000	Fixed assets	3,90,000
1st Debenture	3,00,000	Cash	2,70,000
2nd Debenture	6,00,000	Profit and loss A/c	8,70,000
Unsecured creditors	4,50,000		
	<u>15,30,000</u>		<u>15,30,000</u>

**PRIME ACADEMY**

**36<sup>TH</sup> SESSION PROGRESS TEST**

**BUSINESS LAW, ETHICS AND COMMUNICATION**

No. of Pages: 3

Total Marks: 75

Time Allowed: 2Hrs

**PART – A**

**I. A Fill in the blanks:**

1. Allotment of shares before receipt of minimum subscription makes the allotment \_\_\_\_\_
2. A company filing a shelf prospectus shall be required to file \_\_\_\_\_ with the Central Government.
3. Companies Limited by share and companies \_\_\_\_\_ cannot purchase their own shares as per section 77 of Companies Act 1956.
4. Underwriting commission cannot exceed \_\_\_\_\_ % of the issue price for shares & \_\_\_\_\_ % for debentures.
5. Contracts entered into by a promoter after getting the certificate of incorporation but before obtaining the certificate to commence business are called \_\_\_\_\_ contracts.

**II. Match the Following:**

- |   |  |
|---|--|
| 1. Misrepresentation in prospectus  | Section 25 of the Company Act.                       |
| 2. Impersonation while applying for shares  | Liable as a contributory                             |
| 3. Co. carrying on business when the number of Members goes below the statutory minimum | Imprisonment upto 5 years                            |
| 4. Signatories to the memorandum  | Director's personal liability                        |
| 5. Associations not for profit  | Civil liability u/s 62 and criminal liability u/s 63 |

### III. Answer Briefly, in one or two Sentences

1. A private limited company issues debentures to the public. Does it become a public limited company?
2. A company altered the objects clause of its Memorandum of Association according to the procedure laid down by law, i.e., by passing a special resolution. A copy of the resolution was filed with the Registrar four months after the passing of the resolution. Can the Registrar register the alteration?
3. Under the Articles, the directors of a company had power to borrow up to ₹ 10,000 without the consent of the general meeting. The directors themselves lent ₹ 35,000 to the company without such consent and took debentures. Is the company liable for ₹ 35,000?
4. A company issued a prospectus containing misstatements on which action could be taken against the company. A person purchased shares in the market relying on the prospectus and filed a suit against the company for damages for the misstatements. Will he succeed?
5. In a prospectus issued by the Managing Director of a company it was stated that the company had paid a dividend every year during 2005-2009, thus implying that the company had been prospering. As a matter of fact, the company had sustained losses during the relevant period and had paid dividends only out of secret reserves accumulated in the past. Can this observation be construed as a misstatement so as to render the maker criminally liable and, if so, on what ground?

(Total 25 Marks)

**PART-B**

**( 50 Marks)**

**Answer any 10 Questions:**

1. What is paralinguage what are its advantage & Limitation?
2. Explain the meaning of Irregular Allotment and its effect.
3. What is shelf prospectus? Which organizations are required to issue and file such a prospectus?
4. What is meant by 'sweat equity shares'? What are the conditions to be fulfilled by for proposing to issue such shares?
5. What are the restrictions and regulations with respect to issue of shares at a premium?
6. Briefly explain the doctrine of Constructive Notice under the Companies Act, 1956. What are the exceptions to this doctrine?
7. A Co. registered with the name "Royal Textiles Ltd" wishes to change its name to "Sunrise Textile Industries Ltd." Explain the procedure to be followed in this respect.
8. Define a Private Ltd Co. Explain the procedure for converting a Pvt Ltd Co. into a Public Ltd Co.
9. Discuss the traits of a Critical Thinker.
10. What is meant by "lifting of corporate veil? Under what circumstance can it be lifted up?
11. Explain the procedure for changing the Objects Clause of MOA.
12. Explain the importance of Certificate of Commencement of business u/s 149?

**PRIME ACADEMY**  
**36th SESSION PROGRESS TEST – LAW, ETHICS AND COMMUNICATION**  
**SUGGESTED ANSWERS**  
PART-A

**1.**

1. Voidable
2. Information Memorandum.
3. Limited by Guarantee and having Share capital.
4. 5% for shares & 2.5% in the case of debentures.
5. Provisional contracts.

**2.**

1. Mis-representation in Prospectus—Civil liability u/s 62 and criminal liability
2. Impersonation while applying for shares-Imprisonment upto 5 years.
3. Co carrying on business when the no of members falls below the Statutory Minimum- Directors' Personal Liability .
- 4 Signatories to the Memorandum----- Liable as a contributory.
- 5 Association not for profit. \_\_\_\_\_Section 25 of the Companies Act.

**3.**

1. Yes By Sec 3(i) (iii)
2. No-He need not
3. No. the co. is liable only for ` 10,000/- Exception to constructive notice
4. No-He has purchased the shares from the market and the mis statement in the prospectus would not have affected his decision.
5. Yes, the Managing Director is criminally liable on the ground of misstatement in the prospectus.



## PART-B

1. Paralanguage means the language used to describe a wide range of vocal characteristics like pitch, speed etc. The following points have to be taken care of while using voice:

- i. **Voice**

Voice is the most important element of paralanguage; voice of the speaker reveals his education, training, temperament. Voice can be clear, unclear, pleasant or unpleasant, musical and so on. The clearer the voice, the more effective is the communication.

- ii. **Speaking speed**

A speaker may speak at different speeds at different occasions. The speech need not be fast but should be fluent. The easy parts of a message should be spoken fast because these can be easily understood but the difficult part of the message should be delivered slowly.

- iii. **Pitch variation**

Speaking at length on the same level of pitch makes the speech monotonous or boring. Therefore pitch variations are to be made to hold the attention of the listeners and maintain their interest in the speech. Generally high level officers speak in a high pitched voice, while lower level employees speak in low pitched voices.

- iv. **Volume variation**

The volume variation injects life into our speech. The loudness of the voice should be adjusted according to the size of the audience. The larger the audience the higher the volume as it should be audible

- v. **Pause**

One should not speak at length without pausing at right moments is helpful in gaining the attention of the audience about the upcoming subject but, frequent pauses also spoil the flow of the speech & may thereby affect the interest of the listener.

- vi. **Non-fluencies**

Non-fluencies such as oh, an, um, ok, you see, you know etc need to be carefully included in the speech. These utterances improve the fluency of the speech as it gives some time to audience and the speaker to review what has been heard, but frequent non-fluencies irritate the listener & create a negative opinion of the speaker.

### **vii. Word stress**

Proper word stress is highly important in communication. A speaker can change the meaning of the word by stressing that word in the same sentence.

Eg: Have you been to LONDON?  
HAVE you been to LONDON?  
Have YOU been to London?

### **viii. Advantages of Para language**

- Paralanguage ensures completeness in communication
- A speaker's educational background can be judged from his way of speech
- Paralanguage of a person indicates his place in the hierarchical structure in the organization
- Knowledge of a person's paralanguage is helpful in dealing with the speaker
- One can improve his paralanguage by listening to good speakers.

### **ix. Limitations of Para language**

- Para language is like a language but not a complete one at that. Therefore it should be used along with oral communication
- Unless the listener is open minded, has good voice quality, speaking speed, pitch etc may prejudice him resulting in poor listening.
- Speakers belong to different speech communities, due to which uniformity is difficult.

## **2. IRREGULAR ALLOTMENT**

### **Meaning**

It refers to an allotment in contravention of provisions of Sec.69 and 70 i.e

- a. Where the allotment is defective because it is made before the expiry of the fifth day after the publication of the prospectus is issued, generally, the allotment is valid, but the Company and its officers in default are liable to a fine.
- b. Where an allotment is made before receiving minimum subscription or before receiving the minimum application money of 5 percent of the nominal value of the share or without having filed a prospectus or a statement in lieu of prospectus with the Registrar of Companies, the allotment is voidable at the option of the allottee.
- c. Where the allotment is defective because no application was made to the Stock Exchange for permission or an application was made but refused listing, the allotment is void.

## EFFECT OF IRREGULAR ALLOTMENT

### a. Remedy against Company

This remedy is available where the allotment is voidable at the option of allottee. He may avoid within the time specified in Sec.71 viz

Situation	Time Limit
Where allotment is made before the statutory meeting u/s 165	Within 2 months of holding the statutory meeting
Where no statutory meeting is held	Within 2 months of date of allotment
Where allotment is made after statutory meeting	Within 2 months of date of allotment (Even if Company is in the course of being wound up)

### Steps

- i. Allottee is to intimate the Company within the above specified time limit of his intention to avoid the allotment.
  - ii. Legal proceedings, if necessary, can commence even after expiry of the above time limit, if step (i) is complied with within reasonable time.
3. Shelf prospectus means a prospectus issued by any financial institution or bank for their issue of any security-any PFC/ BANK/ ANY OTHER FINANCIAL INSTITUTION.

### 4. SWEAT EQUITY: SEC.79A

Sweat equity shares means equity shares

- a) Issued by the Company to employees or directors
- b) At a discount, or for consideration other than cash
- c)
  - i. for providing know-how, or
  - ii. making available rights in the nature of intellectual property rights, or
  - iii. value additions by whatever name called.

### Procedure

A Company may issue sweat equity shares if the following conditions are fulfilled:

- a) The shares should be of a class of shares already issued
- b) The issue of sweat equity shares is authorized by a special resolution passed by the Company in the general meeting
- c) The resolution specifies
  - (i) the number of shares;
  - (ii) current market price;
  - (iii) the class of directors or employees to whom such equity shares are to be issued.

- d) At least one year should have elapsed from the date of commencement of business
- e) If the Company is a listed Company, then the issue should comply with SEBI regulations.

## 5. ISSUE AT A PREMIUM: SEC.78

Issue at a premium means issue at a price more than the nominal value. Eg: When share whose face value is ₹ 100 is issued at a price of ₹ 125, then the share is said to be issued at a premium of ₹ 25. The premium on issue of securities (shares, debentures, convertibles) is decided by the Board of Directors

SEBI guidelines provides for condition with which companies can issue shares at a premium' and does not provide for quantification of premium also by making suitable amendments to the Companies Act merely discusses the restriction on utilization of securities premium.

## 6. Doctrine of Constructive Notice

MOA & AOA are documents registered with the Registrar and hence in the nature of Public documents-accessible to all. Any person dealing with the co may be expected to have read them . This kind of presumed notice is called the doctrine of Constructive notice.

Exception to this rule is the Doctrine of Indoor Management, wherein the outsiders may just be presumed to have read these public documents, but nothing more-they may not know the internal things- they may safely presume that the internal regulations are duly complied with-Royal British Bank Vs Turquand.

## 7. For changing the name of Royal Textiles Ltd to Sunrise Textiles Ltd-

Special Resolution to be passed and form 23 to be filed with the Registrar Application to the Central Govt. (ROC being the designated Authority) has to approve the name presently Sunrise Textiles Ltd.

## 8. A Private limited co is a company which has a minimum paid up capital of ₹ 1 lakh and which, by its Articles, restricts the right to transfer its shares, limits the number of members to 50 excluding past and present employees Prohibits any invitation to the public for subscription to its shares or debentures & Prohibits any invitation or acceptance of deposits.

Steps for conversion of a pvt.co into a public co;

Conversion by choice;

By altering its Articles by a Special Resolution so as not to include the restrictions contained in sec 3 (1)(iii)

Also by making suitable amendments To increase the number of members to 7 Paid up capital to ₹ 5 lakhs.

No. of directors to 3.

Filing Form 23 with the Registrar.

Making suitable alterations in the Name of the co and also effecting similar changes in the MOA and AOA AND filing with the registrar

### CONVERSION BY DEFAULT:

If a pvt.co fails to comply with any of the restrictive provisions contained in Sec 3(1)(iii), all provisions of the Act as applicable to a public co become applicable to the co in question and the co becomes a public co by default.

9. Traits of a 'Critical Thinker':

- a) Independent thinking, Intellectual Empathy and Humility, courage, Integrity & perseverance and he like.
- b) Standards that guide thinking including clarity and thought, accuracy, precision etc . and utilizing information to the thinking situation. These standards can guide the critical thinker to a decision that is not clouded by irrelevant information.

10. Lifting of Corporate veil :

- a) Meaning : Although the company is a separate legal entity as per the principal established in Soloman Vs Soloman & co ltd., the advantages of this Corporate personality are allowed to enjoy only by those who make an honest use of the same. In case of the dishonest or fraudulent use of this principle, the law will lift the Corporate veil and identify the persons who are behind the curtain and make them responsible for such fraud or Improper conduct.
- b) Circumstances : The Corporate entity will be disregarded in the following circumstances.
  - 1. Determination of the character of the company.
  - 2. Protection of Revenue
  - 3. Prevention of fraud
  - 4. Where the Corporate Façade is only an Agency
  - 5. Where the doctrine conflicts with public policy
  - 6. Avoidance of the welfare legislation.
  - 7. Quasi criminal cases
  - 8. Number of member falling below statutory minimum.
  - 9. Misrepresentation in prospectus
  - 10. Failure to refund application money.
  - 11. Subsidiary company
  - 12. Non Payment of Tax
  - 13. Ultravires Acts.

11. Procedure for Changing Objects clause :

To satisfy reasons specified in section 17.

Special Resolution and filing form 23 with ROC.

After getting confirmation from ROC making suitable changes in MOA.

12. Importance of certificate of commencement of Business under sec. 149:

- a) Applicable only for a Public Company.
- b) Penal provision applicable if a Public Company commences business without obtaining this document.
- c) Any Business given in the other objects clause can be commenced on obtaining prior approval of share holders by special resolution.
- d) This certificate is however not a conclusive evidence that all the objects contained in the objects clause of MOA are legal.

PRIME ACADEMY  
36<sup>TH</sup> SESSION PROGRESS TEST  
COST ACCOUNTING AND FINANCIAL MANAGEMENT

No. of Pages: 7

Total Marks: 75  
Time Allowed: 2Hrs

PART – A

1. Job costing is used in
  - a. Paper mills
  - b. Chemical works
  - c. Printing press
  - d. Textile mill.
  
2. When cost break up of opening work in progress is given ( material, labour etc) in percentage terms only, the method that can be used in preparing process accounts is:
  - a. Average method
  - b. FIFO method
  - c. LIFO method
  - d. Any method can be used.
  
3. Which of the following pair (industry: method of costing) is incorrect
  - a. Construction: Contract costing
  - b. Transport : Operating costing
  - c. Printing : Job costing
  - d. Car repair : Process costing
  
4. Job cost is usually estimated on the basis of
  - a. Customer's specifications
  - b. Production cost
  - c. Competitors Prices
  - d. Government regulations
  
5. When there is loss on an incomplete contract, the transfer to P&L A/c is
  - a. Proportionate loss to work certified
  - b. Proportionate loss to cash received to work certified
  - c. Full amount of the loss
  - d. None of these.
  
6. Product which has practically no sale value is
  - a. Waste
  - b. Scrap
  - c. Defectives
  - d. All of the above

7. Which of the following method can be used in oil refinery

- a. Operating costing
- b. Process costing
- c. Job costing
- d. Unit costing

8. Which of the following statements are true:

- (i) Composite unit is a distinctive feature of operating costing
- (ii) Cost unit for taxis is passenger kilometers

- a. Both
- b. (i) only
- c. (ii) only
- d. Both are false

9. 50 units are input in a process at a total cost of Rs.90. Normal loss is 10% with zero scrap value. If actual output is 40 units, the amount of abnormal loss is:

- a. ₹ 80
- b. ₹ 5
- c. ₹ 9
- d. ₹ 10

10. Process costing is suitable to industries where

- a. Production is carried on in two or more different stages
- b. Production is as per customer specifications
- c. Specialised services are rendered.
- d. Contracts are undertaken

11. The following data with respect to a process with a normal loss of 4% on processed production is as follows ( in units)

Opening stock	24,600
Input	4,70,600
Units completed & transferred to next process	4,60,800
Total loss	22,600

Normal loss in units is:

- a. 904
- b. 18,432
- c. 18,816
- d. 19,336

12. In Q 11 the abnormal loss is

- a. 21,696
- b. 4,168
- c. 3,784
- d. 3,264

13. In Q.11 the closing work in progress in units is

- a. 11,800
- b. Nil
- c. 35,400
- d. 6,000

14. Which of the following statements is true?

- a. Escalation clause in a contract provides that contract price is fixed.
- b. When cash received is 90%, retention money is 45%
- c. There is no difference between notional profit and estimated profits.
- d. No amount of profit is taken to the profit and loss account in case a contract is less than 25% complete

15. Which method of costing is best suited for interior decorator ?

- a. job costing
- b. contract costing
- c. process costing
- d. operating costing

16. Which of these statements is correct as far as process costing is concerned?

- a. Each process output can be sold without further processing
- b. Only the materials introduced in process 1 is sufficient for the whole production
- c. Each manufacturing process has normal gain
- d. The output of one process forms the input of another process

17. If maintenance cost and total distance covered of a truck for the last 2 years is

Year	distance covered	maintenance cost `
1	4320 kms	37,960
2	5700 kms	42,100

The variable cost is:

- a. ` 5 per km
- b. ` 8 per km
- c. ` 3 per km
- d. ` 7.5 per km

18. In question no: 17 the fixed maintenance cost is:

- a. ` 22,500
- b. Nil
- c. ` 20,000
- d. ` 25,000

19. When a contract is 50% complete, profit to be transferred to P & L a/c is calculated as per

- a. 1/3 rd rule
- b. 2/3 rd rule
- c. Estimated profit rule
- d. 100% of the profits is transferred.



20. In the contract a/c of subsequent year, which of the following previous year figures will not appear?
- Work certified
  - Work uncertified
  - WIP reserve
  - Cash received from contractee
21. Salvage value of abnormal loss is
- Credited to process a/c
  - Debited to process a/c
  - Credited to abnormal loss a/c
  - Credited to costing P & L a/c
22. In Contract accounts work uncertified is valued at
- cost
  - contract price
  - Estimated total costs
  - Contract price less expected cost to completion
23. Number of buses 6, number of days operating in a month 25, trips made by each bus per day 8, distance covered 20 kms one way, capacity- 40 passengers, capacity utilization 80% normally. Passenger kilometers for a month is
- 14,40,000
  - 16,20,000
  - 15,36,000
  - 13,50,000
24. Cost unit for a Hotel is
- Room
  - customer
  - Customer days
  - Room days
25. Product which can be made saleable by further processing is
- Waste
  - Scrap
  - Defectives
  - Spoilage

(25X1 = 25 Marks)

**PART B**  
**Answer any 3 Questions**

50 Marks

1. (a) A Firm produced 400 units of X spending ₹ 36,00,000 towards materials and ₹ 6,20,000 towards conversion charges. Ten percent of the output was found to be defective, which had to be sold at 10% less than the price for good production. If the sales realization should give the firm an Overall profit of 12.5% on cost, find the selling price per unit of both the categories of X. The scrap arising during the process fetched a realization of ₹ 60,000.

**(6.5 Marks)**

- (b) A contract contains an escalation clause which read as follows: "In the event of prices of material and rate of wages increased by more than 5%, the contract price would be increased accordingly by 25% of the rise in the cost of materials and wages beyond 5% in each case." It was found that since the date of signing agreement the prices of materials and wage rates increased by 25%. Materials purchased during the year was ₹ 1,00,000 and wages paid ₹ 45,000. Materials in hand at the end of the year and wages outstanding were ₹ 25,000 and ₹ 5,000 respectively. Calculate the contract escalation to be credited to the contract a/c:

**(6 Marks)**

2.

In a manufacturing company, a product passes through 5 operations. The output of the 5th operation becomes the finished product. The input, rejection, output and labour and overheads of each operation for a period are as under:

Operation	Input (units)	Rejection (units)	Output (units)	Labour and Overhead (₹)
1	21,600	5,400	16,200	194,400
2	20,250	1,350	18,900	141,750
3	18,900	1,350	17,550	245,700
4	23,400	1,800	21,600	140,400
5	17,280	2,880	14,400	86,400

You are required to:

- (i) Determine the input required in each operation for one unit of final output.  
(ii) Calculate the labour and overhead cost at each operation for one unit of final output and the total labour and overhead cost of all operations for one unit of final output.

**(12.5 Marks)**

3.

From the following information for the month of October, 2003, prepare Process III cost accounts:

Opening WIP in Process III	1,800 units at ₹ 27,000
Transfer from Process II	47,700 units at ₹ 5,36,625
Transferred to Warehouse	43,200 units
Closing WIP of Process III	4,500 units
Units scrapped	1,800 units
Direct material added in Process III	₹ 1,77,840
Direct Wages	₹ 87,840

Production overheads ₹ 43,920

Degree of completion:

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

The normal loss in the process was 5% of the production and scrap was sold @ ₹ 6.20 per unit.  
( 12.5 Marks)

4.

A Club runs a library for its members. As part of club policy, an annual subsidy of up to ₹ 5 per member including cost of books may be given from the general funds of the club. The management of the club has provided the following figures for its library department.

Number of Club members	5,000
Number of Library members	1,000
Library fee per member per month	₹ 100
Fine for late return of books	₹ 1 per book per day
Average No. of books returned late per month	500
Average No. of days each book is returned late	5 days
Number of available old books	50,000 books
Cost of new books	₹ 300 per book
Number of books purchased per year	1,200 books
Cost of maintenance per old book per year	₹ 10

Staff details	No :	Per Employee Salary per month ( ₹ )
Librarian	1	10,000
Assistant Librarian	3	7,000
Clerk	1	4,000

You are required to calculate:

- The cost of maintaining the library per year excluding the cost of new books;
- The cost incurred per member per month on the library excluding cost of new books; and
- The net income from the library per year.

If the club follows a policy that all new books must be purchased out of library revenue

- What is the maximum number of books that can be purchased per year and
- How many excess books are being purchased by the library per year?
- How much excess subsidy would be required? If the subsidy policy cannot be changed suggest a proposal to maintain the target addition of 1200 books?

(12.5 Marks)

5.

(a) In a factory following Job costing method, an abstract from the work in progress as at 30<sup>th</sup> September was prepared as under:

Job No.	Materials	Direct Labour		Factory over-heads applied
		Hours		
115	1,325	400	800	640
118	810	250	500	400
120	765	300	475	380
	2,900		1,775	1,420

Materials used in October were as follows:

Material Requisition No:	Job No:	Cost (₹)
54	118	300
55	118	425
56	118	515
57	120	665
58	121	910
59	124	720
		3,535

A summary of Labour hours deployed during October is as under :

Job No:	Number of hours	
	Shop A	Shop B
115	25	25
118	90	30
120	75	10
121	65	-
124	20	10
	275	75

A shop credit slip was issued in October that material issued under Requisition no. 54 was returned back to stores as being not suitable. A Material Transfer Note issued in October indicated that material issued under Requisition no. 55 for Job 118 was directed to Job 124.

The hourly rate in shop A per labour hour is ₹ 3 per hour while at shop B, it is ₹ 2 per hour. The Factory overheads are applied at the same rate as in September. Jobs 115, 118 and 120 were completed in October.

You are asked to compute factory cost of completed jobs. It is the practice of management to put 10% of the factory cost to cover administration and selling overheads and invoice the job to the customer on a total cost plus 20% basis. What would be the invoice price of the three jobs?

**(12.5 Marks)**

**PRIME ACADEMY**  
**36<sup>TH</sup> SESSION PROGRESS TEST**  
**COST ACCOUNTING AND FINANCIAL MANAGEMENT**  
**SUGGESTED ANSWERS**

**PART- A**

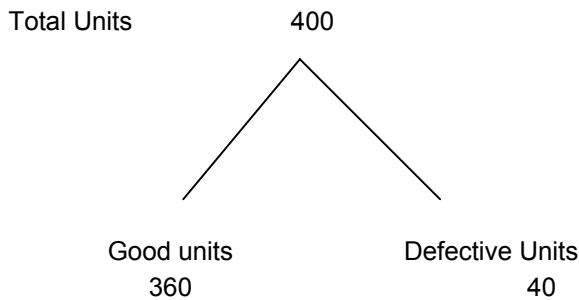
QN	OPTION
1	C
2	B
3	D
4	A
5	C
6	A
7	B
8	B
9	D
10	A
11	D
12	D
13	A
14	D
15	A
16	D
17	C
18	D
19	C
20	D
21	C
22	A
23	C
24	D
25	C

**PART- B**

**1. (a)**

**Computation of Total revenue required**

Materials	3600 000
Conversion cost	620 000
Less: Scrap realisation	60 000
<b>Total cost of Product X</b>	<b>4160 000</b>
Profit required (12.5% of cost)	520 000
<b>Total Revenue</b>	<b>4680 000</b>



If selling price of good units is x, selling price of defective units will be 0.90 x

Total revenue from sale of 360 good units and 40 defective units should be = ` 46,80,000

$$360x + 40*(.90x) = ` 46,80,000$$

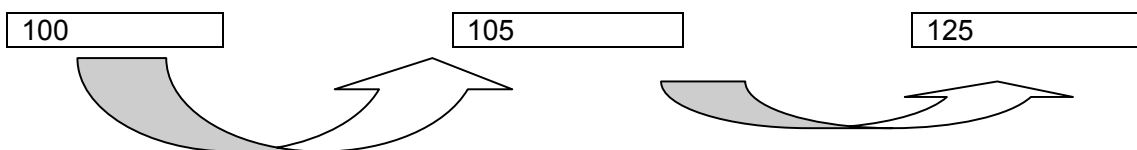
$$360x + 36x = ` 46,80,000$$

$$x = 4680000/396 = ` 11,818.18$$

Selling price of good units should be ` 11,818 and defective units should be ` 10, 636

**1.(b)**

Original price of material price was say ` 100 (at the time of signing agreement)  
 If the price increased to 105 – escalation clause will not apply  
 If price increases beyond 105 – 25% of the increase beyond 5 will be the escalation amt.  
 Materials have increased by 25% so price of material is 125. So Escalation met by contractee will be:



No Escalation		Escalation= 25% of (125-105) =5
---------------	--	---------------------------------------

Material cost after increase: ` 1, 00,000-25000(closing stock) = ` 75000

Escalation is 75,000 x (5/125) = ` 3000

Wages= 45000(paid) + 5000(o/s) = ` 50, 000

Escalation is 50,000 x (5/125) = ` 2000

**Total Escalation to be credited to Contract a/c is 3000 + 2000 = ` 5000**

!2.

Operation	Input	Rejection	Output	Rejection / Output Ratio	Output/Input ratio
1	21,600	5,400	16,200	1/4	3/4
2	20,250	1,350	18,900	1/15	14/15
3	18,900	1,350	17,550	1/14	13/14
4	23,400	1,800	21,600	1/13	12/13
5	17,280	2,880	14,400	1/6	5/6

If Output in Operation 5 is 1 unit, the corresponding input in the operation must be 1/Input Output ratio

= 1

----- = 1.2 units → this will be the output of Operation 4  
5/6

Operation	Output/Input ratio	Input required
5	5/6	1.2
4	12/13	1.3
3	13/14	1.4
2	14/15	1.5
1	3/4	2.0

Therefore for an output on 1 unit in Operation 5, input required in Operation 1 is 2 units

**Labour and Overhead cost per unit of output**

Operation	Labour & Overhead cost	Output	Rate	Output for 1 Unit of final output	Total Labour & Overheads
1	194 400	16 200	12.00	1.5	18.00
2	141 750	18 900	7.50	1.4	10.50
3	245 700	17 550	14.00	1.3	18.20
4	140 400	21 600	6.50	1.2	7.80
5	86 400	14 400	6.00	1.0	6.00
					<b>60.50</b>

Total Labour and overhead costs of all operations for one unit of final output is ` 60.50

3.

<b>Process A/c (FIFO Method)</b>					
	<u>Units</u>	<u>Amount</u>		<u>Units</u>	<u>Amount</u>
To Opening Stock	1 800	27 000	By Normal Loss	2 250	13 950
To Input from Process II	47 700	536 625	By Closing Stock	4 500	71 100
To Materials		177 840	By Transfer to warehouse	43 200	796 500
To Labour		87 840			
To Production A/c		43 920			
To Abnormal gain	450	8 325			
	<b>49 950</b>	<b>881 550</b>		<b>49 950</b>	<b>881 550</b>

**WORKING NOTES:**

**Working Note -1**

Opening WIP	1 800
Input during the year	47 700
Total Input	<u>49 500</u>
Less: Closing Stock	<u>(4 500)</u>
Processed/Production	45 000
Less: Normal Loss (5% of Production)	<u>(2 250)</u>
Expected Operating profit	42 750
Less: Actual Operating profit	<u>(43 200)</u>
<b>Abnormal loss/(gain)</b>	<b><u>( 450)</u></b>

**Working Note -2**

**Units introduced, completed and transferred**

Transfer to next process	43 200
Less; Opening WIP	<u>(1 800)</u>
	<b><u>41 400</u></b>



### Working Note -3

#### Statement showing computation of equivalent units

Particulars	Units	Material I		Material II		Labour & Overheads	
		%	Eq units	%	Eq units	%	Eq units
Opening Stock	1 800	0%	-	20%	360	40%	720
Units introduced, completed & transferred	41 400	100%	41 400	100%	41 400	100%	41 400
Closing Stock	4 500	100%	4 500	70%	3 150	50%	2 250
Normal Loss	2 250	0%	-	0%	-	0%	-
Abnormal Loss	( 450)	100%	( 450)	100%	( 450)	100%	( 450)
<b>Total</b>	<b>49 500</b>		<b>45 450</b>		<b>44 460</b>		<b>43 920</b>

### Working Note -4

#### Statement computing cost/equivalent unit

	Material I	Material II	Labour & O/Hs
Costs	536 625	177 840	131 760
(-) Salvage value & normal Loss	(13 950)	-	-
	522 675	177 840	131 760
Equivalent Units	45 450	44 460	43 920
Cost/Equivalent Unit	11.50	4.00	3.00

### Working Note -5

#### Statement of Valuation

Opening Stock	$(0 \times 11.50) + (360 \times 4) + (720 \times 3)$	3600
Units introduced, completed & transferred	$41400 (11.50 + 4 + 3)$	765900
Closing Stock	$(4500 \times 11.50) + (3150 \times 4) + (2250 \times 3)$	71100
Abnormal Gains	$450 (11.50 + 4 + 3)$	8325

Valuation of transfer to next process

Opening stock b/fwd	27000
Op Stock work done in this process	3600
Units introduced, completed & transferred	765900
	<b>796500</b>

4.

<b>A Total cost of the library( excluding cost of new books)</b>		
Maintenance cost of old books	50,000 x 10	500,000
Staff costs:		
Librarian	1 No: x ` 10,000 pm x 12	120,000
Assistant Librarian	3 Nos x ` 7,000 pm x 12	252,000
	1 No: x ` 4,000 pm x 12	<u>48,000</u>
Total cost p.a excluding cost of new books		<u>920,000</u>
No: of members of the library		1,000
Therefore cost per member per month		=
	<u>9,20,000</u>	76.67
	12 X 1000	
<b>B Income of the library</b>		
Membership fee	1000 x100 p.m x 12	1,200,000
Late fee	500 books x 5 days x Re1 ` x 12 months	<u>30,000</u>
Total income		<u>1,230,000</u>
Net income of the library	B - A	310,000
<b>C.</b>		
Cost per new book		300
No: of new books that can be purchased from net income	310000/300	1,033.33
		i.e. 1,033
Excess books being purchased by the library is 1200-1033		167
Shortfall in income for purchasing books	300 x 1200 less Net income	50,000
Subsidy as per club's existing policy	` 5 x 1000	<u>5,000</u>
Additional subsidy required		<u>45,000</u>
If the additional subsidy cannot be obtained the club can increase the membership fee		
Increase per member per annum	45000/1000	45
Per month	45/12	3.75

5. (a)

Statement computing factory cost and Sales Values of Jobs			
	Jobs		
	115	118	120
	Amount in `		
Materials:			
September	1325	810	765
October ( Working Note 1)	0	515	665
	1325	1325	1430
Labour			
September	800	500	475
October ( Working Note 2)	125	330	245
	925	830	720
Prime Cost	2250	2155	2150
Add : Factory overheads			
September	640	400	380
October ( Working Note 3)	100	264	196
	740	664	576
Factory cost	2990	2819	2726
Add : Administration & Selling overheads (10% of factory cost)	299	281.9	272.6
Cost of Sales	3289	3100.9	2998.6
Add : Profits @ 20% of cost	657.8	620.18	599.72
Sales	3946.8	3721.08	3598.32

### Working Notes

Material Requisition No: 54, 55 and 56 are as regards to Job 118. However MRN 54 is

1 returned and MRN 55 redirected to another job. Hence only MRN 56 is to be considered

2 Labour

Job 115	$25 \times 3 + 25 \times 2$	125
Job 118	$90 \times 3 + 30 \times 2$	330
Job 120	$75 \times 3 + 10 \times 2$	245

3 Factory overheads

September	costs	Labour	Rate	(overheads/ Labour)
Job 115	640	800	0.8	
Job 118	400	500	0.8	
Job 120	380	475	0.8	

Therefore recovery rate is 80% of Labour cost

**PRIME ACADEMY  
36TH SESSION PROGRESS TEST**

**TAXATION**

**No. of Pages:4**

**Total Marks: 75**

**Time Allowed: 2Hrs**

**PART- A**

Answer any 25 questions.

- 1) Definition of Specified Employee u/s 17(2) (iii).
- 2) -----expenditure is incurred in acquiring, extending or improving a fixed asset whereas -----expenditure is incurred in the normal course of business as a routine expenditure.
- 3) Under Chapter IV A of the Income Tax Act, 1961 , Salary is taxable on ----- and method of accounting is -----
- 4) Un-commuted pension is not taxable for a Government employee .
- 5) 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.
- 6) 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.
- 7) 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
- 8) 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.
- 9) Interest-free/concessional loan of an amount not exceeding ` 20,000 is a tax free perquisite.
- 10) A domestic servant is engaged by an employee R who is employed in X limited and X limited reimburses the salary paid to the servant is exempt from tax.
- 11) Transport Allowance given to an employee to meet his expenditure for the purpose of commuting between the place of his residence and the place of his duty and it is exempt upto -----
- 12) Income received in India in previous year is taxable in the hands of
  - (a) Resident;
  - (b) Not-resident;

- (c) Non ordinarily resident;
- (d) All the above.

- 13) Expenditure incurred by an employer on medical treatment and stay abroad of the employee shall not be taxed in the case of \_\_\_\_\_.
- 14) An employee whose gross total income before including the said expenditure does not exceed ` 2 lakhs.
- 15) An employee whose income under the head "Salaries" exclusive of all monetary perquisites does not exceed. ` 2 lakhs,
- 16) An employee whose income under the head "Salaries" exclusive of all non-monetary perquisites does not exceed ` 2 lakhs,
- 17) All employees irrespective of their amount of gross total income/the amount of income under the head "Salaries".
- 18) VAT increases the retail price as VAT is payable on the first sale price.
- 19) Three variants of VAT
- 20) A trader purchases raw material from the local market worth ` 200000 and pays VAT @ 12.5% and he imports goods worth ` 100000 , duty on the same is @12.5%. What is the Input tax credit amount he can avail?
- 21) The method of computation of tax in which all the factor payments including profits are aggregated to arrive at the total value addition on which rate is applied to calculate the tax is -----.
- 22) Purchases from ----- are not eligible for input tax credit.
- 23) It is permitted to issue Tax invoice including VAT.
- 24)----- is eligible to obtain VAT registration under VAT laws.
- 25) The tax invoice shall be dated and signed by the -----  
Records to be maintained under VAT law
- 26) VAT registration can be cancelled on -----
- 27) The basic rates prescribed under VAT law are-----.

PART- B

50 Marks

Answer any Ten question.

Each question carries 5 Marks

Workings Should form part of your answer:

- 1) VAT would increase the Working capital requirements and interest burden.
- 2) M/s Jyothi Industries, a registered dealer of VAT in the State of Rajasthan, furnishes the following details relating to its sales and purchases during the quarter ended 31st December, 2012 :

Sales :

Sale of *Schedule C* (4%) goods in Rajasthan ` 8,32,000 inclusive of tax

Sale of *Schedule CA* (12.5%) goods in Rajasthan ` 4,50,000 inclusive of tax

Sale of *Schedule C* (4%) goods in Rajasthan ` 4,16,000 inclusive of tax

Sale of *Schedule A* (Exempted) goods in Rajasthan ` 85,000.

Sale, return of *Schedule CA* goods in April, 2010 for ` 20,000 inclusive of tax.

Freight and delivery charges included in turnover and not separately charged :

For *Schedule A* goods ` 5,000

For *Schedule C* goods ` 30,000

For *Schedule CA* goods ` 22,000

Purchases :

*Schedule C* (4%) goods from dealers in Rajasthan ` 9,00,000 inclusive of tax

*Schedule CA* (12.5%) goods in Rajasthan ` 3,50,000 inclusive of tax

*Schedule A* (exempted) goods in Rajasthanl ` 70,000

Purchase from unregistered dealer in Rajasthan for ` 2,000 goods used in regular business of the dealer (*Schedule*

*CA* goods) 12.5%

Determine aggregate sale price, taxable turnover of sales, output tax liability, input tax credit and net VAT liability of the dealer.

- 3) Compute the VAT Liability of Mr. Badri for the month of January 2012 using "Invoice Method" of computation of VAT, from the following particulars

Particulars	Amount
Purchase price of the inputs purchased from the local market (Inclusive of VAT)	26,000
VAT Rate on Purchases	4%
Storage Costs incurred	250
Transportation Cost	950
Goods sold at a Profit Margin of 5% on cost of such goods	
VAT Rate on Sales	12.5%

- 4) Explain how Audit is supposed to be conducted under VAT Act?
- 5) Write any EIGHT purchases for which Input Tax Credit is not available.

- 6) Instances where previous year & assessment year will be same
- 7) Eazy go . Ltd., allotted 1000 sweat equity shares to Luckyman in June 2012. The shares were allotted at ₹ 200 per share as against the fair market value of ₹ 300 per share on the date of exercise of option by the allottee viz. Luckyman. The fair market value was computed in accordance with the method prescribed under the Act.(i) What is the perquisite value of sweat equity shares allotted to Luckyman?(ii) In the case of subsequent sale of those shares by Luckyman what would be the cost of acquisition of those sweat equity shares?
- 8) Z is employed in A Ltd. As on 1.4.2012, his basic salary ₹ 16,000 p.m. He is also entitled to a dearness allowance of 65% of basic salary. 70% of the dearness allowance is considered for retirement benefits. The company gives him HRA ₹ 8,000pm. With effect from 1.1.13 he receives an increment of ₹ 1,000 in his basic salary and was staying with his parents till 31.10.2012. From 1.11.12 he takes an accommodation on rent in Delhi and pays ₹ 10,500 pm as rent for the accommodation. Compute taxable HRA for the assessment year 2013-14
- 9) Mr. King is getting a salary of ₹ 5,400 pm since 1.1.11 and dearness allowance of ₹ 3,500 pm, 50% of which is a part of retirement benefits. He retires on 30th November 2012 after 30 years and 11 months of service. His pension is fixed at ₹ 3,800 pm. On 1st February 2013 he gets 3/4ths of the pension commuted at ₹ 1,59,000. Compute his gross salary for the previous year 2012-13 in the following cases:  
 (i) If he is a government employee, getting gratuity of ₹ 1,90,000  
 (ii) If he is an employee of a private company, getting gratuity of ₹ 1,90,000  
 (iii) If he is an employee of a private company but gets no gratuity.
- 10) Mr. D takes interest-free loan of ₹ 6,00,000 on 1.11.12 from his employer to construct his house. The loan is repayable in 40 monthly instalments from January 2011. Compute the value of interest free loan. SBI Lending rate 10.5% p.a. (for housing loans not exceeding 5 years).
- 11) What are the perquisites taxable in case of specified employees?
- 12) With respect to Leave travel concession, discuss about the ceiling on number of journeys and carry forward of leave travel concession.

**PRIME ACADEMY**  
**36th SESSION PROGRESS TEST - TAXATION**  
**SUGGESTED ANSWERS**

**Part A**

1.

a) **Specified Employee Section 17(2)(iii)**

The following are specified employees

(i) An employee of a company who is also a director thereof. It is immaterial whether he is a full time director or a part-time director, whether he is a nominee of management, workers, Govt. or financial institution. It is also not material whether or not he is a director throughout the previous year.

(ii) An employee who has a substantial interest in the company. A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power of the company. In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership that is relevant rather than the legal ownership.

(iii)

a) An employee (not covered by above) whose monetary income chargeable under the head 'Salaries' exceeds ₹ 50,000

b) Capital, Revenue

c) Salaries, Due or receipt basis whichever is earlier

d) False

e) Salary is deemed to accrue or arise at a place where services are rendered, place of receipt being immaterial [Sec. 9(1)(ii)].  
Hence, it is taxable in all cases.

f) If an employee gets pension paid abroad in respect of services in India, the same will be deemed to accrue or arise in India. Hence, pension paid to Mr. Z is to be taxed as an Indian income.

g) **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 exempt.

h) False , exemption will be calculated when the rental accommodation is Occupied by the employee during the previous year.  
Hence employee is not justified in his action.

i) only in cases of medical treatment specified in Rule 3 A

j) **if a domestic servant is engaged by an employee and the employer reimburses the salary paid to the servant, it becomes an obligation which the employee would have discharged**, this perquisite will be covered by section 17(2)(iv) and will be taxable in the hands of all employees.

k) Exempt upto ₹ 800 per month.

l) d) all of the above

m) a) an employee whose gross total income before including the said expenditure does not exceed ₹ 2 lakhs.

n) The statement is not correct as VAT is a Multi point tax where tax is imposed



at each and every stage of sales and tax paid at earlier stage is allowed to setoff.

- o) Gross product variant, Income Variant and consumption variant.
- p) ₹ 210000
- q) Addition method.
- r) 2%
- s) Unregistered dealers
- t) Incorrect, tax amount must be shown separately.
- u) Any dealer, who intends to do purchase and sale of goods in the state and liable to pay Tax.
- v) By the dealer or his regular employee.
- w) Purchase records, Sales records and VAT accounts.
- x) Discontinuance of business, Disposal of business and transfer of business to a new location.
- y) 4%, 12.5% and 1%

## Part B

- 1) Increasing working capital requirements:  
Since the tax is imposed or to be paid at various stages and not on last stage, it would increase the working capital requirements and interest burden on the same.

- 2) Computation of Net VAT Liability of M/s. Jyoti Industries Ltd.  
Output Tax

Output tax liability	`
On Turnover of ` 8,32,000 inclusive of 4% tax ` 8,32,000 × 4/ 104	32,000
Sale Price ` 8,32,000 – ` 32,000 = ` 8,00,000 on which VAT is payable @ 4%	
On Turnover of ` 4,50,000 less returned goods ` 20,000 Net turnover of ` 4,30,000 @ 12.5% ` 4,30,000 × 12.5/ 112.5	47,778
Sale Price ` 4,30,000 – ` 47,778 = ` 3,82,222 on which VAT is payable @ 12.5%	
On Turnover of ` 4,16,000 inclusive of 4% tax ` 4,16,000 × 4/ 104	16,000
Sale Price ` 4,16,000 – ` 16,000 = ` 4,00,000 on which VAT is payable @ 4%	
Tax on purchase from Unregistered Dealer [Section 17] ` 2,000 × 12.5%	250
<b>Total Output Tax (A)</b>	<b><u>96028</u></b>
<b>Input Credit</b>	`
On Purchase within Rajasthan @ 4% on ` 9,00,000 ` 9,00,000 * 4/104	34,615
On Purchase of ` 3,50,000 @ 12.5% ` 3,50,000 * 12.5/112.5	38,889
On Purchase from Unregistered Dealer (No credit is available)	Nil
<b>Total Input Tax Credit [B]</b>	<b><u>22,524</u></b>
<b>Computation of Net VAT Liability</b>	`
Total Output Tax (A)	96,028
Less : Input Tax Credit (B)	73,504

**Net VAT Liability****22,524**

- Notes :** (1) No Input Tax Credit is available in purchase of exempted goods.  
 (2) No Input Tax Credit is available on purchase from unregistered dealer under Section 22(5) of the Act.  
 (3) Freight and delivery charges are included in the definition of 'Sale Price' under Section 2(41) of the Act and hence no deduction is allowed.

**3) Calculation of VAT liability of Mr.Badri for the month of January 2012 using Invoice Method**

Purchase Value	$26000 \times 100 / 104$	25000.00
Add: Profit	$25000 \times 5\%$	<u>1250.00</u>
Sale Value		26250.00
Output VAT	$26250 \times 12.5\%$	3281.25
Less: VAT Input Tax Credit	$26000 \times 4 / 104$	<u>1000.00</u>
<b>VAT Liability for the month of Jan'12</b>		<b><u>2281.25</u></b>

- 4) Under VAT System major thrust on Self Assessment . There is a strong need to see the tax payers discharge their tax liability while filing their returns. This can be ensured by independent Auditor going through the
- 1) Books of Accounts
  - 2) Analysing and interpreting the provisions of State VAT law
  - 3) Reporting the under-assessment , if any, made by the dealer requiring additional payment or
  - 4) Reporting any excess payment of tax warranting to the tax payer.
- In India evasion of excise and sales tax is estimated to be very high, causing revenue leakage to the Government. It is therefore imperative that there is a system of VAT Audit. However, it is not possible to conduct VAT Audit of all VAT Dealers. Therefore the criteria for audit can be amount of turnover or the class of dealer dealing in specified commodities.  
 Recently Tamilnadu Government has introduced VAT Audit.  
 There are variations between provisions of different States
- 5) In following cases, the dealer is not entitled to input credit —
- (a) Final product is exempted from Vat.
  - (b) Inter-state purchases i.e. goods purchased from outside the State
  - (c) Goods imported (obvious, since there will be no Vat invoice)
  - (d) Goods purchased from unregistered dealer (as he cannot charge Vat)
  - (e) Goods purchased from dealer who is paying Vat under composition scheme (as he cannot charge Vat separately in invoice)
  - (f) Purchase where final goods sold are exempt from Vat
  - (g) Final product is given free i.e. goods not sold
  - (h) Inputs stolen/lost/damaged before use/sale as there is no sale
  - (i) Proper Tax Invoice showing Vat separately is not available
  - (j) Ineligible purchases like automobiles, fuel, certain capital goods etc. as specified in relevant State Vat law i.e. items in negative list.

**No credit on certain purchases** – Generally, in following cases, credit is not available – (a) Purchase of automobiles (except in case of purchase of automobiles by automobile dealers for re-sale) (b) fuel.

- 6) The rule that the income of the previous year is taxable as the income of the immediately following assessment year has certain exceptions. These are:
- Income of non-residents from shipping;
  - Income of persons leaving India either permanently or for a long period of time;
  - Income of bodies formed for short duration;
  - Income of a person trying to alienate his assets with a view to avoiding payment of tax;
  - Income of a discontinued business.

In these cases, income of a previous year may be taxed as the income of the assessment year immediately proceeding the normal assessment year.

These exceptions have been incorporated in order to ensure smooth collection of income tax from the aforesaid taxpayers who may not be traceable if tax assessment procedure is postponed till the commencement of the normal assessment.

- 7)(i) As per section 17(2)(vi), the value of sweat equity shares chargeable to tax as perquisite shall be the fair market value of such shares on the date on which the option is exercised by the assessee as reduced by the amount actually paid by, or recovered from, the assessee in respect of such shares.

**Particulars**

Fair market value of 1,000 sweat equity shares @ ₹ 300 each	3,00,000
Less: Amount recovered from Sri Chand 1,000 shares @ ₹ 200 each	2,00,000
<b>Value of perquisite of sweat equity shares allotted to Sri Luckyman</b>	<b>1,00,000</b>

- (ii) As per section 49(2AA), where capital gain arises from transfer of sweat equity shares, the cost of acquisition of such shares shall be the fair market value which has been taken into account for perquisite valuation under section 17(2)(vi). Therefore, in case of subsequent sale of sweat equity shares by **Sri Luckyman**, the cost of acquisition would be ₹ 3,00,000.

8)

Salary for the purpose of HRA shall cover the time period for which the assessee, who is in receipt of HRA, resided in a rented accommodation and the rent paid by such assessee, is more than 10% of salary.

**Salary for HRA (for 5 months)** = Basic Pay + DA (considered for retirement benefits) + Commission (if received

as a fixed percentage on turnover as per terms of employment)

Basic Pay = (5,000 × 2) + (6,000 × 3) = 28,000

DA = 50% of Basic Pay × 70% forming part of retirement benefits

[50 % × 28,000 × 70%] = 9,800

**Total Salary for HRA** **37,800**

**Taxable HRA :**

**Particulars**

Amount received during the financial year for HRA (3,000 × 12) **36,000**

**Less:** Exemption u/s 10(13A) Rule 2A.

Least of the followings:

(d) Actual amount received **36,000**

(e) 50% of Salary	<b>18,900</b>
(f) Rent paid less 10% of Salary [2,500x 5 – 10% of 37,800] <b>8,720</b>	<b>(8,720)</b>
<b>Taxable HRA</b>	<b>27,280</b>

9)

Previous Year 2011-12. Tenure of Service: 1.4.11 to 30.11.11 = 8 months  
Post-retirement period: December '11 to March '12 = 4 months

<b>Particulars</b>	<b>Case (i)</b>	<b>Case(ii)</b>
Salary	43,200	43,200
D.A	28,000	28,000
Taxable Gratuity Exempted	82,750	Nil
Un commuted Pension [(3,800×2)+(950×2)]	9,500	9,500
Commuted Value of Pension Exempted		88,333
Gross Salary		-
<b>Case (ii) Gratuity received by an employee of a private company</b>		
Actual amount received		1,90,000
<i>Less: Exempted amount(least of the followings):</i>		
(i) Actual amount received		1,90,000
(ii) ½ x Avg.Salary x No.of years of Completed service [½ × 7,150 × 30]		1,07,250
(iii) Maximum Limit 10,00,000		1,07,250
<b>Taxable Gratuity</b>		<b>82,750</b>
<b>Commuted Value of Pension</b>		
(Non-govt employee, gratuity received)		
Actual commuted value of pension received		1,59,000
<i>Less: Exempted u/s 10(10A)</i>		
1/3rd of Full Value of Commuted Pension [1/3 × 2,12,000]		70,667
Full Value of Commuted Pension		
2,12,000*75%=		1,59,000
Percentage of pension commuted		
Amount received on commutation □		
<b>Taxable Commuted Value of Pension</b>		<b><u>88,333</u></b>

10) **Computation of taxable value of Loan provided by employer [As per Rule 3(7)(i)]**

Time period during which loan remains outstanding Balance on the last day of the month

November	2,50,000
December	2,50,000
January	2,45,000
February	2,40,000
March	2,35,000
<b>Total</b>	<b><u>12,20,000</u></b>

**Perquisite value of interest-free loan :**

$$12,20,000 \times 8.5\% \times 1/12 = \quad \quad \quad \text{8,642}$$

**11) Specified Employee Section 17(2)(iii)**

The following are specified employees

- (i) An employee of a company who is also a director thereof. It is immaterial whether he is a full time director or a part-time director, whether he is a nominee of management, workers, Govt. or financial institution. It is also not material whether or not he is a director throughout the previous year.
- (ii) An employee who has a substantial interest in the company. A person has a substantial interest in a company if he is a beneficial owner of equity shares carrying 20% or more of the voting power of the company. In order to determine whether a person has a substantial interest in a company, it is the beneficial ownership that is relevant rather than the legal ownership.
- (iii) An employee (not covered by above) whose monetary income chargeable under the head 'Salaries' exceeds ` 50,000.

**Monetary income shall include:**

- (i) Basic Pay
  - (ii) Dearness Allowance/Dearness Pay
  - (iii) Bonus/commission/fees etc.
  - (iv) Taxable portion of all allowances
  - (v) Monetary perquisites
  - (vi) Any other payment in cash like gratuity, pension, leave salary etc. but it will not include contribution of (employer or employee) to provident fund or interest to provident fund.
- Any arrears of salary or advance salary shall also be taken into consideration.
  - Where salary is received from more than one employer during the relevant previous year, the aggregate salary from these employers is to be taken into account in determining the above ceiling limit of ` 50,000.
  - Deduction under section 16(ii) and 16(iii) shall also be allowed.

**12) Ceiling on number of journeys**

The exemption shall be available to an individual two times **in a block of four calendar years** starting from the calendar year 1986.

**Carry forward of leave travel concession**

If the employee has not availed any leave travel concession or has availed only one leave travel concession during a particular block, carry forward shall be allowed but only for one leave travel concession and such LTC must be availed during very first year of the next block otherwise the LTC shall lapse.