PRIME ACADEMY
38TH SESSION - PROGRESS TEST
No of pages: 6 **IPC - ACCOUNTING** **Total Marks : 75**
Time Allowed: 2 Hrs

Part - A

1. **In case of hire purchase agreement, the ownership is transferred after**
   a. The sale consideration is received
   b. The last installment is paid
   c. The contract is entered
   d. The asset is put to use (1 Mark)

2. **Hire purchase represents**
   a. Hire purchase price + interest
   b. Cost price + interest
   c. Cash price + interest
   d. Cost price + Cash price (1 Mark)
3. **Assets and liabilities are recorded at book values when there is**
   a. Amalgamation in the nature of purchase
   b. Amalgamation in the nature of merger
   c. Internal reconstruction
   d. External reconstruction (1 Mark)
4. **Provision for taxation are made**
   a. When tax liability is ascertained
   b. When final accounts are prepare
   c. When income tax authorities finalize the taxes
   d. When advance taxes are paid (1 Mark)
5. **For all amalgamation the following disclosure are required except**
   a. Names of amalgamating companies
   b. The effective date of amalgamation
   c. The method of depreciation charged on assets taken over
   d. Number of the shares issued (1 Mark)
6. **In the case of amalgamation in the nature of merger, ---------- does not arise**
   a. Capital reserve
   b. Statutory reserve
   c. Amalgamation adjustment account
   d. Share capital (1 Mark)

7. Profit at 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 (1 Mark)

8. 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 cheque issued but not presented
d. Physically verified cash balance. (1 Mark)

9. 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 (1 Mark)

10. Sacrificing ratio is calculated, when

a. A partner is admitted
b. A partner goes overseas
c. A partner dies
d. A partner retires (1 Mark)

11. 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 (1 Mark)

12. 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 (1 Mark)

13. 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 (1 Mark)

14. 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 (1 Mark)

15. 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% (1 Mark)

16. What are the below characteristics is basic to Pvt. Ltd. Company?

a. Restrict the right to transfer its share
b. Limit the number of its members 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 Marks)

17. A sells a T.V the cash price of which is ₹ 3000 and decides to charge 10% nominal interest. If the prices is to be paid in 3 equal installments, determines the installment amount. Calculate the amount payable for each installment.

a. ₹ 3000
b. ₹ 3900
c. ₹ 1200
d. ₹ 1300 (3 Marks)

18. In the above question, compute the true rate of interest

a. 12%
b. 10%
c. 8%
d. 15% (2 Marks)

19. V Ltd deals with computers and the following particulars are extracted. Computers lying with the Hire purchaser at Invoice price ₹ 13,13,750
Cost per computer ₹ 14,000
Cash price per computer ₹ 15,500
Invoice price per computer ₹ 16,800
Calculate the stock reserve to be created.
a. ₹ 1,01,659
b. ₹ 2,18,958
c. ₹ 1,500
d. ₹ 2,800 (3 Marks)

Part-B

Answer all Questions **(50 Marks)**

1. Kamal, Kishore, Mohan and Sohan were partners sharing profits and losses in the ratio of 3:3:2:2. Following was the balance sheet as on 31st March 2013:

Liabilities	₹	₹	Assets	₹	₹
Trade creditors		23250	Trade debtors	24000	
Kamal's loan Capital accounts: Kamal Kishore	 30000 22500 ----------	15000 52500	Less: Provision of doubtful debt	(750) ---------	23250
			Inventories		15000
			Cash at bank		3000
			Furniture and fixtures		6000
			Trademarks		10500
			Capital accounts: Mohan Sohan	 24000 9000 -----------	 33000
		90750			**90750**

On 31 March 2013, the partnership firm was dissolved.

The assets realized were as follows: trade debtors – ₹ 16500; inventories ₹ 12000; furniture and fixture ₹ 1500 ; trade mark ₹ 6000; trade creditors were settled at ₹ 23000.Also there was a joint insurance policy for ₹ 45000. This was surrendered for ₹ 4500. Expenses of realization amounted to ₹ 750. 'Mohan' was insolvent, but ₹ 5550 were recovered from his estate.

You are required to show the following accounts in the books of partnership firm:

a. Realization account

b. Cash account

c. Partners capital accounts. (20 Marks)

2. Sundar acquired on 1 Jan 2006 a machine under the Hire purchase agreement which provides for 5 half-yearly installments of RS.6000 each, the first installment being due on 1st July 2006. Assuming the applicable rate of interest is 10% calculate the cash value of machine. All working should form part of answer. (6 Marks)

3. P, Q and R are partners sharing profits and losses in the ratio 3:2:1 after allowing interest on capital @ 9% p.a. Their balance sheet as at 31 March 2013, are as follows:

Liabilities	₹	Assets	₹
Capital Accounts		Plant and Machinery	108000
P 50000		Fixtures	20000
Q 30000		Stock	50000
R 20000	100000	Sundry Debtors	30000
Reserve Fund	60000		
Creditors	48000		
	208000		**208000**

They applied for conversation of the firm into a Private Limited company named PQR Pvt. Ltd. And the certificate was received on 01-04-2013. They decided to maintain same profit sharing ratio and to preserve the priority in regard to repayment of capita as far as possible. For that purpose, they decided to insert a clause of issuance of Preference shares in Memorandum of Association in addition to issuance of Equity shares of ₹ 10 each.

On 1.4.2013, the value of goodwill is to be determined on the basis of 2 years purchase of the average profit from the business of the last 5 years. The particulars of profits are as under:

		₹
Year ended 31.03.2009	Profit	10000
Year ended 31.03.2010	Loss	5000
Year ended 31.03.2011	Profit	18000
Year ended 31.03.2012	Profit	27000
Year ended 31.03.2013	Profit	30000

The loss for the year ended 31.03.2010 was on account of loss by strike to the extent of ₹10000.

It was agreed that rest of the assets are valued on the basis of the Balance sheet as at 31.03.2013 except Plant and Machinery which is valued at ₹ 102000.

You are required to prepare

a) The Balance sheet of the Company as at 01.04.2012

b) Partners Capital Accounts and

c) Statement showing the final settlement between the partners taking Q's capital as basis.

(12 Marks)

4. M Ltd. Furnishes the following summarized Balance sheet as at 31 March 2013:

	₹In '000	₹In '000
Equity and Liabilities		
Share Capital:		
Authorized capital		5000
Issued and Subscribed Capital:		
300000 equity shares of ₹ 10 each fully paid up	3000	
20000 9% preference shares of 100 each (issued two months back for the purpose of buy back)	2000	5000
Reserves and Surplus		
Capital reserve	10	
Revenue reserve	4000	
Securities premium	500	
Profit and Loss account	1800	6310
Non-current liabilities – 10% debentures		400
Current Liabilities and Provisions		40
		11750
Assets		
Fixed assets: Cost	3000	
Less: Provision for depreciation	(250)	2750
Non-current investment at cost		5000
Current assets, loans and advances (including cash and bank balances)		4000
		11750

1) The company passed a resolution to buy back 20% of its equity share capital @ ₹ 15 per share. For this purpose, it sold its investments of ₹ 30 lakhs for ₹ 25 lakhs
2) The company redeemed the preference shares at a premium of 10% on 1 April 2013.
3) Included in its investments were ' Investments in own debentures' costing ₹ 3 lakhs (face value ₹ 3.30 lakhs). These debentures were cancelled on 1st April 2013.

You are required to pass journal entries and prepare the balance sheet on 1.04.2013.

(12 Marks)

PRIME ACADEMY

38TH SESSION- PROGRESS TEST - ACCOUNTING

SUGGESTED ANSWERS

PART - A

1. **A**
2. **D**
3. **B**
4. **C**
5. **D**
6. **D**
7. **A**
8. **C**
9. **A**
10. **A**
11. **B**
12. **A**
13. **A**
14. **A**
15. **A**
16. **D**
17. **B**
18. **B**
19. **B**

Part- B

1. a) Realization account as on 31.03.2013

2013		₹	₹	**2013**		₹	₹
March 31	To Sundry assets: Furniture Trade mark Trade debtors Inventories	 6000 10500 24000 15000 --------------	 55500	March 31	By provision for doubtful debts: By trade creditors		750 23250
	To cash (payment to trade creditors)		23000		By cash Furniture and fixture Trade mark Trade debtors Inventories Surrender value of joint life policy	 1500 6000 16500 12000 4500 -----------	 40500
	To cash (realization exp)		750		By partners capital accounts (loss on realization) Kamal Kishore Mohan Sohan	 4425 4425 2950 2950 ---------	 14750
			79250				**79250**

(b) Cash account

2013		₹	**2013**		₹
March 31	To balance b/d	3000	March 31	By realization a/c Trade creditors 23000 Realization exp 750	23750
	To realization account (assets realized)	40500		By Kamals loan ac	15000
	To partners capital a/c Kamal 4425 Kishore 4425 Sohan 2950 ----------	11800		T o partners capital a/c (final payment) Kamals cap a/c Kishore cap a/c	 17771 13329
		69850			**69850**

c) Partners capital accounts

		Kamal	Kishor	Mohan	Sohan			Kamal	Kishor	Mohan	Sohan
2013		₹	₹	₹	₹	**2013**		₹	₹	₹	₹
March 31	To bal b/d	-	-	24000	9000	Mar 31	By bal b/d	30000	22500		
	To realization a/c	4425	4425	2950			By cash	4425	4425		2950
	To Mohans capital a/c (Loss of capital w/off)	12,229	9171				By cash			5550	9000
							By Kamals cap a/c			12229	
							By Kishore cap a/c			9171	
	To cash	17771	13329								
		34425	26925	26950	11950			34425	26925	26950	11950

Working Note:

a. There was a debit balance of ₹ 9000 in Sohans capital account and Sohan is a solvent partner, therefore he must bring cash for balance capital

b. Mohan is insolvent therefore he is not able to bring cash. The deficiency in his account is borne by 'Kamal' and 'Kishore' in the ratio of 4:3 (capital ratio) as per Garner vs Murray. Deficiency in Mohan account – 24000 + 2950-5550 = ₹ 21400

Borne by Kamal = 4/7 * 21400 = 12229
Borne by Kishore = 3/7 * 21400 = 9171

c. Mr. Kamals loan is paid off in cash.

2. Statement showing cash value of machine acquired on HP basis

Particulars	Installment ₹	Interest @ 5%	Principal ₹
5th Inst	6000	286*	5714
Less : Int	(286)		
	5714		5714
Add: 4th inst	6000		
	11714	558**	5442 (11156-5714)
Less : Int	(558)		
	11156		
Add: 3rd inst	6000		
	17156	817***	5183 (16339-11156)
Less : Int	(817)		
	16339		
Add: 2nd inst	6000		
	22339	1063	4937 (21276-16339)
Less Int:	(1063)		
	21276		
Add; 1st inst	6000		
	27276	1299	4701 (25977-21276)
Less: Int	(1299)		
	25977	**4023**	**25977**

* 6000*5/105 = 286

* 11714*5/105 = 558

* 17156 *5/105 = 817

Similar in the rest of the cases

Therefore the cash price is ₹ 25977

3. a) Balance sheet of PQR Pvt Ltd as on 1.04.2013

	Note no	₹
Equity and Liabilities		
Shareholders funds Share capital	1	190000
Current Liabilities		
Trade payables		48000
	Total	238000
Assets		
Non-current assets		
Fixed asset		
Tangible assets	2	122000
Intangible assets	3	36000
Current Assets		
Inventories		50000
Trade receivables		30000
	Total	238000

Notes to accounts

	₹
1. Share capital Equity share capital 18000 fully paid shares of ₹ 10 each Preference share capital (9% pref shares) (All the shares have been issued for consideration other than cash)	 180000 10000
2. Tangible asset Plant and Machinery Fixtures	 102000 2000
3. Intangible asset Goodwill	 36000

(b) In the books of Partnership firm

Partners capital accounts

	P (₹)	Q(₹)	R (₹)		P (₹)	Q(₹)	R (₹)
To plant and machinery	3000	2000	1000	By balance b/d	50000	30000	20000
To equity shares in PQR pvt. Ltd.	90000	60000	30000	By reserve fund	30000	20000	10000
To 9 % pref shares in pqr pvt. Ltd	5000		5000	By realization a/c (Profit on sale of business)	18000	12000	6000
	98000	62000	36000		98000	62000	36000

(c) Statement showing the final statement between the Partners taking Q's capital as basis

	P (₹)	Q (₹)	R (₹)	Total(₹)
Value of equity shares to be allotted taking Q's capital as basis P's capital - 60000*3/2 R's capital – 60000 * ½	90000	60000	30000	
Total value of equity shares allotted to P, Q and R 9% preference shares to be allotted to P (95000-90000) 9% preference shares to be allotted to R (35000-30000)	5000		5000	180000
Total value of pref shares allotted to P and R				10000
Total purchase consideration				190000

Taking Q's capital as basis, both P and R have ₹ 5000 excess in their capital accounts. Since interest on capital is meant to be compensate those whose capital is in excess of proportionate limits and since in the case of partner it is an appropriate of profit, it will be proper to give 9% preference shares to P and R for ₹ 5000 each and the remaining amount of ₹ 180000 in the form of equity shares to be divided among P, Q and R in the ratio 3:2:1. They will then share the company's profit in the ratio 3:2:1 after allowing pref dividend.

- **Calculation of goodwill**

	2008-09 (₹)	2009-10 (₹)	2010-11 (₹)	2011-12 (₹)	2012-13 (₹)
Profits	10000	(5000)	18000	27000	30000
Adjustment for abnormal loss in 2009-10		10000			
	10000	5000	18000	27000	30000
Total profit from 2008-09 to 2012-13					90000
Average profit (90000/5)					18000
Goodwill equal to 2 yrs purchase					36000

- Computation of purchase consideration

Assets	₹
Goodwill	36000
P&M	102000
F&F	20000
Stock	50000
Sundry debtors	30000

	238000
Less : Liabilities	
Creditors	48000

Purchase consideration	190000
	-----------

4. IN the books of M Ltd **Journal Entries**

		Dr	Cr
		₹ 000’	₹ 000’
1	Bank	2500	
	P& L a/c	500	
	To Investment		3000
2	Pref share cap a/c	2000	
	Premium on redeem of pref shares	200	
	To Preference shareholders (Being redemption of pref share capital at premium of 10%)		2200
3	Pref shareholders a/c	2200	
	To bank a/c (Being payment made to pref shareholders)		2200
4	Revenue reserve a/c	2000	
	To CRR (Being creation of CRR to the extent of nominal value of pref shares redeemed)		2000
5	Eq sh. Cap	600	
	Sec Premium a/c	300	
	To equity share buy-back (Being the amount due on buy back)		900
6	Equity share buy-back	900	
	To bank (Being payment made for buy-back)		900
7	10% debentures	330	
	To own debentures		300
	To CR (Profit on cancellation) (Being own debentures cancelled at profit)		30
8	Securities premium a/c	200	
	To premium on redemption (Being premium on redemption of pref shares adjusted thru sec. premium		200

Balance sheet of the M Ltd. As on 1st April 2013

	Note No	**₹ ‘000**
Equity and Liabilities		
1. Shareholder’s funds - Share capital - Reserve and Surplus	 1 2	 2400 5340
2. Non-current liabilities		
Long-term borrowings	3	70
3. Current Liabilities		40
Total		**7850**

Assets		
1. Non-current assets (a) Fixed asset (b) Non-current investment	4	2750 1700
2. Current Assets	5	3400
Total		**7850**

Notes to Accounts

			₹ In '0000	₹ In '000
1	Share capital			
	Authorised share capital			5000
	Issued, subscribed and fully paid up share capital 240000 equity shares of Rs. 10 each fully paid up (60000 equity shares had been bought back and cancelled during the year)			2400
2	Reserves and Surplus			
	Capital reserve	10		
	Add: Profit on cancellation of debentures	30 -----	40	
	Securities premium	500		
	Less: Premium on redemption of pref Shares	(200)		
	Less: Premium on buy-back of equity shares	(300) -------	0	
	Revenue reserve	4000		
	Less: Transfer to CRR	(2000)	2000	
	Capital redemption reserve		2000	
	Surplus (P&L account)	1800		
	Less: Loss on sale of investment	(500) ---------	1300 --------	5340
3	Long term borrowings			
	10% debentures (400-330)			70
4	Non- current investment			
	Balance as on 31.03.2013		5000	
	Less : Investment sold		(3000)	
	Own debenture cancelled		(300)	1700
5	Current assets			
	Balance as on 31 March 2013		4000	
	Add: Cash received on sale of investment		2500	
	Less : Payment made to equity shareholders for buy back of shares Payment made to pref shareholders		(900) (2200)	3400

PPRIME ACADEMY

38TH- SESSION PROGRESS TEST

BUSINESS LAW ETHICS AND COMMUNICATIONS

No of pages: 2 **Total Marks : 75**

Part - A **Time Allowed: 2 Hrs**

I. Match the following

1. Statutory Company	Gratuitous Bailment
2. Bonus shares	Company avoiding its legal obligations..
3. Lapse of offer	R.B.I.
4. Exception to" No. Consideration – No. contract"	Non-fulfilment of conditions attached
5. Exception the principle of "Lifting of corporate veil"	Capitalisation of reserves.

(5 x 1=5 Marks)

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

1. An agreement to agree in future is a contract.
2. A advertises in a local daily that he would pay ₹ 500/- to any one who finds & brings back his lost dog. Any person can accept it by performing the act after reading the advertisement.
3. A statement in lieu of prospectus must be filed by a private company.
4. A dismissed employee who was reinstated with back wages is not eligible for Bonus according to the payment of Bonus act.
5. When an employee becomes disabled due to an accident and unable to do the same job as before and is re-employed on a reduced wage, he is entitled for the gratuity on the basis of old wages.
6. Contract entered into by a promoter after obtaining certificate of incorporation but before getting the certificate to commence business can not be ratified by the company.
7. Bonus shares may be issued even when the existing shares are partly paid.
8. Ceiling on underwriting commission is laid down by the Companies act 1956.
9. Doctrine of Indoor management usually operates in favour of the company where as the doctrine of constructive notice operate against it.
10. A company registered in India has a Nationality, Residence and a Citizenship.

(10 x 2 =20 Marks)

Part – B **(50 Marks)**

Answer 5 questions out of the following 6

III.

1. What are the various aspects to be borne in mind while drafting a prospectus. (10 Marks)

2. Define :
   a) Available Surplus and allocable surplus under the payment of Bonus act 1965 (4 Marks)
   b) Employee under the Payment of Gratuity act 1972 (2 Marks)
   c) Memorandum of Association under sec 2(28) of the Companies Act 1956 (2 Marks)
   d) Void contract under section 2 (j) of Indian Contract Act 1872 (2 Marks)

3. a) Outline the procedure for changing the registered office of the company from one state to another. (5 Marks)
   b) Explain the relationship between a Holding company and its Subsidiary, as contemplated under sections 4(1) & 4(4) of the Companies Act 1956. (5 Marks)

4. Write short notes on any two:
   1) Association of persons
   2) Forfeiture of shares
   3) Red- herring Prospectus (10 Marks)

5. Explain the rule for revocation of Offer, Acceptance and Revocation as explained in the Indian Contract act 1872 (10 Marks)

6. State the eligibility criteria for Bonus under the payment of Bonus Act 1965. What is the minimum and maximum bonus payable under the said act ? (10 Marks)

PRIME ACADEMY

38th SESSION PROGRESS TEST - BUSINESS LAW ETHICS AND COMMUNICATIONS

SUGGESTED ANSWERS

Part A

I.

1	Statutory Company	R.B.I.
2	Bonus shares	Capitalisation of reserves
3	Lapse of offer	Non-fulfilment of conditions attached
4	Exception to "No. Consideration – No. contract"	Gratuitous Bailment
5	Exception the principle of " lifting of corporate veil"	Company avoiding its legal obligations..

II.

1. Yes correct.
2. Yes correct.
3. No only by a, public company needs to file a statement in lieu of prospectus.
4. No, he is eligible as he is reinstated with back wages.
5. No wage on the corresponding period will be to basis.
6. No, they are provisional contracts and can be ratified or absorbed by the company.
7. No, unless the partly paid shares as made fully paid, fresh bonus shares cannot be issued.
8. No, it is given by SEBI.
9. No, it is the other way round – Doctrine indoor management operates against it and doctrine of constructive notice in its favour.
10. No, it has a nationality and a resident character but is not a citizen, and cannot cast its vote.

Part B

III.

1. Requirements as to issue of prospectus

a. Dating : Sec.55

A prospectus must be dated. Unless otherwise stated, the date of publication of the prospectus is the date of the prospectus.

b. Signature

a. For Existing Company: The prospectus must be signed by every person named as Director or his agent who has been authorised in writing.
b. For Intended Company: The prospectus must be signed by the proposed Director of the Company or his agent who has been authorised in writing.

c. **Registration of Prospectus : Sec.60**

A signed copy of the prospectus is to be filed with Ro C before publication. It should be accompanied by the following documents:

a) The consent of the expert mentioned in the prospectus, if his report is included in the prospectus;
b) A copy of every contract relating to the appointment or remuneration of a Managing Director or Manager.
c) A copy of every material contract , not being a contract entered into the ordinary course of business of the Company, within two years of the issue of the prospectus;
d) A written statement relating to the adjustment if any, in respect of figures of any profit or losses, and assets and liabilities;
e) The consent in written of the person, if any , named in the prospectus as the auditor, legal adviser, attorney, solicitor, Issue House, banker, managers to the issue or broker of the company to act in the capacity;
f) The consent of the Director under Section 266 in respect of new Directors, if any, named There in.
g) A copy of the underwriting agreement, if any, should also be filed as required by section 76.

d. **Declaration**

The prospectus must contain a statement that a copy has been delivered for registration, and also indicate the requisite documents (giving names) delivered with it.

e. **Issue**

The prospectus must be issued within 90 days of registration with the register.

Approval of prospectus by various agencies

The draft prospectus has to be approved by various agencies before it is filed with the Ro C of the concerned state. The various agencies who approve the prospectus are the following-

- All the lead managers to the issue.
- Each of the stock exchanges where the shares of the company are listed and where the shares/debentures are proposed to be listed.
- The lead financial institution underwriting the issue, if applicable.

The draft prospectus is vetted by SEBI to ensure adequacy of disclosures. However vetting of SEBI does not amount to approval of prospectus. SEBI does not take any responsibility for the correctness of the statement made or opinions expressed in the prospectus.

2.

a. Allocable surplus: Sec.2(4)

- In relation to an employer, being a company (other than a banking company) which has not made the arrangements prescribed under the Income-tax Act for the declaration and payment within India of the dividend payable out of its profits in accordance with the provisions of section 194 of that Act, sixty-seven per cent of the available surplus in an accounting year.
- In any other case sixty percent of such available surplus.

Available surplus : Sec.2(6)

Surplus computed in the manner prescribed in section 5 of the Act which provides that available surplus in any accounting year is the Gross Profit for that year deducting there from, sums referred to in Sec.6

b. Employee [section2 (e)]

Employee means (other than an apprentice)-

- Any person employed on wages in any establishment, factory or clerical work port, railway company, shop
- To do any skilled or unskilled, manual, supervisory, technical or clerical work
- Whether the terms of such employment are express or implied.

c. Definition : Sec. 2 (28) MOA

Memorandum" means the Memorandum of Association, as originally framed or altered from time to time in pursuance of any previous companies law or of this Act. Mo A is in fact a company's charter. It defines its constitution and the scope of the powers with which it has been established under the Act.

d. Void contract Section 2(j)

A contract which ceases to be enforceable by law becomes void when it ceases to be enforceable (Sec.2j). In other words, a contract which is no longer enforceable by law is a void contract. It is a nullity. There is a number of contracts which are declared void on grounds of morality, social considerations or impracticability.

3. a) change of registered office from one state to another :Sec.17

a) A Special resolution is to be passed by the shareholders, approving the change.
b) From No.23 is to be field together with the extract of such special resolution within 30days of passing of the above resolution.
c) A petition is to be filed with me C.G. for confirmation of change.
d) Notice must be given to all person whose interest will be affected by the change.
e) Consent of creditors of the company must be obtained.
f) Notice must be given to the Ro C so that he can appear before the C.G. and state his objections and suggestion, if any.
g) C.G. after considering the above may make an order confirming the alteration either wholly or in part and on such terms and conditions as it thinks proper.
h) A certified copy of the order of C.G. together with printed copy of altered Memorandum must be filed within 3 months of order with the Ro C.
i) Ro C on receipt of the above order will register it and issue within one month, a certificate which will be conclusive evidence of alterations – Sec.18.
j) In the event of shifting of registered office from one state to another, a certified copy of the orde4r is to be filed with Ro C of both the States within 3 months of the order.
K) The Ro C of the present state must send all the documents to the Ro C of the other state in due course.
I) Certificate of registration of the transfer is to be obtained from Ro C of both the states.
m) Notice of new address in Form No.18 is to be given to the Ro C of the state in which the office is situated.
n) On failure to register the C.G. order within 3 months, the Roc will render all proceedings with C.G. and the order aforesaid void.

o) C.G. may extend the time for filling such order by such period as it thinks proper, any time.

(b) Holding Companies – Sec. 4 (4); and Subsidiary Companies – Sec. 4 (1)

A company shall be deemed to be a subsidiary of another Company, if and only if-

a) that other Company controls the composition of its Board of Directors

E.g. : The Board of Directors of a company S consists of seven Directors and if another Company H
has the authority to appoint four or more Directors, Company H is deemed to be the holding Company and Company S is called the subsidiary Company.

Company H is deemed to have power to appoint a Director in the following cases-

- If a person cannot be appointed as a Director without the Exercise in his favour of the power of appointment held by the company (Company H);
- If a person's appointment to Directorship follows necessarily from his appointment as Director or manager of or to any other office of employment, in the Company (Company H);
- If the Directorship is held by an individual nominated by the Company (Company H) or by any of its subsidiaries.

b) That other company, holds more than half in the nominal value of its equity share capital; or

c) The first mentioned Company is a subsidiary of any Company, which is that other company's Subsidiary

E.g.: If Company X is a subsidiary of company Y and Company Y is the subsidiary of Company Z, then X is also a subsidiary of Company Z.

4 a. Association not for profit: Sec.25

Section 25 permits the registration, under a licence from the Central Government, of an association not for profit, with limited liability, without being required to use the word 'Limited' or the words 'Private Limited' to their name. The Central Government may grant such a licence if-

- It is intended to form a Company for promoting commerce, art religion, charity or any other useful object; and
- The Company prohibits payment of any dividend to its members but intends to apply its profits or other income for the promotion of its objects.

A licence may be granted subject to such regulation and conditions as it thinks fit and if necessary may direct the same to be incorporated in the Memorandum and Articles of Association.

Features:

a) The Company cannot alter its objects clause in the Memorandum of Association without the approval of the Central Government.

b) The Company enjoys all the privileges of a Limited Company, and is subject to all its obligation, except those in respect of which exemption by a special or general order is granted by the Central Government.

c) The Company need not pay stamp duty for registering their Memorandum and Articles of Association.

d) The Company is exempted from the requirement of having a minimum paid-up capital.

e) The company need not end its name with the words 'Limited or Private Limited'.

f) The licence may be revoked at any time if conditions are not complied with. The revocation is done by the Central Government after giving notice of its intention and giving an opportunity of being heard.

g) On revocation, the Register shall put "Limited" or "Private Limited" after the Company's name in the register.

b. SWEAT EQUITY : SEC.79 A

Meaning

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 authorised 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 consideration, if any, and
   (iv) 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.

Applicability

For the purpose of this section, the expression 'Company' means-

- The Company incorporated, formed and registered under this Act and;
- Includes its subsidiary company incorporated in a company outside India.

c. SHELF PROSPECTUS : Sec 60A

Banks/FIs ------ Issued Securities (Typically Bonds) ------- Filling of shelf Prospectus

Issue Information Memorandum — Series "I" — Public response

Issue Information Memorandum — Series"2" — Public response

Issue Information Memorandum — Bonds – Series "N" — Public response

1. Meaning

Shelf prospectus means a prospectus issued by any financial institution or bank for one or more issues of the securities or class of securities specified in that prospectus.

2. **Who Can file?**
   Any public financial institution, public sector bank or scheduled bank whose main object is financing.

3. **Privilege**
   A Company filling a shelf prospectus with the RoC shall not be required to file prospectus afresh at every stage of offer of securities by it within the period of validity.

4. **Procedure**
   A Company filing a shelf prospectus shall be required to file an information memorandum within such time as may be prescribed by the Central Government prior to making of a second or subsequent offer of securities under the shelf prospectus on all material facts relating to the following:
   a) New charge created
   b) Changes that have occurred in the financial position after the first offer of securities
   c) Previous offer of securities
   d) Succeeding offer of securities.

   An information memorandum shall be issued to the public along with the shelf prospectus filed At the stage of the first offer of securities and it shall be valid for one year from the date of Opening the first issue under that prospectus.

5. **REVOCATION OF OFFER AND ACCEPTENCE :SEC.5**
   The term ' revocation ' simply means 'taking back' or withdrawing'.

   1. **Revocation of offer**
      A proposal may be revoked at any time before the communication of its acceptance is complete as against the proposer, but no0t afterwards.
      Hence, an offer can be revoked at any time before the letter of acceptance has been posted.
      Revocation, to be valid , must move from the offer or himself or a duly authorised agent.
      Notice of revocation of a 'general offer' must be given through the same channel by which the original offer was made.
   2. **Revocation of Acceptance**
      An acceptance may be revoked at any time before the communication of the acceptance is complete as against the acceptor, but not afterwards. Hence the acceptor can revoke his acceptance at any time before his letter accepting the offer reaches the offer or.
   3. **Communication of Revocation**
      The communication of revocation is complete at different times for the persdonsn who makes it and the person to whom it is made.
      According to section 4 the communication of revocation is complete-
      - As against the person who makes it, when it is put into the course of transmission to the person to whom it is made, so as to be out of the power of the person who makes it.
      - As against the person to whom it is made, when it comes to his knowledge.
        Eg : A makes an offer to B on 15th May which is sent by post.

      B receives the offer on 17th May. B accepts the offer on 20th May and sends later of acceptance by post which reaches A on 23rd May.

1.	Communication of offer	A-B	Complete on 17th May
2.	• Communication of acceptance • As against acceptor "B"	B-A -------	Complete on 20th May Complete on 23rd May
3.	Revocation of offer	By A	Before 20th May

4.	Revocation of Acceptance	By B	Before 23th May
5.	Communication of revocation (Eg) ‘A’ Revokes on 18th May and it reaches B on 19th May) • As against ‘A’ • As against ‘B’		Complete on 18th May Complete on 19th May

6. Eligibility for bonus

1. **Who is eligible?(Sec.8)**
   Every employee of an establishment covered under the Act provided he has worked in that establishment for not less than 30 working days in the year on a salary of less than Rs. 10,000/-p.m.
   Others
   - A temporary workman on the basis of total number of days worked by him.
   - An employee of a seasonal factory is entitled to proportionate bonus and not minimum bonus as prescribed u/s 10 of the Act.
   - A part time employee as a sweeper engaged on a regular basis.
   - A retrenched employee, if he has worked for the minimum period.
   - A person on probation
   - A dismissed employee reinstated with back wages
   - Employees employed through contractors on building operations (Effective from1.4.2006)

2. **Disqualification : Sec.9**
   Employee dismissed from service for-
   a) Fraud, or
   b) Riotous or violent behaviour while on the premises of the establishment, or
   c) Theft, misappropriation or sabotage of any property of the establishment.

Quantum of bonus
a. Minimum Bonus: Sec.10
Every employer shall, in respect of any accounting year, whether or not the employer has any allocable surplus in the accounting year, pay to –
a) Every employee a minimum bonus, which shall be 8.33% of the salary, earned during the accounting year or Rs.100 whichever is higher.
b) If an employee has not completed 15 years of age at the beginning of the accounting year, minimum bonus which shall be @ 8.33 % of salary or Rs. 60 whichever is higher. The Employer is bound to pay minimum bonus even if he suffers losses during the accounting year.

b. Maximum Bonus: Sec.11
If in an accounting year, the allocable surplus exceeds minimum bonus payable to employees; the employer shall, in lieu of minimum bonus to every employee in proportion to the salary, subject to a maximum of 20% of the salary. While computing maximum bonus, the amount set on or set off u/s 15 is to be taken in to account.

PRIME ACADEMY
38TH SESSION PROGRESS TEST
COST ACCOUNTING AND FINANCIAL MANAGEMENT

No. of Pages: 5 **Total Marks: 75**
Time Allowed: 2Hrs

PART - A
(Answer all questions. Questions carry 5 Marks each)

1. A hotel has a capacity of 100 Single rooms and 20 Double rooms. The average occupancy of both single and double rooms is expected to be 80% throughout the year of 365 days. The rent for double room has been fixed at 125% of the rent of single room. The costs are as under:
   Variable Costs: Single room ₹ 220 each per day, Double room ₹ 350 each per day.
   Fixed Costs: ₹ 49,64,000
   Calculate the rent chargeable for single and double rooms per day in such a manner that the hotel earns a profit of 25% on cost at current occupancy level.

2. Compute a conservative estimate of profit on a contract (which has been 90% complete) from the following particulars:

	₹
Total expenditure to date	22,50,000
Estimated further expenditure to complete the contract (including contingencies)	2,50,000
Contract Price	32,50,000
Work certified	27,50,000
Work uncertified	1,75,000
Cash received	21,25,000

3. What method of Costing would you apply in the following cases?
   (a) Ship building
   (b) Hospital
   (c) Interior decorator
   (d) Oil refinery
   (e) Tourist taxi

4. The product of a manufacturing concern passes through two processes A and B and then to finished stock. It is ascertained that in each process normally 5% of the total weight is lost as waste with no realizable value and 10% is scrap from which Process B realizes ₹ 200 per ton. From the following figures relating to Process A and B, prepare Process B a/c:

	A	B
Material in tons	1,000	70
C ost of materials per ton (in ₹)	125	200
Wages (in ₹)	28,000	10,000
Manufacturing expenses (in ₹)	8,000	5,250
Output in tons	830	780

5. Journalize the following transactions in the Integrated books of accounts:
   (a)Materials purchased on credit ₹ 2,00,000
   (b) Materials returned to stores from Job ₹ 25,000
   (c) Factory overheads over absorbed ₹ 20,000
   (d) Administration overheads under absorbed ₹ 10,000
   (e) Shortage of stock during physical verification ₹ 22,000

PART-B

Answer all questions . Each Qn. Carry 12.5 Marks **(50 Marks)**

1)

Modern Construction Ltd. obtained a contract No. B–37 for ₹ 40 lakhs. The following balances and information relate to the contract for the year ended 31st March, 2013:

	1.4.2012	31.3.2013
	₹	₹
Work–in–progress:		
Work certified	9,40,000	30,00,000
Work uncertified	11,200	32,000
Materials at site	8,000	20,000
Accrued wages	5,000	3,000

Additional information relating to the year 2012–2013 are:

	₹
Materials issued from store	4,00,000
Materials directly purchased	1,50,000
Wages paid	6,00,000
Architect's fees	51,000
Plant hire charges	50,000
Indirect expenses	10,000
Share of general overheads for B–37	18,000
Materials returned to store	25,000
Materials returned to supplier	15,000
Fines and penalties paid	12,000

The contractee pays 80% of work certified in cash. You are required to prepare:

(i) Contract Account
(ii) Contractee's Account.
(iii) Balance Sheet (extract)

2)

BPR Limited keeps books on integrated accounting system. The following balances appear in the books as on April 1, 2002 :

	Dr. (₹)	Cr. (₹)
Stores Control A/c	40,950	—
Work-in-progress A/c	38,675	—
Finished Goods A/c	52,325	—
Bank A/c	—	22,750
Creditors A/c	—	18,200
	Dr. (₹)	Cr. (₹)
Fixed Assets A/c	1,47,875	—
Debtors A/c	27,300	—
Share Capital A/c	—	1,82,000
Provision for Depreciation A/c	—	11,375
Provision for Doubtful Debts A/c	—	3,725
Factory Overheads Outstanding A/c	—	6,250
Pre-paid Administration overheads A/c	9,975	—
Profit and Loss A/c	—	72,800
	3,17,100	3,17,100

The transactions for the year ended March 31, 2003 were as given below :

	₹	₹
Direct Wages	1,97,925	—
Indirect Wages	11,375	2,09,300
Purchase of materials (on credit)		2,27,500
Materials issued to production		2,50,250
Materials issued for repairs		4,550
Goods finished during the year (at cost)		4,89,125
Credit Sales		6,82,500
Cost of Goods sold		5,00,500
Production overheads absorbed		1,09,200
Production overheads paid during the year		91,000
Administration overheads paid during the year		7,775
Selling overheads incurred		27,300
Payment to Creditors		31,850
Payment received from Debtors		2,29,775
Depreciation of Machinery		6,59,750
Administration overheads outstanding at the end of year		14,789
Provision for doubtful debts at the end of the year		2,225

Required :
Write up accounts in the integrated ledger of BPR Limited and prepare a Trial Balance.

3)

The following information relates to a bus operator:

Cost of the bus	₹ 18,00,000
Insurance charges	3% p.a
Management-cum accountant's salary	₹ 8,000 p.m
Annual Tax	₹ 50,000
Garage Rent	₹ 2,500 p.m
Annual repair & maintenance	₹ 1,50,000
Expected life of the bus	15 years
Scrap value at the end of 15 years	₹ 1,20,000
Driver's Salary	₹ 15,000 p.m
Conductor's Salary	₹ 12,000 p.m
Stationery	₹ 500 p.m
Engine oil, lubricants (for 1200kms)	₹ 2,500 p.m
Diesel and oil (for 10 kms)	₹ 52
Commission to driver and conductor (shared equally)	10% of collections
Route distance	20 km long

The bus will make 3 round trips for carrying on the average 40 passengers in each trip. Assume 15% profit on collections. The bus will work on the average 25 days in the month.
Calculate fare for passenger-km.

4)

R Ltd manufactures special purpose small machines to order. In the beginning of the year, there were two jobs in process, namely, Job No. 100 and Job No. 101. The following costs were applied to these jobs in the previous year:

	Job 100 ₹	Job 101 ₹
Direct Materials	25,000	40,000
Direct Labour	20,000	15,000
Overheads	22,200	16,650
	---------	---------
	67,200	71,650

During January of the current year, the following transactions took place:

1. Jobs 102, 103 and 104 were started and the following costs applied to them:

	Job 102 ₹	Job 102 ₹	Job 103 ₹
Direct Materials	15,000	50,000	35,000
Direct Labour	25,000	30,000	20,000

2. Jobs 100 and 101 were completed, additional direct labour costs incurred on them were ₹ 10,000 and ₹ 20,000 respectively
3. Wages paid to production employees (both direct and indirect) during January totaled ₹ 1,25,000, of which accrued wages of the previous year were ₹ 25,000; wages payable at the end of the current month were ₹ 20,000.

4. Depreciation for the month totaled ₹ 50,000.

5. Utilities bill totaling ₹ 60,000 were received for the January operations.

6. Supplies costing ₹ 10,000 were used.

7. Miscellaneous overhead expenses totaled ₹ 12,000 for January.

8. Actual overhead is applied for the individual jobs at the end of each month using a rate based on actual direct-labour costs.

You are required to:

(a) Determine the overhead rate for the month of January
(b) Determine the amount of profit earned for jobs 100 and 101, assuming job prices of ₹ 1,10,000 and ₹ 1,70,000 respectively
(c) Determine the amount of Completed WIP for Jobs 102, 103 and 104.

PRIME ACADEMY
38TH SESSION -- PROGRESS TEST
COST ACCOUNTING AND FINANCIAL MANAGEMENT
SUGGESTED ANSWERS

PART-A

1.

Step 1: calculation of room days

Single room = 100 rooms x 365 days x 80% occupancy
= 29200 room days
Double room = 20 rooms x 365 days x 80% occupancy
= 5840 room days

Step 2 : Total Costs and desired revenue

		₹
Variable costs:		
Single room	= 220 per day x 29,200	6,424,000
Double room	= 350 per day x 5840	2,044,000
Fixed costs: (given)		4,964,000
	Total Costs	13,432,000
Add profit @ 25% of costs		3,358,000
	Desired revenue	16,790,000

Step 3: Calculation of rent to be charged.

If rent of Single room is x then double room rent will be 125% x i.e 1.25x
Total Rent for the year = 29,200x + 5840(1.25x)
= 29200x + 7300x = 36500x this must be equal to ₹ 1,67,90,000
36500x = 1,67,90,000
x=₹ 460 (Rent for single room)
Rent for double room= ₹ 575

2.

Contract 90% complete, so estimated profit rule to be used
Profit to be transferred is = Estimated profit x (WC/CP) x (Cash received/ WC)
Estimated profit = Contract price -(Total expenditure to date + Estimated further expenditure to complete) = ₹ 750,000

$$\text{Profit to be transferred} = 7,50,000 \times \frac{2,750,000}{3,250,000} \times \frac{2,125,000}{2,750,000}$$

Profit to be transferred = ₹ 490,384.62

3.

(a) Ship building : Contract costing
(b) Hospital : Operating/ service costing
(c) Interior decorator: job costing
(d) Oil refinery : Process costing
(e) Tourist taxi: Operating/ service costing

4.

Input output statement	₹ B	₹ A
Input of material	70	1,000.00
Transfer from A	830	-
Total input	900	1,000
Less Normal loss;		
Waste 5%	(45)	(50)
Scrap 10%	(90)	(100)
Expected output	765	850
Actual output	780	830
Abnormal gains/ (Loss)	15	(20)

Process B a/c					
	units	₹		units	₹
Material input	70	14,000	Normal Loss		
Transfer from A	830	227,518	Waste 5%	45	-
Wages		10,000	Scrap 10%	90	18,000
Manufacturing expenses		5,250	Transfer to finished goods	780.00	243,450
Abnormal gains	15	4,682			
	915	261,450		915	261,450

$$\text{COP of B} = \frac{\text{Total costs of B- Normal loss realizable value}}{\text{Expected output}}$$

= (14000+227518+10000+5250-18000)/765 312.12

Value of transfer =780*312.12 = ₹ 243450

Value of Abnormal gains = 15*312.12 = 4682

$$\text{COP of A} = \frac{\text{Total costs of B- Normal loss realizable value}}{\text{Expected output}}$$

= (125000+28000+80000-0)/850 274.12

Value of transfer to B =830x274.12= ₹ 227,518.00

5.

Date	Particulars	l/f	Debit ₹	Credit ₹
(a)	Stores Control a/c ……….. Dr		200,000	
	To Creditors a/c			200,000
	(Being Materials purchased on credit)			
(b)	Stores Control a/c ………..Dr		25,000	
	To WIP control a/c			25,000
	(Being Materials returned to stores)			
(c)	Factory overheads a/c…..Dr		20,000	
	To Costing P & L a/c			20,000
	(Being Factory overheads over absorbed)			
(d)	Costing P & L a/c …..Dr		10,000	
	To Administration overheads a/c			10,000
	(Being Administration overheads under absorbed)			
(e)	Costing P & L a/c …..Dr		22,000	
	To Stores Control a/c			22,000
	(Being Shortage of stock during physical verification)			

PART B

1.

Books of Modern Constructions Ltd.

Contract No. B-37 Account for the year ended 31st March, 2013

	₹			₹
To WIP b/d (9,40,000 + 11,200)	951,200	By Materials returned to Store		25,000
To Stock (materials) b/d	8,000	By Materials returned to suppliers		15,000
To Materials issued	400,000	By WIP c/d -		
To Materials purchased	150,000	Work Certified	30,00,000	
To Wages#	598,000	Work Uncertified	32,000	3,032,000
To Architect's fees	51,000	By Materials stock c/d		20,000
To Plant Hire charges	50,000			
To Indirect expenses	10,000			
To General overheads	18,000			
To Notional profit c/d	855,800			
	3,092,000			3,092,000
To Profit and Loss A/c (2/3×8,55,800×80÷100)	456,427	By Notional Profit b/f		855,800
To WIP reserve	399,373			
	855,800			855,800

Wages= Paid + Closing accrued-opening accrued

Contractee's Account

	₹		₹
To Balance c/d (30L x 80%)	24,00,000	By Balance b/d (80% of 9,40,000)	7,52,000
		By Bank (balancing fig.)	16,48,000
	24,00,000		24,00,000

Balance Sheet (Extract) as on 31.3.2008

Liabilities	₹	Assets		₹
		Materials stock at site		20,000
		Materials stock in store		25,000
Wages accrued	3,000	WIP:		
		Work Certified	3,000,000	
		Work Uncertified_	32,000	
			3,032,000	
		Less : WIP reserve	(399,373)	
		Less: Advance 24,00,000	(2,400,000)	232,627

2.

Stores Control A/c

		₹			₹
To	Balance b/d	40,950	By	WIP A/c	2,50,250
To	Creditors A/c	2,27,500	By	Production overheads A/c	4,550
			By	Balance c/d	13,650
		2,68,450			2,68,450

Wages Control A/c

		₹			₹
To	Bank	1,97,925	By	WIP A/c	1,97,925
To	Bank	11,375	By	Production overheads A/c	11,375
		2,09,300			2,09,300

Work-in-Progress A/c

		₹			₹
To	Balance b/d	38,675	By	Finished Goods A/c	4,89,125
To	Wages control A/c	1,97,925	By	Balance c/d	1,06,925
To	Stores control A/c	2,50,250			
To	Production overheads A/c	1,09,200			
		5,96,050			5,96,050

Production Overheads A/c

		₹			₹
To	Wages control A/c	11,375	By	Bal b/d(op. o/s)	6250
To	Stores control A/c	4,550	By	WIP A/c	1,09,200
To	Bank	91,000	By	Profit & Loss A/c	14,039
To	Provision for depreciation	14,789		(Under-absorbed overheads	
To	Bal c/d	7,775		written off)	
	(Cl. Outstanding)				
		1,23,239			1,23,239

Finished Goods A/c

		₹			₹
To	Balance b/d	52,325	By	Cost of sales A/c	500,500
To	Work -in - progress A/c	489,125	By	Balance C/d	80,450
To	Admn . Overheads A/c	39,500			
		580,950			580,950

Administrating Overheads A/c

		₹			₹
To	Bal b/d(op prepaid)	9,975	By	Finished goods A/c	39,500
To	Bank	27,300			
To	Bal c/d(cl. o/s)	2,225			
		39,500			39,500

Cost of Sales a/c

		₹			₹
To	Finished goods A/c	500,500	To	Sales A/c	532,350
To	Selling overheads	31,850			
		532,350			532,350

Sales A/c

		₹			₹
To	Cost of Sales A/c	532,350	By	Debtors A/c	682,500
To	Profit & Loss A/c	150,150			
		682,500			682,500

Provision for Deprecation A/c

		₹			₹
To	Balance c/d	26,164	By	Balance B/d	11,375
			By	Production overheads A/c	14,789
		26,164			26,164

Provision for Doubtful Debts A/c

		₹			₹
To	Balance C/d	4,590	By	Balance B/d	3,725
			By	Profit & Loss A/c	865
		4,590			4,590

Profit & Loss A/c

		₹			₹
To	Provision for doubtful debts	865	By	Balance b/d	72,800
To	Production overhead	14,039	By	Sales A/c	150,150
To	Balance c/d	208,046			
		222,950			222,950

Debtors A/c

		₹			₹
To	Balance b/d	27,300	By	Bank A/c	659,750
To	Sales A/c	682,500	By	Sales	50,050
		709,800			709,800

Creditors A/c

		₹			₹
To	Bank	229,775	By	Balance B/d	18,200
To	Balance C/d	15,925	By	Stores Control A/c	227,500
		245,700			245,700

Fixed Assets A/c

		₹			₹
To	Balance B/d	147,875	By	Balance C/d	147,875

Bank A/c

		₹			₹
To	Debtors	659,750	By	Balance b/d	22,750
			By	Direct Wages	197,925
			By	Indirect Wages	11,375
			By	Production Overheads (Rs . 84750+Rs. 6250)	91,000
			By	Admn . Overheads A/c	27,300
			By	Selling overheads	31,850
			By	Creditors A/c	229,775
			By	Balance c/d	47,775
		659,750			659,750

Trial Balance As on March 31, 2003

	Dr ₹	Cr ₹
Store control A/c	13,650	
Work in Progress A/c	106,925	
Finished goods A/c	80,450	
Bank A/c	47,775	
Creditors A/c		15,925
Fixed Assets A/c	147,875	
Debtors A/c	50,050	
Share Capital A/c		182,000
Provision for Depreciation A/c		26,164
Profit & Loss A/c		208,046
Production overheads outstanding A/c		7,775
Outstanding administrative overheads A/c		2,225
Provision for doubtful debts A/c		4,590
	446,725	446,725

3.

Step 1: Calculation of Cost units

Cost unit = Passenger kms

Total kms = 3 trips x 2 way x 20kms x 25 days x 12 months = 36,000 kms

Total passenger kms = 36,000kms x 40 passengers = 1,440,000 Passenger kms

Step2: Calculation of Cost per cost unit

	₹
Insurance charges	54,000
Management-cum accountant's salary	96,000
Annual Tax	50,000
Garage Rent	30,000
Annual repair & maintenance	150,000
Depreciation	112,000
Stationery	6,000
Driver's Salary	180,000
Conductor's Salary	144,000
Engine oil, lubricants	75,000
Diesel and oil	187,200
Total costs	1,084,200
Passenger kms	1,440,000

Cost per passenger kms	0.75

Let fare per passenger km be x

X = cost per passenger km + commission + profit

X= 0.75 + .10 X + .15 X

X = ₹ 1

Fare per passenger km = ₹ 1

4.

(a) Overhead rate for the month of January

	₹	
Indirect wages (WN-1)	15,000	
Depreciation	50,00	
Utilities	60,000	
Supplies	10,000	
Miscellaneous	12,000	
	147,000	
Direct labour cost (WN-1)	105,000	
Overhead rate	140.00%	of Direct labour Cost

WN-1:

Wages for the year	(1,25,000-25,000+20,000)	120,000
Less: Direct wages	(25,000+30,000+20,000+20000+10000)	(105,000)
		15,000

(b) Profit earned on Jobs 100 and 101

	100 (₹)	101 (₹)
Opening WIP	67,200	71,650
Direct labour cost	10,000	20,000
Overhead (140% of labour)	14,000	28,000
Cost of production	91,200	119,650
Sales	110,000	170,000
Profit	18,800	50,350

(c) WIP for Jobs 102, 103 and 104

	102(₹)	103(₹)	104(₹)
Direct material	15,000	50,000	35,000
Direct labour cost	25,000	30,000	20,000
Overhead (140% of labour)	35,000	42,000	28,000
Work in progress	75,000	122,000	83,000

PRIME ACADEMY
38th SESSION PROGRESS TEST
TAXATION

No. of Pages: 4 | **Total Marks : 75**
Time Allowed: 2Hrs

Part - A
All questions are compulsory.

1) Salary paid tax free
2) Specified employee
3) Mrs. Sandhya was retrenched from service of Suzlene Ltd. The scheme of retrenchment is approved by the Central Government. Retrenchment compensation received ₹ 8 lakhs. What is the taxability?
4) Treatment of carry forward of losses
5) Taxability of Dividend. (5 x 3=15Marks)

Part - B
Answer any twelve questions. Each question carries five Marks

1) Mr. Fabrice, a French citizen left India after a stay of 10 years on 01.06.2011. During the financial year 2012-13, he comes to India for 46 days. Later, he returns to India for 1 year on 10.10.2013. Determine his residential status for the A.Y. 2014-15.

Will your answer be different if Mr.Fabrice is an Indian Citizen?

2) Anirudh had taken a loan of ₹ 5,00,000 for construction of property on 01.10.2012. Interest was payable @ 10% p.a. The construction was completed on 30.06.2013. No principal repayment has been made up to 31.03.2014. Compute the interest allowable as deduction under section 24 for the A.Y.2014-15.

3) Kesavan owns a residential house property. It has two identical units—unit I and unit II. Unit I is self–occupied by Kesavan and his family members, unit II is let out (rent being ₹ 7,500 per month, this unit remained vacant for one month during which it was self-occupied). Municipal value of the property is ₹ 1,30,000. Standard rent is₹ 1,40,000 and fair rent is ₹ 1,53,000. Municipal taxes is imposed @ 12% (on municipal value) which is paid by Bhupesh. Other expenses for the previous year 2013-14 being repairs ₹ 5,100 and insurance ₹ 6,300.

Kesavan borrowed ₹9,00,000 on 01.07.2010 from LIC @ 12% p.a. to construct the property. Construction of the house was completed on 30.06.2012. The entire loan is still un paid.Compute the total income and tax liability of Mr. Kesavan for the assessment year 2014-15 on the assumption that income of Kesavan from other sources is ₹2,90,000.

4) X converts his capital asset (acquired on June 10, 1988 for ₹ 60,000) into stock-in-trade in March 10, 2012. The fair market value on the date of the above conversion was ₹ 3,00,000. He subsequently sells the stock-in-trade so converted for ₹4,00,000 on June 10, 2013. Discuss the tax implication.

5) In which of the following situations capital gains tax liability does not arise?

(i) Mr. A purchased gold in 1970 for ₹25,000. In the P.Y. 2013-14, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.

(ii) A house property is purchased by a Hindu undivided family in 1945 for ₹ 20,000. It is given to one of the family members in the P.Y. 2013-14 at the time of partition of the family. FMV on the day of partition was₹ 12,00,000.

(iii) Mr. B purchased 50 convertible debentures for ₹ 40,000 in 1995 which are converted into 500 shares worth ₹ 85,000 in November 2013 by the company.

6) Mr. X & sons, HUF, purchased a land for ₹ 40,000 in 1991-92. In 1995-96, a partition takes place when Mr. A, a coparcener, is allotted this plot valued at ₹ 80,000. In 1996-97, he had incurred expenses of ₹ 1,85,000 towards fencing of the plot. Mr. A sells this plot of land for ₹ 15,00,000 in 2013-14 after incurring expenses to the extent of ₹ 20,000. You are required to compute the capital gain for the A.Y. 2014-15.

Financial year	**Cost Inflation Index**
1991-92	199
1995-96	281
1996-97	305
2013-14	939

7) Discuss about Computation of Capital Gains on depreciable Assets.

8) Mr. Xavier purchases a house property in December 1975 for ₹ 1,25,000 and an amount of ₹ 75,000 was spent on the improvement and repairs of the property in March, 1981. The property was proposed to be sold to Mr. Zaxia in the month of May, 2003 and an advance of ₹ 40,000 was taken from him. As the entire money was not paid in time, Mr. X forfeited the advance and subsequently sold the property to Mr. Yahiya in the month of March, 2014 for ₹ 33,00,000. The fair value of the property on April 1, 1981 was ₹ 3,90,000. What is the capital gain chargeable in the hands of Mr. Xavier for the A.Y. 2014-15?

Financial Year	**Cost Inflation Index**
1981-82	100
2003-04	463
2013-14	939

9) Transactions not regarded as transfer

10) ABC Ltd., purchased a building for industrial undertaking in May 2003, at a cost of ₹ 4,00,000. The above property was compulsorily acquired by the State Government at a compensation of ₹ 10,00,000 in the month of January, 2014. The compensation was received in March, 2014. The company purchased another building for its industrial undertaking at a cost of ₹ 1,00,000 in the month of March, 2014. What is the amount of the capital gains chargeable to tax in the hands of the company for the A.Y. 2014-15?

Financial Year	Cost Inflation Index
2003-04	463
2013-14	939

11) A proprietary business was started by Smt. Rani in the year 2010. As on 01.04.2012 her capital in business was ₹ 4,00,000. Her husband gifted ₹ 3,00,000, on 10.04.2012, which Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial years 2012-13, ₹ 2,50,000 and financial year 2013-14 ₹ 4,90,000. Compute the income to be clubbed in the hands of Rani's husband for the assessment 2014-15.

12) Mrs. X is a citizen of India and is employed in ABC Ltd. in India and is getting salary of₹ 50,000 p.m. and she was transferred out of India w.e.f 01.09.2013 and for this purpose she left India on 01.09.2013 for the first time and she visited India from 27.12.2013 to 07.01.2014 and her salary for the month of Dec, 2013 was received in India. Employer and employee both have contributed @ 13% (each) of salary to the recognized provident fund and during the year interest of ₹ 50,000 was credited to the recognized provident fund @ 10% p.a. Compute her total income and tax liability in India for assessment year 2014-15.

13) The following details have been furnished by Mrs. Prema, pertaining to the year ended 31.03.2013:

(i) Cash gift of ₹ 51,000 received from her friend on the occasion of her "Shastiaptha Poorthi", a wedding function celebrated on her husband completing 60 years of age. This was also her 25th wedding anniversary.

(ii) On the above occasion, a diamond necklace worth ₹2 lakhs was presented by her sister living in Dubai.

(iii) When she celebrated her daughter's wedding on 21.02.2013, her friend assigned in Mrs. Prema's favour, a fixed deposit held by the said friend in a scheduled bank; the value of the fixed deposit and the accrued interest on the said date was ₹ 51,000.

Compute the income, if any, assessable as income from other sources.

14) S Ltd. is an existing Indian Company, which sets up a new industrial unit. It incurs the following expenditure in connection with the new unit:

	₹
Preparation of project report	1,00,000
Market survey	2,00,000
Legal and other charges for issue of additional capital required for the new unit	2,00,000
Total	5,00,000
The following further data is given:	
Cost of project	30,00,000
Capital employed in the new unit	40,00,000

What is the deduction admissible to the company under section 35D for Assessment Year 2014 -15?

(12x5= 60 Marks)

PRIME ACADEMY

38th SESSION -- PROGRESS TEST - TAXATION

SUGGESTED ANSWERS

Part A

1) Salary paid tax-free :

This, in other words, means that the employer bears the burden of the tax on the salary of the employee. In such a case, the income from salaries in the hands of the employee will consist of his salary income and also the tax on this salary paid by the employer. This means both the salary and the tax paid thereon will be taxable in the hands of the employee.

2) 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

3)

When retrenchment compensation is received in accordance with any scheme, which is approved by the Central Government, it is fully exempted from tax.

4) I) Loss from one house property can be set off against the income from another house Property.

ii) The loss in one business may be set-off against the profits from another business in the Same year.

iii) Short-term capital loss is allowed to be set off against both short-term capital gain and Long-term capital gain. However, long-term capital loss can be set-off only against long-Term capital gain and not short-term capital gain.

(iv) Where the net result of the computation under any head of income (other than 'Capital Gains') is a loss, the assesses can set-off such loss against his income assessable for that assessment year under any other head, including 'Capital Gains'.

(v) Where the net result of the computation under the head "Profits and gains of business or profession" is a loss, such loss cannot be set off against income under the head "Salaries".

(vi) Where the net result of computation under the head 'Capital Gains' is a loss, such capital loss cannot be set-off against income under any other head.

(vii) Speculation loss and loss from the activity of owning and maintaining race horses cannot be set off against income under any other head.

5) Taxability of Dividend

(i) Dividend declared/distributed/paid by domestic company including deemed dividend (i.e. other than the dividend u/s. 2(22)(e) or dividend from a foreign company) is exempt in the hands of shareholder. However, the company has to pay dividend distribution tax on it under section 115-O [Sec. 10(34)]

(ii) any dividend : (*a*) on units of a Mutual Fund specified under clause (*23D*); or (*b*) in respect of units from the Administrator of the specified undertaking; or (*c)* in respect of units from the specified company [Sec. 10(35)].

Part - B

1) During the previous year 2013-14, Mr. Fabrice was in India for 173 days (i.e. 22 + 30 + 31+ 31+ 28 + 31 days). His stay in the last 4 years is:

2012-13 - 46
2011-12 - 62 (i.e. 30 + 31 + 1)
2010-11 - 365 (since he left India on 01.6.2011 after 10 years)
2009-10 - 365 (since he left India on 01.6.2011 after 10 years)
Total 838

Mr. Fabrice is a resident since his stay in the previous year 2013-14 is 173 days and in the last 4 years is more than 365 days. For the purpose of being ordinarily resident, it is evident from the above calculations that

(i) His stay in the last 7 years is more than 730 days and
(ii) Since he was in India for 10 years prior to 01.06.2011, he was a resident in at least 2 out of the last 10 years preceding the relevant previous year.

Therefore, Mr. C is a resident and ordinarily resident for the A.Y.2014-15.
No, answer will not be different.

2) Interest for the year (01.04.2013 to 31.3.2014) = 10% of ₹ 5,00,000 = ₹ 50,000
Pre-construction interest =10% of ₹ 5,00,000 for 6 months
(from 01.10.2012 to 31.3.2013)= ₹25,000
Pre-construction interest to be allowed in 5 equal annual installments of ₹ 5,000 from the year of completion of construction i.e. in this case, P.Y.2013-14.
Therefore, total interest deduction under section 24 = 50,000+5000 = ₹ 55,000.

3) Computation of income of Unit-I
Since the unit is self-occupied throughout the year. Hence its income shall be computed under section 23(2), accordingly there will be loss ₹ 30,000.

Computation of income of Unit-II
It will be considered to be partially self-occupied and partially let out and income shall be computed under section 23(3) in the manner given below:

	₹
Gross Annual Value	82,500.00

Working Note:	₹
(a) Fair Rental Value	76,500
(b) Municipal Valuation	65,000
(c) Higher of (a) or (b)	76,500
(d) Standard Rent	70,000
Expected Rent {Lower of (c) or (d)	70,000
(e) Expected Rent	70,000
(f) Rent Received/Receivable (7,500x11)	82,500
GAV = Higher of (e) or (f)	82,500

	₹
Less: Municipal taxes	7,800.00
Net Annual Value	74,700.00
Less: 30% of NAV u/s 24(a)	22,410.00
Less: Interest on capital borrowed u/s 24(b)	72,900.00

<u>Working note:</u>
Current period interest
From 01.04.2013 to 31.03.2014
= 9,00,000 x 12% = ₹ 1,08,000
Prior period interest
From 01.07.2010 to 31.03.2012
= 9,00,000 x 12% x 21 / 12 =1,89,000
Installment = 1,89,000 / 5 = 37,800
Total interest= 1,08,000 + 37,800 = 1,45,800
Interest allowed for one unit = 1,45,800 / 2 = ₹ 72,900

Loss from house property	(20,610.00)
Loss under the head House Property is (₹ 20,610) + (₹30,000)	(50,610.00)
Income under the head Other Sources	2,90,000.00
Gross Total Income	2,39,390.00
Less: Deductions u/s 80C to 80U	Nil
Total Income	2,39,390.00

Computation of Tax Liability	₹
Tax on ₹ 2,39,390 at slab rate	3,939.00
Less: Rebate u/s 87A (3,939 or 2,000 whichever is less)	2,000.00
Tax before education cess	1,939.00
Add: Education cess @ 2%	38.78
Add: SHEC @ 1%	19.39
Tax Liability	1,997.17
Rounded off u/s 288B	2,000.00

Note: Since condition regarding certificate has not been complied with hence interest has been allowed maximum to the extent of ₹30,000.

4)

Since the capital asset is converted into stock-in-trade during the previous year relevant to the A.Y. 2012-13, it will be a transfer under section 2(47) during the P.Y.2011-12. However, the profits or gains arising from the above conversion will be chargeable to tax during the A.Y. 2014-15, since the stock-in-trade has been sold only on June 10, 2013. For this purpose, the fair market value on the date of such conversion (i.e. 10th March, 2012) will be the full value of consideration.

The capital gains will be computed after deducting the indexed cost of acquisition from the full value of consideration. The cost inflation index for 1988-89 *i.e.,* the year of acquisition is 161 and the index for the year of transfer *i.e.,* 2011-12 is 785. The indexed cost of acquisition is 60,000 × 785/161 = ₹ 2,92,547. Hence, ₹ 7,453 (i.e. ₹ 3,00,000 – ₹ 2,92,547) will be treated as long-term capital gains chargeable to tax during the A.Y.2014-15. During the same assessment year, ₹ 1,00,000 (₹ 4,00,000 -₹ 3,00,000) will be chargeable to tax as business profits.

5)

We know that capital gains arise only when we transfer a capital asset. The liability of capital gains tax in the situations given above is discussed as follows:

(i) As per the provisions of section 47(iii), transfer of a capital asset under a gift is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(ii) As per the provisions of section 47(i), transfer of a capital asset (being in kind) on the total or partial partition of Hindu undivided family is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

(iii) As per the provisions of section 47(x), transfer by way of conversion of bonds or debentures, debenture stock or deposit certificates in any form of a company into shares or debentures of that company is not regarded as transfer for the purpose of capital gains. Therefore, capital gains tax liability does not arise in the given situation.

6)

Computation of taxable capital gains for the A.Y. 2014-15

Particulars	₹	₹
Sale consideration		15,00,000.00
Less: Expenses incurred for transfer		20,000.00
		14,80,000.00
Less: (i) Indexed cost of acquisition (` 40,000 × 939/281)	1,33,665.48	
(ii) Indexed cost of improvement (` 1,85,000 × 939/305)	5,69,557.38	7,03,222.86
Long term capital gains		**7,76,777.14**

7) Computation of capital gains in case of depreciable asset [Section 50]

(i) Section 50 provides for the computation of capital gains in case of depreciable assets. It may be noted that where the capital asset is a depreciable asset forming part of a block of assets, section 50 will have overriding effect in spite of anything contained in section 2(42A) which defines a short-term capital asset.

Accordingly, where the capital asset is an asset forming part of a block of assets in respect of which depreciation has been allowed, the provisions of sections 48 and 49 shall be subject to the following modification:

Where the full value of consideration received or accruing for the transfer of the asset plus the full value of such consideration for the transfer of any other capital asset falling with the block of assets during previous year exceeds the aggregate of the following amounts namely:

(1) Expenditure incurred wholly and exclusively in connection with such transfer;
(2) WDV of the block of assets at the beginning of the previous year;
(3) The actual cost of any asset falling within the block of assets acquired during the previous year such excess shall be deemed to be the capital gains arising from the transfer of short-term capital assets.

Where all assets in a block are transferred during the previous year, the block itself will cease to exist. In such a situation, the difference between the sale value of the assets and the WDV of the block of assets at the beginning of the previous year together with the actual cost of any asset falling within that block of assets acquired by the assessee during the previous year will be deemed to be the capital gains arising from the transfer of short- term capital assets.

8)

Capital gains in the hands of Mr. Xavier for the A.Y. 2014-15 is computed as under:

Particulars	₹
Sale proceeds	33,00,000
Less : Indexed cost of acquisition [Note 1]	32,86,500
Indexed cost of improvement [Note 2]	-
Long term capital gains	13,500

Note 1: Computation of indexed cost of acquisition

Cost of acquisition (Higher of fair market value as on April 1, 1981 and the actual cost of acquisition)	3,90,000
Less : Advance taken and forfeited	40,000
Cost for the purposes of indexation	3,50,000
Indexed cost of acquisition (₹ 3,50,000 x 939/100)	32,86,500

Note 2 : Any improvement cost incurred prior to 01.04.1981 is to be ignored when market value as on 01.04.1981 is taken into consideration.

9) Exemptions of capital gains

1. Capital gain on transfer of units of US 64 exempt if transfer takes place on or after 1.4.02 u/s 10(33) w.r.e.f. A.Y. 2005-06.
2. Long-term capital gain on eligible equity shares exempt If the shares are acquired within a certain period u/s 10(36) w.e.f. A.Y. 2006-07. these assets must have been acquired on or after 1.3.03 but before 1.3.04 and held for a period of more than 12 months.
3. Exemption of capital gains on compensation received on compulsory acquisition of Agricultural land situated within specified urban limits u/s 10(37) w.r.e.f. A.Y. 1.4.05.
   (a) Where the compulsory acquisition has taken place before 1.4.05 but the compensation is received after 31.3.05, it shall be exempt.
   (b) If the part of the original compensation in the above case has already been received before 1.4.05, then the exemption shall not be available even though the original compensation is received after 31.3.05.
   (c) If enhanced compensation is received on or after 1.4.05 against agricultural land compulsorily acquired before 1.4.05 shall be exempt.
4. Exemption of long term capital gain arising from sale of shares and units u/s 10(38) w.e.f. 1.10.05. Any income arising on or after 1.10.05 from the transfer of a long-term capital asset, being an equity share in a company or a unit of an equity oriented fund shall be exempted provided:

   (a) Such equity shares are sold through recognized stock exchange, whereas units of an equity oriented fund may either be sold through the recognized stock exchange or may be sold to the mutual fund.
   (b) Such transaction is chargeable to securities transaction tax.

5. Exemption of capital gain on transfer of an asset of an undertaking engaged in the business of generation, etc of power u/s 10(41), provided such transfer is effected on or before 31.3.07 to the Indian company notified u/s 80 IA(v)(a).

10) **Computation of capital gains in the hands of ABC Ltd. for the A.Y.2014-15**

Particulars	₹
Sale proceeds (Compensation received)	10,00,000.00
Less : Indexed cost of acquisition [₹ 4,00,000 × 939/463]	8,11,231.10
	1,88,768.90
Less: Exemption under section 54D (Cost of acquisition of new undertaking)	1,00,000.00
Taxable long term capital gain	**88,768.90**

11)

	₹
Capital as on 01.04.2013 (4,00,000 + 3,00,000 + 2,50,000)	9,50,000.00
Total profits	4,90,000.00
Amount to be clubbed (4,90,000 x 3,00,000 / 9,50,000)	1,54,736.84

12) **Situation (i):**

In this case, Mrs. X is covered in special category and her stay in India is less than 182 days hence she will be non-resident and her incomes taxable in India shall be

	₹
Income accruing/arising in India 50,000 x 5	2,50,000.00
Income received in India 50,000 x 1	50,000.00
Income deemed to be received in India	
Employer contribution (50,000 x 12) x 1% (13% - 12%)	6,000.00
Interest in excess of 9.5% 50,000 /10% x 0.5% = 2,500	
Interest on employer contribution 1,250.00 2,500 /2	
(Interest on employee contribution i.e. shall be taxable under the head Other Sources)	1,250.00
Gross Salary	3,07,250.00
Income under the head Salary	3,07,250.00
Income under the head Other Sources	1,250.00
Gross Total Income	3,08,500.00
Less: Deduction u/s 80C Contribution to recognized provident fund (₹50,000 x 12) x 13%	78,000.00
Total Income	2,30,500.00

Computation of Tax Liability

Tax on ₹2,30,500 at slab rate	3,050.00
Add: Education cess @ 2%	61.00
Add: SHEC @ 1%	30.50
Tax Liability	3,141.50
Rounded off u/s 288B	3,140.00

Note: No rebate is allowed under section 87A because assesses is a Non-resident.

13.

(i) Any sum of money received by an individual on the occasion of the marriage of the individual is exempt. This provision is, however, not applicable to a cash gift received during a wedding function celebrated on completion of 60 years of age.

The gift of ₹ 51,000 received from a non-relative is, therefore, chargeable to tax under section 56 in the hands of Mrs. Premali.

(ii) The provisions of section 56 are not attracted in respect of any sum of money or property received from a relative. Thus, the gift of diamond necklace received from her sister is not taxable under section 56, even though jewellery falls within the definition of "property".

(iii) To be exempt from applicability of section 56, the property should be received on the occasion of the marriage of the individual, not that of the individual's son or daughter. Therefore, this exemption provision is not attracted in this case.

Any sum of money received without consideration by an individual is chargeable to tax under section 56, if the aggregate value exceeds ₹50,000 in a year. "Sum of money" has, however, not been defined under section 56.

Therefore, there are two possible views in respect of the value of fixed deposit assigned in favour of Mrs. Premali –

(1) The first view is that fixed deposit does not fall within the meaning of "sum of money" and therefore, the provisions of section 56 are not attracted. Fixed deposit is also not included in the definition of "property".

(2) However, another possible view is that fixed deposit assigned in favour of Mrs. Premali falls within the meaning of "sum of money" received.

14) The deduction admissible under section 35D is one-fifth of the expenditure incurred for the project. This works out to ₹ 1,00,000.

However, such expenditure should not exceed the following limits as prescribed in section (3):

(a) 5% of cost of the project or

(b) 5% of the capital employed in the new industrial undertaking (being a company) — whichever is higher.

In this case

(a) 5% of the project cost is ₹ 25,000 and

(b) 5% of the capital employed is ₹ 2,00,000.

Hence, the expenditure eligible for amortization under section 35D would be ₹ 2,00,000.

And the admissible deduction for the current assessment year is ₹2,00,000 × 1/5 = ₹40,000.