PRIME ACADEMY

37TH SESSION PROGRESS TEST

No of pages: 6 ACCOUNTING Total 75 MARKS
Time Allowed : 2 Hrs

PART A

1. Profit is arrived at as follows:
   a) Closing capital **+** opening capital **–** drawings **+** fresh capital introduced
   b) Closing capital **+** opening capital **+** drawings **+** fresh capital introduced
   c) Closing capital **–** opening capital **+** drawings **+** fresh capital introduced
   d) Closing capital **–** opening capital **+** drawings **–** fresh capital introduced

2. The bank balance to be taken to balance sheet would be as per
   a) Cash book
   b) Pass book
   c) As per passbook before adjusting cheques issued but not presented.
   d) Physically verified cash balance.

3. In case of sole proprietorship, tax paid is treated as
   a) Savings
   b) Expenses
   c) Drawings
   d) Investments

4. When there is no agreement among partner, interest on capital is paid at…….percent
   a) 6
   b) 8
   c) 0
   d) As per income tax act.

5. When the firm is sold to a company
   a) Relationship ceases to exist
   b) Relationship ceases exit but the firm continues in another form.
   c) The partners become shareholders
   d) The firm ceases to exist.

6. When there is dissolution of partnership
   a) Assets are revalued
   b) Profit sharing ratio is equal
   c) Goodwill is paid in cash
   d) Interest on drawings is arrived at 6%

7. Super profit =
   a) Actual profit **–** capital employed
   b) Actual profit **–** (capital employed*normal rate of return)
   c) Actual profit **–** normal rate of return.
   d) Actual profit **–** total profit

8. Normal rate of return is determined by
   a) Comparing previous year profits
   b) Expected future profits
   c) Annuity table
   d) Published sources of similar firms.

9. Sacrificing ratio is calculated, when
   a) A partner is admitted
   b) A partner goes overseas
   c) A partner dies
   d) A partner retires.

10. Memorandum revaluation account is prepared, when
    a) Assets and liabilities are valued outside the firm's books.
    b) Assets and liabilities reappear at same figures in balance sheet
    c) Assets and liabilities appear at same figures in balance sheet
    d) Assets and liabilities are nonexistent.

11. Profit and loss suspense account is used for
    a) Rectification of errors
    b) Apportionment of profit when partner dies
    c) Adjustment profits on change in constitution of the firm
    d) Apportionment of profits after trial balance is prepared.

12. A company has to preserve its books for
    a) 8 years
    b) 10 years
    c) As per IT Act
    d) 60 days from year end.

13. Bonus shares can be paid out of
    a) Dividend
    b) Capital redemption reserve
    c) Shares forfeiture account
    d) Calls paid in advance.

14. Interest accrued and due is
    a) An asset
    b) Added to respective asset
    c) Current Liability shown separately
    d) Added to respective liability.

15. Employee benefits include the following, except
    a) Salaries and wages
    b) Contribution to provident fund
    c) Expense on stock option plan
    d) Loans given to employees.

16. 3% net profits is paid to part time directors
    a) When there are no whole time directors
    b) When there are both whole and part time directors.
    c) When there are only managerial personnel
    d) When Central government gives its approval.

17. Effective capital =
    a) Paid up share capital**+** share premium**+** reserves and surplus(including revaluation reserve)**+**long term loans.
    b) Paid up share capital**+** share premium**+** reserves and surplus(excluding revaluation reserve)**+**long term loans.
    c) Paid up share capital**+** share premium**+** reserves and surplus.
    d) Paid up share capital**+** share premium.

18. Dividend is distributed out of profits after
    a) Taxes are paid
    b) Assets are revalued
    c) Depreciation is provided
    d) All of the above.

19. Advance tax is tax paid in the same
    a) calendar year
    b) Assessment year
    c) Financial year
    d) Accounting year.

20. Purchase consideration is
    a) Fair value of assets taken over less liabilities at agreed amount
    b) Book value of assets taken over less liabilities at book value
    c) Agreed value of assets taken over less fair value of liabilities.
    d) Book value of assets taken over less liability.

21. Capital reserve arises when
    a) The purchase consideration is more than the net worth of the selling company.
    b) The purchase consideration is less than the net worth of the selling company.
    c) The purchase consideration is more than the net worth of the buying company.
    d) The purchase consideration is less than the net worth of the buying company.

22. Ex-interest price means
    a) Price paid exclusively for fixed income bearing securities
    b) Price paid exclusively for variable income bearing securities
    c) Price paid without interest.
    d) Price paid for any type of non interest bearing securities.

23. Insurance policies are taken for
    a) Internal risk
    b) External risk
    c) Risk-return rates
    d) Protection from business loss.

24. Average clause is applied, when there is
    a) No insurance
    b) Over insurance
    c) Under insurance
    d) Joint life policies.

25. Loss of profits cover
    a) Loss of net profit+ insured standing charges+ increased cost of working.
    b) Loss of gross profit- insured standing charges+ increased cost of working.
    c) Loss of net profit+ insured standing charges- increased cost of working.
    d) Loss of gross profit-insured standing charges- increased cost of working. (25*1=25 Marks)

PART B 50 Marks

Question 1 is compulsory, choose any 2 from the remaining three

1.(a) Super Express Ltd., and Fast Express Ltd., were in competing business. They decided to form a new company named SuperFast Express Ltd. The Balance Sheet of both the companies were as under:

Balance Sheet of Super Express Ltd. as on 31st December, 2012.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
20,000 equity shares of Rs.100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Sundry creditors	60,000	Sundry debtors	2,40,000
Insurance reserve	1,00,000	Cash at bank	2,20,000
		Cash in hand	1,00,000
		Stock	3,00,000
	22,60,000		**22,60,000**

Balance Sheet of Fast Express Ltd. As on 31stDecember, 2012.

Liabilities	**Amount ₹**	**Assets**	**Amount ₹**
10,000 equity shares of Rs.100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Sundry creditors	40,000	Machinery	5,00,000
Reserve account	1,00,000	Stock	40,000
Surplus	1,00,000	Sundry Debtors	40,000
		Cash at bank	10,000
		Cash in hand	10,000
	13,00,000		**13,00,000**

The Assets and liabilities of both the companies were taken over at book values by the new company.

The companies were allotted 30,000 equity shares of ₹100 each as purchase consideration for net assets taken over.

Prepare the opening balance Sheet of Super Fast express Ltd. (10 Marks)

1(b) A fire broke out in the godown of a business house on 8thjuly 2012. Goods costing ₹ 2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at ₹1,97,000.

The following particulars were available from the books of accounts:

Stock on the balance Sheet date at 31st March 2012 was ₹15,72,000. Purchases for the period from 1stapril 2012 to 8thjuly 2012 was Rs.37,10,000.and sales during the period amounted to ₹.52,60,000.The average gross profit was 30%on sales.

The Business house has a fire insurance policy for ₹10,00,000 in respect of its entire stock. Assist the accountant of the business house in computing the amount of claim of loss by fire. (8 Marks)

2. E,F and G were partners sharing profits and losses in the ratio of 5:3:2 respectively. On 31st March 2013, balance sheet of the firm stood as follows:

Liabilities	₹	Assets	₹
Capital Accounts		Buildings	55000
E	50000	Furniture	25000
F	40000	Stock	42000
G	28000	Debtors	20000
Creditors	33500	Cash at bank	11200
Outstanding expenses	1700		
	153200		153200

On 31st march 2013, E decided to retire and F and G decided to continue as equal partners. Other terms of retirement were as follows:

a. Building be appreciated by 20%
b. Furniture to be depreciated by 10%
c. A provision of 5% be created for bad debts on debtors.
d. Goodwill to be valued at two years purchase of profit of the latest accounting year. The firm's profits for the year ended 31/3/2012was ₹ 25,000. No goodwill account is to be raised in the books of accounts.
e. Fresh capital to be introduced by F and G to the extent of ₹.10,000 and 35,000 respectively.
f. Out of the sum payable to retiring partner E, a sum of ₹45,000 is to be paid off immediately and the balance be transferred to his loan account bearing interest at 12% per annum. The loan is to be paid off by 31st march 2015.

One month after E's retirement, F and G agreed to admit E's son H as partner with one fourth share of profits and losses. E agreed that the balance in his loan account be converted into H's capital. E also agreed to forgo one month's interest on his loan account.

It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary journal entries to give effect to the above transactions and prepare partners' capital accounts. (16 Marks)

3. The book of accounts of Mr. Anand of Mumbai showed the following figures:

Particulars	31.3.2012	31.03.2013
Furniture & fixtures	260000	234000
Stock	245000	320000
Debtors	125000	?
Cash in hand & bank	110000	?
Creditors	135000	190000
Bills payable	70000	80000
Outstanding salary	19000	20000

An analysis of the cash book revealed the following:

Cash sales	1620000
Collection from debtors	1058000
Discount allowed to debtors	20000
Cash purchases	615000
Payment to Creditors	973000
Discount received from creditors	32000
Payment from bills payable	430000
Drawings for domestic expenses	120000
Salaries paid	236000
Rent paid	132000
Sundry trade expenses	81000

Depreciation is to be provided on furniture and fixtures @10%p.a.Mr.Anand maintains a steady gross profit of 25% on sales.

You are required to prepare a trading and profit and loss account for the year ended 31-3-2013 and a balance as on that date. (16 Marks)

4. The following information has been extracted from the books of Mr.J as on 31st march, 2012.

Particulars	**(Rs ,'000) ₹**	**(Rs ,'000) ₹**
	Dr	**Cr**
Administrative expenses	240	
Cash at bank and in hand	114	
Cash received on sale of fittings		5
Long term loan		35
Investments	100	
Depreciation on fixtures, Tools ,Fittings and equipment(1st april,2011)		130
Distribution costs	51	
Factory closure costs	30	
Fixtures, fittings, tools and equipment at cost	340	
Profit and loss account (as at 1st april,2011)		40
Purchase of equipment	60	
Purchase of goods for resale	855	
Sales(net of excise duty)		1500
Share Capital-50,000 shares of RS.10 each fully paid		500
Stock as on 1st april 2011	70	
Trade Debtors	390	
Trade creditors		40
	2250	2250

Additional information:

(i) The stock at 31st March 2012 was valued at lower of cost or net realizable value, was estimated to be worth ₹1,00,000.

(ii) Fixtures, Fittings, tools and equipment are related to administration .Depreciation is charged at a rate of 20% per annum on cost. A full year's depreciation is charged in the year of acquisition, but no depreciation is charged in the year of disposal.

(iii) During the year to 31st march 2012, the company had purchased equipment of ₹60,000.It had sold some fittings (which had originally cost ₹30,000) for ₹5,000. And for which depreciation of ₹15,000 had been set aside.

(iv) The average income tax for the company is 50%>Factory closure costs are presumed as an allowable expenditure for income tax purposes.

(v) The company proposes to pay 20% dividend per equity share.

Prepare the final accounts of the company. (16 Marks)

PRIME ACADEMY
37TH SESSION-- PROGRESS TEST-ACCOUNTING
SUGGESTED ANSWERS

PART - A

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

PART-B

1(a)	Nature of Amalgamation	Merger
	Method of accounting	Pooling of interest

Balance Sheet of Super Fast Express Ltd., as at 1 Jan 2013

Liabilities	Amount ₹.	Assets	Amount ₹
Share Capital 30,000 equity shares of ₹ 100 each	3,000,000.00	Goodwill	100,000.00
Reserve account	100,000.00	Buildings	1,600,000.00
Surplus	100,000.00	Machinery	900,000.00
insurance reserve	100,000.00	Stock	340,000.00
Employees profit sharing account	60,000.00	Sundry Debtors	280,000.00
Provident fund	100,000.00	Cash at bank	230,000.00
Sundry Creditors	100,000.00	Cash in hand	110,000.00
	3,560,000.00		3,560,000.00

Particulars	₹.in lakhs
Paid up capital	30
Purchase consideration	30
Amount to be adjusted in reserves	NIL

1(b) Statement of claim for loss of stock policy

Particulars	₹	₹
value of stock on the date of fire		1,600,000.00
<u>Less:</u> Value of stock remaining unaffected by fire	203,000.00	
Value of stock salvaged	197,000.00	400,000.00
Gross claim for loss of stock		1,200,000.00

Since the value of stock on the date of fire is more than the policy amount of ₹.10,00,000.representing under insurance ,average clause applies

Net claim Policy amount/value of stock on date of fire claim amount

10,00,000/16,00,000*12,00,000= ₹ 750000

Working note

Memorandum trading account			
	₹		₹.
To opening stock	15,72,000	By Sales	52,60,000
To Purchases	37,10,000	By Closing stock	16,00,000
To gross Profit	15,78,000	(bal.fig)	
	68,60,000		68,60,000

2 Journal

Particulars		Debit ₹.	Credit ₹.
Building a/c	Dr	11,000	
To Revaluation			11,000
(Being the value of building appreciated on revaluation)			
Revaluation a/c	Dr	3,500	
To Furniture a/c			2,500
To Provision for bad and doubtful debts			1,000
(Being value of furniture depreciated on revaluation and provision created for doubtful debts)			
Revaluation a/c	Dr	7,500	
To E's Capital a/c			3,750
To F's Capital a/c			2,250
To G's Capital a/c			1,500
(Being revaluation profit transferred to partners capital accounts)			
F's Capital a/c	Dr	10,000	
G's Capital a/c	Dr	15,000	
To E's Capital a/c			25,000
(Being E's share of goodwill adjusted)			
Bank a/c	Dr	45,000	
To F's Capital a/c			10,000
To G's Capital a/c			35,000
(Being fresh capital introduced by F and G)			
E's Capital a/c	Dr	78,750	
To Bank a/c			45,000
To E's loan a/c			33,750
(Being settlement made to E on his retirement)			

E's loan a/c	Dr	33,750	
To H's Capital a/c			33,750
(Being E's loan converted into capital as his son H admitted as partner)			
H's Capital a/c	Dr	12,500	
To F's Capital a/c			6,250
To G's Capital a/c			6,250
(Being goodwill adjusted on admission of H)			

Capital accounts of E,F,andG

	E ₹.	F ₹	G ₹.		E ₹.	F ₹.	G ₹.
To E's Capital		10,000	15,000	By Balance b/d	50,000	40,000	28,000
To Bank	45,000			By Revaluation	3,750	2,250	1,500
To E's loan	33,750			By F's Capital a/c	10,000		
To Balance c/d		42,250	49,500	By G's Capital a/c	15,000		
				By Bank		10,000	15,000
	78,750	52,250	64,500		78,750	52,250	64,500

Capital account of F,G and H

	E ₹.	F ₹.	G ₹.		E ₹.	F ₹.	G ₹.
To F's Capital	-	-	6,250	By Balance b/d	42,250	49,500	-
To G's Capital	-	-	6,250	By E's loan	-	-	33,750
To Balance c/d	48,500	55,750	21,250	By H's Capital a/c	6,250	6,250	-
	48,500	55,750	33,750		48,500	55,750	33,750

Working notes

1 Calculation of gaining ratio
Existing ratio of E,Fand G 05:03:02
Profit sharing ratio after E's retirement is 1:1
Gain by F is 1/2-3/10 =2/10
Gain by G is 1/2-2/10 =3/10

2 Goodwill = 2*25,000 = 50,000

E's share of goodwill is ₹. 25,000

This is to be adjusted against the capital a/c's of F and G in gaining ratio of 2:3

3 Goodwill on H's Admission

H's share in Goodwill is 50,000*1/4=₹.12,500.

This is to be adjusted against the capital a/c's of F and G in sacrificing ratio of 1:1

3 In the books Os Mr.Anand

Trading and Profit and loss account for the year ended 31st march 2013

Patriculars	Amount ₹.	Patriculars	Amount ₹.
To Opening stock	2,45,000	By Sales	27,20,000
To Purchases	21,15,000	By Closing stock	3,20,000
To Gross Profit	6,80,000		
	30,40,000		30,40,000
To Salaries	2,37,000	*To Gross Profit*	*6,80,000*
To Rent	1,32,000	By Discount received	32,000
To Sundry Trade expenses	81,000		
To Discount allowed	20,000		
To depreciation on furniture	26,000		
To net profit	*2,16,000*		
	7,12,000		7,12,000

Balance Sheet as on 31-3-2013

Liabilities	Amount ₹.	Assets	Amount ₹.
Capital (wn8)	6,12,000	Furniture &Fixtures	2,34,000
Creditors (w n 2)	1,90,000	Stock	3,20,000
Bills payable (wn 1)	80,000	Debtors (wn9)	1,47,000
Outstanding Salary	20,000	Cash and bank	2,01,000
	9,02,000		9,02,000

<u>working notes</u>

1 <u>Bills payable a/c</u>

	Amount ₹		Amount ₹
To Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade Creditors	4,40,000
	5,10,000		5,10,000

2 Creditor a/c

	Amount ₹		Amount ₹
To Bank	9,73,000	By Balance b/d	1,35,000
To Bills payable	4,40,000	By Purchases	15,00,000
To Discount received	32,000		
	1,90,000		
	16,35,000		16,35,000

3 Ascertainment of Credit sales

	Amount ₹
Opening stock	2,45,000
Add: Purchases	21,15,000
	23,60,000
Less: Closing stock	(3,20,000)
Cost of goods sold	20,40,000
Gross Profit(25% on sales) 20,40,000*100/75	6,80,000
Total Sales	27,20,000
Less: Cash sales	(16,20,000)
Credit sales	11,00,000

4 Debtors a/c

	Amount ₹		Amount ₹
To Balance b/d	1,25,000	By Bank	10,58,000
To Credit sales	11,00,000	By Discount allowed	20,000
		By Balance c/d	1,47,000
	12,25,000		12,25,000

5 Salaries

	Amount ₹
Salaries paid during the year	2,36,000
Add: Outstanding salaries	200,000
	2,56,000
Less: Outstanding Salaries	-19,000
Salaries expense	2,37,000

6 Ascertainment of Cash and Bank balances

	Amount ₹		Amount ₹
To Balance b/d	1,10,000	By Purchases	6,15,000
To Sales	16,20,000	By creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000

		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

7 Balance Sheet as on 31-3-2012

	Amount ₹		Amount ₹
Capital (Bal Fig)	5,16,000	Furniture &Fixtures	2,60,000
Creditors	1,35,000	Stock	2,45,000
Bills payable	70,000	Debtors	1,25,000
Outstanding Salary	19,000	Cash and bank	1,10,000
	7,40,000		7,40,000

8 Ascertainment of closing capital

	Amount ₹		Amount ₹
To drawings	1,20,000	By Balance b/d	5,16,000
To Balance c/d	6,12,000	By net profit	2,16,000
	7,32,000		7,32,000

4) Balance Sheet of J Ltd as on 31-3-2013

-	Amount ₹.	Amount ₹.
Sources of funds		
Share holders funds		
(a) Capital	500.00	
(b) Reserves	75.00	575.00
Loan funds		
(a) Secured	35.00	
(b) Unsecured	_	35.00
Total		610.00
	Amount ₹.	Amount ₹.
Application of funds		
Fixed Assets		
Gross Block	370.00	

Less: Depreciation	(189.00)	
	181.00	
Capital work in progress	_	181.00
Investment		100.00
Current Assets,Loans and Advances		
Inventories	100.00	
Sundry debtors	390.00	
Cash and Bank Balances	114.00	
Other Current assets	_	
Loans and advances	_	
	604.00	
Less: Current Liabilities and provisions		
Current Liabilities	40.00	
Provisions	235.00	
Net current Assets		329.00
Total		610.00

Profit and Loss Account of J ltd for the year ended 31-3-2013.

INCOME	Amount ₹	Amount ₹.
Sales	1500	
Increase in stock	30	1530
Total		1530
EXPENDITURE	Amount ₹.	Amount ₹.
Purchase	855.00	
Administrative expenses	240.00	
Depreciation	74.00	
Distribution costs	51.00	
Loss on sale of equipment	10.00	1,230.00
Profit before extra ordinary items		300.00
Factory closure costs		30.00
Profit before taxes		270.00
Tax		135.00

Profit after taxes		135.00
Balance of profit B/f		40.00
		175.00
Proposed dividend		100.00
Balance carried forward to Balance sheet		75.00

<u>Working note</u>

Depreciation	Amount ₹.
Opening Assets	340.00
Add: Additions	60.00
	400.00
Less: sale	30.00
Closing WDV	370.00
Depreciation-opening	130.00
Add: Depreciation for the year (370*20%)	74.00
	204.00
Less: Deduction	15.00
Closing Depreciation	189.00

PRIME ACADEMY

37TH SESSION PROGRESS TEST

BUSINESS LAW ETHICS AND COMMUNICATIONS

No of pages: 2 | Total 75 Marks
Time Allowed : 2 Hrs

PART- A

I. Fill in the Blanks

1. Allotment of shares before receipt of minimum subscription amount by the Co. makes the contract_______________.
2. Provisions relating to the surrender of share are to be specified in _______________.
3. In a Blank transfer, the transfer deed does not bear the signature of the ______________
4. A small depositor, as defund in Sec58AA of the Indian Companies Act 1956, is a depositor who has deposited in a financial year a sum not exceed of ______________ in a company.
5. As per Sec 125 of the Companies Act 1956 a charge created by the company has to be registered within ______________ days of creation.

(5x1=5 Marks)

II. Match the following

1. Barrier to Effective Communication	Careful observation
2. Principle of interpersonal communication obligations.	Company avoiding its legal
3. Lapse of offer	Gratuitous Bailment
4. Exception to"No. Consideration – No. contract" attached	Non-fulfillment of conditions
5. Exception the principle of "lifting of corporate veil"	Poor retention.

(5x1=5 Marks)

III. Say whether the following statements are true or false. Justify your answer in a line or two.

1. The famous case "Royal British Bank Vs Turquand" is an example of the concept of Constructive Notice of Memorandum and Articles of Association of a Company.
2. A certificate of incorporation can be challenged when the Memorandum is signed by one person for and on behalf of all the subscribers. ..
3. Balance in share premium account is a free reserve available for dividend distribution
4. Share certificate is a negotiable instrument, negotiable by mere delivery.
5. On the failure to register a charge, the related debt becomes void (5x3=15 Marks)

PART- B

50 Marks

Answer 5 questions out of the following 6.

1. a. Explain the different types of contracts based on validity. 5 Marks

   b . Explain the role of "Promoters" with respect to the formation of a company 5 Marks

2. a. What are the provisions of the Indian Contract Act 1872 regarding revocation of offer and acceptance? 5 Marks

   b. Explain the doctrine of constructive notice and indoor management. 5 Marks

3. a. Distinguish between a share warrant and share certificate 4 Marks

   b. What are the barriers to effective communication? 6 Marks

4. a. What do you understand by the term "Floating Charge"?
   State the circumstances under which Floating Charge becomes fixed. 4 Marks

   b. Explain the procedure for changing the name of a company. 6 Marks

5. a. Explain the role of group dynamics in organizational communication. 6 Marks

   b. Give the meaning of any 2 of the following terms.

      i. Reserve Capital

      ii. Shelf prospectus

      iii. Demat shares

      iv. Statement in lieu of Prospectus 4 Marks

6. a. What are the general rules governing the forfeiture of shares? 5 Marks

   b. Explain the provisions of the Indian Companies Act 1956 with respect to reduction of share capital as envisaged in Section 100 to 104. 5 Marks

PRIME ACADEMY

37th SESSION PROGRESS TEST- BUSINESS LAW ETHICS AND COMMUNICATIONS

SUGGESTED ANSWERS

Part A

I

1. voidable
2. <u>Articles</u>.
3. Transferee
4. ₹.20 000 /-.
5. 30

II

1. Barrier to Effective Communication	1.poor retention
2. Principle of interpersonal communication	2. Careful observation
3. Lapse of offer	3. Non-fulfillment of conditions attached
4. Exception to ”No. Consideration No. contract”	4. Gratuitous Bailment
5. Exception the principle of “lifting of corporate veil”	5. Company avoiding its legal
obligations.	

III

1. False-(It is an example for indoor Management, an exception to the concept of Constructive Notice.)

2. False-(Certificate of incorporation, once issued, is conclusive and cannot be challenged.)

. 3. No-(Share premium a/c can be utilised only for limited, specified purposes (sec 78))

4. No-(It is a document showing title and not a document of title to goods and transferable only through the   transfer deed.)

.5. No- (The debt becomes immediately payable.)

Part B

I.

1. a) Hint -These types are to be explained.with definitions and examples.
   Void contract-Sec 2(j)- When a contract ceases to be enforceable, it becomes void.
   Example-A contract between A of X country and B from country Y would become void if there is a war subsequently after formation of the contract but before execution.
   Similarly avoidable contract is one which is enforceable at the option of one or more of the parties thereto but not at the option of the other or others is a voidable contract as defined in Section 2(i)
   Eg-A contract where the consent of the offeror has been obtained by say coercion would be a voidable contract.
   An unenforceable contract is one which lacks enforceability because it suffers from some lacuna such as the required stamp is not affixed or witness' signature is not there. Again it may be noted here that this requirement may be as per some other Act and not as per the Contract act.
   A valid contract is one which is neither void nor voidable nor unenforceable.

   b) A promoter is a person who does the necessary preliminary work incidental to the formation of a company. He has to perform various functions like deciding on the name of a company, settle the details about the contents of its Memorandum and Articles, decide on the first directors, Secretary, bankers, auditors, etc., and zero in on the location of the Registered office etc.,

   He also arranges for vetting the documents(such ass MOA and AOA) and for their printing also.

   He also has to arrange for the issue of Prospectus and it ensure it contains all necessary information but at the same does not contain any untrue or misleading information..

   Legal status:His legal status is incapable of precise statement. All that that can be mentioned is that he stands in a fiduciary relationship with the company. The familiar principles of the law of Agency and Trusteeship may be extended here. A promoter cannot make any secret profit and if at all he does make a profit in the course of such dealings, he has to inform the company on formation or otherwise he has to pass on such benefits to the company only.

   Other duties:

   1. To give benefit of negotiation to the co,
      He also enters into preliminary and provisional contracts necessary to its formation.

   2. To make full disclosure of interest or profit,

   3. Not to make an unfair use of his position, etc.,

2.

a) Offer can be revoked till the communication of acceptance is complete as against the offeror- that is till the acceptance is put into the course of transmission, so as to be out of the power of the acceptor to take it back.
Acceptance can be revoked anytime till the communication of acceptance is complete as against the acceptor that is when Acceptance comes to the knowledge of the Offeror.
(Section 5 of the Indian Contract Act)

b) Doctrine of constructive notice-Every outsider dealing with the company is presumed to have notice of the contents of the Memorandum and Articles of Association. These documents, on registration with the Registrar of Companies, assume the character of public documents. This is known as Constructive notice.
MOA and AOA are open and accessible to all. It is the duty of every person dealing with the company to inspect these documents beforehand to ensure that it is within the powers of the company to enter into the proposed contracts.
But it is worth adding here that this concept does not act against the company but on the other hand operates against the outsiders dealing with the company asset prevents them from alleging later on that the MOA/AOA rendered a particular act ultravires.

The concept of Indoor Management is a limitation to this principle of constructive notice.
This was established in Royal British Bank VsTurquand's case.
As per this doctrine,outsiders dealing with the company may safely presume that as far as internal proceedings are concerned, everything has been duly done. As is apparent, this acts to protect the outsiders dealing with the company as they are not supposed to inquire into the internal dealings within the company while entering into a contract with the company.

3 a.

	SHARE CERTICATE	SHARE WARRANT
1.	All companies can issue	Only public companies can issue(subject to permission from CG and provision in AOA..
2.	Can be issued both for fully paid & Partly paid shares	Can be issued only for fully paid shares.
3.	Holder is a member of the co.	Not a member unless specific call provided for in AOA.
4.	Not a negotiable instrument.	Share warrant is a negotiable instrument.
5.	Share transfer stamps are required for transfer.	stamps are not required for effecting a transfer.
6.	Qualify for qualification shares for a director.	Does not qualify so.
7.	Dividend gets paid automatically.	The holder has to present the instrument for claiming dividend
8.	Holder can petition for winding up.	A holder of a share warrant has no such right as he is not a member.

b. Following points are to be elaborated:
   1. Lack of planning
   2. Semantic barriers.
   3. Cultural barriers.
   4. Socio-Psychological barriers.
   5. Emotion.
   6. Prejudice.
   7. Filtering.
   8. Poor retention.
   9. Poor listening.
   10. Offensive style in communicating.
   11. Dilution in communicating.

4). a. A floating charge is a kind of charge wherein the security offered may undergo a change in form etc. which is allowed to remain with the borrower say for instance Stocks-which keeps changing in form but if the company defaults in payment of interest or repayment of Principal, the lender may enforce the security and no further processing of such stock is possible. Thus a floating charge becomes fixed when the creditor enforces his rights over the same.

b..Compulsory change and voluntary change.

Compulsory change- Where the CG directs that such a change shall be made; the Company must change its name within a period of three months by passing an Ordinary resolution and getting a fresh certificate of incorporation. This happens when the company's name, (through inadvertence) resembles the name of another company already registered. If the CG's directive is not followed, this becomes a punishable offence.

The other type is a voluntary change where the company opts for a change. For this both special resolution and CG's approval are necessary. After passing the special resolution Form 23 is to be filed and after getting CG's permission revised certificate of incorporation is to be obtained and suitable changes are to be made in MOA and AOA.

5 The following aspects are to be covered:

1. Group conflicts to be handled and resolved amicably through a process of conciliation and negotiation.

2. Consensus building to be evolved.

3. Strive to invent options for mutual gins.

4. Negotiation and bargaining rules for negotiation to emerge. Appropriate strategy to be evolved.

5. Influencing and persuasive kills to emerge to resolve conflicts amicably and successfully for the mutual Win-Win situation.

   i. Reserve Capital- It is that portion of the uncalled capital of the Company which can be called up only when the company is being wound up. A limited co. may by a Special resolution, determine that portion of its uncalled capital, which may be called up only for the purpose of winding up, that is to pay its creditors when getting wound up. This can neither be cancelled nor any charge created on the same or can this be reduced.

   ii. Shelf prospectus

   Governed by Sec 60-A as inserted by Companies (Amendment) Act 2000-

   This means a prospectus issued by financial institution / bank for one or more of their issues. Such an Institution is not required to file a prospectus for a period of one year from the first day of the opening of subscription for the issue for which such a shelf prospectus was filed. The additional/ changes in the data alone get added through a document called Information Memorandum.

   iii. Demat shares

   Now- a- days the physical transfer form has almost lost its application with the electronic medium of transfer coming to play.

   Dematerialisation is a process by which physical certificates of an investor are converted into electronic form and credited to the account of the depository participant. De-matted securities do not have any certificate numbers or distinctive numbers and are dealt only in quantity i.e the securities are replaceable.

   This concept of dematerialisation was introduced by the depositories Act 1996 and it has also been made compulsory for IPOs for issues exceeding ₹ 10 crs by the amendment Act 2000 (Sec. 68B). The process of transfer of shares has been made easier and it involves no paper work.

   iv Statement in lieu of PROSPECTUS (Section 70).

   When a public co does not issue invite public to subscribe for its shares but arranges to get money from private sources, it need not issue a prospectus but it has to file with the Registrar what is known as a Statement in lieu of Prospectus, containing the same information as required to be contained in the Prospectus.

   A co having a share capital, which does not issue a prospectus shall not allot any shares or debentures unless atleast 3 days before the allotment of shares or debentures there has been delivered to the Registrar this Statement in lieu of Prospectus. This shall be signed by every director or every named director as the case may be. .Section 70 does not apply to a private co.

6. (a) If a shareholder having been called upon to pay any call on his shares, fails to pay such call(s), the company may sue him for such amount or it may forfeit his shares. The following rules are applicable:

1. In accordance with Articles of Association.

2. Notice to be given atleast 14 days prior to such forfeiture specifying amount due and also cautioning him about forfeiture if calls are not paid within the period specified.

3. Board resolution authorising forfeiture

4. To be exercised in good faith and in the interest of the company

5. The shareholder whose shares are forfeited ceases to be a member.

b) This involves passing of a Special resolution and approval from NCLT. Reduction of capital may happen in any of the following ways:

1. It may extinguish or reduce the liability on shares.

2. It may cancel any paid up share capital, which is lost or unrepresented by available assets.

3. It may involve paying off any paid up share capital, which is in excess of the wants of the company.

If reduction of capital involves diminution of liability on uncalled capital or repayment of any amount already paid, there arises a conflict of creditors' interest; their interest is secured as NCLT gives its clearance only after ensuring that their interest is properly taken care of.

PRIME ACADEMY

37TH SESSION PROGRESS TEST

COST ACCOUNTING AND FINANCIAL MANAGEMENT

No of pages: 5 Total 75 Marks

Time Allowed : 2 Hrs

PART- A

Questions in this Part carry 1 Mark except Questions 11, 12, 17, 18 and 19 which carry 2 Marks each

1. In which of the following aspects do contract accounts and conventional accounting differ?
   a. Revenue recognition
   b. Profit ascertainment
   c. Stock valuation
   d. All of the above

2. 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. (i) only
      b. (ii) only
      c. Both
      d. Neither

3. Which of the following pair (industry: method of costing) is incorrect
   a. Interior decoration: Job costing
   b. Hospital: Operating costing
   c. Printing: Process costing
   d. Construction: Contract costing

4. Job costing is used for
   a. Mass production of items
   b. Production according to customer specification
   c. Production of homogeneous products in lots
   d. All of the above

5. Contract price: ₹.20,00,000, Work certified: ₹.200,000, Work Uncertified: ₹12,000, Costs incurred till date :₹.2,20,000 Lakhs, profit to be transferred to P & L a/c is
   a. Nil, as contract is less than 25% complete
   b. ₹ (-) 8,000
   c. ₹ (-) 20,000
   d. ₹ (+) 8,000

6. A product, which has practically no sale value, is
   a. Waste
   b. Scrap
   c. Defective
   d. All of the above

7. Which of the following method of costing can be used in canteens?
   a. Operating costing
   b. Process costing
   c. Job costing
   d. Contract costing

8. Cost unit for a Hospital is
   a. Room
   b. patients
   c. patient days
   d. Room days

9. Work uncertified is valued by
   a. Architect
   b. Contractee
   c. Contractor
   d. Auditor

10. Process costing would not be appropriate for which of the following?
   a. Custom furniture
   b. Oil refining
   c. Grain milling
   d. Newsprint production

11. Carnival Furniture had 60,000 foam cushions in process at May 1 (70% converted) and 40,000 cushions in process at May 31 (50% converted). All direct materials are added at the beginning of the production process. During the month, 140,000 cushions were transferred to finished goods. How many cushions were started during May?
   a. 60,000 cushions
   b. 1,40,000 cushions
   c. 1,20,000 cushions
   d. 1,80,000 cushions

12. In Q.11 what are the equivalent units for materials costs for May using the weighted average method?
   a. 1,80,000 cushions
   b. 1,40,000 cushions
   c. 1,60,000 cushions
   d. 1,18,000 cushions

13. Salvage value of abnormal loss is
   a. Credited to process a/c
   b. Debited to process a/c
   c. Credited to abnormal loss a/c
   d. Credited to costing P & L a/c

14. Work in progress in contract means
    a. Work certified
    b. Work uncertified
    c. Both a & b
    d. None of the above

15. Profit remaining as reserve in contract accounts is
    a. Shown under Reserves & surplus in Balance sheet
    b. Deducted from work in progress
    c. Not considered in cost accounts
    d. Credited to Contractee a/c

16. Which of the following is a *true* statement regarding joint costs?
    a. Joint costs are easily traced to individual products.
    b. The primary reason for allocating joint costs is to determine whether a product should be sold immediately or processed further.
    c. The primary reason for allocating joint costs is for inventory valuation for financial reporting.
    d. Joint costs consist only of overhead, never of materials or direct labor

17. A company absorbs overheads in machine hours which were budgeted at 11,250 hours with overheads of ₹ 258,750. Actual overheads were ₹ 254,692 and machine hours 10,980. Overheads were:
    a. Under absorbed by ₹2152
    b. Over absorbed by ₹4058
    c. Under absorbed by ₹4058
    d. Over absorbed by ₹2152

18. A firm uses Job costing and recovers overheads on the basis of direct labor hours. 3 jobs were worked during a period details of which were:

	Job 1 (₹)	**Job 2 (₹)**	**Job 3 (₹)**
Opening WIP	8,500	Nil	46,000
Direct material	17,150	29,025	-
Labor	12,500	23,000	4,500

Overheads of the period were exactly as budgeted at ₹ 140,000. Job 1 and 2 were the only incomplete job. What is the value of closing Work in progress?
    a. ₹ 81,900
    b. ₹ 90,175
    c. ₹ 1,40,675
    d. ₹ 2,14,425

19. In Q. 18, if Job 3 was completed and 2,400 units were produced, the selling price of a unit that will fetch a profit of 50% on total cost
    a. ₹ 31.56
    b. ₹ 41.41
    c. ₹ 58.33
    d. ₹ 60.12

20. Separable costs are those incurred
    a. At the split off point
    b. Upto the split off point
    c. After the split off points
    d. At the time of final sales

(25 Marks)

PART- B

50 Marks

Questions 21 and 22 are compulsory. In addition solve either Question 23 or Question 24.

21. A transport company has been given a 40-kilometer long route to run 5 buses. The cost of each bus is ₹6, 50,000. The buses will make 3 round trips per day carrying on average 80 percent passengers of their seating capacity. The seating capacity of each bus is 40 passengers. The buses will run on an average 25 days in a month. The other information for the year is given below:

Garage rent:	₹ 4,000 per month
Annual repairs and maintenance:	₹ 22500 each bus
Salaries of 5 drivers:	₹ 3000 each per month
Wages of 5 conductors:	₹ 1200 each per month
Manager's salary:	₹ 7500 per month
Road tax, permit fee, etc.:	₹ 5000 for a quarter
Office expenses:	₹ 2000 per month
Cost of diesel per liter	₹ 33
Kilometers run per liter for each bus:	6 kilometers
Annual depreciation:	15% of cost
Annual Insurance:	3% of cost

You are required to calculate the bus fare to be charged from each passenger per kilometer, if the company wants to earn profits of 33 and 1/3rd percent on taking (total receipts from passengers).

(20 Marks)

22. ABX Company Ltd. provides the following information relating to Process–B:

- Opening Work–in–progress Nil
- Units Introduced 45,000 units @ ₹ 10 per unit
- Expenses debited to the Process:
    - Direct Material ₹65, 500
    - Labor ₹ 90,800
    - Overhead ₹. 1,80,700
- Normal Loss in the process 2% of Input
- Work in Progress (Degree of Completion: Materials 100%, Labor 50%, OH 40%) 1,800 units
- Finished Output 42,000 units
- Degree of Completion of Abnormal Loss: Materials 100%, Labor 80%, OH 60%
- Units scrapped as Normal Loss were sold at ₹ 5 per unit.
- All the units of Abnormal Loss were sold at ₹ 2 per unit.

You are required to prepare:

(a) Statement of Equivalent Production.

(b) Process–B Account and Abnormal Loss Account. (20 Marks)

23. A product X is processed by passing Chemical Z through 5 operations. The input, rejection and output of each operation for a period are as under:

Operation	Input	Rejection	Output
	(in units)		
1	4320	1080	3,240
2	4050	270	3,780
3	3780	270	3,510
4	4680	360	4,320
5	3456	576	2,880

If cost of Z is ₹ 200 per 10 kg, compute raw material cost per unit of X is.

(10 Marks)

24. A Company manufactures one main product (M1) and two by–products B1 and B2. For the month of January, the following details are available:

Particulars	M1	B1	B2
Cost after separation (₹)		35,000	24,000
No. of units produced	4000	1800	3000
Selling Price per unit (₹)	100	40	30
Estimated Net Profit as percentage to Sales Value		20%	30%
Estimated Selling Expenses as percentage to Sales Value	20%	15%	15%

Joint cost ₹ 2,12,400

There is no beginning or closing Inventories. Prepare statement showing:

(i) Allocation of Joint Cost, and

(ii) Product Wise and Overall Profitability of the Company for January.

(10 Marks)

PRIME ACADEMY
37TH SESSION -- PROGRESS TEST
COST ACCOUNTING AND FINANCIAL MANAGEMENT

SUGGESTED ANSWERS

PART A

1	d
2	a
3	c
4	b
5	b
6	a
7	a
8	c
9	c
10	a
11	c
12	a
13	c
14	c
15	b
16	c
17	a
18	d
19	b
20	c

PART B

21)

Step 1: Identify cost unit: passenger kilometers

Step 2 : compute passenger kilometers

Distance travelled by one bus p.a = 40kms x 2 way x 3 trips x 25 days x 12 months

= 75000 kms

Distance travelled by all 5 buses= 72,000 x 5 = 3,60,000 kms

Passenger per trip = 40 x 80% = 32

Passenger kilometers = 3,60,000 x 32 = 1,15,20,000 passenger kms

Step 3: Computation of total costs

	₹
Garage Rent (4,000×12)	48,000
Repairs & Maintenance (22,500×5)	112,500
Salary of drivers (3,000×5×12)	180,000
Wages of conductors (1,200×5×12)	72,000
Manager's salary (7,500×12)	90,000
Road Tax, Permit fee, etc. (5,000×4)	20,000
Office expenses (2,000×12)	24,000
Insurance (6,50,000×3% x 5)	97,500
Depreciation (6,50,000×15% x 5)	487,500
Diesel: (3,60,000kms/6 x 33)	1,980,000
Total Cost (A + B)	3,111,500

Step 4 : Computation of fare to be charged

Total cost (step 3)	3,111,500
Passenger kilometers (step 2)	11,520,000
Cost per passenger kilometer	0.270
Add: profit (1/3rd on taking, so 50% of cost)	0.135
Fare per passenger per km	0.405

22)

Process A/c (FIFO method)					
	Units	Amount ₹		Units	Amount ₹
To Opening Stock	-		By Normal Loss	900	4,500
To Input from Process II	45,000	450,000	By abnormal loss	300	5,018
To Materials		65,500	By Closing Stock	1800	26,779
To Labour		177,840	By Transfer to warehouse	42000	788,803
To Overheads		131,760			
	45,000	825,100		45000	825,100

Working Notes:

Working note 1

	₹
Opening WIP	-
Input during the year	45,000
Total Input	45,000
Less: Closing Stock	(1,800)
Processed/Production	43,200
Less: Normal Loss (2% of input)	(900)
Expected output	42,300
Actual output	42,000
Abnormal loss/(gain)	300

Working note 2:

Units introduced, completed and transferred		
Transfer to next process		42,000
Less opening stock		-
Units introduced, completed & transferred		42,000

Working Note -3

Statement showing computation of equivalent units

Particulars	Units	Material I & II		Labour		Overheads	
		%	Eq units	%	Eq units	%	Eq units
Opening Stock	-	-	-	0	-	0	-
Units introduced, completed & transferred	42,000	100	42,000	100	42,000	100	42,000
Closing Stock	1,800	100	1,800	50	900	40	720
Normal Loss	900	-	-	-	-	-	-
Abnormal Loss	300	100	300	80	240	60	180
Total	45,000		44,100		43,140		42,900

Working Note -4

Statement computing cost/equivalent unit

	Material I & II ₹.	Labour ₹.	Overheads ₹.
Costs		177,840	131,760
Material I	450,000		
Material II	65,500		
(-) Salvage value & normal Loss	(4,500)	-	-
	511,000	177,840	131,760
Equivalent Units	44,100	43,140	42,900
Cost/Eq Unit	11.59	4.12	3.07

Working Note -5: Statement of valuation:

Opening Stock		₹ NIL
Units introduced, completed & transferred	42000 (11.59+4.12+3.07)	788,803
Closing Stock	(1800*11.59) + (900*4.12) + (720 *3.07)	26,779
Abnormal Loss	(300*11.59) + (240*4.12) + (180 *3.07)	5,018

23)

Operation	Input	Rejection	Output	Rejection / Output Ratio	Output/Input ratio
1	4320	1080	3,240	1/3	3/4
2	4050	270	3,780	1/14	14/15
3	3780	270	3,510	1/13	13/14
4	4680	360	4,320	1/12	12/13
5	3456	576	2,880	1/5	5/6

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

$= \dfrac{1}{5/6} = 1.2$ units→ this will be the output of Operation 4

Operation	Output/Input ratio	Input required
5	5/6	1.20
4	12/13	1.30
3	13/14	1.40
2	14/15	1.50
1	3/4	2.00

Therefore for an output on 1 unit in Operation 5, input required in Operation 1 is 2 units
Cost of raw material Z is ₹.200 per10kg i.e ₹..20 per kg
Therefore raw material cost per unit of X is 2 x ₹.20/kg = ₹.40.

24)

Step1: Ascertain Joint costs ₹.2,12,400

Step2 : Apportionment of Joint Costs

Statement of Costs			
	Particulars	By product	
		B1	B2
a.	Selling Price per unit (₹.)	40	30
b.	No. of units produced	1,800	3,000
c.	Sales (₹)	72,000	90,000
d.	Less: Estimated Net profit (Sales x N/p %) (₹).	14,400	27,000
e.	Estimated total costs (₹.)	57,600	63,000
f.	Less: Estimated Selling Expenses (Sales X Selling exp%) (₹.)	(10,800)	(13,500)
g.	Less: Cost after separation (given)(₹).	(35,000)	(24,000)
h.	Estimated Joint costs (e – f - g) (₹.)	11,800	25,500

` This is taken as the actual joint costs for B1 and B2.
Joint costs of M1 =₹2,12,400 - (11,800-25,500) = ₹.1,75,100

Step 3 Profitability statement

	Particulars	M1 ₹	B1 ₹	B2 ₹	Total ₹
a.	Sales	400,000*	72,000	90,000	562,000
	Less:				
b.	Joint costs	175,100	11,800	25,500	212,400
c.	Costs after separation	-	35,000	24,000	59,000
d.	Selling expenses	80,000#	10,800	13,500	104,300
e.	Total costs	255,100	57,600	63,000	375,700
	Net profit (a - e)	144,900	14,400	27,000	186,300

* Sales of M1 = 4000 units x ₹.100 p.u
\# Selling expenses of M1= ₹.4,00,000 x 20%

PRIME ACADEMY
37TH SESSION PROGRESS TEST

TAXATION

No. of Pages: 4 Total Marks : 75

Time Allowed: 2Hrs

Part A

Answer all Questions. Each question carries 1 mark.

1) Tax rates are fixed by the ------ Act.
2) If a person leaves India permanently, the ----- year becomes the ------ year.
3) Capital receipts are ------ unless otherwise they are ------- taxable.
4) Control and management of HUF is from Outside India, such HUF becomes --------.
5) Any allowance paid by Government of India outside India, such allowances to Government employees are ------.
6) It is the ----- value of the property which is considered for Income from House Property.
7) Municipal taxes paid during the previous year and Interest payable are----------.

8) Cash gifts received under section 56(2)(vi) from non-relatives are not taxable upto
(1) ₹ 1,00,000;
(2) ₹ 75,000;
(3) ₹ 50,000;
(4) ₹ 25,000.

9) A receipt under general insurance policy may be ---------- receipt, if the policy relates to Capital Asset and may be a -------- receipt, if it relates to circulating asset.

10) If House property is let out to own employees, where renting is not their business, such income is taxed under -------------.

11) Pre construction period interest is deductible only in the first ---- instalments starting from 1'st April till the year of --------------.

12) The year in which income earned is known as ---------- and is taxed in the next Year called as ------------------- year.

13) Surcharge at ------- % is applicable to a Domestic company, if total income exceeds --------------

14) If the premium payable during the previous year for any policy issued after 1.4.2012 exceeds-------------------- of the actual capital sum assured the ------ amount received under such policy will be taxable.

15) Weighted deduction for in –house scientific research and development U/S 35(2AB) wef Assessment year 2013-14 is ------ of capital and revenue expenditure (not being in the nature of cost of any land or building) for a further period of --------.

16) Any sum or property received without consideration or inadequate consideration by an HUF from its members would be --------- from taxation.

17) Quantum of deduction u/s 80 CCG of the Income Tax act, in respect of investment made under an equity savings scheme is -----------------------------.

18) Eligible age for Senior citizens for tax availing benefit under Sections 80 D , 80 DDB of the Income Tax Act, 1961 is ---------.

19) In order to claim deduction U/S 80 G of the Income Tax act, 1961 any amount above --------------- has to be paid by way of ---------------.

20) Deduction in respect of interest on deposits in savings account to the maximum extent of ----------- u/s ----------------- of the Income Tax Act, 1961.

(20*1=20 Marks)

21) Taxability of perquisite in the following cases:

i) Rent free concessional accommodation is ------------ in the case of Non specified employee.

ii) Computer/laptop provided by the employer for the use of the employee is ----------.

iii) Holiday Home facilities provided is ------------------.

iv) Education expenses, if the bills are in the name of the employee, but met by the employer is --------.

v) Interest free loans, or, loans provided at concessional rates by the employer to the employee is---------.

(5*1=5 Marks)

Part B 50 Marks

Answer any TEN Questions. Each Question carries FIVE Marks.

1) Define Specified Employee

2) Z is employed in A Ltd. As on 31.3.13, his basic salary ₹ 6,000 p.m. He is also entitled to a dearness allowance of 50% of basic salary. 70% of the dearness allowance is considered for retirement benefits. The company gives him HRA ₹ 3,000pm. With effect from 1.1.12 he receives an increment of ₹ 1,000 in his basic salary. was staying with his parents till 31.10.2012. From 1.11.11 he takes an accommodation on rent in Delhi and pays `₹ 2,500 pm as rent for the accommodation.

Compute taxable HRA for the assessment year 2013-14.

3) Mr. Ravi owns one residential house in Delhi. The house is having two identical units. First unit of the house is self-occupied by Mr. Ravi and another unit is rented for ₹. 12,000 p.m. The rented unit was vacant for 3 months during the year. The particulars of the house for the previous year 2012-13 are as under:

Standard rent	₹2,20,000 p.a.
Municipal valuation	₹ 2,44,000 p.a.
Fair rent	₹2,35,000 p.a
Municipal tax (paid by Mr. Ravi) 12% of municipal valuation	
Light and water charges	₹. 800 p.m.
Interest on borrowed capital	₹2,000 p.m.
Insurance charges	₹. 3,500 p.a.
Repairs	₹16,000 p.a.

Compute income from house property of Mr. Ravi for the A.Y. 2013-14.

4) Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income-tax Act, 1961.

5) Income of a minor child U/S 64(IA) of the Income Tax Act,1961

6) M Ltd. has sold the following assets to its employee, Mr. Raghu. Compute taxable perquisite.

Assets	Date of purchase	Purchase value ₹	Date of sale	Sale price ₹
Computer	1-7-09	2,00,000	18-8-2012	20,000
Car	1-4-10	3,00,000	1-3-2012	50,000
Television	1-4-07	50,000	1-4-2012	2,000
Sofa set	1-4-97	80,000	1-7-2012	5,000

7) The WDV of plant and machinery on 1.4.2012 of Z Ltd. engaged in manufacturing of PVC granules is ₹ 2000 lacs. Company purchased additional plant and machinery for ₹ 1,600 lacs on 18.4.2012 inclusive of second-hand machine imported from Ireland of ₹ 400 lacs to increase its installed capacity of production from 1000 TPA to 1500 TPA. The production from new machine commenced w.e.f 1.12.2012. Work out by giving reasons the amount of allowable depreciation.

8) Discuss about Amortization of certain preliminary expenses

9) Discuss about Carry forward and set off of loss from house property.

10) Subhash discloses following particulars of his receipts during the Previous Year 2012-2013:

(i) Salary income earned at Pune but received in Srilanka	₹ 2,50,000
(ii) Profits earned from a business in Kenya which is controlled in India, half of the profits being received in India.	₹2,20,000
(iii) Income from property, situated in Nairobi and received there	₹ 75,000
(iv) Income from agriculture in Bangladesh and brought to India	₹ 68,000
(v) Dividend-paid by an Indian company but received in London on 15 May 2012.	₹ 22,000
(vi) Interest on USA Development Bonds and one half of which was received in India	₹ 44,000
(vii) Past foreign untaxed income brought to India	₹2,10,000
(viii) Gift of $1000 from father, settled in USA, received in India	₹ 80,000
(ix) Land sold in Delhi, consideration received in Canada, resulting into capital gain	₹2,50,000
(x) Income from structure-designing constancy service, set up in Germany, controlled from India, profits being received outside India	₹ 4,00,000
(xi) Loss from foreign business, controlled from India, sales being received in India	₹ (-)2,00,000

Determine his taxable income for the previous year 2012-2013 if he is resident but not ordinarily resident.

11) 'B', an Indian citizen left India for the first time on 21.9.2011 for employment in Denmark. During the previous year 2011-12 he comes to India on 5.5.2012 for 150 days. Determine the residential status of 'B' for assessment years 2012-13 and 2013-14.

12) 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
(a) amount spent on treatment of the employee's wife in a hospital maintained by the employer ₹`20,000
(b) Amount paid by the employer on treatment of the employee's child in a hospital ₹14,000
(c) Medical insurance premium reimbursed by the employer on a policy covering the employee, his wife and dependent parents ₹ 7,000
(d) (i) Amount spent on medical treatment of the employee outside India ₹ 2,50,000
(ii) Amount spent on travel and stay abroad ₹ 90,000
(e) Amount spent on travel and stay abroad of attendant ₹ 60,000

PRIME ACADEMY

37th SESSION PROGRESS TEST - TAXATION

SUGGESTED ANSWERS

Part A

1) Finance
2) Previous; Assessment
3) Exempt
4) Non Resident
5) Taxable
6) Annual
7) Allowable
8) ₹.50000
9) Capital; Revenue
10) Profits and Gains of Business or Profession
11) Five; Completion
12) Previous; Assessment
13) 5%, 1 crore(in case of Domestic company)
14) 10%, the entire amount
15) 200% , 5 years
16) Excluded
17) 50% of the amount invested in such equity shares or ₹.25,000 whichever is less.
18) 60 years
19) ₹.10000 , any other mode than cash
20) ₹.10000, U/S 80 TTA
21) 1) Taxable

    2) Non-Taxable

    3) Taxable

    4) Taxable

    5) Taxable

PART-B

1) Specified Employee

An Individual will be considered as a Specified Employee if :

- He is a director of a company, or
- He holds 20% or more of equity voting power in the company,
- Monetary salary in excess of ` ₹.50,000: His income under the head salaries, (from any employer including a company) excluding non-monetary payments exceeds ` ₹. 50,000.

For the above purpose, salary, should be arrived at after making the following deductions:

(a) Entertainment Allowance

(b) Professional Tax

2) 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:	₹	
(a) Actual amount received	36,000	
(b) 50% of Salary	18,900	
(c) Rent paid less 10% of Salary		
[2,500x 5 – 10% of 37,800] 8,720	8,720	
Taxable HRA		27,280

3) Assessee: Mr.Ravi PY 2012-13 AY 2013-14

Self Occupied Property		₹
Annual Letting value	NIL	
Less: Interest on Borrowed capital		
(presumed ₹.2000 pm is for each unit)		
₹.2000* 12 months	(24000)	(24000)
Let Out Property:		
Annual Letting value (note 1)	235000	
Less: Municipal taxes		
(244000*12%)	(29280)	
Net Annual Value	205720	
Less: 30% of Net Annual Value	(61716)	
	144004	
Less: interest on Borrowed capital	(24000)	

(interest can be claimed for the entire period)
Income from Let out property 120004

Income from House property 96004

Note 1

In my view, the Gross Annual Value of the property in this case would be ₹ 235000/-. The annual value is the amount of rent for which the property might reasonably be expected to be let from year to year. Since it exceeds the actual rent in this case, the fair rent would be the ALV.

Municipal value is for purposes of levying of municipal taxes only.

4) RECOVERY OF UNREALISED RENT [SECTION 25AA]

1. Chargeability: Recovery of Unrealized Rent is chargeable to tax as "Income from House Property".
2. Year of Taxability: Unrealized Rent recovered is taxable in the financial year in which it is recovered.
3. Non-Subsistence of Ownership: It will be taxable in the hands of Individual even if he does not own the property to which such rent pertains.
4. Deduction: No deduction will be allowed against such receipt.

5) INCOME OF MINOR CHILD [Sec. 64(1A)]

In computing the total income of any individual, there shall be included all such income as arises or accrues to his minor child. However, income of the following types will not be included in the total income of the individual where income arises or accrues to the minor child on account of any—

(a) manual work done by him; or

(b) activity involving application of his skill, talent or specialised knowledge and experience.

Person in whose hands to be clubbed :

(i) 1st year : that parent whose income is higher. Subsequent years; the same parent – unless the AO is satisfied that it should be clubbed with the other parent.

(ii) where marriage does not subsist, in the hands of the custodian parent.

However, a deduction — Upto `.₹ 1,500 per minor [Sec. 10(32)] shall be allowed against such income which is clubbed in the hands of the parent.

6) Computation of taxable value of perquisite in hands of Mr. Raghu for the A.Y. 2013-14.

Assets	Written down value ₹	Sale value ₹	Taxable perquisite ₹
Computer	25000 (Note 1)	2,000	5,000
Car	192000 (Note 2)	50,000	1,42,000
Television	25000 (Note 3)	2,000	23,000
Sofa set	Nil (Note 4)	5,000	Nil
Taxable Perquisite			1,70,000

i. Calculation of WDV of Computer

Particulars	**Amount ₹**
Purchase value	2,00,000
Less : Depreciation from Juy 1 st '09to June 30 th'10 @ 50%	1,00,000

WDV as on 1-7-10	1,00,000
Less : Depreciation from 1-7-10 to 30-6-11 @ 50%	50,000
WDV as on 1-7-11	50,000
Less : Depreciation from 1-7-11 to 30-6-12 @ 50%	25,000
WDV as on 1-7-12	25,000
Less : Depreciation from 1-7-12 to 18-8-1 (as year not completed)	Nil
WDV as on the date of sale	25,000

ii. Calculation of WDV of Car

Particulars	**Amount ₹**
Purchase value	3,00,000
Less : Depreciation from 1-4-10 to 31-3-11 @ 20%	60,000
WDV as on 1-4-11	2,40,000
Less : Depreciation from 1-4-11 to 31-3-12 @ 20%	48,000
WDV as on 1-4-12	1,92,000
Less : Depreciation from 1-4-12 to 1-3-13 @ (as year not completed)	Nil
WDV as on date of sale	1,92,000

iii. Calculation of WDV of Television

Particulars	**Amount ₹**
Purchase value	50,000
Less : Depreciation from 1-4-07 to 31-3-12 @ 10%	25,000
WDV as on date of sale	25,000

iv. Depreciation on sofa set is charged @ 10% as per straight-line method. Since the asset is used for more than 10 years, hence its WDV will be Nil.

7) Assessee : Z Ltd. Previous Year : 2012-13 Assessment Year : 2013-14

Computation of Depreciation

Particulars `	₹. Lakhs	
Opening WDV	2,000	
Add : Additions During the year	1,600	
Net Value for the purpose of Depreciation	3,600	
Less : Depreciation of the Year		
— On Opening Block – ` 2,000 Lakhs × 15% 300		
— On Additions (Period of usage less than 180 days)		120
— ` 1,600 lakhs × 15% × 50%		
— Additional Depreciation on Eligible Assets (Notes) 120		540
Closing WDV		3,060

Notes :

1. Second hand machinery imported from China is not an eligible asset for the purpose of Additional Depreciation computation. Therefore, cost of eligible assets = ₹. 1,600 lakhs – ₹.400 lakhs = ₹. 1,200 lakhs.
2. Period of usage of new machine is less than 180 days. Therefore, they are entitled to only 50% of additional depreciation rate of 20%.

8) **AMORTISATION OF CERTAIN PRELIMINARY EXPENSES [Sec. 35D]**

The deduction is allowed under this section only in case of an Indian company or a person (other than company)resident in India. The deduction is in respect of the expenditure incurred after 31.3.1970 and expenditure may be of the type which was incurred —

(i) before the commencement of the business, or

(ii) after the commencement of his business, in connection with the extension of existing industrial unit.

The following expenses shall be eligible for deduction u/s 35D(2):

(a) Expenditure in connection with-

(i) preparation of feasibility report;

(ii) preparation of project report;

(iii) conducting market survey or any other survey necessary for the business of the assessee;

(iv) engineering services relating to the business of the assessee.

(b) Legal charges for drafting any agreement between the assessee and any other person for any purpose relating to the setting up or conduct of the business of the assessee.

(c) The following expenses in case of company assessees :

(i) legal charges for drafting the Memorandum and Articles of Association of the company;

(ii) on printing of the Memorandum and Articles of association;

(iii) by way of fees for registering the company under the provision of the Companies Act, 1956;

(iv) in connection with the issue, for public subscription, of shares in or debentures of the company being underwriting commission, brokerage and charges for drafting, typing, printing and advertisement of the prospectus.

(d) Such other item of expenditure (not being expenditure eligible for any allowance or deduction under any other provision of this Act) as may be prescribed.

Mode of Deduction:

Deduction of qualified amount is allowed in 5 equal instalments beginning with the Previous Year in which the business is commenced.

Amount of expenditure qualifying for deduction :-

The aggregate amount of expenditure referred to clause (a) to (d) above shall not exceed 5% cost of project if such expenditure incurred after 1.4.1998. But in case of an Indian company, 5% of the cost of the project or 5% of the capital employed at the option of the company.

9) Carry forward and set off of loss from house property(sec 71 B)

Where for any assessment year the net result of computation under the head “Income from house property” is a loss to the assessee and such loss cannot be or is not wholly set off against income from any other head of income in accordance with the provisions of section 71 so much of the loss as has not been so set-off or where he has no income under any other head, the whole loss shall, subject to the other provisions of this Chapter, be carried forward to the following assessment year and—

(i) be set off against the income from house property assessable for that assessment year; and

(ii) the loss, if any, which has not been set off wholly, the amount of loss not so set off, shall be carried forward to the following assessment year, not being more than eight assessment years immediately succeeding the assessment year for which the loss was first computed.

10)

Particulars of Income		Resident but not ordinarily resident ₹
i)	Salary earned at Pune but received at Sri Lanka: 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	250000 110000
ii)	Profits earned from a business in Kenya, controlled in India: (a) One half of profits are taxable on receipt basis (b) Other half profits—from foreign business controlled in India	110000 NIL
iii)	Income from property in Nairobi and received there: Income accruing or arising outside India	
iv)	Income from agriculture in Bangladesh and brought to India: It is not income received in India as receipt means first receipt. Hence, it is not taxable in case of "not ordinarily resident"	-
		22000
v)	Dividend paid by an Indian company but received in London: Dividend paid by an Indian company is deemed to accrue or arise in India. However, any dividend paid, declared or distributed by a domestic company on or after 1st April 2005 is exempt from tax under Sec. 10(34). Therefore, such dividend is not taxable	- - 250000 -
vi)	Interest on USA Development Bonds☹ one half taxable on receipt basis and other half is not taxable)	(-) 200000
vii)	Past untaxed foreign income brought to India. It is not income received in India.	
viii)	Gift from a relative is not taxable.	
ix)	Capital gain is deemed to accrue or arise in India [Sec. 9(1)(i)]	
x)	Income from consultancy profession, set up outside India, profits being received outside India: In case of "not-ordinarily resident", as it is not income from profession set up in India, control and management applies to business and not to professions.	

xi) Loss from foreign business, controlled from India-:	

11) During the previous year 2011-12 'B' was in India for 174 days (30+31+30+31+31+21) and therefore, does note satisfy the first condition. As regards the second condition, although he was here in the four preceding previous years for more than 365 days as he was permanently in India but for the relevant previous year 2011-12 he should have been here for 182 days instead of 60 days as he is a citizen of India and leaves India in 2011-12 for employment abroad.

He neither satisfies the first, nor the second condition and is therefore, Non-Resident in India. Similarly, during the previous year 2011-12 he visits India for 150 days. In this case also, the period of 60 days will be substituted by 182 days as he is a citizen of India. Therefore, he will be a Non-Resident in India even for previous year 2012-13.

12)

Nature of Perquisites	**Amount Taxable**	**Taxability/Non-taxability**
Treatment of employee's wife in a hospital	Nil	Fully exempted
Maintained by employers Reimbursement of expenses incurred on treatment of employee's child in hospital	Nil	Not taxable: since the amount is less than ₹.15,000
Reimbursement of medical insurance premium paid	Nil	Not taxable: since medical insurance premium referred to u/s 80D is paid on the employee and members of his family
Medical treatment outside India	Nil	It is assumed that the whole of such expenditure is permitted by RBI
Amount spent on travel and stay abroad for the employee (herein referred as the patient)	Nil	Not taxable: as the Gross total income does not exceed ₹.200000
Amount spent on travel and stay abroad of the attendant	Nil	Not taxable: as the Gross total income does not exceed ₹.200000