PRIME ACADEMY

40TH SESSION – PROGRESS TEST – ACCOUNTING

No. of Pages: 5 **Total Marks: 75**

Time allowed: 2 hrs

PART - A

1. Assets and Liabilities are recorded at book value 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)

2. Provision for taxation is made
   a. When tax liability is ascertained
   b. When final accounts are prepared
   c. When income tax final authorities finalise the taxes
   d. When advance taxes are paid (1 Mark)

3. For all amalgamation the following disclosures are required except
   a. Name of amalgamating companies
   b. The effective date of amalgamation
   c. The method of depreciation charged on assets taken over
   d. Number of shares issued (1 Mark)

4. in the case of amalgamation in the nature of merger, ----------- taken over
   a. Capital reserve
   b. Statutory reserve
   c. Amalgamation adjustment reserve
   d. Share capital (1 Mark)

5. 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

   (2 Marks)

6. 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 (2 Marks)

7. All of the following are examples of monetary assets except:
   a. Cash
   b. Inventory
   c. Receivables
   d. Payables (1 Mark)

8. a. What are the fundamental accounting concepts? (3 Marks)

   b. Selection of accounting policies is guided by three major considerations? Mention the same (4 Marks)

9. X,Y,Z are partners sharing profits and losses in the ratio of 4:3:2 respectively. On 31st March 2014, Y retires and X and Z decide to share profits and losses in the ratio of 5:3. Then immediately W is admitted for 3/10th share of profits, 2/3rd given by X and the rest given by W and Z. Goodwill of the firm is valued at ₹ 2,16,000. W brings required amount of goodwill.
   Give necessary journal entries to adjust goodwill on retirement of Y and admission of W if they do not want to raise goodwill in the books of accounts. (4 Marks)

10. Pass journal entries for the following transactions:
    a. Conversion of ₹ 2 lakh fully paid equity shares of ₹ 10 each into stock of ₹ 100,000 and the balance has 12% fully convertible debentures
    b. Consolidated of ₹ 40 lakh fully paid equity shares of ₹ 2.50 each into 10,00,000 fully paid equity shares of ₹10 each
    c. Sub-division of 10 lakh fully paid 11% preference shares of ₹ 50 each into 50 lakh fully paid 11% preference shares of ₹ 10 each
    d. Conversion of 12% preference shares of ₹ 5,00,000 into 14% preference shares of ₹ 3,00,000 and remaining balance as 12% non-cumulative preference shares. **(5 Marks)**

Part B – Question 1 is mandatory and answers 2 from the rest

1) The Articles of association of Samsons Ltd provide the following:
   i) That 25% of the net profit of each year shall be transferred to reserve fund
   ii) That an amount equal to 10% of equity dividend shall be set aside for staff bonus
   iii) That the balance available for distribution shall be applied:
   (1) in paying 15% on cumulative preference shares.
   (2) in paying 20% dividend on equity shares.
   (3) one-third of the balance available as additional dividend on preference shares and two-third as additional equity dividend.

   A further condition was imposed by the articles viz. that the balance carried forward shall be equal to 14% on preference shares after making provision (i), (ii) and (iii) mentioned above. The company has issued 12,000, 15% cumulative participating preference shares of 100 each fully paid and 75,000 equity shares of ₹ 100*each fully paid up.
   The profit for the year 2013-2014, was ₹ 10,00,000 and balance brought from previous year ₹ 1,50,000. Provide ₹ 37,500 for depreciation and ₹ 1,20,000 for taxation before making other appropriations. Show net balance of Profit and Loss Account after making above adjustments
   (10 Marks)

2) The Balance Sheet of Amit, Bhushan and Charan, who share profits and losses as 3 : 2 : 1 respectively, as on 01.04.2013 is as follows:

Liabilities	Amount ₹	Asset	Amount ₹
Capital Amit Bhushan Charan	 1,80,000 1,60,000 1,40,000	Machinery	1,50,000
Current asset: Bhushan	16,000	Furniture	1,50,000
Creditors	1,20,000	Debtors Less: Provision for doubtful debt(80,000-4000)	76,000
		Stock	2,10,000
		Cash	20,000
		Current Account: Charan	10,000
	6,16,000		**6,16,000**

Dev is admitted as a partner on the above date for 1/5th share in the profits and loss. Following are agreed upon:

1. The profit and loss sharing ratio among the old partners will be equal.
2. Dev brings in ₹ 1,50,000 as capital but is unable to bring the required amount of premium for goodwill.
3. The goodwill of the firm is valued at ₹ 60,000.
4. Assets and liabilities are to be valued as follows:
   Machinery - ₹ 2,06,000 : Furniture - ₹ 1,28,000 : Provision for doubtful debts @ 10% on debtors
5. Necessary adjustments regarding goodwill and Profit / loss on revaluation are to made through the Partner's Current Accounts.
6. It is decided that the revalue figures of assets and liabilities will not appear in the Balance Sheet of the new firm.
7. Capital Accounts of the old partners in the new firm should be proportionate to the new profit and loss sharing ratio, taking Dev's Capital as base. The existing partners will not bring cash for further capital. The necessary adjustments are to be made through the partner's Current Account.
   Prepare Partner's Capital & Current Account, and the Balance Sheet of the new firm after admission.

(20 Marks)

3. The balance sheet of M/s Cube Limited as on 31.03.2014 is given below:

Particulars	Note no	Amount (₹ in lakhs)
Equity and Liabilities		
Share holders' funds Share capital	1	700
Reserves and Surplus	2	(261)
Noncurrent Liabilities		
Long term borrowings	3	350
Current Liabilities		
Trade payables	4	51
Other liabilities	5	12
Total		**852**
Assets		
Non-current assets		
Fixed assets		
Tangible assets	6	375
Current assets		
Current Investment	7	100
Inventories	8	150
Trade receivables	9	225
Cash and cash equivalents	10	2
Total		**852**

Notes to accounts

	₹ in lakhs
(1) Share capital	
Authorised ₹ 100 lakh shares of ₹10 each	1,000
₹ 4 lakh 8% preference shares of ₹ 100 each	400
	1400

Issued, subscribed and paid up 50 lakh equity shares of ₹10 each fully paid up	500
2 lakh 8% preference shares of ₹100 each fully paid up	200
	700
(2) Reserves and Surplus	
Debit balance of Profit and Loss a/c	(261)
(3) Long term borrowings	
6% debentures (secured by freehold property)	200
Directors loan	150
	350
(4) Trade payables	
Sundry creditors for goods	51
(5) Other current liabilities	
Interest accrued and due on 6% debentures	12
(6) Tangible assets	
Freehold property	275
Plant and Machinery	100
	375
(7) Current Investment	
Investment in equity instruments	100
(8) Inventories	
Finished goods	150
(9) Trade receivables	
Sundry debtors for goods	225
(10) Cash and cash equivalents	
Balance with bank	2

The Board of Directors of the company decided upon the following scheme of reconstruction with the consent of respective shareholders:

(1) Preference Shares are to be written down to 80 each and Equity Shares to 2each.
(2) Preference Shares Dividend in arrears for 3 years to be waived by 2/3rd and for balance 1/3 rd, Equity Shares of 2 each to be allotted.
(3) Debenture holders agreed to take one Freehold Property at its book value of ₹ 150 lakh in part payment of their holding. Balance Debentures to remain as liability of the company.
(4) Interest accrued and due on Debentures to be paid in cash.
(5) Remaining Freehold Property to be valued at ₹ 200 lakh.
(6) All investments sold out for ₹ 125 lakh.
(7) 70% of Directors' loan to be waived and for the balance, Equity Shares of 2 each to be allowed.
(8) 40% of Sundry Debtors and 80% of Inventories to be written off.
(9) Company's contractual commitments amounting to ₹ 300 lakh have been settled by paying 5% penalty of contract value.

You are required to :

a) Pass Journal Entries for all the transactions related to internal reconstruction;
b) Prepare Reconstruction Account and
c) Prepare notes on Share Capital and Tangible Assets to Balance Sheet, immediately after the implementation of scheme of internal reconstruction. **(20 Marks)**

4. A sole trader request you to prepare his trading and P&L account for the year ended 31 March 2014 and Balance sheet as at that date. He provides you the following information :

Statement of affairs as on 31st March 2013

Liabilities	₹	Assets	₹
Bank overdraft	4270	Furniture	96000
Outstanding expenses		Computer	24300
Salaries 8000		Mobile phone	8000
Rent 6000	14000	Stock	89500
Bills payable	22500	Trade debtors	55000
Trade creditors	52500	Bills receivable	15000
Capital		Unexpired insurance	2400
(balancing figure)	197430	Stock of stationary	200
		Cash in hand	300
	290700		290700

He informs you that there has been no addition to or sale of furniture, computer and mobile phone during the accounting year 2013-14. The other assets and liabilities as on 31 March 2014 are as follows

	₹
Stock	95,400
Trade Debtors	65,000
Bills Receivable	20,000
Unexpired Insurance	2,500
Stock of Stationery	250
Cash at Bank	18,000
Cash at Hand	7,230
Salaries Outstanding	8,300
Rent Outstanding	6,000
Bills Payable	26,500
Trade Creditors	76,000

He also provides you the following summary of his cash transactions:

Receipts	₹	Payments	₹
Cash sales	509800	Trade creditors	306000
Trade debtors	151900	Bills payable	80000
Bills receivable	65000	Salaries	99000
		Rent	72000
		Insurance premium	10000
		Stationery	1500
		Mobile phone expenses	9000
		Drawings	120000

It is found prudent to depreciate Furniture @ 5%, Computer @ 10% and Mobile Phone @ 25%. A provision for bad debts @ 5% on Trade Debtors is also considered desirable.

(20 Marks)

PRIME ACADEMY
40^{TH} SESSION- PROGRESS TEST - ACCOUNTING
SUGGESTED ANSWERS
PART - A

1. b
2. b
3. c
4. b
5. b
6. b
7. b
8. a. The fundamental accounting concepts
   - Going concern concept – Assumed that the reporting entity is viewed to be continuing in operation in the foreseeable future and without any necessity to liquidate
   - Accrual concept: This is relevant in the case of cost and revenue. They are recorded in the period it is related to
   - Consistency concept: There should be consistency in the accounting treatment of comparable items, not only within each accounting period but also from one to another

   b. Selection of the appropriate accounting policies
   a) Prudence:
   It is the inclusion of a degree of caution in the exercise of judgements needed in making estimates requirements under conditions of uncertainty.
   By exercising prudence, an enterprise does not recognise profits on the basis of anticipation. These are recognised only when realized though not necessarily in cash.
   b) Substance over form:
   If information is to represent faithfully the transactions or events it is essential that they are accounted for and presented in accordance with their substance and economic reality and not their legal form
   c) Materiality:
   The relevance of the information is affected by the materiality. Information is material if its misstatement i.e omission or erroneous statement could influence the economic decisions taken by the user, based on the financial statements. Accordingly financial statements should disclose all material items i.e knowledge of which might influence the decision of the users of financial statements.
   Other qualitative characteristics of accounting information such as
   i) relevance
   ii) neutrality
   iii) completeness and
   iv) completeness and
   v) reliability are equally

9. Journal entries

Old profit ratio = 4:3:2
New profit ratio = X:Z = 5:3
Gain of X = 5/8-4/9 = 13/72
Gain of Z = 3/8-2/9 = 27-16/72 = 11/72
Gaining ratio = 13:11
Goodwill of Y = 3/9 *216000 = ₹ 72000

a)

X's capital a/c	39000
Z's capital/c	33000
To Y's cap	72000
(Being sacrifice compensated)	

b) Old profit ratio = X:Z = 5:3
W = 3/10 share of profit
2/3 * 3/10 = 6/30 (Sacrifice of X)
1/3 * 3/10 = 3/30 (Sacrifice of Z)
New profit sharing ratio = X = 5/8 – 6/30
75-24/120 = 51/120
Z= 3/8-3/30 = 33/120
New Profit sharing = X:Z:W = 51:33:36

31/3/14 W's capital a/c	64800
To X's cap	43200
To Z's cap	21600

10. Journal entries

Particulars	₹	₹
Equity share capital	20,00,000	
To equity stock		1,00,000
To 12% fully convertible debentures		19,00,000
Equity share capital (2.5)	100,00,000	
To equity share capital		100,00,000
11% preference share capital (50)	500,00,000	
To 11% preference share capital		500,00,000
12% pref share capital	5,00,000	
To 14% preference share capital		3,00,000
To 12% non-cumulative preference share capital		2,00,000

PART B

1.

(a) Statement of P&L account for the year ended 31 March 2014

Particulars	Amount ₹
a. Profit	10,00,000
b. Expenses: Depreciation and Amortisation	(37,500)
c. Profit before tax (a-b)	962,500
d. Provision for tax	(120,000)
e. Profit (Loss) for the period	842,500

Notes to accounts

Profit (Loss) for the period	842500
Balance of profit and loss account brought forward	150000
Total	992500
Appropriations (made in notes to accounts)	
Transfer to reserves	(210625)
Proposed pref dividend	(264023)
Proposed equity dividend	(318047)
Bonus to employees (₹ 15000+ 16805)	(31805)
Total	824500
Balance carried to Balance sheet	168000

Working Note:

Balance of amount available in Preference and equity shareholders and bonus for employees	₹
Credit side	992500
Less: Dr side ₹ (210625 + 180000+150000+15000+168000) (i.e 12000*100*14/100 = 168000)	(7,23,625)
	2,68,875

Suppose remaining balance will be = x
Preference shareholders will get share from remaining balance = x * 1/3 =1/3x
Equity shareholders will get share from remaining balance = x * 2/3 = 2/3x
Bonus to employees = 2/3 * 10/100 = 2/30x
Now , 2/3x +1/3x + 2/30x = ₹ 2,68,875
32x = ₹ 80,66,250, than x = ₹ 2,52,070
Share of Preference Shareholders 2,52,070 x 1/3 = ₹ 84,023
Share of Equity Shareholders 2,52,070 x 2/3= ₹ 1,68,047
Bonus to employees 2,52,070 x 2/30 = ₹ 16,805
Note: Corporate dividend tax on dividend distributed has been ignored

2. In the books of Firm

Partner's capital accounts

Particulars	A ₹	B ₹	C ₹	D ₹	Particulars	A ₹	B ₹	C ₹	D ₹
To balance c/d	2,00,000	2,00,000	2,00,000	1,50,000	By bal b/d	1,80,000	1,60,000	1,40,000	
					By bank a/c				1,50,000
					By Partners capital a/c	20,000	40,000	60,000	
	2,00,000	2,00,000	2,00,000	1,50,000		2,00,000	2,00,000	2,00,000	1,50,000

Partner's current account

Particulars	A ₹	B ₹	C ₹	D ₹	Particulars	A ₹	B ₹	C ₹	D ₹
To balance c/d			10,000		By bal b/d		16,000		
To memorandum rev	8000	8000	8000	6000	By memorandum rev	15,000	10,000	5,000	
To A and B (goodwill adj)			6000	12000	By d and c	14,000	4,000		
To Partners capital	20,000	40,000	60,000		By bal c/d		18,000	79,000	18,000
To bal c/d	1,000								
	29,000	48,000	84,000	18,000		29,000	48,000	84,000	18,000

Balance sheet of new firm
After D's admission

Liabilities	₹	Assets	₹
Capital accounts a/c A ₹ 2,00,000 B ₹ 2,00,000 C ₹ 2,00,000 D ₹ 1,50,000	7,50,000	Machinery	1,50,000
Current Account: A	1,000	Furniture	1,50,000
Creditors	1,20,000	Stock	2,10,000
		Debtors ₹ 80,000 Less: Provision for doubtful debt 4000	76000
		Cash	1,70,000
		Current accounts B ₹ 18,000 C ₹ 79,000 D ₹ 18,000	1,15,000
	8,71,000		8,71,000

Working Notes:

1. Dev. joins the business for 1/5th share and brings ₹ 1,50,000 as capital. Thus, total capital of new firm will be ₹ 7,50,000 (1,50,000 × 5). Total capital of A, B & C will be 6,000 (₹ 7,50,000 – 1,50,000) which will be shared by them equally i.e. 2,00,000 each**.**

2. Calculation of New profit sharing ratio

A	B	C	D
4/5 * 1/3	4/5 * 1/3	4/5 * 1/3	1/5
4/15	4/15	4/15	3/15
4:4:4:3			

3. Adjustment of goodwill
Sacrificing/Gaining ratio of old partners

A	B	C	D
4/15 -3/16	4/15 - 2/6	4/15 - 1/6	1/5
24-45/90	24-30/90	24-15/90	
21/90 sacrifice	6/90 sacrifice	9/90 gain	18/90 gain

Entry for adjustment for goodwill of ₹ 60000

C	Dr	6000	
D	Dr	12000	
To A			14000
To B			4000

(Being goodwill adjustment in partners sacrificing/gaining ratios)

4. Memorandum revaluation a/c

	Amount ₹		Amount ₹
To furniture	22,000	By machinery	56,000
To provision for doubtful debts	4,000		
To partners current a/cs			

A ₹ 15000 B ₹ 10000 C ₹ 5000	30,000		
	56,000		**56,000**
To Machinery	56,000	By furniture	22,000
		By provision for doubtful debts	4,000
		By partners current a/cs A ₹ 8000 B ₹ 8000 C ₹ 8000 D ₹ 6000	30,000
	56,000		56,000

3. Journal Entries in the books of M/s Cube Ltd.

	Particulars	Debit (₹ in lakhs)	Credit (₹ in lakhs)
i)	8% preference share capital a/c (₹100 each)	200	
	To 8% preference share capital a/c (₹ 80 each)		160
	To reconstruction a/c		40
	(Being the preference shares of ₹100 each reduced to ₹80 each as per the approved scheme)		
ii)	Equity share capital a/c (₹10 each)	500	
	To equity share capital a/c (₹ 2 each)		100
	To reconstruction a/c		400
	(Being the equity shares of ₹ 10 each reduced to ₹2 each)		
iii)	Reconstruction a/c	16	
	To equity share capital		16
	(Being 1/3rd arrears of preference share dividend of 3 years to be satisfied by issue of 8 lakh equity shares of ₹ 2 each)		
iv)	6% debentures a/c	150	
	To freehold property a/c		150
	(Being claim of debenture holders settled in part by transfer of freehold property)		
V)	Accrued debenture interest a/c	12	
	To bank a/c		12
	(being accrued debenture interest paid)		
vi)	Freehold property a/c	75	
	To reconstruction a/c		75
	(being appreciation in the value of freehold property)		
vii)	Bank a/c	125	
	To investment a/c		100
	To reconstruction a/c		25
	(being investment sold at profit)		
viii)	Directors loan a/c	150	
	To equity share capital a/c (₹ 2 each)		45
	To reconstruction a/c		105
	(Being directors loan waived by 70% and balance being discharged by issue of ₹ 22.5 lakhs equity shares of ₹ 2 each)		
ix)	Reconstruction a/c	629	

	To profit and loss a/c		261
	To Sundry debtors a/c (225* 40%)		90
	To stock in trade a/c (150 *80%)		120
	To bank a/c (300*5%)		15
	To capital reserve a/c		143
	(Being certain value of various assets, penalty on cancellation of contract, profit and loss account debit balance written off, and balance transferred to capital reserve account as per the scheme)		

Reconstruction account

	(₹ in lakhs)		(₹ in lakhs)
To equity share capital	16	By preference share capital	40
To sundry debtors	90	By equity share capital	400
To finished goods	120	By freehold property	75
To profit and loss a/c	261	By bank	25
To bank	15	By directors loan	105
To capital reserve	143		
	645		**645**

(b) Notes to Balance sheet

	Rs in lakhs		₹ in lakhs
1.	Share capital		
	Authorised		
	100 lakh equity shares of ₹2 each		200
	4 lakh 8% pref shares of ₹ 80 each		320
			520
	Issued		
	80.5 lakhs equity shares of ₹ 2 each		161
	2 lakh preference shares of ₹ 80 each		160
			321
2.	Tangible assets		
	Freehold property	275	
	Less: Utilized to pay debenture holders	(150)	
		125	
	Add: Depreciation	75	200
	Plant and machinery		100
			300

4.

Particulars	₹	Particulars	₹	₹
To opening stock	89,500	By sales		
To purchases (W.N.3)	4,13,500	Credit (W.N.1)	2,31,900	
To gross profit c/d (Bal fig)	3,34,100	Cash	5,09,800	7,41,700
		By closing stock		95,400
	8,37,100			**8,37,100**

To insurance (W.N.5)	9,900	By gross profit		**334100**
To salaries (W.N.6)	99,300			
To Rent (W.N.7)	72,000			
To stationery (W.N.8)	1,450			
To Mobile phone expenses	9,000			
To provision for doubtful debts (5% of 65000)	3250			
To depreciation Furniture ₹ 4,800 Computer ₹ 2430 Mobile phone ₹ 2000	9,230			
To net profit	1,29,970			
	334,100			334,100

Balance sheet as on 31st March 2013

Liabilities	₹	₹	Assets	₹	₹
Capital ac			Furniture	96,000	
Opening balance	1,97,430		Less: depreciation	(4,800)	91,200
Less: Drawings	(1,20,000)		Computer	24,300	
	77,430		Less: depreciation	(2,430)	21,870
Add: Net profit	129970	207,400	Mobile phone	8,000	
Bills payable		26,500	Less: Depreciation	(2000)	6,000
Trade creditors		76,000	Trade debtors	65,000	
Outstanding expenses			Less: Provision for doubtful debts	(3,250)	61,750
Salaries		8,300	Bills receivable		20,000
Rent		6,000	Closing stock		95,400
			Unexpired insurance		2,500
			Stock of stationery		250
			Cash at bank		18,000
			Cash in hand		7,230
		3,24,200			**3,24,200**

Working notes

1. Trade debtors account

	₹		₹
To balance b/d	55,000	By cash/bank	1,51,900
To credit sales (bal.fig)	2,31,900	By bills receivable (w.n.2)	70,000
	2,86,900		**2,86,900**

2. Bills receivable account

	₹		₹
To balance b/d	15,000	By cash/bank	65,000
To sundry debtors (bal.fig)	70,000	By bal c/d	20,000
	85,000		**85,000**

3. Trade creditors account

	₹		₹
To cash/bank	3,06,000	By bal b/d	52,500
To bills payable a/c (W.N.4)	84,000	By credit purchases (bal.fig)	4,13,500
To bal c/d (given)	76,000		
	4,66,000		**4,66,000**

4. Bills payable

	₹		₹
To cash/bank	80,000	By bal c/d	22,500
To bal c/d (given)	26,500	By sundry creditors (bal.fig)	84,000
	106,500		**106,500**

5. Insurance expenses for the year 2012-13

	₹
Insurance paid during the year	10,000
Add: Unexpired insurance as on 1.4.2012	2,400
Less: Unexpired insurance as on 31.03.2013	(2,500)
	9,900

6. Salaries for the 2012-13

	₹
Salaries paid during the year	99,000
Add: Salaries outstanding as on 31.03.2013	8,300
	1,07,300
Less: Salaries outstanding as on 1.4.2012	(8,000)
	99,300

7. Rent expenses for the year 2012-13

	₹
Rent paid during the year	72,000
Add: Rent outstanding as on 31.03.2013	6,000
	78,000
Less: Rent outstanding as on 1.4.2012	(6,000)
	72,000

8. Stationery expenses for the year 2012-13

	₹
Stock of stationery as on 1.4.2012	200
Add: Stationery purchased during the year	1,500
	1,700
Less: Stock of stationery as on 31.03.2013	(250)
	1,450

PRIME ACADEMY
40^{th} SESSION PROGRESS TEST
BUSINESS LAW ETHICS AND COMMUNICATION

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

PART - A

I. Answer the following terms:

a) Group dynamics
b) Formal communication
c) Active listening
d) Consensus building
e) Negotiation **(5x2=10 Marks)**

II. Answer the following with reasons:

(i) A entered into an agreement with S to deliver him 500 bags of sugar to be manufactured in his factory in a month. The sugar could not be manufactured because of strike by the workers and as a consequence, A failed to supply the agreed number of sugar bags to S. Decide whether A can be exempted from liability under the provisions of the Indian Contract Act, 1872.State the nature of the contract

(ii) M owes money to N under a contract. It is agreed between M, N and O that N shall henceforth accept O as his debtor instead of M. Referring to the provisions of the Indian Contract Act, 1872, state whether N can claim payment from O? State the nature of the contract.

(iii) Ram invites Madhuri (a well-known film actress) to his daughter's engagement and dinner party. Madhuri accepts the invitation and promised to attend. Ram made special arrangements for Madhuri at the party but she did not turn up. Ram enraged with Madhuri's behaviour, wanted to sue for the loss incurred in making special arrangements. Ram is seeking your advice.

(iv) A school student's parent hiring a wig for her daughter acting in a school play from the Professional Wig Stores is a type of Special Contract. Illustrate with reasons.

(v) Cash is withdrawn by the customer of a bank from the automatic teller machine is an example of:(a) Express contract (b) Void contract(c) Tacit contract (d) Illegal contract.

(5 x 2 = 10 Marks)

III. State True or False, with reasons:

(a) The Memorandum of an OPC need not contain nominee details.
(b) A private company can commence its business as soon as it gets Certificate of Incorporation.
(c) Pre-incorporation contracts are those contracts, which are entered into, by the persons proposing to float a company for prospective company before it has come into existence.
(d) Change of Registered Office of Company from one place to another within a State requires confirmation by the Regional Director.
(e) Prospectus need not be dated.

(5x1=5 Marks)

PART - B **(50 Marks)**

Answer any five. Each question carries 10 Marks)

1.

(a) Shambhu Dayal started "self service" system in his shop. Smt. Prakash entered the shop, took a basket and after taking articles of her choice into the basket reached the cashier for payments. The cashier refuses to accept the price. Can Shambhu Dayal be compelled to sell the said articles to Smt. Prakash? Decide.

(b) X offered to sell his house to Y for ₹ 50,000. Y accepted the offer by E-mail. On the next day Y sent a fax revoking the acceptance which reached X before the E-mail. Is the revocation of acceptance valid? Would it make any difference if both the E-mail of acceptance and the fax of revocation of acceptance reach X at the same time?

2. (a) What are the characteristics of group personality?
   (b) What are the principles of inter-personal communication?

3. (a) What are the factors that lead to grapevine communication ?
   (b) What is chronemics?

4. (a) F, an assessee, was a wealthy man earning huge income by way of dividend and interest. He formed three Private Companies and agreed with each to hold a bloc of investment as an agent for them. The dividend and interest income received by the companies was handed back to F as a pretended loan. This way, F divided his income into three parts in a bid to reduce his tax liability.Decide, for what purpose the three companies were established? Whether the legal personality of all the three companies may be disregarded.

   (b) The Directors of a company registered and incorporated in the name "Mars Textile India Ltd." desire to change the name of the company entitled "National Textiles and Industries Ltd." Advise as to what procedure is required to be followed under the Companies Act, 2013?

5. (a) The Secretary of a Company issued a share certificate to 'A' under the Company's seal with his own signature and the signature of a Director forged by him. 'A' borrowed money from 'B' on the strength of this certificate. 'B' wanted to realise the security and requested the company to register him as a holder of the shares. Explain whether 'B' will succeed in getting the share registered in his name.

   (b) An allottee of shares in a Company brought action against a Director in respect of false statements in prospectus. The director contended that the statements were prepared by the promoters and he has relied on them. Is the Director liable under the circumstances? Decide referring to the provisions of the Companies Act, 2013.

6. (a) A public company proposes to purchase its own shares. State the source of funds that can be utilised by the company for purchasing its own shares and the requirements to be complied with by the company under the Companies Act before and after the shares are so purchased.

   (b) The Board of Directors of a company decide to pay 5% of issue price as underwriting commission to the underwriters. On the other hand the Articles of Association of the company permit only 3% commission. The Board of Directors further decide to pay the commission out of the proceeds of the share capital. Are the decisions taken by the Board of Directors valid under the Companies Act, 2013?

PRIME ACADEMY
40th SESSION PROGRESS TEST - BUSINESS LAW ETHICS AND COMMUNICATION
SUGGESTED ANSWERS
PART A

I.

a) **Group dynamics:** Groups are the basic building blocks of organizations. It is now very common for groups of employers to make decisions to solve difficult problems that were once the domain of authoritarian incentives. Given below are the characteristics of group personality:
   a. spirit of conformity
   b. respect for group values
   c. resistance to change
   d. group prejudice
   e. collective power

b) **A formal communication** flows along prescribed channels which all organizational members desirous of communicating with one another are obliged to follow. Every organisation has a built-in hierarchical system that can be compared to a pyramid. It can, therefore, be understood that communication normally flows from top- downwards. But it is not always so. Communication in an organisation is multidimensional or multidirectional.

c) **Active Listening:** - Most of us assume that listening is a natural trait, but practically very few of us listen properly. What we regularly do is-"we hear but do not listen". Hearing is through ears and listening is by mind. Listening happens when we understand and message as intended by sender. Many managers are so used to helping people solve problems that their first cause of action is transforming solutions and giving advice instead of listening with full attention directed towards understanding what the co-worker or staff member needs. Therefore, every employer and worker needs a listening ear.

d) **Consensus Building**: Consensus means overwhelming agreement. Most consensus building efforts set out to achieve unanimity. The key indicator of whether or not a consensus has been reached is that everyone agrees with the final proposal and it is important that consensus be the product of a good-faith effort to meet the interests of all stakeholders. Thus, consensus requires that someone frame a proposal after listening carefully to everyone's interests.

e) **Negotiation**: Negotiation occurs when two or more parties either individuals or groups discuss specific proposals in order to find a mutually acceptable agreement. Whether it is with an employer, family member or business associate, we all negotiate for things each day like higher salary, letter service or solving a dispute with a co worker or family member Negotiation is a common way of settling conflicts in business. When handled skillfully, negotiation can improve the position of one or even both but when poorly handled; it can leave a problem still unsolved and perhaps worse than before.

II.

(i) In this case Mr. A could not deliver the sugar bags as promised because of strike by the workers. This difficulty in performance cannot be considered as impossible of performance attracting Section 56 (Para 2) and hence A is liable to S for non-performance of contract.

(ii) Yes, a contract need not be performed when the parties to it agree to substitute a new contract for it or to rescind or alter it. (Section 62, Indian Contract Act, 1872). Here, in the given problem, novation has taken place as one of the parties has been replaced with a third party. Therefore, N can claim the money from O.

(iii) (III) No. 'Ram" cannot sue 'Madhuri' for his loss. Because the agreement was a kind of social nature and lacked the intention to create legal relationship.

(iv) No. This cannot be treated as a special contract.

(v) (c). Reason: Tacit Contracts are those that are inferred through the conduct of parties. Hence, this is a tacit contract.

III.

a) False: At the time of incorporation of OPC, the sole member of OPC is required to appoint another person as his nominee and his name shall be mentioned in its memorandum.

b) True. A private company can have a greater degree of secrecy as regards its affairs and enjoys greater freedom on its operation. The restriction on the commencement of business contained in Section 149 do not apply to private company.

c) True. Pre-incorporation contracts are those contracts, which are entered into, by agents or trustee son behalf of a prospective company before it has come into existence, e.g., with the proprietor of a business to sell it to the prospective company.

d) true: Section 17A inserted by the Companies Act,2000. The company cannot do such change of office unless the Regional Director confirms it.

e) False: According to Section 55, every prospectus must be dated. This requirement is designed to ensure a prima facie evidence of the date of its publication.

PART B

1 (a) The offer should be distinguished from an invitation to offer. An offer is the final expression of willingness by the offer or to be bound by his offer should the party chooses to accept it. Where a party, without expressing his final willingness, proposes certain terms on which he is willing to negotiate, he does not make an offer, but invites only the other party to make an offer on those terms. This is the basic distinction between offer and invitation to offer. The display of articles with a price in it in a self-service shop is merely an invitation to offer. It is in no sense an offer for sale, the acceptance of which constitutes a contract. In this case, Smt. Prakash by selecting some articles and approaching the cashier for payment simply made an offer to buy the articles selected by her. If the cashier does not accept the price, the interested buyer cannot compel him to sell.

(b) To conclude a contract between the parties, the acceptance must be communicated in some perceptible form. Any conditional acceptance or acceptance with varying or too deviant conditions is no acceptance. Such conditional acceptance is a counter proposal and has to be accepted by the proposer, if the original proposal has to materialize into a contract. Further when a proposal is accepted, the offeree must have the knowledge of the offer made to him. If he does not have the knowledge, there can be no acceptance. The acceptance must relate specifically to the offer made. Then only it can materialize into a contract. With the above rules in mind, we may note that the following is the solution to the given problem:
This problem is similar to the facts of Union of India v. Bahulal (AIR 1968 Bombay 294) case, wherein A offered to sell his house to B for ₹ 10,000/-, to which B replied that, "I can pay ₹ 8,000 for it". Consequently, the offer of 'A' is rejected by 'B' as the acceptance is not unqualified. But when B later changes his mind and is prepared to pay ₹ 10,000/-, it becomes a counter offer and it is up to A whether to accept it or not.

2 (a) Following are the characteristics of group personality:

a. Spirit of Conformity: Individual members soon come to realize that in order to gain recognition, admiration and respect from others they have to achieve a spirit of conformity. Our beliefs, opinions, and actions are influenced more by group opinion than by an individual's opinion, even if it is an expert's opinion.

b. Respect for group values: Any working group is likely to maintain certain values and ideals which make it different from others. In order to deal effectively with a group we must understand its values which will guide us in foreseeing its programmes and actions.

c. Resistance to change: It has been observed that a group generally does not take kindly to social changes. On the other hand the group may bring about its own changes, whether by dictation of its leader or by consensus. The degree to which a group resists change serves as an important index of its personality. It helps us in dealing with it efficiently.

d. Group prejudice: Just as hardly any individual is free from prejudice, groups have their own clearly evident prejudices. It is a different matter that the individual members may not admit their prejudiced attitude to other's race, religion, nationality etc. But the fact is that the individual's prejudices get further intensified while coming in contact with other members of the group holding similar prejudices.
e. Collective power: It need not be said that groups are always more powerful than individuals, how so ever influential the individual may be. That is why individuals may find it difficult to speak out their minds in groups. There is always the risk of the one-against many situation cropping up.

(b) The following principles are key to interpersonal communication:

Interpersonal communication is inescapable: We cannot keep ourselves away from communication. The very attempt not to communicate, communicates something. Not only through words but also through the tone of voice and gestures, postures, facial expressions etc, we constantly communicate to others.

Interpersonal communication is irreversible: It is rightly said that a word uttered once can not be taken back.

Interpersonal communication is complicated: No form of communication is simple due to the number of variables involved; even simple requests can be extremely complex.

Interpersonal communication is contextual: Communication does not take place in isolation. They are context specific:

Psychological context: It refers to who the communicators are and what they bring to the interaction? Their needs, desires, values, personality etc all form the psychological context.

Relational context: This is concerning the nature of interaction and reactions and the way it all affects the communication process.

Situational context: Refers to social concept of communication viz. an interaction that takes place in a classroom will be very different from one that takes place in a board room.

Environmental context: It is all about the surroundings in which communication takes place e.g. Furniture location, noise level, temperature, season, time of day etc. are all examples of elements in the environmental context.

Cultural context: Includes all the learned behaviours and rules that affect the interaction. If one comes from a culture where it is considered rude to establish long, direct eye contact, one will out of politeness avoid eye contact. If the other person comes from a culture where long direct eye contact signals trustworthiness, then we have a basis for misunderstanding.

3 (a) The grapevine becomes active when the following factors are present:

a. Feeling of uncertainty or lack of sense of direction when the organisation is passing through a difficult period.
b. Feeling of inadequacy or lack of self confidence on the part of the employee, leading to the formation of groups.
c. Formation of a coterie or favoured group by the manager, giving other employees a feeling of insecurity or isolation. People operating in such circumstances will be filled with all sorts of ideas and will share them with like minded companions, at whatever level they may be. Mostly they find them at their own level, but other levels are not barred. This type of communication is being seriously studied by psychologists and management experts.

(b) Chronemics is the study of how we use time to communicate. The meaning of time differs around the world. While some are preoccupied with time, others waste it regularly. While some people function better in the morning, others perform better at night. Punctuality is an important factor in time communication. Misunderstandings or disagreements involving time can create communication and relationship problems.

4 (a) The House of Lords in Salomon Vs Salomon & Co. Ltd. laid down that a company is a person distinct and separate from its members, and therefore, has an independent separate legal existence from its members who have constituted the company. But under certain circumstances the corporate veil may be lifted by the courts. It means looking behind the corporate façade and disregarding the corporate entity. Where a company is incorporated and formed by certain persons only for the purpose of evading taxes, by taking shelter of the corporate nature, the courts have discretion to disregard the corporate entity in the matter of tax evasion.

1. The problem asked in the question is based upon the aforesaid facts. The three companies were formed by the assessee purely and simply as a means of avoiding tax and the companies were nothing more than the assessee himself. Therefore the whole idea of Mr. F was simply to split his income into three parts with a view to evade tax.
2. The legal personality of the three private companies may be disregarded because the companies were formed only to avoid tax liability and the company was nothing more than the assessee himself. It did no business, but was created simply as a legal entity to ostensibly receive the dividend and interest and to handover them over to the assese as pretended loans. The same was upheld in Re Sir Dinshaw Maneckji Petit AIR 1927 Bom.371 and Juggilal vs. Commissioner of Income Tax AIR (1969) SC (932).

(b) Change in the name of company: In the first instance, Mars Textile India Ltd., should ascertain from the Registrar of Companies whether the proposed name viz. National Textiles and Industries Ltd. is available or not. For this purpose, the company should file the prescribed Form No.1A with the Registrar along with the necessary fees. The Registrar after examination will inform whether the new name is available or not for registration. In case the name is available, the company has to pass a special resolution approving the change of name to National Textiles and Industries Ltd.
Thereafter the approval of the Central Government should be obtained as provided in Section 21 of the Companies Act, 1956. The power of Central Government in this regard has been delegated to the Registrar of Companies. Thus, the company has to file an application along with the prescribed filing fee for change of name. The change of name shall be complete and effective only on the issue of a fresh certificate of incorporation by the Registrar. The Registrar shall enter the new name in the Register in place of the former name. The change of name shall not affect any rights or obligations of the company and it shall not render defective any legal proceedings by or against it.

5 (a) The doctrine of Indoor Management as discussed in the Royal British Bank vs. Turquand (1956) 6E&B 327. In this case the directors of RBB also gave a bond to T. The Article empowered the directors to issue such bonds under the authority of a proper resolution. In fact no such resolution was passed. Notwithstanding that, it was held that T could sue on the bonds on the ground that he was entitled to assume that the resolution had been duly passed. Thus the persons dealing with the company are entitled to assume that the acts of the directors or the officers of the company are validly performed, if they are within the scope of their apparent authority. But this doctrine is not applicable where the person dealing with the company has notice of irregularity or where the person dealing with the company is put upon on inquiry or when an instrument purporting to be enacted on behalf of the company is a forgery. In the instant problem the doctrine of indoor management can apply only in case of irregularities which might otherwise affect the transaction, but it cannot apply to forgery which must be regarded as nullity. Hence, 'B' will not succeed in getting the share registered in his name.

(b) Yes, the Director shall be held liable. A director can escape liability for mis-statements in a prospectus only on the grounds specified under Section 62(2). Relying on statements prepared by promoters is not a ground included there under. Accordingly, no defence shall be available to the Director. A Director shall not be liable if he puts up the following defences:

i. If he withdrew his consent before the issue of the prospects and it was issued without his authority or consent.
ii. If after the issue of the prospectus and before allotment there under, he on becoming aware of any untrue statement therein, withdrew his consent to the prospectus and gave reasonable public notice of the withdrawal and reasons there for.
iii. If he had reasonable grounds to believe that the statement was true, and he, in fact, believed it to be true up to the time of allotment.
iv. If the statement is a correct and fair representation or extract or copy of the

6 (a) **Sources of funds for buy-back of shares**: A company can purchase its own shares or other specified securities. The purchase should be out of:

i. its free reserves; or
ii. the securities premium account; or
iii. the proceeds of any shares or other specified securities.

However, buy-back of any kind of shares or other specified securities cannot be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities [Section 77A(l)].

'Specified securities' includes employees' stock option or other securities as may be notified by the Central Government from time to time. [Explanation (a) under Section 77A],

Requirements to be complied with before buy-back: The company shall not purchase its own shares or other specified securities unless:

(a) the buy-back is authorised by its articles;

(b) a special resolution (also Declaration of Solvency to be filed with ROC & SEBI in cases hares are listed on any recognised stock exchange), authorising the buy-back is passed in general meeting of the company;

(c) the buy-back is or less than 25% of the total paid-up capital and free reserves of the company;

Provided that the buy-back of equity shares in any financial year shall not exceed 25% of its total paid up equity capital in that financial year.

(d) the ratio of the debt owed by the company is not more than twice the capital and free reserves after such buy-back;

(b) Considering the provisions of Section 76 of the Companies Act, 1956:

(i) The payment of commission should be authorised by the articles.

(ii) The amount of commission should not exceed, in the case of shares, 5% of the price at which the shares have been issued or the amount or rate authorised by the articles whichever is less, and in the case of debentures, it should not exceed 2-1/2%.

Thus taking into account the above provisions it is concluded that the Board of Director's decision to pay 5% is not valid, since the payment cannot exceed 3% as provided in the Articles of the company. Secondly, decision of the Board to pay the commission out of capital is valid since underwriting commission can be paid both out of capital as well as out of profits.

PRIME ACADEMY

40th SESSION PROGRESS TEST

COST ACCOUNTING AND FINANCIAL MANAGEMENT

No. of. Pages : 6 **Total Marks: 75**

Time allowed : 2 Hrs

PART - A

(All questions carry 1 Marks each)

1. Following is not a feature of cost accounting
   a. Cost ascertainment
   b. Decision making
   c. Statutory
   d. Cost control

2. In ABC analysis category A consists of items with
   a. Large values and large quantities
   b. Large values and small quantities
   c. Small values and small quantities
   d. Large values and medium quantities

3. In computing cost of purchase of raw material which of the following will not be deducted:
   a. Trade discount
   b. Credit for return of container
   c. Cash discount
   d. Excise duty credit (Cenvat)

4. Job costing is suitable for
   a. Telecom industry
   b. Tour operators
   c. Interior decorator
   d. Cable operators

5. Cost unit for taxi is
   a. Passenger kilometers
   b. Passenger days
   c. Passenger
   d. Kilometers

6. An employee is said to be efficient is
   a. Actual time> Standard time
   b. Actual time < standard time
   c. Actual time = Standard time
   d. Actual output < standard output

7. Which of the following statements is not true with regard to a sound incentive system:
   a. Reward should be linked to effort
   b. Standards set in the should achievable
   c. There should be penalty for non achievement of standard
   d. Plan should be easy to compute

8. The order in which service departments are considered for secondary overheads distribution summary is relevant in:
   a. Step ladder method
   b. Repeated distribution method
   c. Simultaneous equation method
   d. All of the above methods

9. Work certified is valued at
   a. Contract price
   b. Cost
   c. Contract price less WIP reserve
   d. Cost + desired profit

10. Work uncertified is valued at
    a. Contract price
    b. Cost
    c. Contract price less WIP reserve
    d. Cost + desired profit

11. In contract accounts, plant returned from site will be
    a. Credited to contract a/c
    b. Debited to contract a/c
    c. Credited only if depreciation is not separately debited
    d. Ignored

12. If contract is 50% complete and notional loss is obtained, the amount to be transferred to P & L a/c is
    a. $1/3^{rd}$ of Notional loss
    b. $2/3^{rd}$ of Notional loss
    c. 100% of Notional loss
    d. Notional loss x DOC

13. In process accounts involve WIP, Average Price method can be used when
    a. Break up of costs components of WIP is given
    b. Work done percentages are given
    c. When cost as well as work done percentages are given
    d. Can be done under all cases by making necessary assumptions

14. General ledger adjustment a/c would appear only under
    a. Non integral accounts
    b. Integral accounts
    c. Marginal costing
    d. Standard costing

15. Reconciliation is not necessary when:
    a. Profits as per cost accounts and financial accounts are the same
    b. Integral system
    c. When cost accounts are audited
    d. When the financial accounts are computerized

(Questions 16-20 carry 2 Marks each)

16. Calculate the labour turnover rate according to replacement method from the following:
    No. of workers on the payroll:
    At the beginning of the month: 500
    At the end of the month: 600
    During the month, 5 workers left, 20 workers were discharged and 75 workers were recruited. Of these, 10 workers were recruited in the vacancies of those leaving and while the rest were engaged for an expansion scheme.
    a. 4.55%
    b. 1.82%
    c. 6%
    d. 3%

17. A television company manufactures several components in batches. The following data relates to one component:
    Annual demand – 32,000 units; Set–up cost/batch – ₹ 120; Annual rate of interest – 12%; Cost of production per unit – ₹ 16.
    The Economic Batch Quantity (EBQ) is
    a. 2500
    b. 4000
    c. 3000
    d. 2000

18. Depreciation charged in costing books is ₹ 12,500 and in financial books is ₹11,200. What will be the financial profit when costing profit is ₹5,000?
    a. ₹5,000
    b. ₹11,200
    c. ₹6,300
    d. ₹ 3,700

19. L Company produces two products along with a single by-product. The joint process costs total ₹200,000. Product A can be sold for ₹450,000 after additional processing of ₹250,000; Product B can be sold for ₹ 600,000 after additional processing of ₹200,000. The by-product BP can be sold for ₹ 25,000 after packaging costs of ₹ 5,000. The by-product is accounted for using the by-product revenue deducted from the main product cost approach. What would be the joint cost allocation using the net realizable value method?

	A ₹	B ₹
a.	58,333	1,16,667
b.	60,000	1,20,000
c.	66,667	1,33,333
d.	77,143	1,02,857

20. After inviting tenders for supply of raw materials, two quotations are received as follows—Supplier A ₹ 2.20 per unit, Supplier B ₹ 2.10 per unit plus ₹ 2,000 fixed charges irrespective of the units ordered. The order quantity for which the purchase price per unit will be the same
    a. 22,000 units
    b. 21,000 units
    c. 20,000 units
    d. None of the above

PART B

(Q 1 and 2 are compulsory. Answer any two from the rest)

1.

a. Following details are related to a manufacturing concern:

Re–order Level	1,60,000 units
Economic Order Quantity	90,000 units
Minimum Stock Level	1,00,000 units
Maximum Stock Level	1,90,000 units
Average Lead Time	6 days

Difference between Minimum Lead Time and Maximum Lead Time: 4 days
Calculate – (a) Maximum Consumption per day, (b) Minimum Consumption per day.

b. A Transport Undertaking maintains a fleet of Lorries for carrying goods from A to B, 100 kms off. Each Lorry which operates for 25 days on an average in a month starts every day from A with a load of 4 tonnes and returns with a load of 2 tonnes.
(i) Calculate the Commercial Tonne–Kms, and the Cost per Commercial Tonne–Km, when the total monthly charges for a lorry are ₹ 90,000.
(ii) What Rate per Tonne should the undertaking charge if it plans to earn a Gross Profit of 20% on the Freight? **(15 Marks)**

2.

a. A Skilled Worker is paid a guaranteed wage rate of ₹ 120 per hour. The standard time allotted for a job is 6 hours He took 5hours to complete the job. He is paid waged under Rowan Incentive Plan.
   i. Calculate his effective hourly rate of earnings under Rowan Incentive Plan.
   ii. If the worker is placed under Halsey Incentive Scheme (50%) and he wants to maintain the same effective hourly rate of earnings, calculate the time in which he should complete the job.

b. H Ltd undertook a contract last year. As per the agreement between H Ltd and the contractee, contract consideration is Total cost plus 30%. The following are the details of the contract as on 31st March 2014:

	Amount in ₹
Total expenditure till date	17,64,525
Estimated further expenditure to complete the contract	8,38,645
Value of work certified	21,07,500
Cost of work not certified	3,11,075
Progress payments received from the contractee	14,75,250

   i. Calculate the conservative estimate of profit for the management of H Ltd.
   ii. What would be the estimated profit from contract if management of H ltd has come to know that the contractee has a liquidity crunch and will not be able to make further payments?

(15 Marks)

3. A product passes through two processes A and B. During the year 2011, the input to process A of basic raw material was 8,000 units @ ₹ 9 per unit. Other information for the year is as follows :

	Process A ₹	Process B ₹
Output units	7,500	4,800
Normal loss (% to input)	5%	10%
Scrap value per unit (₹)	2	10
Direct wages (₹)	12,000	24,000
Direct expenses (₹)	6,000	5,000
Selling price per unit (₹)	15	25

Total overheads ₹ 17,400 were recovered as percentage of direct wages. Selling expenses were ₹ 5,000. There are not allocated to the processes. 2/3 of the output of Process A was passed on to the next process and the balance was sold. The entire output of Process B was sold.
Prepare Process A and B Accounts. **(10 Marks)**

4. You are given the following information of the cost department of a manufacturing company:

	₹
Stores:	
Opening Balance	12,60,000
Purchases	67,20,000
Transfer from work–in–progress	33,60,000
Issue to work–in–progress	67,20,000
Issue to repairs and maintenance	8,40,000
Shortage found in stock taking	2,52,000
Work–in–progress:	
Opening Balance	25,20,000
Direct wages applied	25,20,000
Overhead applied	90,08,000
Closing Balance	15,20,000

Finished products:
Entire output is sold at a profit of 12% on actual cost from work–in–progress.
Other information:

	₹
Wages incurred	29,40,000
Overhead incurred	95,50,000
Income from Investment	4,00,000
Loss on sale of fixed assets	8,40,000

Shortage in stock taking is treated as normal loss.
You are required to prepare:

i. Stores control account;
ii. Work–in–progress control account;
iii. Costing Profit and Loss account and
iv. Profit and Loss account **(10 Marks)**

5. A company produces three joint products in one common process. The three products can either be sold at split off point or can be separately processed further after split off point and sold separately. The estimated data for a particular month are as under:

	Product		
	X ₹	Y ₹	Z ₹
Selling price at split off point (₹/kg)	100	90	150
Selling price after further processing (₹/kg)	200	190	260
Cost incurred on further processing (₹)	3,50,000	4,00,000	2,00,000
Output in kg	3,500	2,500	2,000

Joint costs incurred up to split off point are ₹ 2,40,000.

Such costs are apportioned to the three products according to quantity of production.

You are required to:

i. Prepare a statement of estimated profit or loss for each product individually and in total for the company for the month if all three products are (1) sold off at split off point and (2) further processed.

ii. Also advice how profit could be maximized by selectively selling the products individually either at split off point or after further processing.

(10 Marks)

PRIME ACADEMY

40TH SESSION PROGRESS TEST

COST ACCOUNTING AND FINANCIAL MANAGEMENT

SUGGESTED ANSWERS

PART A

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

PART B

1 a) Maximum lead time = Minimum lead time + 4
(Max + Min lead time)/ 2 = 6
So Minimum lead time = 4 and Maximum is 8 days
ROL = Max consumption x Max L.T
1,60,000 = Max consumption x 8
Maximum consumption = 20,000 units
Maximum level = ROL + ROQ - (minimum consumption x 4)
1,90,000= 1,60,000 + 90,000- (Min consumption x4)
Minimum consumption = 15,000 units

b) A to B = 100 km x 25 days = 2500 kms x 4 tonnes = 10,000 tonne kms
B to A = 100 km x 25 days = 2500 kms x 2 tonnes = 5,000 tonne kms
Total tonne kms per month = 15,000 tonne kms
Cost per tonne km = 90,000/15000 = ₹ 6 per tonne km
Profit is 20% of Freight, so cost will be 80%
Freight = 6/.80
Rs.7.50 per tonne km

2 a) S=6 T=5 and R=120
Wages under the Rowan scheme = T xR + (S-T/S)x(T xR)
= 5x120 + (6-5/6)(5X120) ₹ 700
Effective earnings per hour = 700/5 = ₹ 140
If the same effective hourly rate is required under Halsey, total wages would be 140T
140 T = Tx120 + .50(S-T) x 120
140T =120 T+ 360 - 60T
T =4.5 hours

b)

Particulars	Amount in ₹
Work certified	21,07,500
Work uncertified	3,11,075
	24,18,575
Less: Total expenditure till date	17,64,525
Notional profit	6,54,050
Contract price :	
Total expenditure till date	17,64,525
Estimated expenses for completion	8,38,645
Total cost	26,03,170
plus 30%	
Contract price	33,84,121

DOC = WC/ CP = 21,07,500 / 33,84,121

So 2/3rd rule = 62.28 %

Process A A/c

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Input	8,000	72,000	By Normal Loss (5%)	400	800
To Direct Wages		12,000	By Abnormal Loss @ 12.50	100	1,250
To Direct Exp		6,000	By Process B A/c	5,000	62,500
To Overheads (1:2)		5,800	By Profit & Loss A/c (2500 @ 12.50)	2,500	31,250
	8,000	**95,800**		**8,000**	**95,800**

Profit to be taken to P & L a/c=
NP X DOC X CR/WC 2,85,122

If the contractee cannot make further payment, provision for the loss of ₹2,89,275# has to be made.
17,64,525 - 14,75,250

3.

$$\text{Cost of Abnormal Loss in process A} = \frac{95800 - 800}{8000 - 400} = \frac{95000}{7600} = 12.50$$

Process B A/c

Particulars	Units	Amount (₹)	Particulars	Units	Amount (₹)
To Process A A/c	5,000	62,500	By Normal Loss	500	5,000
To Direct Wages		24,000	By Finished Stock A/c	4,800	104,640
To Direct Exp		5,000	or Profit & Loss A/c		
To Overheads		11,600			
To Abnormal Gain	300	6,540			
	5,300	109,640		5,300	109,640

$$\text{Cost of Abnormal Gain in process B} = \frac{103100 - 5000}{5000 - 500} = \frac{98100}{4500} = 21.80$$

Working:

Profit & Loss A/c

Particulars		Amount (₹)	Particulars		Amount (₹)
To Cost of Sales			By Sales		
Process A (2500 @ 12.50)	31,250		Process A (2500 @ 15)	37,500	
Process B (4800 @ 21.80)	104,640	135,890	Process B (4800 @ 25)	120,000	157,500
To Abnormal Loss			By Abnormal gain		
Process A (100 @ 12.50-2)		1,050	Process B (300 @ 21.80-10)		3,540
To Selling expenses		5,000			
To Net profit		19,100			
		161,040			161,040

Note:

1. As mentioned selling expenses are not allocable to process which is debited directly to the P/L A/c
2. It is assumed that Process A and Process B are not responsibility centres and hence, Process A and Process B have not been credited to Direct Sales, P/L A/c is prepared to arrive at Profit/Loss

4.

Stores control a/c

Dr	Particulars	Amount in ₹		Particulars	Amount in ₹
To	Balance b/d	12,60,000	By	WIP control a/c	67,20,000
"	Creditors	67,20,000	"	Overheads control a/c	8,40,000
"	WIP control a/c	33,60,000	"	Costing P & L (shortage normal loss)	-
			"	Balance c/d	37,80,000
		113,40,000			113,40,000

Work in progress control a/c

Dr	Particulars	Amount in ₹		Particulars	Amount in ₹
To	Balance b/d	25,20,000	By	Stores control a/c	33,60,000
"	Stores control a/c	67,20,000	"	Finished goods control a/c (bal. figure)	159,60,000
"	Wages control a/c	25,20,000			
"	Overheads control a/c	90,80,000	"	Balance c/d	15,20,000
		208,40,000			208,40,000

Finished goods control a/c

Dr	Particulars	Amount in ₹		Particulars	Amount in ₹
To	WIP control a/c	159,60,000	By	Debtors(Sales)	178,75,200
"	Costing P & L a/c	19,15,200			
		178,75,200			178,75,200

Overheads Control a/c

Dr	Particulars	Amount in ₹		Particulars	Amount in ₹
To	Bank	95,50,000	By	Overheads absorbed	90,80,000
"	Indirect labour(29.40-25.20)	4,20,000	"	Costing P & L a/c	17,30,000
	Stores control	8,40,000		(under absorbed)	
		108,10,000			108,10,000

Costing P & L a/c

Dr	Particulars	Amount in ₹		Particulars	Amount in ₹
To	Overheads control a/c	17,30,000	By	Profit on sale of goods	19,15,200
"	P & L a/c (b.f)	1,85,200	"		
"					
		19,15,200			19,15,200

Profit & Loss a/c

Dr	Particulars	Amount in ₹	Particulars	Amount in ₹
To	Loss on sale of fixed assets	8,40,000	Costing P & L a/c	1,85,200
		-	Income from investment	4,00,000
"			Loss for the year	2,54,800
		8,40,000		8,40,000

5.

Step 1: Joint Costs = ₹ 2,40,000

Step 2 : Basis for apportionment = Output kgs = 3500: 2500:2000 or 7:5:4

Step 3: Distribute Joint costs

	X ₹	Y ₹	Z ₹
Joint costs	1,05,000	75,000	60,000

Step 4: Profitability statement

If further processing is done:

	X ₹	Y ₹	Z ₹	Total ₹
units	3,500	2,500	2,000	
Selling Price	200	190	260	
Sales	7,00,000	4,75,000	5,20,000	16,95,000
Less joint costs	1,05,000	75,000	60,000	2,40,000
Less further processing costs	3,50,000	4,00,000	2,00,000	9,50,000
Profit/ (loss)	2,45,000	Nil	2,60,000	5,05,000

If further processing is not done:

	X ₹	Y ₹	Z ₹	Total ₹
units	3,500	2,500	2,000	
Selling Price	100	90	150	
Sales	3,50,000	2,25,000	3,00,000	8,75,000
Less joint costs	1,05,000	75,000	60,000	2,40,000
Profit/ (loss)	2,45,000	1,50,000	2,40,000	6,35,000

Profits on sale:	X ₹	Y ₹	Z ₹	Total ₹
After further processing (F/P)	2,45,000	Nil	2,60,000	5,05,000
At split off (S/O)	2,45,000	1,50,000	2,40,000	6,35,000
Decision	S/O	S/O	F/P	

PRIME ACADEMY
40^{th} SESSION PROGRESS TEST - TAXATION

No. of Pages: 3 **Total Marks: 75**
Time Allowed: 2 Hrs

PART - A

1. Stay includes stay in the territorial waters of India into the sea from the Indian Coastline, the distance is
   a) 12 KM
   b) 22 Nautical miles
   c) 12 Nautical miles
   d) None of the above **(2 Marks)**

2. Joseph, the West Indies cricketer comes to India for 100 days every year. What is his residential Status for the A.Y. 2014-15?
   a) Non-Resident
   b) Resident and ordinary resident
   c) Resident but not ordinary resident **(2 Marks)**

3. Residential status of an Indian Citizen can be vary from year to year – whether the statement is right or wrong? Provide your answer with reason. **(2 Marks)**

4. Mr. Arun, an Indian citizen, leaves India on 22.9.2013 for the first time, to work as an officer of a company in USA. Determine his residential Status for the A.Y. 2014-15.
   a) Non-Resident
   b) Resident and ordinary resident
   c) Resident but not ordinary resident **(2 Marks)**

5. VAT means -
   a) Sales tax
   b) Value added tax
   c) Multi point of tax
   d) Central sales tax **(2 Marks)**

6. Who are liable for VAT registration?
   a) On starting trade business
   b) When turnover exceeds ₹ 15 lakhs
   c) Irrespective of quantum of turnover
   d) When turnover exceeds ₹ 10 lakhs **(2 Marks)**

7. VAT is calculated by deducting tax credit from tax collected
   a) During the payment period
   b) During the financial year
   c) During any period **(2 Marks)**

8. When the excise duty is payable
   a) At the time of production
   b) At the time of selling the goods
   c) At the time of removal from factory **(2 Marks)**

9. Excise return has to be filed on
   a) 7th of Every month in Form ET3
   b) Quarterly in Form no.ER 4
   c) Halfly in form ER 2
   d) 10th of next month in form ER 1 **(2 Marks)**

10. The customs value of imported goods is ₹ 6,00,000. Basic Customs duty payable is 10% and if the goods were produced in India, Central Excise duty will be 16%, special CVD at appropriate rate is applicable and the education cess and secondary higher education cess are as applicable. Find out the Customs Duty Payable?
    a) ₹ 61,800
    b) ₹ 1,77,391
    c) ₹ 1,70,568
    d) ₹ 1,77,931 **(3 Marks)**

11. Compute the tax liability of Mr. Sarvesh whose taxable income is 4,60,000 for the financial year 2013-14.
    a) 2678
    b) 678
    c) 618
    d) None of the above **(2 Marks)**

12. Mr. A is resident in India (resident and ordinarily resident) have income from property situated outside India. He has not brought such income into India. Income from property received by Mr. A is……..
    a) Taxable
    b) Not taxable **(2 Marks)**

Part – B (50 Marks)

1. Who are liable for VAT Registration? **(4 Marks)**
2. What is Input Tax Credit? What are the transactions not eligible for Input Tax Credit? **(6 Marks)**
3. What would be the value for the purpose of customs, if a consignment imported by air has a CIF price of US $ 2,500 including freight US $ 700 and insurance US $ 90? Exchange rate notified by CBEC U/s 14 of Customs Act, 1962 is ₹ 45.50. **(5 Marks)**
4. Calculate the excise duty payable for Mr. X from the following details?

Total invoice price (exclusive of taxes)	₹ 60,000
VAT paid by Mr. X	₹ 6,000
Insurance charges	₹ 300
Packing charges	₹ 2,000
Outward freight beyond the place of removal	₹ 3,200

(5 Marks)

5. Mr. Peter, an Indian Citizen, is a government employee serving in the ministry of external affairs He left India for the first time on 22.02.13 due to his transfer to Indian Embassy in USA. He did not visit India any time during the previous year 2013-14. He has received the following income during the Financial Year 2013-14.
   Salary for the year – ₹ 7,50,000
   Foreign allowance – ₹ 2,50,000
   Income from house in Nepal – ₹ 2,00,000
   Compute his gross total income for AY 2014-15 **(4 Marks)**

6. Discuss the provisions relating to determination of residential status of Hindu undivided family, partnership firm and company. **(4 Marks)**

7. Mr. Raja, working as Manager in Software Private Ltd., Bangalore. The following amounts were received from the employer for financial year 2013-14:

Basic Salary	₹ 2,40,000.
Dearness Allowance	₹ 1,20,000 (40% towards superannuation benefits)

In addition to the above –

(i) The company had taken on lease a residential house at Bangalore, paying a lease rent of ₹ 9,000 p.m. Mr. Raja, who was paying to the company ₹ 6,000 p.m. towards aforesaid rent.

(ii) Mr. Raja has two sons. His second son was studying in a school run by the employer-company throughout the financial year 2013-14. The cost of such education in a similar school is ₹ 2,000 p.m.

(iii) The employer-company was contributing ₹ 3,000 p.m. to Central Government Pension Scheme.

(iv) Professional tax paid by the employer ₹ 4,000.

You are required to compute the total income of Mr. Raja and tax payable by him for the assessment year 2014-15. **(8 Marks)**

8. Mr. Suresh owns a residential property in Chennai whose municipal valuation is ₹ 2,40,000 per annum, Fair rent is ₹ 3,00,00 per annum and Standard rent is ₹ 3,60,000. During the previous year 2013-14 2/3rd of the portion was self occupied and 1/3rd portion was let out for residential purpose for ₹ 7,500 per month. The municipal tax paid for the said property is 30,000 during the year. He paid interest of ₹ 1,20,000 on housing loan which was borrowed for the purchase of the house during 1997. Compute the income from house property for Mr. Suresh for the AY 2014-15.

(6 Marks)

9.

a) Explain the relief in respect of gratuity and House rent allowance received by an employee

(3 Marks)

b) Explain assessment year and previous year **(3 Marks)**

c) Agriculture income is taxable or not – discuss **(2 Marks)**

PRIME ACADEMY
40th SESSION -- PROGRESS TEST - TAXATION
SUGGESTED ANSWERS
PART - A

1. Answer: C – 12 Nautical miles (22 KM)
2. Answer: C
   Residential Status in India for A.Y. 2014-15, the relevant previous year is 2013-14. Step 1: The total stay of Chris Gayle in the last 4 years preceding the previous year is 400 days (i.e.100 × 4) and his stay in the previous year is 100 days. Therefore, since he has satisfied the second condition in section 6(1), he is a resident.
   Step 2: Since his total stay in India in the last 7 years preceding the previous year is 700 days (i.e. 100 × 7), he does not satisfy the minimum requirement of 730 days in 7 years Any one of the conditions not being satisfied, the Individual is Resident but not ordinarily resident.
   Therefore, the residential Status of Chris Gayle for the assessment year 2014-15 is Resident but not ordinarily resident.
3. The statement is Right, Residential status is based on the number of days stay in India and not based on their citizenship
4. Answer – A
   During the previous year 2013-14, Mr. D, an Indian citizen, Also, since he is an Indian citizen leaving India for the was in India for 175 days (i.e. 30+ 31+ 30+31+ 31+22 days) purposes of employment, the exemption condition under section 6(1) is applicable to him. He does not satisfy the minimum criteria of 182 days. Therefore, Mr. Arun is a non-Resident for the A.Y.2014-15.
5. Answer – C
6. Answer – D
7. Answer – A
8. Answer – C
9. Answer – D
10. Answer – B
    Assessable value of the baggage = 52,000 - 25,000 = ₹ 27,000.
    Duty payable = 36.05% (35% + 3% EC & SHEC, no additional duty payable on baggage) of ₹ 27,000
    ₹ 9,734.
    a) Laptop- exempt: One laptop computer imported by a passenger (other than a member of the crew) of 18 years or above as a part of the baggage has been exempted from the whole of Customs duty leviable thereon. Hence the laptop brought by Mr. & M₹ Aswin will be allowed duty free clearance.
    b) Personal effects are not included in the value of baggage. The value of personal computer i.e. ₹ 52,000 will be reduced by general free allowance (GFA). Assuming that the assessee stayed for more than 3 days, hence, under Rule 3, the GFA of ₹ 25,000 will be available. However, the GFA will be allowed once, it cannot be pooled. In other words, M₹ and Mr. Aswin cannot claim that GFA @ ₹ 25,000 each should be separately allowed from the value of a single taxable goods i.e. personal computer
11. Answer – D
12. Answer – A

PART - B

1.

1) Those dealers whose total turnover in respect of purchase and sales in the State is not less than ₹ 10 lakhs for a year are to get registered under the Act.
2) The other dealers whose total turnover for a year is not less than ₹ 5 lakhs shall get registered.
3) Casual Traders, agent of non-resident dealer and dealers in jewellery irrespective of quantum of turnover shall obtain registration.
4) Those dealers who intend to commence the business, on option, may obtain registration.

2.

1) Input tax credit is an aggregate total amount of tax paid by a registered dealer on the total purchases made by him within the State from other registered dealers (for a particular period.); but not eligible in some cases.
2) The input tax credit includes the purchase tax paid under Section 12 of the VAT Act.
3) The input tax credit can be adjusted against the tax payable by the purchasing dealer on his sales.
4) The dealers are not eligible for input tax credit on all inputs. There are certain restrictions and conditions on eligibility of input tax credit. They are given in detail under TNVAT Act, 2006.
   1. Sale of exempted goods
   2. purchase of goods from outside the State
   3. goods purchased in the course of business, but used for personal facility of proprietor, partner or director
   4. goods damaged in transit
   5. goods stolen, destroyed or lost
   6. goods sold in the course of inter-state sale without support of C form
   7. goods transferred to outside the State for sale either by branch or agent without support of Form F
   8. goods returned

3. In the case of import by air, airfreight can't be higher than 20% of FOB price, hence assessable value may be ascertained s follows –

Particulars	US \$	US \$
CIF value		2,500
Less: Air freight	700	
Insurance charges	90	790
FOB value		1,710
Computation of Assessable value:		
FOB value as calculated above	1,710	
Add: Freight restricted to 20% of FOB value	342	
Insurance charges (actual)	90	2,142
CIF value in Indian Rupees (US \$ 2,142 × ₹ 45.50)		97,461.00
Add: Landing charges at 1% of CIF value		974.61
Assessable value (in rupees)		98,435.61

4.

Particulars	₹
Invoice price exclusive of taxes	60,000
Less: Insurance charges	300
Outward freight	3,200
Assessable value	56,500
Computation of Excise duty:	
56,500 x 12.36%	6,983

Note: Packing charges are includible in assessable value, deduction for the same has not been provided.

5. Computation of gross total income Mr. Peter for AY 2014-15

Particulars	₹
Salaries (note 1)	7,50,000
Foreign Allowance (note 2)	Nil
Gross Total Income	7,50,000

1. Mr. Peter is non-resident for FY 2013-14, income deemed to accrue or arise in India is taxable. Salary paid by Indian government is deemed to accrue or arise in India, hence it is taxable in his hand.
2. As per section 10(7) allowance paid by Indian government for rendering services outside India are exempted.
3. Income from property in Nepal is not taxable in the hands of Mr.Peter

6. **Residential status of a HUF:**

A HUF would be resident in India if the control and management of its affairs is situated wholly or partly in India during the relevant previous year. If the control and management of its affairs is situated wholly outside India during the relevant previous year, it would be considered as a non-resident.

If the HUF is resident, then the status of its Karta determines whether it is resident and ordinarily resident or resident but not ordinarily resident.

Residential status of a firm:

A Firm would be resident in India if the control and management of its affairs is situated wholly or partly in India during the relevant previous year. Where the control and management of the affairs is situated wholly outside India during the relevant previous year, the firm would be considered as a non-resident.

Residential status of a company:

A company is said to be resident in India in any previous year if –

(a) it is an Indian company as defined under section 2(26) ,or

(b) its control and management is situated wholly in India during that year.

Thus, every Indian company is resident in India irrespective of the fact whether the control and management of its affairs is exercised from India or outside. However, a company other than an Indian company, would become resident in India only if the entire control and management of its affairs is in India during the relevant previous year.

7. **Computation of total income of Mr. Raja for A.Y. 2014-15**

Particulars	₹
Basic salary	2,40,000
Dearness Allowance	1,20,000
Employers' contribution to Central Government Pension Scheme (3,000 x 12)	36,000
Professional tax paid by employer	4,000
Concessional accommodation **(See Notes 1 & 2)**	Nil
Value of concessional educational facility (2,000 x 12) **(See Note 3)**	24,000
Gross Salary	**4,24,000**
Less : Deduction under section 16(iii) Professional tax	4,000
Gross Total Income	**4,20,000**
Total Income	**4,20,000**

Computation of tax liability of Mr.Raja for the AY 2014-15

	₹
Tax on income of ₹ 4,20,000	22,000
	22,000
Less: Rebate u/s 87A (income below 5 lakhs)	2,000
	20,000
Add: Education cess @ 3%	600
Tax Liability	20,600

Notes:

(1) For computation of perquisite value of concessional accommodation, 40% of dearness allowance (i.e. ₹48,000) should be taken into consideration as forming part of salary, since the question clearly mentions that only 40% is to be reckoned for superannuation benefits. Therefore, salary for the purpose of perquisite valuation would be ₹ 2,88,000 [i.e., (₹ 2,40,000 + 48,000].

(2) In a case where the accommodation is taken on lease or rent by the employer and provided to the employee, the value of perquisite would be lower of the actual amount of lease rental paid or payable by the employer [i.e. ₹ 1,08,000, being 9,000 x 12) and 15% of salary [i.e., ₹ 43,200, being 15% of ₹ 2,88,000]. This value (i.e. ₹ 43,200) would be reduced by the rent paid by the employee (i.e., ₹ 72,000, being 6,000 x 12).
The value of concessional accommodation is Nil [i.e. ₹ 43,200 – ₹ 72,00].

(3) In determining the value of perquisite resulting from the provision of free or concessional educational facilities, from a plain reading of the proviso to Rule 3(5), it is possible to take a view that if the cost of education per child exceeds ₹ 1,000 per month, the entire cost will be taken as

the value of the perquisite. Accordingly, the full amount of ₹2,000 per month is taxable as perquisite. It has been assumed that the education is provided free-of-cost to Mr. Raja's son since the question is silent regarding the same. In such a case, the value of the perquisite would be ₹24,000 (i.e. ₹ 2,000 × 12).

(4) The entire employer's contribution to Central Government Pension scheme should be included in salary and deduction under section 80CCD should be restricted to 10% of salary.

(5) Employee's contribution to Central Government Pension Scheme is not given in the question. However, since the employer is contributing ₹ 3,000 per month to the pension account and generally, the employer makes a matching contribution, therefore, the problem has been solved assuming that the employee has made a contribution of ₹ 3,000 per month. Even if it is assumed that the employee has contributed only 10% of salary, the same would not affect the answer, since deduction under section 80CCD is to be restricted to 10% of salary.

(6) The deduction for medical insurance premium of ₹ 16,000 paid for father is allowable in full under section 80D, as the maximum limit is ₹ 20,000, since his father is a senior citizen. Therefore, the total deduction under section 80D would be ₹ 12,000 (for self) + ₹ 16,000 (for father) = ₹ 28,000.

(7) A winning from TV game show is chargeable at a flat rate of 30% under section 115BB.

8.

Particulars	₹
Income from self-occupied portion (2/3rd)	
Net annual Value	Nil
Less: Deduction u/s 24 (Interest paid 2/3rd or 30,000)	(30,000)
Loss from self-occupied portion	(30,000)
Income from Let out portion (1/3rd)	
Step 1 MV or FR whichever is higher but subject to maximum of SR - ₹ 1,20,000	
Step 2 Actual rent received ₹ 90,000	
Gross Annual value (step 1 or step 2 whichever is higher)	1,20,000
Less: Municipal tax paid (1/3rd)	10,000
Net annual value	1,10,000
Less: Deduction u/s 24 – 30% of net annual value	33,000
Interest paid 1/3rd	40,000
Income from let out portion	37,000
Total Income from House Property	7,000

9 a) Government Employee: Any death cum retirement gratuity received by employee of Central Government, State Government or local authority (Employee of statutory corporation are not covered) is wholly exempt from tax.

1. **Employee cover under Gratuity Act,1972** is exempt from tax to the extent of minimum of either of below three items;
   - 15 day's Salary (7 days per season in case of employees of seasonal establishments)based on the salary last drawn for every completed year of service or part thereof in excess of 6 months
   - Rs. 10,00,000 (Rs. 3,50,000 up to 23rd May,2010)
   - Actual Gratuity received by employee

2. **Any another Employee:** Any gratuity received by employee which is not covered in above two points is exempt from tax to the extent of minimum of either of below three items:
   - Half month's average salary for each completed year of service. (Completed years include from existing employer plus previous employer) e.g 10 years 11 months 10 days. Half month's average salary for 10 completed years can be considered.
   - ₹ 10,00,000 (₹3,50,000 up to 23rd May,2010)
   - Actual Gratuity received by employee

Meaning of Average Salary: For computation of salary as per point 3(1) as mentioned above means salary of 10 months immediately preceding the month in which the person retires. Salary mean last drawn salary by the employee and includes dearness allowance (if terms of employment so provide) but doesn't include any bonus, commission, house rent allowance, overtime wages or any other allowance. If terms of employments provide commission for a fixed percentage of turnover achievement, same will be included in salary.

If gratuity received by employee from more than one employer in same financial year or different years, agreement maximum amount of gratuity cannot exceed Rs. 10 Lacs as mentioned in point 3(2) above.

House Rent Allowance, the Least of the below is allowed as exemption:

1. An amount equal to 50 per cent of the salary, where the residential house is situated at Bombay, Kolkata, Delhi or Chennai, and an amount equal to 40 per cent of the salary where the residential house is situated at any other place.
2. House rent allowance received by the employee in respect of the period during which rental accommodations is occupied by the employee during the previous year.
3. The rent paid in excess of 10 per cent of the salary.

"Salary" for this purpose means basic salary and includes dearness allowance if the terms of employment so provide. It also includes commission based on fixed percentage of turnover achieved by an employee as per the terms of contract of employment. But it does not include any other allowance or perquisite.

b) As per Section 2(9) "assessment year" means the period of twelve months commencing on the 1st day of April every year;

As per Section 3 "Previous year" means the financial year immediately preceding the assessment year:

It can be simply said that the Previous Year is the Financial Year preceding the Assessment Year e.g. for Assessment Year 2014-2015 the Previous Year should be the Financial Year ending 31st March 2014.

c) Agriculture income is exempt under the Indian Income Tax Act. Therefore, the income earned from agricultural operations is not taxed. The reason for exemption of agriculture income from Central Taxation is that the Constitution gives exclusive power to make laws with respect to taxes on agricultural income to the State Legislature. However while computing tax on non-agricultural income agricultural income is also taken into consideration for computation purpose and rebate on tax will be provided for agricultural income.