The Society of Auditors and Prime Academy
Model Exam – IPC – Sep 2017
Paper 1 Accounting

No. of Questions: 7 Total Marks: 100
No. of Pages: 6 Time Allowed: 3 hrs

Question 1 is compulsory. Write any 5 out of the remaining 6
Your answers should be supported by working notes and assumptions where required.

1) Answer all the questions below with reference to Accounting Standards
   a) R Ltd. purchased equipment for its power plant from U Ltd. during the year 2014-15 at a cost of ₹10 crores. R Ltd paid 80% and balance was to be paid after one year on satisfactory performance of the equipment. During the Financial year 2015-16, U Ltd. waived off 10% of the amount due, and U Ltd credited this to Profit and Loss account as discount received. Is this accounting treatment correct?.
   b) In a production process, normal waste is 5% of input. 5,000 MT of input were put in process resulting in wastage of 300 MT. Cost per MT of input is ₹1,000. The entire quantity of waste is on stock at the year end. How will you value the inventories in this case?
   c) In the Trial Balance of M/s. Sun Ltd. as on 31-3-2014, balance of machinery appears ₹ 7,50,000. The company follows rate of depreciation on machinery @ 10% p.a. on Written Down Value Method. On scrutiny it was found that a machine appearing in the books on 1-4-2014 at ₹ 2,00,000 was disposed of on 30-9-2014 at ₹ 1,85,000 in part exchange of a new machine costing ₹2,50,000.
      You are required to calculate:
      (i) Total depreciation to be charged in the Profit and Loss Account.
      (ii) Loss on exchange of machine.
      (iii) Book value of machinery in the Balance Sheet as on 31.3.2015.
   d) A Ltd. entered into a contract with B Ltd. to despatch goods valuing ₹ 25,000 every month for 6 months upon receipt of entire payment. B Ltd. accordingly made the payment of ₹1,50,000 and A Ltd. started despatching the goods. In third month, due to a natural calamity, B Ltd. requested A Ltd. not to despatch goods until further notice though A Ltd. is holding the remaining goods worth ₹1,00,000 ready for despatch. A Ltd. accounted ₹50,000 as sales and transferred the balance to Advance Received against Sales. Comment upon the treatment of balance amount with reference to AS9. **(4 x 5= 20 Marks)**

2)
The Balance Sheet of M/s. Ice Ltd. as on 31-03-2017 is given below :

Liabilities	Amount (₹)	Assets	Amount (₹)
1,00,000 equity shares of ₹10		Freehold Property	5,50,000
each fully paid up	10,00,000	Plant and Machinery	2,00,000
4,000 ,8% preference shares of		Trade investment (at cost)	2,00,000
₹100 each fully paid	4,00,000	Sundry Debtors	4,50,000
6% Debenture 4,00,000		Stock-in-Trade	3,00,000
(secured by freehold property)		Deferred Advertisement Expenses	50,000
Arrear interest 24,000	4,24,000	Profit and Loss Account	4,75,000
Sundry Creditors	1,01,000		
Director's Loan	3,00,000		
	22,25,000		22,25,000

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

(i) Preference shares are to be written down to ₹ 80 each and equity shares to ₹ 2 each

(ii) Preference dividend in arrear for 3 years to be waived by 2/3rd and for balance 1/3rd,equity shares of ₹2 each to be allotted.

(iii) Debenture holders agreed to take one freehold property at its book value of ₹ 3,00,000 in part payment of their holding. Balance debentures to remain as liability of the company.

(iv) Arrears debenture interest to be paid in cash.

(v) Remaining freehold property to be valued at ₹ 4,00,000

(vi) Investment sold out for ₹ 2,50,000.

(vii) 75% of Director's loan to be waived and the balance, equity shares of ₹ 2 each to be allotted.

(viii) 40% of sundry debtors,80% of stock and 100% of deferred advertisement expenses to be written off.

(ix) Company's contractual commitments amounting to ₹ 6,00,000 have been settled by paying 5% penalty of contract value.

Show the Journal Entries for the giving effect to the internal re-construction and draw the Balance Sheet of the company after effecting the scheme. **(16 Marks)**

3) Bear Bar Club was registered in a city and the accountant prepared the following Receipts and Payments Account for the Year ended March 31,2017 and showed a deficit of ₹ 14,520.

Receipts	Amount (₹)	Payments	Amount (₹)
Subscriptions	62,130	Premises	30,000
Fair receipts	7,200	Honorarium to Secretary	12,000
Variety show receipts(net)	12,810	Rent	2,400
Interest	690	Rate & Taxes	3,780
Bar Collection	22,350	Printing & Stationary	1,410
Excess cash spent	1,000	Sundry Expenses	5,350
Deficit	14,520	Wages	2,520
		Fair Expenses	7,170
		Bar purchases payments	17,310
		Repair	960
		New car (less proceeds of old car ₹9,000)	37,800
	22,25,000		22,25,000

The following additional information are :

	01-04-2016 ₹	31-03-2017 ₹
Cash in hand	450	-
Bank balance as per pass book	24,690	10,440
Cheque issued not presented for sundry expenses	270	90
Subscriptions due	3,600	2,940
Premises at cost	87,000	1,17,000
Accumulated depreciation on premises	56,400	-
Car at cost	36,570	46,800
Accumulated depreciation on car	30,870	-
Bar stock	2,130	2,610
Creditors for the bar purchases	1,770	1,290

Cash excess spent represent honorarium to secretary not withdrawn due to cash deficit.
His annual honorarium ₹12,000.
Depreciation on premises and car is to be provided at 5% and 20% on written down value method.
You are required to prepare the correct Receipts and Payments Accounts, Income and Expenditure Account and Balance Sheet on March 31,2017. **(16 Marks)**

4) Anuj, Ayush and Piyush are in partnership sharing profits and losses in the ratio 2 : 2 : 1. Their Balance Sheet as on 31.3 .2014 is as follows:

Liabilities	₹	₹	Assets	₹
Capital accounts:			Fixed assets:	
Anuj	3,75,000		Plant	7,87,000
Ayush	2,80,000		Current assets:	
Piyush	2,25,000	8,80,000	Stock	1,03,000
General Reserve		1,88,000	Debtors	1,56,000
Creditors		2,16,000	Bank FD	2,25,000
			Bank balance	13,000
		12,84,000		12,84,000

Anuj decided to retire with effect from 1.4.2014.The remaining partners agreed to share profits and losses equally in future. The following adjustments were agreed to be made upon retirement of Anuj.

(i) Goodwill was to be valued at 1 year purchase of the average profits of the preceding 3 years on the date of retirement.
The average profits of the past 3 years were as follows:

Year ended	₹	
31.3.2014	3,30,000	(as per draft accounts)
31.3.2013	2,32,000	
31.3.2012	2,20,900	

The partners decided not to raise goodwill account in the books.

(ii) The assets were revalued as follows:
a) Plant to be depreciated by 10%
b) Creditors amounting to ₹10,000 were omitted to be recorded;
c) ₹ 6,000 is to be written off from stock;
d) Provision for doubtful debts to be created @ 5% of the debtors;

e) Interest accrued on FD amounting to ₹ 9,000 was omitted to be recorded.

The above adjustments were to be made from the profit for the year ended 31.3.2014 before calculation of goodwill.

(iii) Anuj agreed to take over the bank FD including interest accrued thereon in part payment of his dues and the balance would remain as a loan, carrying interest of 8% p.a.

(iv) Ayush and Piyush agreed to bring in sufficient cash to make their capital proportionate and maintain a bank balance of ₹ 1,50,000.

You are required to prepare

(1) Capital accounts of partners as on 1.4.2014 giving effect to the above adjustments.

(2) Balance Sheet as on 1.4.2014 after Anuj's retirement.

(16 Marks)

5)

Mr. X runs a retail business. Suddenly he finds on 31.3.2011 that his Cash and Bank balances have reduced considerably. He provides you the following information:

(i) Balances	31.3.2010	31.3.2011
	₹	₹
Sundry Debtors	35,400	58,800
Sundry Creditors	84,400	22,400
Cash at Bank	1,08,400	2,500
Cash in Hand	10,400	500
Rent (Outstanding for one month)	2,400	3,000
Stock	11,400	20,000
Electricity and Telephone bills-outstanding	--	6,400
(ii) Bank Pass-book reveals the following		₹
Total Deposits		10,34,000
Withdrawals:		
Creditors		8,90,000
Professional charges		34,000
Furniture and Fixtures (acquired on 1.10.10)		54,000
Proprietor's drawings		1,61,900

1. Rent has been increased from January, 2011.
2. Mr. X deposited all cash sales and collections from debtors after meeting wages, shop expenses, rent, electricity and telephone charges.
3. Mr. X made all purchases on credit.
4. His credit sales during the year amounts to ₹ 9,00,000.

5. He incurred ₹6,500 per month towards wages.
6. He incurred following expenses:
   Electricity and telephone charges ₹ 24,000 (paid)
   Shop expenses ₹ 18,000 (paid).
7. Charge depreciation on furniture and fixtures @10% p.a.

Finalise the accounts of Mr. X and compute his profit for the year ended 31.3.2011. Prepare his statement of affairs and reconcile the profit and capital balance. **(16 Marks)**

6)

a) Ms.Tanya bought 5000 equity shares of face value of ₹ 10 S.S.Ltd to hold as investments on 15 June 2015 for ₹ 325 per share. She bought the shares as S.S.Ltd has a track record of high dividend payouts. However, due to a bear run, the shares of S.S. Ltd have suffered significantly. On 4 July 2015, the company issued bonus shares at 3 shares for every 5 held. Consequent to the bonus issue the price of the shares which had fallen to ₹ 250 fell further to ₹ 140 per share. Ms.Tanya decided to liquidate 40% of the bonus shares on 30 September 2015, when the prices were ₹ 160 per share. She liquidated further 40% of the bonus issues on 20 December 2015 when the price was ₹ 175 per share. Show the Investment Account in the books of Ms.Tanya as on 31 March 2016.

Also, Ms.Tanya wants to know if the dividends she has earned can be adjusted through the Investment Account, instead of being shown as income. Advise her.

b) A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of Purchase	Tractor A 1st April, 2013 (₹)	Tractor B 1st Oct., 2013 (₹)
Cash price	14,000	19,000

Both agreements provided for payment to be made in twenty-four monthly instalments (of ` 600 each for Tractor A and ₹ 800 each for Tractor B), commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 2014, Tractor B was completely destroyed by fire. In full settlement, on 10th July, 2014 an insurance company paid ₹ 15,000 under a comprehensive policy. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum rounded off to nearest ten rupees, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 2013 and 31st December, 2014:

(a) Tractors on hire purchase.
(b) Provision for depreciation of tractors.
(c) Disposal of tractors

7) Answer any **FOUR** of the following :

(a) Define Average Due Date. List out the various instances when Average Due Date can be used .

(4 Marks)

(b) Following items appear in the Trial Balance of Saral Ltd. as on 31st March,2017 :

Particulars	Amount (₹)
4,500 Equity Shares of ₹ 100 each	4,50,000
Capital Reserve (including ₹ 40,000 being profit on ssale of plant)	90,000
Securities Premium	40,000
Capital Redemption Reserve	30,000
General Reserve	1,05,000
Profit and Loss Account (Cr. Balance)	65,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 3 shares held. Company decided that there should be the minimum reduction in free reserve. Pass necessary Journal Entries in the books Saral Ltd. **(4 Marks)**

(c) What disclosures should be made in the first financial statements following amalgamation? **(4 Marks)**

(d) From the following data, show Profit and Loss A/c (Extract) as would appear in the books **(4 Marks)**
Of a contractor following Accounting Standard-7 :

	(₹ In Lakhs)
Contract Price (fixed)	480.00
Cost incurred to date	300.00
Estimated cost to complete	200.00

(e)

M/s. Son Ltd. charged depreciation on its assets on SLM basis. In the year ended 31st March,2017 it changed to WDV basis. The impact of the change when computed from the date of the assets putting into use amounts to ₹18 lakhs being additional depreciation. Discuss, When should an enterprise change method of charging depreciation and how it should be dealt with in Profit and Loss A/c.

(4 Marks)

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45th Session - Model Exam - IPC – Accounting
Suggested Answers

1.

a) According to AS 10 on Accounting for Fixed Assets, the cost of an asset may undergo changes subsequent to its acquisition on account of exchange fluctuation, price adjustment, changes in duty or similar factors Such changes in price/cost needs to be adjusted with the cost of the asset.
In the give case, R Ltd, initially accounted for 100% amount i.e., ₹10 crores as cost of fixed asset although they paid only ₹8 crores and kept ₹2 crores as payable to the credit of Urja Ltd. Now since the supplier has waived off ₹1 crore, this should be treated as change in price and needs to be adjusted with the cost of asset as per AS 10. Therefore, the treatment given by R Ltd., in crediting ₹1 crore as discount to Profit & Loss Account is completely wrong and needs to be corrected.

b) As per para 13 of AS 2 (Revised), abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognized as expenses in the period in which they are incurred.
In this case, normal waste is 250 MT and abnormal waste is 50 MT. The cost of 250 MT will be included in determining the cost of inventories (finished goods) at the year end. The cost of abnormal waste (50 MT x 1,052.6315 = ₹ 52,632) will be charged to the profit and loss statement.
Cost per MT (Normal Quantity of 4,750 MT) = 50,00,000 / 4,750 = ₹1,052.6315 Total value of inventory = 4,700 MT x ₹1,052.6315 = ₹49,47,368

c) According to AS 6 on depreciation accounting, the Depreciation for a period should be charged to the Profit and Loss account. If any depreciable asset is disposed of, discarded, demolished or destroyed, the net surplus or deficiency, if material, should be disclosed separately.

Dep charged to Profit and Loss:	₹77,500(55000+10000+12500)
Loss on machinery:	₹ 5000
Book value of machinery:	₹722,500

d) As per para 11 of AS 9 "Revenue Recognition", in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:
(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods. In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer.
Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. A Ltd. should recognize the entire sale of ₹1,50,000 (₹25,000 x 6) and no part of the same is to be treated as Advance Receipt against Sales.

In the books of Ice Ltd.
Journal Entries

	Particulars		Debit (₹)	Credit(₹)
i.	8% Preference share capital A/c (₹100 each) To 8% Preference share capital A/c (₹80 each) To Capital Reduction A/c (Being the preference shares of ₹100 each reduced tp ₹80 each as per the approved scheme)	Dr.	4,00,000	 3,20,000 80,000
ii.	Equity share capital A/c (₹ 10 each) To Equity share capital A/c (₹ 2 each) To Capital Reduction A/c (Being the equity shares of ₹10 each reduced to ₹2 each)	Dr.	10,00,000	2,00,000 8,00,000
iii.	Capital Reduction A/c To Equity share capital A/c (₹ 2 each) (Being arrears of preference share dividend of one year to be satisfied by issue of 16,000 equity shares of ₹2 each)	Dr.	32,000	 32,000
iv.	6% Debentures A/c To Freehold Property A/c (Being claimed settled in part by transfer of freehold property)	Dr.	3,00,000	 3,00,000
v.	Accrued debenture interest A/c To Bank A/c (Being accrued debenture interest paid)	Dr.	24,000	 24,000
vi.	Freehold property A/c To Capital Reduction A/c (Being appreciation in the value of freehold property)	Dr.	1,50,000	 1,50,000
vii.	Bank A/c To Trade investment A/c To Capital Reduction A/c (Being trade investment sold on profit)	Dr.	2,50,000	 2,00,000 50,000
viii.	Director's loan A/c To Equity share capital A/c (₹ 2 each) To Capital Reduction A/c	Dr.	3,00,000	 75,000 2,25,000
ix.	Capital Reduction A/c To Profit and Loss A/c To Sundry debtors A/c To Stock-in-trade A/c To Deferred advertisement expenses A/c To Bank A/c To Capital reserve A/c (Being 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)	Dr.	12,73,000	 4,75,000 1,80,000 2,40,000 50,000 30,000 2,98,000

Balance Sheet of Ice Ltd.(As reduced)

Liabilities	Amount(₹)	Assets	Amount(₹)
Share capital		Freehold property	4,00,000
1,53,500 Equity shares of ₹2 each (Out of which 53,500 shares have been issued for consideration other than cash)	3,07,000	Plant and Machinery	2,00,000
		Sundry debtors	2,70,000
4,000, 8% Preference shares of ₹80 each fully paid up	3,20,000	Stock-in-trade	60,000
Capital Reserve	2,98,000	Cash at bank (2,50,000-24,000-30,000)	1,96,000
6% Debentures	1,00,000		
Sundry creditors	1,01,000		
	11,26,000		11,26,000

In the books of bear bar Club
Receipts & Payments Account for the year ended 31.03.2017

Receipts		Amount(₹)	Payments	Amount(₹)
To Balance b/d			By Honorarium to Secretary (12,000-1,000)	11,000
Cash in hand	450			
Bank (W.N.6)	24,420	24,870		
To Subscriptions		62,130	By Rent	2,400
To Fair receipts		7,200	By Rates & taxes	3,780
To Variety show receipts		12,810	By Printing & stationery	1,410
To Interest		690	By Sundry expenses	5,350
To Bar collection		22,350	By wages	2,520
To Car sold (old)		9,000	By Fair expenses	7,170
			By Bar purchases	17,310
			By Receipts	960
			By Premises	30,000
			By Car (37,800 + 9,000)	46,800
			By Balance c/d Bank (W.N.6)	10,350
		1,39,050		1,39,050

Income & Expenditure Account For the year ended 31.03.2017

Expenditure	Amount(₹)	Income	Amount(₹)
To Honorarium to Secretary	12,000	By Subscription 62,130	
		Less: Outstanding as on 1.4.16 (3,600)	
To Rent	2,400	Add: Outstanding as on 1.3.17 2,940	61,470
To Rates & taxes	3,780		
To Printing & stationery	1,410	By fair receipts 7,200	
		Less: Fair expenses (7,170)	30
To Sundry expenses	5,350		
		By Variety show	12,810
To Wages	2,520		
		By Interest	690
To Repairs	960		
		By Profit from bar (W.N.3)	6,000
To Depreciation on:			
Premises (1,530+1,500)	3,030	By Profit on sale of car (W.N.5)	3,300
Car	9,360		
To Surplus (excess of income over expenditure)	43,490		
	84,300		84,300

Working Notes:

1.

Balance Sheet as on 31.03.2016

Liabilities	Amount (₹)	Assets	Amount(₹)
Capital fund (bal. fig)	65,130	Premises	87,000
Sundry creditors for bar	1,770	Car	36,570
Accumulated depreciation on		Bar stock	2,130
Premises 56,400			
Car 30,870	87,270	Subscription due	3,600
		Cash at bank (W.N.6)	24,420
		Cash in hand	450
	1,54,170		1,54,170

2. **Creditors for Bar Purchases**

	₹		₹
To Bank	17,310	By Balance b/d	1,770
To Balance c/d	1,290	By Purchases(Bal. fig.)	16,830
	18,600		18,600

3. Trading Account (of Bar)

	₹		₹
To Opening stock	2,130	By Bar collections (cash)	22,350
To Purchases (W.N.2)	16,830	By Closing stock	16,830
To Profit(Bal. fig.)	6,000		
	24,960		24,960

4. Accumulated Depreciation on Premises

	Amount (₹)
Opening Balance	56400
Add: Depreciation on old premises [(87000-56400) x 5%]	1530
Depreciation in new premises (30000 x 5%)	1500
	59,430

5. Profit on sale of car

		Amount (₹)
Sales price of a car		9000
Less: Book value of old car sold	36570	
Less: Accumulated depreciation	(30870)	(5700)
Profit on sale		3,300

6. Bank balance as per cash book

	1.4.2016	31.3.2017
Bank balance as per Pass Book	24690	10440
Less: Cheque issued but not presented for payment	(270)	(90)
Bank balance as per cash book	24,420	10,350

4) Partners' Capital Accounts as on 1.4.2014

Particulars	Anuj(₹)	Ayush(₹)	Piyush(₹)	Particulars	Anuj(₹)	Ayush(₹)	Piyush(₹)
To Anuj		22,950	68,850	By Bal b/d	3,75,000	2,80,000	2,25,000
To Revaluation reserve	37,400	37,400	18,700	By General reserves	75,200	75,200	37,600
To Bank FD	2,34,000			By Anuj and Piyush	91,800		
TO 8% Loan	2,70,600			By Cash(Bal. figure)		8,600	1,28,400
To Balance c/d		3,03,450	3,03,450				
	5,42,000	3,63,800	3,91,000		5,42,000	3,63,800	3,91,000

Balance Sheet as on 1.4.2014 after Anuj's retirement

Liabilities	Amount (₹)	Assets	Amount (₹)
Anuj's Loan	2,70,600	Plant(90% of ` 7,87,000)	7,08,300
Creditors(2,16,000+10,000)	2,26,000	Stock (` 1,03,000 less ` 6,000)	97,000
Capital Accounts*:		Debtors(95% of ` 1,56,000)	1,48,200
Ayush	3,03,450	Bank Balance	1,50,000
Piyush	3,03,450		
	11,03,500		11,03,500

5) **Trading and profit and Loss Account of Mr. X For the year ended 31st March, 2011**

Particulars	₹	Particulars	₹	₹
To Opening Stock	11,400	By Sales:		
To Purchases	8,28,000	Cash	2,97,500	
To Gross Profit	3,78,100	Credit	9,00,000	11,97,500
		By Closing Stock		20,000
	12,17,500			12,17,500
To Wages	78,000	By Gross Profit		3,78,100
To Rent*	30,600			
To Electricity & Telephone**	30,400			
To Professional charges	34,000			
To Shop Expenses	18,000			
To Depreciation $\left(` 54,000 \times \frac{10}{100} \times \frac{1}{2}\right)$	2,700			
To Net Profit	1,84,400			
	3,78,100			3,78,100

	₹
*Rent Paid	30,000
Less: Outstanding on 1.4.2010	(2,400)
	27,600
Add: Outstanding on 31.3.2011	3,000
	30,600
**Electricity & Telephone charges paid	24,000
Add: Outstanding on 31.3.2011	6,400
	30,400

Statement of Affairs of Mr. X as on 31-03-2010 & 31-03-2011

Liabilities	31-3-2010 ₹	31-3-2011 ₹	Assets	31-3-2010 ₹	31-3-2011 ₹
Capital Account (Balancing Figure)	78,800	1,01,300	Furniture	-	51,300
Sundry Creditors	84,400	22,400	Stock	11,400	20,000
Outstanding Expenses:			Sundry Debtors	35,400	58,800
Rent	2,400	3,000	Bank	1,08,400	2,500
Electricity & Telephone		6,400	Cash	10,400	500
	1,65,600	1,33,100		1,65,600	1,33,100

Reconciliation of Profit

Particulars	₹.
Capital on 31.03.2011	1,01,300
Add: Drawings	1,61,900
	2,63,200
Less: Opening Capital on 1.4.2010	(78,800)
Profit for the year	1,84,400

Working Notes

1. Total Debtors Account

Particulars	₹	Particulars	₹
To Balance b/d	35,400	By Cash (Balancing Figure)	8,76,600
To Credit Sales	9,00,000	By Balance c/d	58,800
	9,35,400		9,35,400

2. Total Creditors Account

Particulars	₹	Particulars	₹
To Bank	8,90,000	By Balance b/d	84,400
To Balance c/d	22,400	By Credit Purchases	8,28,000
	9,12,400		9,12,400

3. Cash Account

Particulars	Cash (₹)	Bank (₹)	Particulars	Cash (₹)	Bank (₹)
To Balance b/d	10,400	1,08,400	By Bank	10,34,000	-
To Sundry Debtors	8,76,600	-	By Wages	78,000	-
To Cash Sales	2,97,500	-	By Rent	30,000	-
(Balancing figure)					
To Cash A/c	-	10,34,000	By Electricity &	24,000	-
(Contra)			Telephone		
			By Shop Expenses	18,000	-
			By Professional charges	-	34,000
			By Sundry Creditors A/c	-	8,90,000
			By Furniture	-	54,000
			By Drawings A/c	-	1,61,900
			By Balance c/d	500	2,500
	11,84,500	11,42,400		11,84,500	11,42,400

6)
a)

Date	Particulars	No	Income (₹)	Amount (₹)	Date	Particulars	No	Income (₹)	Amount (₹)
15-Jun-15	To Bank	5000	0	1625000	30-Sep-15	By Bank	1200	0	192000
04-Jul-15	To Bonus	3000	0	0	30-Sep-15	By Loss on sale of shares	0	0	51750
					20-Dec-15	By Bank	1200	0	210000
					20-Dec-15	By Loss on sale of shares	0	0	33750

					31-Mar-16	By Balance c/d	5600	0	1137500
		8000	0	1625000			8000	0	1625000
01-Apr-16	To Balance b/d	5600	0	1137500					

Bonus Computation- (5000/5)*3= 3000 shares

Particulars	Amount(₹)
Avg cost post Bonus	203.13
Cost of 1200 shares	243750
Loss on sale on 30 Sept	
Cost of 1200 shares	243750
Sale value	192000
Loss on sale on 30 Sept	51750
Loss on sale on 20 dec	
Cost of 1200 shares	243750
Sale value	210000
Loss on sale on 20 dec	33750

Treatment of income:
If the dividend is received for a period prior to 15-June, then it can be adjusted against the cost of investment. If the dividend is for a period post purchase of shares, it has to be taken as income.

b)

(a) Tractors on Hire Purchase Account

2013		Particulars	₹	₹	2013		Particulars	₹	₹
April 1	To	HP Co. - Cash price Tractor A		14,000	Dec. 31	By	Balance c/d		
							Tractor A	14,000	
Oct. 1	”	HP Co. - Cash price Tractor B		19,000			Tractor B	19,000	33,000
				33,000					33,000
2014					2014				
Jan. 1	To	Balance b/d			June 30	By	Disposal of Tractor A/c - Transfer		19,000

	Tractor A	14,000		Dec. 31	By Balance c/d		14,000
	Tractor B	19,000	33,000				33,000
			33,000				
2015							
Jan. 1	To Balance b/d		14,000				

(b) Provision for Depreciation of Tractors Account

2013	Particulars	₹	2013		Particulars		₹
Dec. 31	To Balance c/d	3,050	Dec.31	By	P & L A/c:		
					Tractor A	2,100	
					Tractor B	950	3,050
		3,050					3,050
2014			2014				
June30	To Disposal of Tractor account transfer	2,850	Jan. 1	By	Balance b/d		3,050
			Jun. 30	By	P & L A/c (Dep.)		
Dec. 31	To Balance c/d	4,900			Tractor B		1,900
			Dec. 31		Tractor A		2,800
		7,750					7,750
			2013				`
			Jan.	1	By Balance b/d		4,900

(c) Disposal of Tractor Account

2014		₹	2014		₹
June30	To Tractors on hire purchase—Tractor B	19,000	June 30	By Provision for Depn. of Tractors A/c	2,850
			July 10	By Cash : Insurance	15,000
			Dec. 31	By P & L A/c : Loss	1,150
		19,000			19,000

7

(a) In business enterprises, a large number of receipts and payments by and from a single party may occur at different points of time. To simplify the calculation of interest involved for such transaction, the idea of average due date has been developed. Average due date is a break-even date on which the net amount payable can be settled without causing loss of interest either to the borrower or the lender.

Few instances where average due date can be used:

(i) Calculation of interest on drawings made by the proprietors or partners of a business firm at several points of time.

(ii) Settlement of accounts between a principal and an agent.

(iii) Settlement of contract accounts, that is, A and B sell goods to each other on different dates.

(b)

Capital Redemption Reserve A/c	30000	
Securities Premium A/c	40000	
Capital Reserve (Realized in cash)	40000	
General Reserve A/c	40000	
To Bonus to Shareholders		150000
(Being issue of bonus shares by utilization of various Reserves, as per resolution Dated........)		
Bonus to shareholders A/c	150000	
To Equity share capital		150000
(being capitalization of profit)		

(c) Para 24 of AS 14 'Accounting for Amalgamations' states that for all amalgamations (whether for amalgamations accounted for under the pooling of interests method or amalgamations accounted for under the purchase method), the following disclosure are considered appropriate in the first financial statements following the amalgamation:

(i) Names and general nature of business of the amalgamating companies;

(ii) Effective date of amalgamation for accounting purpose;

(iii) The method of accounting used to reflect the amalgamation; and

(iv) Particulars of the scheme sanctioned under a statue.

(d)

	Amount(₹)
Cost incurred to date	300
Estimate of cost to completing the contract	200
Estimated total cost in completing the contract	500

Percentage of completion (300/500) x 100 =60%

Revenue recognized as a percentage to contract price= 60% of 480 lakhs = 288 lakhs

As per para 35 of AS 7 'Construction Contracts', when it is probable that total contract costs will exceed total revenue, the expected loss should be recognized as an expense immediately. Accordingly, expenses to be recognized in the Profit and loss Account will be

	Amount(₹)
Total foreseeable loss(500-480) Less: Loss for the current year(300-288)	20 (12)
Expected loss to be recognized immediately as per pera 35 of AS 7	8

Profit and loss A/c (An Extract)

	₹		₹
To Construction cost To Estimated loss on completion of contract	300 8	By Contract price	288
	?		?

(e) As per para 21 of AS 5 'Depreciation Accounting', an enterprise can change one method of charging depreciation to another method only if the adoption of the new method is required by statute or for compliance with an accounting standard or if it is considered financial statements of the enterprise.

When such a change in the method of depreciation is made, depreciation should be recalculated in accordance with the new method from the date of asset coming into use. The deficiency of surplus arising from retrospective recomputation of depreciation in accordance with the new method should be adjusted in the accounts through statement of profit and loss in the year in which the method of depreciation is changed. In case the change in the method results in deficiency in depreciation in respect of past year, the deficiency should be charged in the statement of profit and loss.

The Society of Auditors and Prime Academy

Model Exam – IPC – Sep 2017

Paper 2 – Business **Law Ethics and Communication**

No. of Questions: 7 | Total Marks: 100

No. of Pages: 2 | Time Allowed: 3 hrs

Part I – Compulsory Questions

1. **Answer all the questions**
   a. Explain the provisions of the Companies Act, 2013, relating to the utilization, by a company, of the amount standing to the credit of Securities Premium Account.
   b. State the qualities, which a sustainable innovation organization should possess.
   c. Explain clearly the different types of grapevine chains in an informal communication.
   d. Examining the provisions of the Negotiable Instruments Act, 1881, distinguish between a 'Bill of Exchange' and a 'Promissory Note'. **(4 X 5 = 20 Marks)**

Part II – Answer any five questions out of six given below:

2. **Answer the following:**
   a. State the essential elements of a contract of bailment. Distinguish between the 'contract of bailment' and 'contract of pledge'.
   b. A draws and B accepts the bill payable to C or order, C endorses the bill to D and D to E, who is a holder-in-due course. From whom E can recover the amount? Examining the right of E, state the privileges of the holder-in-due course provided under the Negotiable Instruments Act, 1881

   (2 X 8 = 16 Marks)

3. **Answer the following:**
   a. State the circumstances on the basis of which a banker can dishonor a cheque under the provisions of Negotiable Instruments Act, 1881.
   b. An employee was drawing a salary of Rs. 9,000 per month. He joined his service on January 22nd, 2017 and remained absent from February 10th, 2017 till April 7th, 2017 due to temporary disablement caused by an accident arising out of an accident in due course of his employment, Examine with reference to the Payment of Bonus Act, 1965, whether he is eligible for bonus for the year 2016-2017.
   c. Pioneer Mills Ltd. has been regularly depositing the Provident Fund contribution to the Government. Owing to adverse market conditions, the company suffered losses for the past two years. The company’s management is considering the reduction of salary of the employees to reduce the company’s contribution to Provident Fund and instead, to pay compensatory allowance, so that the employees pay package remains the same. Explain in terms of the Employees’ Provident Fund and Miscellaneous Provisions Act, 1952, whether the company can effect such reduction.
   d. X is employed in ABC Ltd., a seasonal establishment. The factory was in operation for four months during the financial year 2010-11. X was not in continuous service during this period. However, he has worked for sixty days. Referring to the provisions of the Payment of Gratuity Act, 1972 decide whether X is entitled to gratuity payable under the Act. Would your answer be the same in case X works for 100 days? **(4 X 4 = 16 Marks)**

4. **Answer the following:**
   a. What do you understand by the term 'Floating charge'? State the circumstances under which 'Floating charge' becomes 'Fixed charge'.
   b. State the ordinary business which may be transacted at an Annual General Meeting of a public limited company incorporated under the Companies Act, 2013.

c. Mr. DP, Secretary, of City Handicrafts Ltd. called an extraordinary general meeting of the company on the requisition of some members. Mr. DP, Secretary of the Company, issued notice of the meeting without the authority of the Board of Directors. Discuss on the validity of the notice issued by Mr. DP, Secretary of the City Handicrafts Ltd.
d. Explain the concept of "Dormant Company" as envisaged in the Companies Act, 2013.

(4 X 4 = 16 Marks)

5. **Answer the following:**
   a. State the documents and information for registration of One Person Company required to be filed with the Registrar of Companies.
   b. Briefly explain the law relating to "Resolutions requiring Special Notice Companies Act, 2013. Mention the resolutions that require "Special Notice" under the Act.
   c. MNC Limited realised on 2nd May, 2016 that particulars of charge created on 12th March, 2016 in favour of a Bank were not filed with Registrar of Companies for Registration. What procedure should the company follow to get the charge registered with the Registrar of Companies? Would the procedure be different if the charge was created on 12th February, 2016 instead of 12th March, 2016? Explain with reference to the relevant provisions of the Companies Act, 2013
   d. XYZ Company Ltd, at general meeting of members of the company pass an ordinary resolution to buy-back 30% of its equity share capital. The Articles of the company empower the company for buy-back of equity shares. The company further decides that the payment for buy-back be made out of the proceeds of the company's earlier issue of equity shares.
   Explaining the provisions of the Companies Act, 2013, and stating the sources through which the buy-back of companies own shares be executed. Examine:
   (i) Whether company's proposal is in order?
   (ii) Would your answer be still the same in case the company instead of 30% decide to buy-back only 20% of its equity share capital? **(4 X 4 = 16 Marks)**

6. **Answer the following:**
   a. Describe the seven social sins listed by Mahatma Gandhi
   b. State with reasons whether the following statements are correct or incorrect :
   "Consumer Interest" and "Public Interest" are synonymous.
   The phrase 'Iron Law of Responsibility" means that the institution of business exists only because it performs invaluable services towards its promoters.
   c. Discuss the concept of "Realty Competition" and "Protecting Consumer's Interest"
   d. Write a short note on "Social Accountability 8000 **(4 X 4 = 16 Marks)**

7. **Answer any four of the following:**
   a. Why is the 'critical thinking' important part of success and wisdom? What steps are required to make it effective in a business organisation?
   b. State the important components required in writing a "Partnership Deed" of a business firm.
   c. Your company has achieved extraordinary performance during the year 2016- 17 in the field of 'Healthcare' by winning an export promotion award for exceeding the target of exports by 20%, launched 10 new life saving drugs and increases net profit by 30%.Draft a 'Press Release' incorporating all these details.
   d. Draft a 'Power of Attorney' by an assessee authorizing a professional to appear before the Income Tax Authorities in respect of the pending taxation matter.
   e. State with reasons whether following statements are correct or incorrect.
   (i) Rumours and gossips are synonymous.
   (ii) Lying breaks down the trust between individuals. **(4 X 4 = 16 Marks)**

The Society of Auditors and Prime Academy
45th Session - Model Exam - IPC – Business Law Ethics and Communication
Suggested Answers
Part - I

1.

a. Securities Premium Account – Utilization

In accordance with the provisions of the Companies Act, 2013, the amount standing to the credit of the Share Premium Account can be utilized by a company for the following purposes :

(i) In paying up un-issued securities of the company to be issued to members of the company as fully paid bonus shares;

(ii) In writing off the preliminary expenses of the company;

(iii) In writing off the expenses of or commission paid or discount allowed on any issue of shares or debentures of the company;

(iv) In providing for premium payable on the redemption of any redeemable preference shares or of any debentures of the company.

b. A sustainable innovation organisation should have:

(i) Vision and strategy for innovation.

(ii) Culture supporting innovation

(iii) Processes, practices and systems supporting innovation

(iv) Top management team leading to innovation.

(v) Effective cross-financial teams.

(vi) Empowered employees driving innovation.

(vii) Finding the right balance between bureaucracy and chaos.

c. Grapevine Chains: Specialists in this field have identified four types of grapevine chains in an informal communication:-

(i) Single Strand Chain: In this type of chain, 'A' tells something to 'B' who tells it to 'C' and so on. This type of chain is least accurate in passing on the information or message.

(ii) Gossip Chain: In it, a person seeks out and tells everyone the information he has obtained. This chain is often used when information or a message regarding a 'not-on-job' nature is being conveyed.

(iii) Probability Chain: In it, individuals are indifferent to the persons, to whom they are passing some information. This chain is found when the information is somewhat interesting but not really significant.

(iv) Cluster Chain: In this type of chain, 'A' tells something to a few selected individuals and then some of these individuals inform a few other selected individuals. In fact, cluster chain is the dominant grapevine pattern in an organisation. Only few persons are 'liaison individuals' who pass on the information they have obtained and then they are likely to share it with the people they trust. Most informal communication flows through this chain.

d.

(i) Distinction between a Promissory Note and a Bill of Exchange: The distinctive features of these two types of negotiable instruments are tabulated below:-

Sl. No.	Promissory Note	Bill of Exchange
1.	It contains a promise to pay	It contains an order to pay
2.	The liability of the maker of a note is primary and absolute	The liability of the drawer of a bill is secondary and conditional. He would be liable if the drawee, after accepting the bill fails to pay the money due upon it provided notice of dishonor is given to the drawer within the prescribed time.

3.	It is presented for payment without any previous acceptance by maker	If a bill is payable sometime after sight, it is required to be accepted either by the drawee himself or by someone else on his behalf, before it can be presented for payment.
4.	The maker of a promissory note stands in immediate relationship with the payee and is primarily liable to the payee or the holder.	The maker or drawer of an accepted bill stands in immediate relationship with the acceptor and the payee
5.	It cannot be made payable to the maker himself, that is the maker and the payee cannot be the same person	In the case of bill, the drawer and payee or the drawee and the payee may be the same person.
6.	In the case of a promissory note there are only two parties, viz. the maker (debtor) and the payee (creditor).	In the case of a bill of exchange, there are three parties, viz., drawer, drawee and payee, and any two of these three capacities can be filled by one and the same person.
7.	A promissory note cannot be drawn in Sets	The bills can be drawn in sets
8.	A promissory note can never be conditional	A bill of exchange too cannot be drawn conditionally, but it can be accepted conditionally with the consent of the holder. It should be noted that neither a promissory note nor a bill of exchange can be made payable to bearer on demand.

Part - II

2.

a. Essential elements of a contract of bailment: Section 148 of the Indian Contract Act, 1872 defines the term 'Bailment'. A 'bailment' is the delivery of goods by one person to another for some purpose upon a contract that they shall, when the purpose is accomplished, be returned or otherwise disposed of according to the directions of the person delivering them. The essential elements of the contract of the bailment are :-

(i) Delivery of goods – The essence of bailment is delivery of goods by one person to another.

(ii) Bailment is a contract – In bailment, the delivery of goods is upon a contract that when the purpose is accomplished, the goods shall be returned to the bailor.

(iii) Return of goods in specific - The goods are delivered for some purpose and it is agreed that the specific goods shall be returned.

(iv) Ownership of goods – In a bailment, it is only the possession of goods which is transferred and the bailor continues to be the owner of the goods .

(v) Property must be movable – Bailment is only for movable goods and never for immovable goods or money.

Difference between contract of bailment and contract of pledge:-

a. Right of sale – In case of pledge, the pawnee (pledgee) can sell the goods and recover his debt, if pawnor (pledger) does not pay while in bailment the bailee can retain the goods and sue for damages, but he has no authority to sell the goods.
b. Purpose – Pledge is specifically for securing a debt, while bailment may be for any purpose e.g. for repairs, safe custody etc.,
c. Right to use the goods – In case of pledge, pawnee cannot use the goods pledged but bailee can use the bailed goods if contract so provides.

b. Section 36 of the Negotiable Instruments Act, 1881 describes the liabilities of prior parties to the holder in due course. This section says that a holder in due course has privilege to hold every prior party to a negotiable instrument liable on it until the instrument is duly satisfied. Here the holder in due course can hold all the prior parties liable jointly and severally. Prior parties includes the maker or drawer, the acceptor and endorsers. Accordingly in the given problem, E, a holder in due course can recover the amount from all the prior parties i.e., D & C (the endorsers), B (an acceptor) and A (the drawer).

Privileges of a "Holder in Due Course": According to the provisions of the Negotiable Instruments Act, 1881, a holder in due course has the following privileges:-

(i) A person signing and delivering to another a stamped but otherwise inchoate instrument is debarred from asserting, as against a holder in due course, that the instrument has not been filled in accordance with the authority given by him, the stamp being sufficient to cover the amount (Section 20).

(ii) In case a bill of exchange is drawn payable to drawer's order in a fictitious name and is endorsed by the same hand as the drawer's signature, it is not permissible for acceptor to allege as against the holder in due course that such name is fictitious (Section 42).

(iii) In case a bill or note is negotiated to a holder in due course, the other parties to the bill or note cannot avoid liability on the ground that the delivery of the instrument was conditional or for a special purpose only (Sections 42 and 47).

(iv) The person liable in a negotiable instrument cannot set up against the holder in due course the defences that the instrument had been lost or obtained from the former by means of an offence or fraud or for an unlawful consideration (Section 58).

(v) No maker of a promissory note, and no drawer of a bill or cheque and no acceptor of a bill for the honour of the drawer shall, in a suit thereon by a holder in due course be permitted to deny the validity of the instrument as originally made or drawn (Section 120).

3.

a. DISHONOUR OF CHEQUE- GROUNDS- A banker will be justified or bound to dishonour a cheque in the following cases , viz. :

(1) If a cheque is undated .

(2) If the cheque is stale,

(3) If the instrument is inchoate or not free from reasonable doubt.

(4) If the cheque is post-dated and presented for payment before its ostensible date.

(5) If the customer's funds in the banker's hands are not 'properly applicable' to the payment of cheque drawn by the former.

(6) If the customer has credit with one branch of a bank and he draws a cheque upon another branch of the same bank in which either he has account or his account is overdrawn.

(7) If the bankers receive notice of customer's insolvency or lunacy.

(i) If the customer countermands the payment of cheque for the banker's duly and authority to pay a cheque ceases.

(ii) If a garnishee or other legal order from the Court attaching or otherwise dealing with the money in the hand of the banker, is served on the banker.

(iii) If the authority of the banker to honour a cheque of his customer is undermined by the notice of the latter's death.

(iv) If notice in respect of closure of the account is served by either party on the other.

(v) If it contains material alterations, irregular signature or irregular endorsement.

b. In accordance with the provisions of the Payment of Bonus Act, 1965, as contained in Section 2(13), read with Sec. 8 and Sec. 14, every employee of an establishment covered under the Act is entitled to bonus from his employer in an accounting year 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 per month. Under Section 14 of the Act, the days when an employee has been absent due to temporary disablement caused by an accident arising out of and in the course of his employment will be included in calculating the total working days for the purpose of payment of bonus. In the instant case, the salary is falling within the limit as prescribed under the Act. His accident-leave- period shall also be treated as working days for the purpose.

Therefore, in the given case since the salary is falling within the limit (i.e. not exceeding Rs. 10,000 per month), the employee is eligible for bonus for the year 2012-2013. The leave period will be treated as working days (i.e. more than 30 working days).

Ref: Section 2(13) read with Sec. 8 and Sec. 14 of the Payment of Bonus Act, 1965.

c. As per Ssection 12 of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, no employer in relation to an establishment to which any Scheme or the Insurance Scheme applies shall, by reason only of his liability for the payment of any contribution to the Fund or the Insurance Fund or any charges under this Act or the Scheme or the Insurance Scheme, reduce, whether directly or indirectly, the wages of any employee to whom the Scheme or the Insurance Scheme applies or the total quantum of benefits in the nature of old age pension, gratuity, provident fund or life insurance to which the employee is entitled under the terms of his employment, express or implied.

Considering the above mentioned provisions of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, Pioneer Mills Ltd. even though was suffering losses for past two years, cannot effect such reduction in the salary of the employees to reduce its liability for the payment of contribution to Provident Funds.

d. As per the provision given under the section 2A of the Payment of Gratuity Act, 1972, where an employee is employed in a seasonal establishment and is not in continuous service for any period of one year or six months, there such an employee shall be deemed to be in continuous service under the employer for such period if he has actually worked for not less than seventy-five percent of the number of days on which the establishment was in operation during such period.

In the given problem, as per the above provision of the Act, X has worked only for sixty days that are less than 90 days(75% of 4 months) therefore, X shall not be eligible for getting any gratuity in first case.

In the second case, since X has worked for 100 days that are more than 75% of number of days therefore, he is entitled for gratuity.

4.

a. A floating charge is an equitable charge which is not a specific charge on any property of the company. It is a charge on a class of assets, which may be present or future and which changes from time to time in the ordinary course of business, for example – Stock in trade. Thus, the company may, despite of the charge, deal with any of the assets in the ordinary course of business. It is of the essence of a floating charge that it remains dormant until the undertaking charged ceases to be a going concern or until the person in whose favour the charge created, intervenes.

Process of conversion of floating charge into a fixed charge is termed as Crystallization which is subject to the same restrictions as the fixed charge. A floating charge crystallizes or get fixed under the following circumstances.

(i) When the company goes into liquidation or

(ii) When the company ceases to carry on business or

(iii) When receiver is appointed or

(iv) When default is made in paying the principal and / or interest and the holder of the charge brings an action to enforce his security.

b. Ordinary Business to be transacted at an Annual General Meeting.
The following business is called the ordinary business, which is transacted at the Annual General Meeting of a company :-
(i) Consideration of Annual Accounts, Balance sheet & the Reports of the Board of Directors and Auditors
(ii) Declaration of Dividend
(iii) Appointment of directors in place of those retiring
(iv) Appointment of and fixation of remuneration of auditors
Any business other than the above shall be called special business.

c. Validity of the notice of extra ordinary general meeting issued by secretary:
The Annual General Meeting or Extra-ordinary General Meeting can be called only with authority of Board of Directors i.e. by passing necessary resolution in the Board Meeting or by Circular resolution. An Annual General Meeting or Extra-ordinary General Meeting cannot be called by an individual director or some of the directors or by secretary. Now, in the instant case, Mr. DP, Secretary of City Handicrafts Ltd., called an extraordinary general meeting on requisition of some members. He issued notice of the meeting without the authority of the Board of Directors. The Secretary of the company does not have the power to call the meeting by himself by issuing notices. Unless the Secretary is specifically authorized either by the board of directors or by the articles, any meeting called by him and the business done there at it would be null and void (Al Amin Seatrans Ltd. Vs. Owners and Party Interested in Vessel M V "Loyal Bird").
However, the notice of the meeting may be ratified by the Board of Directors of the company before the meeting is held to make it good (Hooper Vs. Kerr. Stuart & Co.). Thus, the notice issued by Mr. DP may be ratified by the Board of Directors of City Handicrafts Ltd., to make it valid.

d. Dormant Company (Section 455 of the Companies Act, 2013)
Where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of dormant company.
"Inactive company" means a company which has not been carrying on any business or operation, or has not made any significant accounting transaction during the last two financial years, or has not filed financial statements and annual returns during the last two financial years.

"Significant accounting transaction" means any transaction other than –
(i) Payment of fees by a company to the Registrar;
(ii) Payments made by it to fulfil the requirements of this Act or any other law;
(iii) Allotment of shares to fulfil the requirements of this Act; and
(iv) Payments for maintenance of its office and records.

5.
a.
Documents and Information for registration of a One Person Company (OPC):
For the registration of the one person company (OPC), following documents and information are required to be filed with the Registrar within whose jurisdiction the registered office of the company is proposed to be situated –
(i) **Memorandum and Articles:** The Memorandum and Articles of the company duly signed by the subscriber to the Memorandum. (The Memorandum of OPC shall indicate the name of the other person, who shall, in the event of the subscriber's death or his incapacity to contract, become the member of the company.)

(ii) **Declaration of Compliance:** A declaration by person who is engaged in the formation of the company (an advocate, a chartered accountant, a cost accountant or a company secretary in practice) and by a person named in the Articles (director, manager or secretary of the company), that all the requirements of this Act and the rules made thereunder in respect of registration and matters precedent or incidental thereto have been complied with.

(iii) **Affidavit:** An affidavit from the subscriber to the Memorandum and from person named as the first director, if any, in the Articles stating that - * he is not convicted of any offence in connection with the promotion, formation or management of any company, or ** he has not been found guilty of any fraud or misfeasance or of any breach of duty to any company under this Act or any previous company law during the last five years, *** and that all the documents filed with the Registrar for registration of the company contain information that is correct and complete and true to the best of his knowledge and belief.

(iv) **Address for Correspondence:** The address for correspondence till its registered office is established.

(v) **Particulars of the subscriber:** The particulars (names, including surnames or family names, residential address, nationality) of every subscriber to the Memorandum along with the proof of identity, and in the case of a subscriber being a body corporate, such particulars as may be prescribed.

(vi) **Particulars of persons mentioned in the Articles:** The particulars (names, including surnames or family names, the Director Identification Number, residential address, nationality) of persons mentioned in the Articles as the first directors of the company and such other particulars including proof of identity as may be prescribed, and

(vii) **Particulars of interest of persons:** The particulars of the interests of the persons mentioned in the Articles as the first directors of the company in other firms or bodies corporate along with their consent to act as directors of the company in such form and manner as may be prescribed.

Particulars provided in this provision shall be of the individual subscriber and not of the professional engaged in the incorporation of the company (The Companies (Incorporation) Rules, 2014)

b. Special Notice (Section 115 of the Companies Act, 2013)

Under Section 115 of the Companies Act, 2013 where, by any provision contained in this Act or in the Articles of a company, special notice is required of any resolution, notice of the intention to move such resolution shall be given to the company by such number of members holding not less than one per cent. of total voting power or holding shares on which such aggregate sum not less than five lakh rupees, as may be prescribed, has been paid-up and the company shall give its members notice of the resolution in such manner as may be prescribed.

Special notice is required to move, the following resolutions and any such further resolutions as may be prescribed by the Articles :

(i) **Section 140:** a resolution appointing an auditor other than the retiring one.
(ii) **Section 140:** a resolution providing expressly that the retiring auditor shall not be reappointed.
(iii) **Section 169:** a resolution purporting to remove a director before the expiry of his period of office.
(iv) **Section 169:** a resolution to appoint another director in place of the removed director.

c. The prescribed particulars of the charge together with the instrument, if any by which the charge is created or evidenced, or a copy thereof shall be filed with the Registrar within 30 days after the date of the creation of charge [Section 77 (1)]. In this case particulars of charge have not been filed within the prescribed period of 30 days.

However, the Registrar is empowered under proviso to section 77 (1) to extend the period of 30 days by another 300 days on payment of such additional fee as may be prescribed. Taking advantage of this provision, MNC Limited, should immediately file the particulars of charge with the Registrar and satisfy the Registrar that it had sufficient cause, for not filing the particulars of charge within 30 days of creation of charge.

There will be no change in the situation if the charge was created on 12th February, 2016.

d. Explaining the provisions of the Companies Act, 2013, and stating the sources through which the buy-back of companies own shares be executed. Examine:

(i) Whether company's proposal is in order ?

(ii) Would your answer be still the same in case the company instead of 30% decide to buy-back only 20% of its equity share capital?

Buy Back of own Shares: Under section 68 of the Companies Act, 2013 a company can purchase its own shares or other specified securities subject to fulfilment of prescribed conditions and subject to defined limits and procedures.

Sources of funds for buy- back of shares: Under section 68 (1) of the Companies Act, 2013, a company can purchase its own shares or other specified securities. The purchase should be out of:

(1) its free reserves; or

(2) the securities premium account; or

(3) the proceeds of the issue 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.

Requirements to be complied for buy-back of shares:

As per section 68(2) of the Companies Act, 2013, following are the requirements to be complied with for buy back of shares-

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

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

Provided that – where the buy-back is ten percent or less of the total paid-up equity capital and free reserves of the company and such buy-back has been authorized by the Board by means of a resolution passed at its meeting, special resolution in this respect in a general meeting need not be passed.

(a) The buy-back is 25% or less of the aggregate of the paid-up capital and free reserves of the company;

(b) 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.

In the given case, the following facts are note worthy:

(a) The Articles should authorise buy back – This is in order;

(b) The approval of the members is by way of an ordinary resolution – This is invalid as the resolution required is a special resolution;

(c) The buy-back approved is 30% of the Equity Share Capital – The maximum limit allowed for buy back is 25% of the aggregate of the paid up capital and free reserves. Since the value of free reserves is not mentioned this cannot be commented upon.

(d) 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 - Since the quantum of buyback is 30% of its equity share capital, the proposal of buy back will not be valid.

(e) The company plans to pay for the buy back from the proceeds of an earlier equity issue - This is in violation of section 68 (1) of the Act.

Taking into account the above factors, the questions as asked in the problem can be answered as under:

(i) The company's proposal for buy-back is not in order as it has passed only an ordinary resolution and payment of buy back out of the proceeds of an earlier equity issue in violation of section 68 (1).

(ii) The answer to the second part shall also be the same since the irregularity and contravention will not be affected by the fact that the proposed buy back will be 20% of its equity.

6.

a. Mahatma Gandhi, father of India, promoted non-violence, justice and harmony between people of all paths, 'satyagrah' Gandhiji's approach to conflict was to hold firmly to truth. He stressed that people follow ethical principles and listed following seven social sins as below :

(i) Politics without principles- deals with the political field.
(ii) Wealth without work- deals with the sphere of Economics.
(iii) Commerce without morality- related to ides of trusteeship existing between businessman and the society.
(iv) Knowledge without character- deals with knowledge/education leading to development of the individual and his character.
(v) Pleasure without conscience- emphasized on conscience saying that pleasure without conscience is a sin.
(vi) Science without humanity- science without the thought of the welfare of humanity is a sin.
(vii) Worship without sacrifice- worship has no value without sacrifice, it is a sin to worship without sacrifice.

b.

(i) Incorrect: Apparently it seems that public interest and consumer interest are synonymous but it is not so. They may be differentiated as under :-

- In the name of public interest, many governmental policies are formulated which manifest themselves in anti-competitive behavior. If the consumer is at the fulcrum, consumer interest and welfare should have primacy in all governmental policy formulations.
- Consumer is a member of a broad class of people who purchase, use, maintain and dispose of products and services. They are being affected by pricing policy, financing practice, quality of goods, services and trade practices. They are clearly distinguished from manufacturers who produce goods for wholesalers, retailers who sell goods in public interest.
- Public interest is something in which the society as a whole has some interest and is seen as an externality to competitive markets. There is also a justifiable apprehension that in the name of public interest, Governmental policies may be fashioned and introduced which may not be in the ultimate interest of the consumers. In fact, in such situations, there is a possibility that a conflict could arise between public interest and consumer interest.

(ii) Incorrect: The phrase "Iron Law of Responsibility" means the institution of business exists only because it performs invaluable services for society. Society gives business its license to exist and this can be amended or revoked at any time if it fails to live upto society's expectations. Therefore, if a business intends to retain its existing social role and power, it must respond to society's needs constructively rather than it performs invaluable services towards its promoters.

c. Healthy Competition and Protecting Consumer's Interest: Competition means rivalry in the marketplace, which is regulated by a set of policies and laws to achieve the goals of economic efficiency and consumer welfare, and to check on the concentration of economic power. All these goals have an interactive relationship and, when in harmony, deliver total welfare. Indeed, it is the consumers who are supposedly the biggest beneficiaries of competition.

At the macro level, the design and implementation of a competition policy promotes the advancement and increased welfare of the poor. At the micro level, an effective competition regime or consumer law (covering competition distortions) can prevent consumer abuses, both at industry level as well as in a village or locality where one shopkeeper can cheat the whole community.

An appropriate and dynamic competition policy and law are imperative to support the economic development, control the corruption, reduce wastage and arbitrariness, improve competitiveness and provide relief to the poor.

d. Social Accountability 8000: SA 8000 is a comprehensive, global, verifiable performance standard for auditing and certifying compliance with corporate responsibility. The heart of the standard is the belief that all workplaces should be managed in such a manner that basic human rights are supported and that management is prepared to accept accountability for this. SA 8000 is an international standard for improving working conditions. This standard is based on the principles of the international human rights norms as described in International Labour Organization conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. The requirements of this standard apply regardless of geographic location, industry sector or company size.

7.

a. Critical thinking is the discipline of rigorously and skillfully using information, experience, observation and reasoning to guide our decisions, actions and beliefs. By developing the skills of critical thinking and bringing rigour and discipline to the thinking processes, a person stands at a better chance of being "right" and likely to make good judgments, choices and decisions in all areas of the life. This kind of questioning is called Socratic questions based upon logic, originated by Greek Philosopher Socrates, founder of Critical Thinking. Thus, this forms an important part of "success" and "wisdom".

Steps required to make it effective: To do critical thinking effectively, following skills need to be developed:-

(i) Analyze Cause and Effect: One must be able to separate the motive or reason for an action or even (the cause) from the result or outcome (the effect).

(ii) Classify and Sequence: One must be able to group items or sort them according to similar characteristics.

(iii) Compare and Contrast: One must be able to determine how things are similar and how they are different.

(iv) Infer: One must be skilled in reasoning and extending logic to come up with plausible options or outcomes.

(v) Evaluate: One must be able to determine sound criteria for making choices and decisions.

(vi) Observe: One must be skilled in attending to the details of what actually happened.

(vii) Predict: One must be able to find and analyze trends, and extend these to make sensible predictions about the future.

(viii) Rationalize: One must be able to apply the laws of reason (induction, deduction, analogy) to judge an argument and determine its merits.

(ix) Prioritize: One must be able to determine the importance of an event or situation and put it in the correct perspective.

(x) Summarize: One must be able to distill a brief report of what happened or what has been learnt.

(xi) Synthesize: One must be able to identify new possible outcome by using pieces of information that is already known.

b. Components of the Partnership Deed: A Partnership Deed is divided into different paragraphs. Each paragraph deals with relevant and related information in simple and intelligible language. If a particular part is not applicable in a particular case that part is omitted from the document. The important components in general are as following:-

- Heading of the document
- Date and place of execution of the document
- Names & description of Parties
- Recitals
- Terms and condition
- Special rules
- Jurisdiction
- Signature of the parties
- Signature of the witnesses

The Deed must be executed on a stamp paper of prescribed value. The copy of the deed must be sent to the Registrar of Partnership Firms along with the prescribed form duly completed for issue of acknowledgement by the Registrar of Firms. All subsequent changes must be notified to the Registrar.

c. **PRESS RELEASE :**

HEALTHCARE PHARMACEUTICAL INDUSTRIED LTD. ANOTHER YEAR OF STARLING PERFORMANCE
Press Note....... /2017.
Dated.........
Place.........

Healthcare Pharmaceutical Industries Ltd., the most trusted brand, turned out another startling performance during the year 2016-2017 exceeding all its previous achievements and touching new heights of growth.

- The export of the company registered a healthy growth of 22% over the previous year and won export promotion award.
- It launched 10 new life saving drugs including 2 very effective drugs against heart failure and liver disorders, developed by its own R & D Department.
- The net profit of the company went up by 30%.

The company is now looking forward to the year 2017-18 for making new grounds and breaking all its previous records.

Sd/- XXXXXXXX

PUBLIC RELATIONS OFFICER.

d. **Power of Attorney to appear before Income Tax Authorities**

I, …….S/o……….., R/o………….and partner of the firm M/s………..with registered office at…………, do hereby appoint Mr.…………, S/o………., R/o………as attorney of the firm above named and authorize him for the purpose hereinafter mentioned :

(i) That the said attorney shall appoint an advocate of his choice and hand him over the judgement of the tribunal of Income Tax and instruct him to file the appeal against the order, for the Assessment Year …..
(ii) That the said attorney shall execute Vakalatnama to the Advocate appointed by him and shall sign all the related papers under the supervision of the advocate.

(iii) That specimen signature of the said attorney is given below of this deed.
(iv) The said attorney shall generally do all other lawful acts necessary for the conduct of the said case.

I hereby declare that the acts done by the said attorney in connection with the work given to him shall be deemed to have been done by me and shall be binding on the firm and its partners.

IN WITNESS WHEREOF I have signed this power of attorney in the presence of the following witnesses:

Signature (Holder of Power of Attorney)
WITNESSES:

1……………………..

2……………………..

e.

(i) The given statement "Rumour and gossip are synonymous" is INCORRECT.

Rumours and gossip seem to be an inevitable part of everyday corporate life. Even though rumours and gossip often travel through the same network, there is a distinction between the terms. RUMOURS TEND TO FOCUS ON EVENTS AND INFORMATION, WHEREAS GOSSIP FOCUSES ON PEOPLE. Even though managers usually treat the information as "yet to be confirmed", it may cloud judgments about the employee. The information has a way of creeping into performance evaluations and promotion decisions, even if unintended.

(ii) The given statement "Lying breaks down the trust between individuals" is CORRECT.

A lie is a false statement intended to deceive. Of all the ethical dilemmas, lying would appear to be the least morally perplexing. Most would agree that "one ought not to lie". Yet lies in business are more common that many would care to admit. Lying break down the trust between individuals, shaking the foundation of ethical communication.

The Society of Auditors and Prime Academy

Model Exam – IPC – Sep 2017

Paper 3 – Cost Accounting & Financial Management

No. of Questions: 7 **Total Marks: 100**

No. of Pages: 5 **Time Allowed: 3 hrs**

Question No. 1 is compulsory

Answer any five questions from the remaining six questions

1.

a) A chemical factory runs its boiler on furnace oil obtained from Indian Oil and Bharat Petroleum, whose depots are situated at a distance of 12 and 8 miles from the factory site. Transportation of Furnace Oil is made by the Company's own tank lorries of 5 tons capacity each. Onward trips are made only on full load and the lorries return empty. The filling -in time takes an average 40 minutes for Indian Oil and 30 minutes for Bharat Petroleum. But the emptying time in the factory is only 40 minutes for all. From the record available it is seen that the average speed of the company's lorries works out to 24 miles per hour. The varying operating charges average 60 paise per mile covered and fixed charges give an incidence of ₹ 7.50 per hour of operation. Calculate the cost per ton mile for each source

b) In the course of manufacture of the main product 'A', by–products 'X' and 'Y' also emerge. The joint expenses of manufacture amount to ₹ 2,39,100. All the three products are processed further after separation and sold as per details given below:

	Main Product	By–Products	
Product	'A'	'X'	'Y'
Sales	1,80,000	1,20,000	80,000
Costs incurred after separation	12,000	10,000	8,000
Profit as a % of sales	25	20	15

Total fixed selling expenses are 10% of total cost of sales which are apportioned to the three products in the ratio of 1 : 2 : 2.

(i) Prepare a statement showing the apportionment of joint costs to the main product and the two by–products.

(ii) If the by–product 'X' is processed further and is sold at the point of separation for which there is a market at ₹1,17,000 without incurring any selling expenses, would you advise its disposal at this stage ?

c) You need a sum of ₹1,00,000 at the end of 10 years You know that the best you can do is to deposit some lump sum amount today at 6% rate of interest or to make equal payments into a bank account, starting a year from now on which you can earn 6% interest.

(i) What amount to be deposited today or

(ii) What amount must be deposited annually?

(PVF, 6%, 10 Yrs= 0.558

d) Land Company Ltd. has randomly fluctuating cash balance managed under Miller - Orr model. You are required to calculate (a) the Return Point and (b) the Upper Limit of the cash balance and (c) to state their relevance to cash management actions. The size of sale of marketable securities in each transaction is ₹44,814 as per Miller- Orr model. The lower Limit fixed by management is ₹40,000. Transaction cost per transaction is ₹1,600. The standard deviation of the change in daily cash balance is ₹5,000. Annual yield available on marketable securities is 12% for 360 days a year.

(4 x 5= 20 Marks)

2.

a) Your advertising firm has got an offer for an advertisement job. You are required to submit a quotation for the job for which relevant data are provided below:

Material requirements for the job:

- Paper 12 reams at a price of ₹1,500 per ream
- Paints, ink and other printing materials ₹12,000
- Binding materials and other consumables ₹8,000
- Primary packing materials ₹6,000

Labour requirements:

Services of the following employees will be required for the job:

	Required hours	Monthly pay ₹
Artist	80	18,000
Painter	96	10,000
Copy writer	60	12,000
Client servicing	120	8,000

Further, you need to hire service of a photographer for 7 days at a charge of ₹1,500 per day. Besides, overhead costs are to be considered as follows:

Production overheads are 40% of Direct Cost and Selling & Distribution Overheads are 25% of Production Cost. You keep 12.5% margin on quoted price. Your firm works 20 days a month and 8 hours a day.

b) Upper India Ltd. is to decide between debt funding and equity funding for its expansion programme. Its current position is as under :

	₹
5% Debt	4,00,000
Equity capital (`10 per share)	10,00,000
Surplus	6,00,000
Total capitalization	20,00,000
Sales	60,00,000
Less : Cost	(53,80,000)
Profit before interest and tax (PBIT)	6,20,000
Less : Interest	(20,000)
Profit before tax (PBT)	6,00,000
Less : Income-tax @ 33.99%	(2,03,940)
Profit after tax (PAT)	3,96,060

The expansion programme is estimated to cost ₹10,00,000. If it is financed through debt, the rate of interest on new debt will be 7% and the price earnings (P/E) ratio will be 6 times. If the expansion programme is financed through fresh equity shares, the new shares can be sold netting ₹25 per share and the P/E ratio will be 7 times. The expansion will generate additional sales of ₹ 20,00,000 with after tax return of 5%. If the company is to follow a policy of maximizing the market value of its shares, which form of financing should it choose and why? **(2 x 8= 16 Marks)**

3.

a) Arnav Ltd manufactures and sells its Product R–9. The following figures have been collected from cost records of last year for the product R–9:

Elements of Cost	Variable Cost portion	Fixed Cost ₹
Direct Material	30% of Cost of Goods Sold	
Direct Labour	15% of Cost of Goods Sold	
Factory Overhead	10% of Cost of Goods Sold	2,30,000
General & Administration Overhead	2% of Cost of Goods Sold	71,000
Selling & Distribution Overhead	4% of Cost of Sales	68,000

Last Year, 5,000 units were sold at ₹ 185 per unit. From the given data find the following:

(i) Break–Even Sales (in Rupees)

(ii) Profit earned during last year

(iii) Margin of Safety (in %)

(iv) Profit if the Sales were 10% less than the Actual Sales.

b) From the following information, prepare Trading and Profit and Loss Account:

Debt-Equity Ratio (Long-term Debt/Shareholders' Funds)	2:1
Capital Gearing Ratio (Funds bearing fixed payments to Equity Shareholder's Funds)	3:1
15% Long-term Debts	₹ 8,00,000
Return on Equity Shareholder's Funds	25%
Tax Rate	50%
15%Preference Share Capital	?

Break-up of Cost & Profit:

Materials	40%
Labour 25%	25%
Manufacturing Expenses	10%
Depreciation on Plant	10%
Office & Selling Expenses	2.50%
Operating Profit	12.50%
Sales	100%

(2 x 8 = 16 Marks)

4.

a) TQM Ltd. has furnished the following information for the month ending 30th June, 2007:

	Master Budget ₹	Actual ₹	Variance ₹
Units produced and sold	80,000	72,000	
Sales (₹)	3,20,000	2,80,000	40,000 (A)
Direct material (₹)	80,000	73,600	6,400 (F)
Direct wages (₹)	1,20,000	1,04,800	15,200 (F)
Variable overheads (₹)	40,000	37,600	2,400 (F)
Fixed overhead (₹)	40,000	39,200	800 (F)
Total Cost	2,80,000	2,55,200	

The Standard costs of the products are as follows:

	Per unit (₹)
Direct materials (1 kg. at the rate of Re. 1 per kg.)	1.00
Direct wages (1 hour at the rate of ₹ 1.50)	1.50
Variable overheads (1 hour at the rate of Re. .50)	0.50

Actual results for the month showed that 78,400 kg. of material were used and 70,400 labour hours were recorded. Required:

(i) Prepare Flexible budget for the month

(ii) Calculate all material and labour variances.

b) Elite Cooker Company is evaluating three investment situations: (1) produce a new line of aluminum skillets, (2) expand its existing cooker line to include several new sizes, and (3) develop a new, higher-quality line of cookers. If only the project in question is undertaken, the expected present values and the amounts of investment required are:

Project	Investment required	Present Value of Cash inflows
1	2,00,000	2,90,000
2	1,15,000	1,85,000
3	2,70,000	4,00,000

If projects 1 and 2 are jointly undertaken, there will be no economies; the investments required and present values will simply be the sum of the parts. With projects 1 and 3, economies are possible in investment because one of the machines acquired can be used in both production processes. The total investment required for projects 1 and 3 combined is ₹ 4,40,000. If projects 2 and 3 are undertaken, there are economies to be achieved in marketing and producing the products but not in investment. The expected present value of future cash flows for projects 2 and 3 is ₹ 6,20,000. If all three projects are undertaken simultaneously, the economies noted will still hold. However, a ₹ 1,25,000 extension on the plant will be necessary, as space is not available for all three projects. Which project or projects should be chosen? **(2 x 8= 16 Marks)**

5.

a) Distinguish between allocation, apportionment and absorption of overheads.

b) At EOQ, Total ordering cost is ₹4,000 per annum. Find EOQ is carrying cost is ₹2 per unit per annum.

c) High Vision Ltd. has current sales of ₹20,00,000. The company is planning to introduce a cash discount policy of 2/10, net 30. As a result, the company expects the average collection period to go down by 10 days and 80% of the sales opt for the cash discount facility. If the company's required return on investment in receivables is 20%, should it introduce the new discount policy.

d) If Margin of safety is 25% of sales , What is the degree of operating leverage? **(4 x 4= 16 Marks)**

6.

a) AKP Builders Ltd. Commenced a contract on April 1, 2015. The total contract was for ₹ 5,00,000. Actual expenditure for the period April 1, 2015 to March 31, 2016 and estimated expenditure for April 1, 2016 to December 31, 2016 are given below:

	2015–16 (Actuals) ₹	2016–17 (9 months) (Estimated) ₹
Material Issued	90,000	85,750
Labour: Paid	75,000	87,325
Outstanding at the end	6,250	8,300
Plant	25,000	—
Sundry Expenses : Paid	7,250	6,875
Prepaid at the end	625	—
Establishment charges	14,625	—

A part of the material was unsuitable and was sold for ₹ 18,125 (Cost being ₹ 15,000) and a part of plant was scrapped and disposed of for ₹ 2,875. The value of plant at site on 31 March, 2016 was ₹ 7,750 and the value of material at site was ₹ 4,250. Cash received on account to date was ₹ 1,75,000, representing 80% of the work certified. The cost of work uncertified was valued at ₹ 27,375.

The contractor estimated further expenditure that would be incurred in completion of the contract:

- The contract would be completed by 31st December, 2016.
- A further sum of ₹ 31,250 would have to be spent on the plant and the residual value of the pant on the completion of the contract would be ₹ 3,750.
- Establishment charges would cost the same amount per month as in the previous year.
- ₹ 10,800 would be sufficient to provide for contingencies.

Required:

Prepare Contract account and calculate estimated total profit on this contract. Profit transferrable to Profit and Loss account is to be calculated by reducing estimated Profit in proportion of work certified and contract price

b) A Ltd. was ordering in economic order quantities(EOQ) its raw material RM at a price of ₹750 per unit. The average annual consumption was 18000 units. Carrying cost was 20% of average inventory and the ordering cost was ₹1500 per order. A Ltd. wants to move towards the Just - In-Time system and the new policy proposes as follows: the average number of units held in stock will be 100 units; ordering cost per order will be ₹1510; carrying cost will be 20% of average inventory. However the purchase price will increase. The total new ordering cost will be 9 times the new carrying cost. Required

i) What was the EOQ before the new policy?

ii) Calculate the inventory turnover ratio before and after the new policy.

iii) How much is the increase in purchase price under the new policy? Compare the Total cost of raw material under the two management policies.

(2 x 8= 16 Marks)

7. Write short notes on any **four**:

a) Accounting treatment of Idle time and Overtime wages

b) Zero based budgeting

c) Debt securitization

d) “Profit maximization is not an operationally feasible criterion.” Comment

e) Do the NPV and Profitability index criterion lead to the same acceptance rejection and ranking decisions? **(4 x 4= 16 Marks)**

The Society of Auditors and Prime Academy
45th session - Model Exam – IPC – Cost Accounting & Financial Management
Suggested Answers
Part - A

1.
a. Calculation of ton Miles:

	miles	Ton	ton miles
Indian Oil			
Onward	12	5	60
Return	12	0	0
	24		60
Bharat Petroleum			
Onward	8	5	40
Return	8	0	0
	16		40

Calculation time taken:

Time (in minutes)	Indian Oil	Bharat Petroleum
Running time @ 24miles/hour	60	40
Filling time	40	30
Emptying time	40	40
	140	110

Calculation of cost per ton mile:

Fixed cost @ 7.50 per hour	17.5	13.75
Variable cost @ 0.60 per mile	14.4	9.6
Total cost	31.9	23.35
Ton miles	60	40
Cost per ton mile	0.53167	0.58375

b. Step 1: Estimated joint cost = ₹ 2,39,100
Step 2: Method of apportionment: Reverse cost method
Step 3: Statement computing Estimated Joint costs

	Main Product	By–Product		
	'A'	'X'	'Y'	Total
Sales	180,000	120,000	80,000	380,000
Less: profit	45,000	24,000	12,000	81,000
Cost of sales	135,000	96,000	68,000	299,000
Less: Fixed Selling expenses	11,960.0	11,960.0	5,980.0	29,900
Less: Cost incurred after separation	12,000	10,000	8,000	30,000
Estimated joint costs	111,040.0	74,040.0	54,020.0	239,100

Since total joint costs is same as estimated joint costs, the result can be taken as share of Joint cost of A, X and Y.

c. You need a sum of ₹1,00,000 at the end of 10 years You know that the best you can do is to deposit some lump sum amount today at 6% rate of interest or to make equal payments into a bank account, starting a year from now on which you can earn 6% interest.
   (i) amount to be deposited today :
   Amount = 1,00,000 x PVIF(6%,10) = ₹55,800
   (ii) Amount to be deposited annually:
   Annuity amount x PVAF(6%,10 years) = ₹1,00,000
   PVAF(6%,10 Years) = (1-0.558)/0.06 = 7.367
   Annuity amount =₹13,574

d. Lower limit = 40,000
The size of sale of marketable securities =44,814 = Return point – lower limit
So, Return point is 84,814.
Return point = LL + 1/3 of spread
Spread = 1,34,442
Upper limit = LL + spread = ₹ 1,74,442 cash management actions:
- Cash balance can freely fluctuate between the lower limit and upper limit
- If it reaches the upper limit, investment is made = Upper limit – Return point = ₹89,628
- If it reached the lower limit, sale of Marketable securities is made for ₹44,814, to bring cash balance from ₹40,000 to ₹84,414.

2.

a. Job Cost Sheet :

Cost items	Amount ₹	Amount ₹
Material Costs:		
Paper =1 2×1 500	1 8,000	
Paints	1 2,000	
Binding	8,000	
Packing	6,000	
Total Material Cost (A)		44,000
Labor Costs:		
Artist=80× 1 8000/(20×8)	9,000	
Painter=96× 1 0000/(20×8)	6,000	
Copywriter=60× 1 2000/(20×8)	4,500	
Client servicing=1 20×8000/(20×8)	6,000	
Photographer=7× 1 500	1 0,500	
Total Labour Cost (B)		36,000
Direct Cost (A+B)		80,000
Production Overhead = 40% of Direct Cost (C)		32,000
Production Cost (A+B+C)		1,12,000
Selling &Distribution Overhead 25% of Production Cost(D)		28,000
Cost of Sales		1,40,000
Profit 1 2.5% on Quoted Price		20,000
Quoted Price		1,60,000

b. Upper India Ltd.

Capital structure after expansion:	Option I	Option II
5% Debt	4,00,000	4,00,000
Equity share capital	10,00,000	14,00,000
Surplus	6,00,000	12,00,000
7% Debt	10,00,000	
	30,00,000	30,00,000

Capital structure after expansion:
No: of shares issued 10L/25 = 40,000
Share capital =4L and Share Premium =₹6L
Sales 20Lacs
Additional Operating profit after tax 1,00,000
Therefore before tax (EBIT) 1,51,492

	Option I ₹	Option II ₹
EBIT (6,20,000 +1,51,492)	7,51,492	7,51,492
Less: Interest	90,000	20,000
EBT	6,61,492	7,31,492
Less: Tax @33.99%	2,24,841	2,48,634
PAT	4,36,651	4,82,858
No: of shares	1,00,000	1,40,000
EPS	4.37	3.45
PER	6	7
MPS	26	24

Since debt option maximizes value of shares, it should be preferred.

3.

a. **Cost of Goods Sold (COGS)** = Material + Labour + FOH + General & AOH
So, COGS = (30% + 15%+ 10% + 2%) = 57% of COGS + 2,30,000 +71,000
So, 0.43 COGS = 3,01,000. Hence, COGS = 3,01,000/ 0.43 = **7,00,000**
2. **Cost of Sales (COS) =** COGS + S&D OH
So, COS = 7,00,000 + 4% of COS + 68,000
So, 96% COS = 7,68,000. So, COS = 7,68,000/ 96% = **8,00,000**

Elements of Cost	Variable Cost portion		Fixed Cost ₹
Direct Material	30% of 7,00,000	2,10,000	
Direct Labour	15% of 7,00,000	1,05,000	
Factory Overhead	10% of 7,00,000	70,000	2,30,000
General & Administration Overhead	2% of 7,00,000	14,000	71,000
Selling & Distribution Overhead	4% of 8,00,000	32,000	68,000
Total		4,31,000	6,39,000

PV Ratio = Sales (-) Variable Costs/ Sales x 100
[(185 x 5,000units) - 4,31,000]/ (185 x 5,000units) × 100 = 53.41%

Computations:

- Break–Even Sales = Fixed Costs / PVR =3,69,000/ 53.41% = ₹ 6,90,882.
- Profit earned during the last year = (Sales – Total Variable Costs) – Total Fixed Costs
  = 9,25,000 - 4,31,000) – 3,69,000 = 1,25,000
- Margin of Safety (%) = Total Sales (-) BES/ Total Sales
  = 9,25,000 (-) 6,90,882/ 9,25,000 = 25.31%
- Profit if the Sales were 10% less than the Actual Sales: (Assumed 10% reduction in Sale Qty).
  Profit = 90% of (9,25,000 –4,31,000) –3,69,000 = 4,44,600 –3,69,000 = ₹75,600

b. 15% Long term debt=₹8Lakhs

Debt/(E +P)= 2:1
Equity+ Preference= ₹4 Lakhs
Equity = 4L-P
Capital gearing ratio =3:1
Debt +Pref / E = 3
8L + P = 3(4L –P)
4P =4 Lakhs or Preference capital is ₹1 Lakhs
Equity share capital = ₹3 Lakhs
Return on share holder's funds = 25%
Return to share holder = ₹75,000

	₹	
Profit to Equity share holder	75,000	
Add: preference dividend	15,000	(15% of 1L)
PAT	90,000	
PBT(PAT/50%)	1,80,000	
Add: Interest	1,20,000	8L x15%
EBIT : Operating profit	3,00,000	
Sales (EBIT/12.50%)	24,00,000	

Trading, Profit and loss a/c

		₹			₹
To	Materials :40%	9,60,000	By	Sales	24,00,000
"	Labour 25%	6,00,000			
"	Manufacturing Expenses 10%	2,40,000			
"	Depreciation on Plant 10%	2,40,000			
"	Gross Profit c/f	3,60,000			
		24,00,000			24,00,000
"	Office & Selling Expenses	60,000	"	Gross Profit b/f	3,60,000
"	Interest	1,20,000			
"	Tax	90,000			
"	Preference dividend	15,000			
"	surplus to Equity shareholders	75,000			
		3,60,000			3,60,000

4.

a. TQM Ltd.

(i) **Statement showing flexible budget**

		Master budget	Flexible budget	
		(80,000 units)		
			Per unit	72,000 units
A.	Sales	3,20,000	4.00	2,88,000
B.	Direct material	80,000	1.00	72,000
C.	Direct wages	1,20,000	1.50	1,08,000
D.	Variable overhead	40,000	0.50	36,000
E.	Total variable cost	2,40,000	3.00	2,16,000
F.	Contribution	80,000	1.00	72,000
G.	Fixed overhead	40,000	0.50	40,000
H.	Net profit	40,000	0.50	32,000

Material variances

(a) Material price variance = AQSR – AQAR

= (205600 x 4.20) – (205600 x 4.50) = 61680 (A)

(b) Material usage variance = SRSQ - SRAQ

= (4.20 x [40960 x 5]) – (4.20 x 205600)

= 204800 – 205600 = 3360 (A)

(c) Material cost variance = SRSQ - ARAQ

= (40960 x 21) – (205600 x 4.50)

= 65040 (A)

Labour variances

(a) Labour cost variance = SRSQ - ARAQ

= (40,960 x 9*) – 3,87,840 = 19,200 (A)

(b) Labour rate variance = AHSR - AH x AR

= (1,21,200 x3) – (1,21,200 x 3.20) = 24,240 (A)

(c) Labour efficiency variance = SRSH – SRAH

= [3 x (40,960 x 3)] – (3 x 1,21,200) = 5,040 (F)

b. Elite Cooker Company

Project	Investment Required ₹	Discounted Cash Flows ₹	NPV ₹
1	200,000	290,000	90,000
2	115,000	185,000	70,000
3	270,000	400,000	130,000
1 & 2	315,000	475,000	160,000
1 & 3	440,000	690,000	250,000
2&3	385,000	620,000	235,000
1,2 & 3	680,000	910,000	230,000

5.

a. Allocation, apportionment and absorption of overheads.

Allocation: The charging of whole items of cost to cost centers or cost units is known as allocation.

Apportionment: —The distribution of common items of cost to two or more cost centers on the estimated basis of benefit received is known as apportionment.

Absorption of Overheads: It is defined as the process of absorbing all overhead costs allocated or apportioned over particular cost centre or production department by the units produced.

Allocation of cost involves the process of charging total expenditure to cost centers or cost units while the apportionment of overheads involves the process of charging expenditures to cost centers or cost units in the specified proportions.

Absorption of overheads takes place only after the allocation and apportionment of overhead expenses. In other words , the overhead costs are either allocated or apportioned over different cost centers or cost units and afterwards they are absorbed by the output of the same cost centers.

b. At EOQ, Total ordering cost = ₹4,000 = Total carrying cost

Total carrying cost = Average inventory x Carrying cost p.u

Average inventory = 2000 units so EOQ = 2 x Average Inventory = 4,000 units.

c. Reduction in debtors :20L x80% x(10/360) = Rs44,444

Benefit: Interest saved on debtors reduced : ₹44,444 * 20% = ₹8,889

Cost: Cash discount: ₹20L x 80% x 2% = ₹32,000

Since cost exceeds benefit, company should not introduce discount policy

d. Margin of safety(Rs) = Profit i.e EBIT/ PVR

MOS (%) = MOS(Rs)/Sales =(EBIT/PVR)/Sales => EBIT/ (sale x PVR)

⇨ EBIT/Contribution = 25% or 0.25 degree of operating leverage = Contribution/ EBIT = 1/MOS = 4

6.

(a) AKP Builders Ltd.

Contract Account (2005–2006)

	Particulars	₹	₹		Particulars	₹
To	Material issued		90,000	By	Material (sold)	18,125
To	Labour	75,000		By	Plant (sold)	2,875
	Add: Outstanding	6,250	81,250	By	Plant at site	7,750
To	Plant		25,000	By	Material at site	4,250
To	Sundry Expenditure	7,250				
	Less: Pre-paid	625	6,625			
To	Establishment charges		14,625	By	Balance c/d	1,87,625
To	Profit and Loss A/c (Profit on sale of material)		3,125			
			2,20,625			2,20,625
To	Balance b/d		1,87,625	By	Work in progress	
To	Balance c/d		58,500		Certified	2,18,750
					Uncertified	27,375
			2,46,125			2,46,125
To	Profit and Loss A/c*		29,960.55	By	Balance	58,500
To	Work in progress		28,539.45			
			58,500			58,500

*= Estimated profit x WC/CP =68,481.25 x 2,18,750/5,00,000

Memorandum Contract Account (9 months)

	Particulars	₹	₹			Particulars	₹
To	Material				By	Contractee's A/c	5,00,000
	(90,000 + 3,125 – 18,125)	75,000					
	Add: New Addition		85,750	1,60,750			
To	Plant (25,000 – 2,875)		22,125				
	Add: New		(+) 31,250				
	Less: Closing	( )	3,750	49,625			

To	Establishment charges	14,625		
	Add: For nine months	10,968.75	25,593.75	
To	Sundry Expenditure	6,625		
	Add: New	(+) 6,875		
	Previous prepaid	(+) 625	14,125.00	
To	Labour	81,250		
	Add: (87,325 – 6,250)	(+) 81,075		
	Outstanding	(+) 8,300	1,70,625	
To	Reserve for contingencies		10,800	
To	Estimated Profit		68,481.25	
			5,00,000	5,00,000

(b) A Ltd. was ordering in economic order quantities(EOQ) its raw material RM at a price of ₹750 per unit. The average annual consumption was 18000 units. Carrying cost was 20% of average inventory and the ordering cost was ₹1500 per order. A Ltd. wants to move towards the Just - In-Time system and the new policy proposes as follows: the average number of units held in stock will be 100 units; ordering cost per order will be ₹1510; carrying cost will be 20% of average inventory. However the purchase price will increase. The total new ordering cost will be 9 times the new carrying cost. Required

a. EOQ before the new policy

$=[2 \times 18{,}000 \times 1500 / 150]^{1/2} = 600$ units

b. Inventory turnover ratio

	Before	After
Consumption (a)	18,000	18,000
Inventory(b)	600/20=300	100
Inventory turnover ratio (a)/(b)	60 times	180 times

c. Total ordering cost = 18000/200 x 1510 =₹1,35,900

Total OC = 9 x Total CC

1,35,900 = 9 x (100 x c) => c = 151. Purchase price = 151/.20 =₹755

Particulars	EOQ	₹	JIT	₹
order quantity		600		200
No: of orders	18000/OQ	30		90
Ordering cost	@ 1500	45,000	@1510	135,900
CC	@ 150	45,000	@ 151	15,100
purchase price	@750	13,500,000	@755	13,590,000
Total cost		13,590,000		13,741,000

7.

a. Accounting treatment of Idle time and Overtime wages

Normal idle time is treated as a part of the cost of production. Thus, in the case of direct workers, an allowance for normal idle time is built into the labour cost rates. In the case of indirect workers, normal idle time is spread over all the products or jobs through the process of absorption of factory overheads.

Abnormal idle time: It is defined as the idle time which arises on account of abnormal causes; e.g. strikes; lockouts; floods; major breakdown of machinery; fire etc. Such an idle time is uncontrollable. The cost of abnormal idle time due to any reason should be charged to Costing Profit & Loss Account.

Accounting treatment of overtime premium in cost accounts:

If overtime is resorted to at the desire of the customer, then the overtime premium may be charged to the job directly.

• If overtime is required to cope with general production programme or for meeting urgent orders, the overtime premium should be treated as overhead cost of particular department or cost center which works overtime.

• Overtime worked on account of abnormal conditions should be charged to costing Profit & Loss Account.

• If overtime is worked in a department due to the fault of another department the overtime premium should be charged to the latter department.

b. Zero based budgeting

Is method of budgeting that requires each cost element to be specifically justified, as though the activities to which the budget relates were being undertaken for the first time. It is an alternative to incremental budgeting, where the budget is based on the previous period budget or on actual results, and contains uplift for inflation or other known changes.

Thus Zero based budgets are:

- Are budgets starts from a "zero base" and every function within an organization is analyzed for its needs and costs
- Budgets are made for the upcoming period, regardless of whether the budget is higher or lower than the previous one – past is irrelevant

c. Debt securitization

Debt securitization is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this assets pool market securities can be issued. The process can be classified in the following three functions.

1. The origination function: 2. The pooling function: 3. The securitization function:

Generally, the process of securitization is without recourse i.e. the investor bears the credit risk of default and the issuer is under an obligation to pay to investors only if the cash flows are received by issuer from the collateral.

Advantages:

- Off balance sheet funding
- Converts illiquid assets to liquid portfolio
- Better balance sheet management
- Enhances credit rating

d. “Profit maximization is not an operationally feasible criterion.”

The above statement is true because Profit maximization can be a short-term objective for any organisation and cannot be its sole objective. Profit maximization fails to serve as an operational criterion for maximizing the owner’s economic welfare. It fails to provide an operationally feasible measure for ranking alternative courses of action in terms of their economic efficiency. It suffers from the following limitations:

(i) Vague term: The definition of the term profit is ambiguous. Does it mean short term or long term profit? Does it refer to profit before or after tax? Total profit or profit per share?

(ii) Timing of Return: The profit maximization objective does not make distinction between returns received in different time periods. It gives no consideration to the time value of money, and values benefits received today and benefits received after a period as the same.

(iii) It ignores risk factor

e.

- NPV is Present value of Inflows (PVIF) less Present value of outflows(PVOF) while Profitability Index is PVIF/PVOF.
- Since both use the same parameters the decision regarding acceptance/ rejection is same for both.
- However while selecting mutually exclusive projects, they may differ when the size of the projects are unequal.
- Choice should be made on PI in such cases assuming projects are divisible and can be repeated.

The Society of Auditors and Prime Academy
Model Exam – IPC – Sep 2017
Paper 4 - Taxation

No. of Questions: 7 **Total Marks: 100**
No. of Pages: 6 **Time Allowed: 3 hrs**

Question No. 1 is mandatory and Answer any 5 from the rest.

1.

A. Dr. Sparsh Kumar is running a clinic. His Income and Expenditure account for the year ending 31st March, 2017 is given below:

Expenditure	INR	Income	INR
To Staff Salary	14,30,000	By Fees receipts	52,63,600
To Consumables	9,250	By Dividend from Indian Companies	9,500
To medicine consumed	23,64,800	By Winning from Lotteries (Net of TDS of INR 12,000)	28,000
To Depreciation	91,000	By Income tax refund	2,750
To Administrative Expenses	11,46,000		
To Donation to PM's National Relief Fund	15,000		
To Excess of Income over expenditure	247,800		
Total	53,03,850		53,03,850

(i) Depreciation in respect of all assets has been ascertained at INR 50,000 as per Income-tax Rules,1962.

(ii) Medicines consumed include medicine of (cost) INR 16,000 used for his family.

(iii) Fees Receipts include INR 14,000 honorarium for valuing medical examination answer books.

(iv) He has also received INR 90,000 on account of Agricultural Income which had not been included in the above Income and Expenditure Account.

(v) He has also received INR 57,860 on maturity of one LIC Policy, not included in the above Income and Expenditure Account.

(vi) He received INR 6,000 per month as salary from a City Care Centre. This has not been included in the 'Fees Receipts' credited to Income and Expenditure Account.

(vii) He has sold land in June, 2016for INR 10,00,000 (valuation as per stamp valuation authority INR 14,00,000). The land was acquired by him in October, 1999 for INR 4,50,000.

(viii) He has paid premium of INR 75,000 for another LIC Policy on his life which was taken on 1.04.2013(sum assured INR 5,00,000).

(ix) He has paid INR 2,500 for purchase of lottery tickets.

(x) Donation to Prime Minister National Relief Fund has been made by way of an account payee cheque.

(xi) He deposited INR 1 lakh in PPF.

From the above, compute the income and tax payable of Dr. Sparsh Kumar for the A.Y.2017-18. Cost Inflation Index: F.Y. 1999-00 – 389; F.Y. 2016-17–1125. **(10 Marks)**

B. A manufacturer of machinery sold a special machine. Following details are provided in relation to amounts charged:

Sl. No.	Particulars	INR
1	Price of machinery excluding taxes and duties (before cash discount)	600,000
2	Transit insurance shown separately in the invoice	11,000
3	Packing charges	9,000
4	Extra charges for designing the machine	20,000
5	Outward freight beyond place of removal	12,000

Charges mentioned in (ii) to (v) are not included in (i) above. Other information furnished is -

(a) Cash discount @ 2% on price of machinery has been allowed to the customer.

(b) State VAT rate – 5%.

(c) Central excise duty rate – 12.5%.

Calculate excise duty payable on the special machine. **(5 Marks)**

C. Shri Balaji Hospital has received the following amounts in the month of April, 2017 in lieu of various services rendered by it in the same month. You are required to determine its service tax liability for April, 2017 from the details furnished below:

Sl. No.	Particulars	INR in lakhs
1	Services provided by cord blood bank unit of the nursing home by 24 way of preservation of stem cells	24
2	Hair transplant services	100
3	Naturopathy treatments. Such treatment is a recognized system of 80 medicine in terms of section 2(h) of the Clinical Establishments Act, 2010	80
4	Plastic surgery to restore anatomy of a child affected due to an 30 accident.	30
5	Pranic healing treatments. Such treatment is not a recognized 120 system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010	120
6	Mortuary services	10

Shri Balaji Hospital does not have its own ambulances so it avails ambulance services from Safety Unit, an ambulance service provider, to transport critically ill patients from various locations to the Hospital. Examine whether Safety Unit would be charging any service tax from Shri Balaji Hospital on the services provided by them.

Note: All the amounts given above are exclusive of service tax and cesses. Further, Shri Balaji Hospital is not eligible for the small service provider's exemption under *Notification No. 33/2012-ST dated 20.06.2012.* Point of taxation for the services rendered by Shri Balaji Hospital in the month of April, 2017 fall in the month of April itself. **(5 Marks)**

2.

A. Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2016-17:

Particulars	INR
Basic salary	600,000
Dearness allowance	320,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	7,000
Health insurance premium paid by employer	9,000

Gift voucher given by employer on his birthday	12,000
Life insurance premium of Nambi paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Tata Nano car, which was provided to the assessee, both for official and personal use. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	2,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2017-18. **(8 Marks)**

B. From the following information provided by M/s RA Ltd., registered under VAT law of Gujarat as dealer in consumer goods, compute the amount of net VAT payable for the month of July, 20XX and VAT credit to be transferred, if any:

Purchase of raw material (within the State)

Item	INR	Rate of VAT
Goods X	7,50,000	Exempt
Goods Y	25,00,000	1%
Goods Z	35,00,000	12.5%

Sales

Particulars of finished goods sold	State in which goods are sold	Value in INR	VAT/CST Rate %
1. Produced from goods X	Gujarat Inter – State Sales to Maharashtra	500,000 60,000	12.5% VAT 2% CST
2. Produced from goods Y	Gujarat	30,00,000	Exempt
3. Produced from goods Z	Gujarat	40,00,000	4% VAT

Raw materials valued at INR 5 lakh of goods 'Z' have been transferred to the branch in Madhya Pradesh during the month. All figures of purchases and sales given above are exclusive of taxes.
Make assumptions where required and provide suitable explanations. **(5 Marks)**

C. Mr. Sinha has travelled by air from Delhi to Mumbai in economy class. The Airlines has charged INR 1,470 as service tax from Mr. Sinha. The Airlines does not avail CENVAT credit on inputs and capital goods used for providing the taxable service.
Compute the value of taxable service provided by the airlines. **(3 Marks)**

3.

A. During the last four years preceding the financial year 2016-17, Mr. Damodhar, a citizen of India, was present in India for 430 days. During the last seven previous years preceding the previous year 2016-17, he was present in India for 830 days.

Mr. Damodhar is a member of crew of a Dubai bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 12th August, 2016.

Following details are made available to you for the previous year 2016-17:

Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Damodhar	12th August 2016
Date entered into the Continuous Discharge Certificate in respect of signing the ship by Mr. Damodhar	21st January 2017

In May, 2016, he had gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days.
You are required to determine the residential status of Mr. Damodhar for the previous year 2016-17.
(4 Marks)

B. Who are the persons authorized to verify return of income in the case of following persons:
(i) Local authority
(ii) Firm having no managing partner
(iii) Non-resident Company **(4 Marks)**

C. Vasudev Ltd. provided business support services to Kailash on 10th March, 2017 for INR 50,000. The invoice for the same was issued on 20th March, 2017. Vasudev Ltd. received the payment against the said invoice on 15th March, 2017 vide cheque dated 12th March, 2017. The entry for the receipt of payment was made in the books of accounts on 15th March, 2017 itself. However, the amount was credited in the bank A/c on 25th March, 2017.
Determine the point of taxation in the given case. **(4 Marks)**

D. Krishna, an interior decorator, designed the interiors of Mr. P's newly set up office in Navi Mumbai. As a consideration for the said services, Mr. P gave a souvenir to Krishna. The said souvenir was an artifact especially designed and made by the craftsmen as per the specifications suggested by Mr. P.
Krishna did not pay service tax on the services provided by him contending that value thereof could not be ascertained. Is Krishna's contention correct? Critically examine the case assuming that Krishna is not entitled to avail small service providers' exemption under Notification No. 33/2012 ST dated 20.06.2012. **(4 Marks)**

4.

A. Mr. Prakash engaged in retail trade, reports a turnover of INR 1,77,50,000 for the financial year 2016-17. His income from the said business as per books of account is computed at INR 10,20,000. Retail trade is the only source of income for Mr. Prakash.

i) Is Mr. Prakash eligible to opt for presumptive taxation scheme for the assessment year 2017-18?
ii) If so, determine his income from retail trade as per the applicable presumptive provision.
iii) In case Mr. Prakash does not opt for presumptive taxation of income from retail trade, what are his obligations under the Income-tax Act, 1961?
iv) What is the due date for filing his return of income under both the options? **(8 Marks)**

B. IJK Manufacturing Co. Ltd. is a unit eligible for small scale exemption but paying duty.
Determine the amount of CENVAT credit available in respect of the following items procured by them in the month of March, 2017

Sl. No.	Item	Excise duty paid
1	Raw material used in the factory	80,000
2	Goods used in the guest house for the personal use of employees newly recruited during their stay	20,000
3	Capital goods used as parts and components in the 30,000 manufacture of final products	30,000
4	Office equipments used in an office within the factory	20,000
5	Light diesel oil	6,000

Note: Your answer must be supported by reasons. **(4 Marks)**

C. Rohan Limited exported some goods to Rohith Inc. of USA. It received $ 10,000 as a consideration for the same and sold the foreign currency at INR 68 per US Dollar.
Compute the value of taxable services under Rule 2B of Service tax (Determination of Value) Rules, 2006 in the following cases:
(i) RBI reference rate for US dollars at that time is INR 69 per US dollar.
(ii) RBI reference rate for US dollars is not available.
(iii) What would be the value of taxable service, if US dollars 10,000 are converted to 5,000 UK Pounds. RBI reference rate at that time is INR 67 per US dollar and INR 100 per UK Pound. **(4 Marks)**

5.

A. Mr. A is a proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2016 his Unit 1 by way of slump sale for a total consideration of INR 25 lacs. Unit 1 was started in the year 2004-05. The expenses incurred for this transfer were INR 28,000. His Balance Sheet as on 31.3.2016 is as under:

Liabilities	Total	Assets	Unit 1	Unit 2	Total
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation reserve (for building of unit 1)	3,00,000	Machinery	300,000	100,000	400,000
Bank loan (70% for unit 1)	200,000	Debtors	100,000	40,000	140,000
Trade creditors (25% for unit 1)	150,000	Other Assets	150,000	60,000	210,000
Total	21,50,000	Total	17,50,000	4,00,000	21,50,000

Other information:
(i) Revaluation reserve is created by revising upward the value of the building of Unit 1.
(ii) No individual value of any asset is considered in the transfer deed.
(iii) Other assets of Unit 1 include patents acquired on 1.7.2014 for INR 50,000 on which no depreciation has been charged.
Compute the capital gain for the assessment year 2017-18. **(8 Marks)**

B. Mahabalipur Enterprises imported some goods in a vessel. The assessable value of the imported goods is INR 10,00,000. Compute the customs duty payable from the following additional information:

Date of bill of entry Date of entry inwards	09.10.20XX (Rate of BCD is 8%) 19.10.20XX (Rate of BCD is 10%)
CVD is payable @ 12.5% Special CVD – as applicable	

Will your answer change if the goods are imported in a vehicle and date of arrival of vehicle is 19.10.20XX? **(5 Marks)**

C. Explain the term "price cum duty" as per Central Excise Act, 1944. **(3 Marks)**

6.

A. State with proper reasons whether the following statements are True/False with regard to the provisions of the Income-tax Act, 1961:

   (i) During the financial year 2016-17, Mr. Amit paid interest on loan availed by him for his son's higher education. His son is already employed in a firm. Mr. Amit will get the deduction under section 80E.

   (ii) Subscription to notified bonds of NABARD would qualify for deduction under section 80C.

   (iii) In order to be eligible to claim deduction under section 80C, investment/contribution/ subscription etc. in eligible or approved modes, should be made from out of income chargeable to tax.

   (iv) Where an individual repays a sum of INR 30,000 towards principal and INR 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under section 80E is INR 44,000.

   (v) Mrs. Sheela, widow of Mr. Satish (who was an employee of M/s. XYZ Ltd.), received INR 7 lakhs on 1.5.2016, being amount standing to the credit of Mr. Satish in his NPS Account, in respect of which deduction has been allowed under section 80CCD to Mr. Satish in the earlier previous years. Such amount received by her as a nominee on closure of the account is deemed to be her income for A.Y.2017-18. **(8 Marks)**

B. Solaris India Pvt. Ltd.‟s total inter-State sales @ 4 % CST for the current financial year is INR 1,50,00,000 (CST not shown separately). In this regard, following additional information is available:

   (i) Goods sold to Mr. A for INR 1,50,000, on 16.07.20XX were returned by him on 12.12.20XX.

   (ii) A buyer, Mr. B, to whom goods worth INR 55,000 were dispatched on 16.04.20XX, rejected such goods. The said goods were received back on 15.11.20XX.

   (iii) Goods sold to Mr. C for INR 5,00,000, on 16.04.20XX were returned by him on 12.12.20XX.

   Determine the amount of sale price under CST Act. **(5 Marks)**

C. With reference to the provisions of Finance Act, 1994, examine the validity of following statements:

   (i) Services provided to and by Reserve Bank of India are covered in negative list of services.

   (ii) Pisciculture (breeding of fish) is not liable to service tax as the same is covered under negative list of services. **(3 Marks)**

7.

A. Mr. Madan sold his house property in Surat as well as his rural agricultural land for a consideration of INR 65 lakhs and 20 lakhs, respectively, to Mr. Raman on 01-10-2016. He has purchased the house property for INR 40 lakhs and the land for INR 15 lakhs, in the year 2014. There was no difference in the stamp valuation. You are required to determine TDS implications, if any, assuming both persons are resident Indians. **(4 Marks)**

B. Explain the meaning of expression "advancement of any other object of general public utility" in the context of "Charitable Purpose" defined under section 2(15) of the Act. Discuss its tax implication as well. **(4 Marks)**

C. What are the circumstances under which the registration certificate can be revoked under service tax? **(4 Marks)**

D. ABC & Co., an LLP has aggregate value of taxable services of INR 40 lakhs in the financial year 2016-17. Is it allowed to pay service tax in the financial year 2017-18 on receipt basis? If yes, what are the due dates for payment of service tax? **(4 Marks)**

E. Shambhu & Co. is a consultancy firm based in New Delhi. It has two branch offices at Mumbai and Singapore. Services are provided by Mumbai branch to Head Office at New Delhi and by Head Office at New Delhi to Singapore branch. Explain which of the activities will constitute 'service' under service tax law. **(4 Marks)**

The Society of Auditors and Prime Academy
45th Session - Model Exam - IPC – Taxation
Suggested Answers
Part - I

1.

A. **Computation of total income and tax liability of Dr. Sparsh Kumar for the A.Y. 2017-18**

Particulars	**INR**
Income from salary (Working Note – 1)	72,000
Income from business (Working Note – 2)	2,65,550
Long-term capital gains (Working Note – 3)	98,586
Income from other sources (Working Note – 4)	54,000
Gross Total Income	**4,90,136**
Less: Deduction under Chapter VI-A (Working Note – 5)	1,65,000
Total Income	**3,25,136**
Tax on total income (Working Note - 6)	25,372
Less: Rebate under section 87A	5,000
	20,372
Add: Education cess @ 2% and SHEC @1%	611
Total tax liability	20,983
Less: Tax deducted at source (TDS)	12,000
Tax payable	**8,983**
Rounded off	**8,980**

Working Notes:

1. **Computation of salary income**

Particulars	**INR**
Gross Salary (INR 6,000×12)	72,000
Less: Deduction under section 16	Nil
Net Salary	**72,000**

2. **Computation of income under the head "Profits and gains of business or profession"**

Particulars	**INR**	**INR**
Net Income as per Income and Expenditure Account		**247,800**
Add: Expenses disallowed		
Depreciation (91,000-50,000)	41,000	
Cost of Medicine for self-use	16,000	
Donation to Prime Minister's Relief Fund	15,000	**72,000**
		319,800

Less: Dividend from Indian companies	9,500	
Income-tax refund		
Winning from Lotteries	2,750	
Honorarium for valuing	28,000	
answer books	14,000	54,250
		2,65,550

3. Computation of Capital Gains

Particulars	**INR**	**INR**
Sale consideration	10,00,000	
Valuation as per Stamp Valuation Authority	14,00,000	
(Value to be taken higher of actual sale consideration or valuation adopted for stamp duty purposes as per section 50C)		
Consideration for the purpose of capital gain		**14,00,000**
Less: Cost of acquisition = INR 4,50,000x 1125/389		13,01,414
Long term capital gain		98,586

4. Computation of income under the head "Income from other sources"

Particulars	**INR**	**INR**
Dividend from Indian Companies [Exempt u/s 10(34)] -		-
Honorarium for valuing answer books		14,000
Winning from Lotteries (Net)	28,000	
Add: TDS	12,000	40,000
Income from other sources		**54,000**

Note : As per section 58(4), no expense or deduction is allowable in respect of winnings from lotteries.

5. Computation of deduction under Chapter VI-A

Particulars	**INR**
U/s 80C Life Insurance Premium (maximum 10% of sum assured)	50,000
PPF	1,00,000
	1,50,000
U/s 80G Donation to Prime Minister's Relief Fund [See Note below]	15,000
Total deduction under Chapter VI-A	**1,65,000**

Note : The donation made to the Prime Minister's National Relief Fund qualifies for 100% deduction under section 80G

6. Computation of tax on total income

Particulars	**INR**
Tax on agricultural income plus non-agricultural income i.e. tax on INR 4,15,136(being INR 90,000 + INR 3,25,136) [See Note below]	34,372
Less: Tax on agricultural income plus basic exemption limit i.e. tax on INR 3,40,000, (being INR 90,000 + INR 2,50,000)	9,000
Tax on total income	**25,372**

Note : Tax on INR 3,25,136 plus agricultural income of INR 90,000 is computed hereunder

Particulars	INR
Tax on long term capital gain INR 98,586 @ 20%	19,717
Tax on winnings from lotteries INR 40,000 @ 30%	12,000
Tax on balance income of INR 2,76,550 (INR 4,15,136 – INR 98,586–INR 40,000)	2,655
	34,372

Note : Agricultural income is exempt from tax. It is considered for rate purpose only.

7. Any sum received under a life insurance policy is wholly exempt from tax under section 10(10D), subject to satisfaction of conditions given thereunder. In this case, it is presumed that all the conditions are satisfied.

B.

Computation of excise duty payable

Particulars	INR
Price of machinery	6,00,000
Add: Packing charges [Note 1(i)]	9,000
Extra design charges [Note 1(i)]	20,000
Total	6,29,000
Less : 2% cash discount on price of machinery [INR 6,00,000 x 2%] [Note 1(iv)])	12,000
Assessable value	6,17,000
Excise duty @ 12.5%	**77,125**

Notes:-

1. While computing assessable value:-

(i) Packing charges and extra designing charges have been included as such payments are in connection with sale.

(ii) Transit insurance shown separately in the invoice has not been included as it is a part of transportation cost.

(iii) Outward freight has not been included as it is incurred for transporting the goods beyond the place of removal.

(iv) Cash discount has been allowed as deduction as it has been passed on to the buyer.

2. State VAT does not affect excise duty payable.

C. **Computation of service tax liability of Shri Balaji Hospital for the month of April, 2017**

Particulars	INR (in lacs)
Services provided by cord blood bank by way of preservation of stem cells [Note-2]	-
Hair transplant services [Note-1(a)]	1,00
Naturopathy treatments [Note-1(b)]	-
Plastic surgery to restore anatomy of a child affected due to an accident [Note-1(c)]	-
Pranic healing treatments [Note-1(d)]	1,20
Mortuary services [Note 3]	-
Value of taxable service	2,20
Service tax @ 14% [INR 2,20,00,000 × 14%]	30.8
Add: SBC @ 0.5% (INR 2,20,00,000 x 0.5%)	1.1
KKC @ 0.5% (INR 2,20,00,000 x 0.5%)	1.1
Service tax liability (including SBC & KKC)	**33**

Notes:

(1) Health care services provided by, inter alia, a clinical establishment in any recognized system of medicines in India is exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012.

(a) Hair transplant services are specifically excluded from the health care services, and thus are not eligible for exemption.

(b) Since naturopathy is a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would be eligible for exemption.

(c) Health care service does not include inter alia cosmetic or plastic surgery, except when undertaken to restore or to reconstruct anatomy or functions of body affected due to congenital defects, developmental abnormalities, injury or trauma. Hence, plastic surgery to restore anatomy of a child affected due to an accident will be eligible for exemption.

(d) Since pranic healing treatment is not a recognized system of medicine in terms of section 2(h) of the Clinical Establishments Act, 2010, it would not be eligible for exemption.

(2) Services provided by cord blood banks by way of preservation of stem cells or any other service in relation to such preservation are also exempt from service tax vide Mega Exemption Notification No. 25/2012 ST dated 20.06.2012.

(3) Mortuary services are covered under negative list of services under section 66D of the Finance Act, 1994. Hence, the same are not liable to service tax.

Services by way of transportation of the patient to and from a clinical establishment are specifically included in the definition of health care services. Thus, ambulance services to transport critically ill patients from various locations to Shri Balaji Hospital are eligible for exemption. Furthermore, ambulance services provided by an entity which is not a clinical establishment or an authorised medical practitioner or paramedics are also exempt from service tax vide a separate entry in the Mega Exemption Notification No. 25/2012 ST dated 20.06.2012. Therefore, ambulance services provided by Safety Unit will also be exempt from service tax. Thus, Safety Unit will not charge any service tax from Shri Balaji Hospital on the ambulance services rendered by them.

2.

A. **Computation of income chargeable under the head "Salaries" of Mr. Nambi for A.Y.2017-18**

Particulars	**INR**
Basic Salary	6,00,000
Dearness allowance	3,20,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer is an exempt perquisite to the extent of INR 15,000 [Clause (v) of proviso to section 17(2)]. Therefore, INR 6,000, being the reimbursement in excess of INR 15,000 is a taxable perquisite.	6,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	3,500
Health insurance premium of INR 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Nambi's birthday (entire amount is taxable since the perquisite value exceeds INR 5,000) as per Rule 3(7)(iv) [**See Note 1 for Alternative view**]	12,000
Life insurance premium of Mr. Nambi paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity less than 1.6 litres) owned by employer to employee – Assuming that the expenses are met or reimbursed by the employer, the perquisite value would be INR 21,600 [INR1,800 ×12] as per Rule 3(2) [**See Note 2 for Alternate assumption]**	21,600
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	2,000
Gross Salary	**10,56,600**
Less: **Deductions under section 16**	
Entertainment allowance (deduction not allowable since Mr. Nambi is not a Government employee)	Nil
Professional tax paid allowable as deduction as per section 16(iii)	7,000
Income chargeable under the head "Salaries"	**10,49,600**

Notes:

(1) As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below INR 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of INR12,000 was received by Mr. Nambi from his employer on the occasion of his birthday.
Since the value of the gift voucher exceeds the limit of INR 5,000, the entire amount of INR12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.
An alternate view possible is that only the sum in excess of INR5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto INR 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be INR 7,000.

(2) The question does not specify whether the running and maintenance expenditure of the motor car are met or reimbursed by the employer-company or by Mr. Nambi himself. The main solution above has been worked out on the assumption that such expenses are met or reimbursed by the employer company, in which case, the perquisite value would be INR 21,600 [i.e., INR1,800 ×12]. The above solution has been worked out accordingly.
Alternatively, it is possible to calculate the perquisite value assuming that the running and maintenance expenditure of the motor car are fully met by Mr. Nambi himself. In such a case, the perquisite value would be INR 7,200 [i.e., INR 600 × 12].

The figures of gross salary and net salary would, accordingly, vary depending on the view taken and assumption made by the candidate in respect of the perquisites mentioned in (1) and (2) above, respectively.

B. Computation of Net VAT payable by M/s. RA Ltd. for the month of July, 20XX

	Particulars	INR
(A)	Output VAT payable	
	(i) On sale of finished goods produced from Goods "X" within Gujarat (` 5,00,000 × 12.5%)	62,500
	(ii) On sale of finished goods produced from Goods "Z" within Gujarat (` 40,00,000 × 4 %)	1,60,000
	Total (A)	**2,22,500**
(B)	Input tax credit available	
	(i) Goods "X" (Exempt)	Nil
	(ii) Goods "Y" (Note-2)	Nil
	(iii) Goods "Z" transferred to branch (` 5,00,000×10.5%) (Note-3)	52,500
	(iv) Remaining Goods "Z" after transfer to the branch [` (35,00,000-5,00,000)×12.5%]	3,75,000
	Total (B)	4,27,500
	Net VAT payable = (A)-(B)	(2,05,000)
	CST payable (` 6,00,000 × 2% = ` 12,000) on inter-state sale of goods produced from Goods „X" adjusted (Note-4)	12,000
	Excess input tax credit carried forward to next month	1,93,000

Notes:

(i) It is assumed that there is no opening and closing inventory. Hence, entire purchases of the raw materials have been used to manufacture the respective finished goods.

(ii) Goods utilized in the manufacture of exempted goods are not eligible for input tax credit. Hence, no input tax credit is available in respect of VAT paid on purchase of Goods „Y‟ as they have been used to produce goods which are exempt from VAT.

(iii) In case of stock transfer, input tax paid in excess of 2% can be claimed as input tax credit.

(iv) Input tax credit can be used to set off the central sales tax payable on the inter-state sales.

C. Notification No. 26/2012 ST dated 20.06.2012 provides that transport of passengers by air in economy class, with or without accompanied belongings is eligible for 60% abatement of the value of taxable service if CENVAT credit on inputs and capital goods, used for providing the taxable service, has not been taken under the provisions of the CENVAT Credit Rules, 2004. In other words, service tax is payable on 40% of the value of taxable service in this case, thus making the effective rate of service tax as 6% [40 x 15%].

Since in the given case, the Airlines complies with the requisite condition for availing abatement, effective rate of service tax charged by it would be 6%. Thus, value of taxable service rendered by the Airlines is INR 24,500 [INR 1,470 /6 x 100].

3.

A.

(i) Determination of residential status of Mr. Damodhar for the P.Y.2016-17

As per Explanation 1 to section 6(1), where an Indian citizen leaves India as a member of crew of an Indian ship, he will be resident in India only if he stayed in India for 182 days during the relevant previous year.

As per Explanation 2 to section 6(1)7, in case of an individual, being a citizen of India and a member of the crew of a foreign bound ship leaving India, the period or periods of stay in India shall, in respect of an eligible voyage, not include the period commencing from the date entered into the Continuous Discharge Certificate in respect of joining of ship by the said individual for the eligible voyage and ending on the date entered into the Continuous Discharge Certificate in respect of signing off by that individual from the ship in respect of such voyage.

Eligible voyage includes a voyage undertaken by an Indian ship engaged in the carriage of passengers in international traffic, originating from any port in India and having its destination at a port outside India.

(a) In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port) and having its destination at a port outside India (i.e., the Dubai port). Hence, the voyage is an eligible voyage.

(b) Therefore, the period from 12th August, 2016 and ending on 21st January, 2017 has to be excluded for computing the period of stay of Mr. Damodhar in India. Accordingly, the period of 163 days [20+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2016-17.

Further, since Mr. Damodhar had also gone out of India to Singapore and Malaysia on a private tour for a continuous period of 29 days in May, 2016, such period has also to be excluded for computing his period of stay in India during the P.Y.2016-17.

Consequently, Mr. Damodhar’s period of stay in India during the P.Y. 2016-17 would be 173 days [i.e., 365 days – 163 days – 29 days], which is less than 182 days.

Thus, Mr. Damodhar would be a non-resident for A.Y. 2017-18.
Since the residential status of Mr. Damodhar is "non-resident" for A.Y. 2017-18 consequent to his number of days of stay in India in P.Y. 2016-17, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

B. **Return of income to be verified by whom**

	Person	**Return of income verified by**
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor
(iii)	Non-resident Company	A person who holds a valid power of attorney from such company to do so
(iv)	Political party	Chief executive officer of such party

C. In the given case, since the invoice is issued within the prescribed period of 30 days from the date of completion of provision of service, the point of taxation, as per rule 3 of the Point of Taxation Rules, 2011 shall be the:
(a) date of invoice (i.e. 20.03.2017)
or
(b) date of receipt of payment (i.e. 15.03.2017) [Refer note below] whichever is earlier, i.e. 15.03.2017.

Note: Date of payment is:
(1) Date on which the payment is entered in the books of account (i.e. 15.03.2017) or
(2) Date on which the payment is credited to the bank account of the person liable to pay tax (i.e. 25.03.2017) whichever is earlier, i.e. 15.03.2017 [Rule 2A of the Point of Taxation Rules, 2011].

D. No, Krishna's contention is not correct as non-payment of service tax is not permissible under service tax law on the plea that value of a taxable service cannot be ascertained.
Rule 3 of Service Tax (Determination of Value) Rules, 2006 provides that where the value of a taxable service is not ascertainable, the same shall be determined by the service provider in the following manner:-
(a) The value of such taxable service would be equivalent to the gross amount charged by the service provider to provide similar service to any other person subject to fulfillment of the conditions below:
   1. Such service is in the ordinary course of trade.
   2. The gross amount charged is the sole consideration.
(b) Where the value cannot be determined in accordance with clause (a), the service provider will determine the equivalent money value of such consideration. However, such value should, in no case be less than the cost of provision of such taxable service.
   Therefore, Krishna should also value the service provided by him in the manner provided by rule 3 of Service Tax (Determination of Value) Rules, 2006 and pay service tax. Accordingly, he should value the service provided by him on the basis of similar services and if that is not possible, he should value the service on the basis of equivalent money value of consideration and pay service tax on the same.

4.

A.

(i) Yes. Since his total turnover for the F.Y.2016-17 is below INR 200 lakhs, he is eligible to opt for presumptive taxation scheme under section 44AD in respect of his retail trade business.

(ii) His income from retail trade, applying the presumptive tax provisions under section 44AD, would be INR 14,20,000, being 8% of INR 1,77,50,000.
[If it is assumed that Mr. Prakash has received whole of the amount of turnover by account payee cheque or account payee bank draft or use of electronic clearing system though a bank account, his income from retail trade, applying the presumptive taxation provisions, would be INR 10,65,000, being 6% of INR 1,77,50,000].

(iii) Section 44AB makes it obligatory for every person carrying on business to get his accounts of any previous year audited if his total sales, turnover or gross receipts exceed INR 1 crore. However, if an eligible person opts for presumptive taxation scheme as per section 44AD(1), he shall not be required to get his accounts audited if the total turnover or gross receipts of the relevant previous year does not exceed INR 2 crore. The CBDT, has vide its Press Release dated 20th June, 2016, clarified that the higher threshold for non-audit of accounts has been given only to assessees opting for presumptive taxation scheme under section 44AD.
In this case, if Mr. Prakash does not opt for the presumptive taxation scheme under section 44AD, he has to get his books of accounts audited and furnish a report of such audit under section 44AB, since his turnover exceeds INR 1 crore during the P.Y.2016-17.

(iv) In case he opts for the presumptive taxation scheme under section 44AD, the due date would be 31st July, 2017.
In case he does not opt for the presumptive taxation scheme, he is required to get his books of account audited, in which case the due date for filing of return would be 30th September, 2017.

B.

Computation of CENVAT credit available with IJK Manufacturing Co. Ltd.

Particulars	**INR**
Raw material used in the factory	80,000
Goods used in the guest house for the personal use of employees newly recruited during their stay [Note 1]	Nil
Capital goods used as parts and components in the manufacture of final products [Note 2]	30,000
Office equipment used in an office within the factory [Note 3]	20,000
Light Diesel oil [Note 1]	Nil
Total CENVAT credit available	**1,30,000**

Notes:

1. Definition of inputs under rule 2(k) of CENVAT Credit Rules, 2004, specifically excludes the following:
   (i) Goods used in a guest house when the same are used primarily for personal use or consumption of any employee.
   (ii) Light diesel oil.
   Thus, CENVAT credit cannot be claimed in respect of the above goods.

2. As per rule 2(k) of CENVAT Credit Rules, 2004, though definition of inputs specifically excludes capital goods, capital goods used as parts or components in the manufacture of a final product are included therein. Thus, CENVAT credit is available on the same.
3. Since equipment used in an office located within the factory is eligible capital goods under rule 2(a) of CENVAT Credit Rules, 2004, credit is available on the same. Further, an assessee eligible to avail the SSI exemption is allowed to take 100% CENVAT credit of the duty paid on capital goods in the year of purchase even if it opts to pay duty under rule 4(2)(a) of CENVAT Credit Rules, 2004.

C. Computation of value of taxable service

As per rule 2B of the Service Tax (Determination of Value) Rules, 2006:

(i) Value of taxable service = (RBI reference rate for $ – Selling rate for $) × Total units of US $
= INR (69-68) × 10,000
= INR 10,000

(ii) If the RBI reference rate for a currency is not available:
Value of taxable service = 1% of the gross amount of Indian Rupees provided/received
= 1% of INR (68 x 10,000)
= INR 6,800

(iii) In case neither of the currencies exchanged is Indian Rupee:
Value of taxable service = 1% of the lesser of the two amounts the person changing money would have received by converting any of the two currencies into Indian Rupee at that time at the reference rate provided by RBI.
Hence, in the given case, value of taxable service would be 1% of the lower of the following:
(a) US Dollar 10,000 × INR 67 = INR 6,70,000
(b) UK Pound 5,000 × INR 100 = INR 5,00,000
Value of taxable service = 1% of INR 5,00,000 = INR 5,000

5.

A. Computation of capital gains on slump sale of Unit 1

Particulars	**INR**
Sale value	25,00,000
Less: Expenses on sale	28,000
Net sale consideration	24,72,000
Less: Net worth (See Note 1 below)	12,50,625
Long-term capital gain	**12,21,375**

Notes: 1.

Computation of net worth of Unit 1 of Akash Enterprises

Particulars	INR	INR
Building (excluding INR 3 lakhs on account of revaluation)		9,00,000
Machinery		3,00,000
Debtors		1,00,000
Patents (See Note 2 below)		28,125
Other assets (INR 1,50,000 – INR 50,000)		1,00,000
Total assets		14,28,125
Less: Creditors	37,500	
Bank Loan	1,40,000	1,77,500
Net worth		**12,50,625**

2. Written down value of patents as on 1.4.2016

Value of patients	INR
Cost as on 1.7.2014	50,000
Less: Depreciation @ 25% for Financial Year 2014-15	12,500
WDV as on 1.4.2015	37,500
Less: Depreciation for Financial Year 2015-16 _	9,375
WDV as on 1.4.2016	28,125

For the purposes of computation of net worth, the written down value determined as per section 43(6) has to be considered in the case of depreciable assets. The problem has been solved assuming that the Balance Sheet values of INR 3 lakh and INR 9 lakh (INR 12 lakh – INR 3 lakh) represent the written down value of machinery and building, respectively, of Unit 1.

3. Since the Unit is held for more than 36 months, capital gain arising would be long term capital gain. However, indexation benefit is not available in case of slump sale.

B. **Computation of customs duty payable**

Particulars	INR
Assessable value	10,00,000.00
Add: Basic custom duty @ 10% (Note below)	1,00,000.00
Total	11,00,000.00
Add: CVD @12.5%	1,37,500.00
Add: Education cess @ 2% and Secondary and Higher Eduction Cess @ 1% (3% of custom duty) = 3% of (INR 1,00,000 + INR 1,37,500)	7,125.00
Total for Special CVD [INR 11,00,000 + INR 1,37,500 + INR 7,125]	12,44,625.00
Special CVD @ 4%	49,785.00
Total duty payable (INR 1,00,000 + INR 1,37,500 + INR 7,125 + INR 49,785)	**2,94,410**

Note: The rate of duty shall be:-

(i) The rate in force on the date of presentation of bill of entry

or

(ii) The rate in force on the date of entry inwards whichever is later.

No, the answer will not change if the goods are imported in a vehicle. Section 15 of the Customs Act, 1962 provides that the relevant date for determination of rate of duty and tariff valuation for imports through a vehicle would be-

(i) The rate in force on the date of presentation of bill of entry

or

(ii) The rate in force on the date of arrival of vehicle whichever is later.

C. Price cum duty is the sum total of price actually paid for the goods sold and money value of the additional consideration flowing from buyer to seller in connection with sale of such goods. Such price cum duty after excluding sales-tax and other taxes actually paid, is deemed to be inclusive of the excise duty payable on such goods [Section 4(1) of the Central Excise Act, 1944].

Price charged (exclusive of sales tax/local taxes) will be taken as price-cum-duty in the following cases:-

(i) If the assessee has collected less duty from the buyer than what is due; or

(ii) If the assessee has not collected any duty from the buyer even though the product is liable to duty; or

(iii) If the assessee has paid duty on lesser value due to receipt of additional consideration.

6.

A.

(i) **True** : The deduction under section 80E available to an individual in respect of interest on loan taken for his higher education or for the higher education of his relative. For this purpose, relative means, inter alia, spouse and children of the individual. Therefore, Mr. Amit will get the deduction under section 80E. It is immaterial that his son is already employed in a firm. This would not affect Mr. Amit's eligibility for deduction under section 80E.

(ii) **True :** Under section 80C(2) subscription to such bonds issued by NABARD (as the Central Government may notify in the Official Gazette) would qualify for deduction under section 80C.

(iii) **False** : There is no stipulation under section 80C that the investment, subscription, etc. should be made from out of income chargeable to tax.

(iv) **False** : Deduction under section 80E is in respect of interest paid on education loan. Hence, the deduction will be limited to INR 14,000.

(v) **False** : A proviso has been inserted in section 80CCD(3) to provide that the amount received by the nominee, on closure of NPS account on the death of the assessee, shall not be deemed to be the income of the nominee.

B. Computation of Sale Price of Solaris India Pvt. Ltd. under CST Act

Particulars	**₹**
Total sales	1,50,00,000
Less: Goods returned by Mr. A	1,50,000
(deductible as returned within 6 months)	
Goods returned by Mr. C	Nil
(not deductible since returned after six months)	
Goods rejected by Mr. B after six months (Refer note below)	55,000
Sale price under CST Act	1,47,95,000

Note: The period of six months for return of goods is not applicable in respect of rejected goods as it is a case of un-fructified sale.

C.

(i) **Invalid.** Only services provided by Reserve bank of India, and not to Reserve Bank of India are covered in negative list of services.

(ii) **Valid.** Services relating to agriculture are covered in negative list of services. Agriculture means the cultivation of plants and rearing of all life-forms of animals, except the rearing of horses, for food, fibre, fuel, raw material or other similar products. Therefore, breeding of fish, being agriculture, would be covered under negative list of services and thus, be not liable to service tax.

7.

A.

As per section 194-IA, any person, being a transferee, responsible for paying to a resident transferor any sum by way of consideration for transfer of any immovable property (other than rural agricultural land) is required to deduct tax at source@1% of such sum, if the consideration for transfer is INR 50 lakhs or more. The deduction of tax at source has to be made at the time of credit of such sum to the account of the transferor or at the time of payment of such sum, whichever is earlier.

Accordingly, in this case, since the sale consideration of house property exceeds INR 50 lakh, Mr. Raman, the transferee, is required to deduct tax at source at 1% of INR 65 lakhs, being the consideration for transfer of house property.

The tax to be deducted under section 194-IA would be INR 65,000, being 1% of INR 65 lakh.

Since TDS provisions under section 194-IA are attracted in respect of transfer of any immovable property, other than rural agricultural land, no tax is required to be deducted by Mr. Raman from the sale consideration payable for transfer of rural agricultural land.

B.

The expression "advancement of any other object of general public utility" includes any object which will be beneficial even to a segment of society and not necessarily to the whole mankind. However, the object should not be for the benefit of specified individuals.

The proviso to section 2(15) of the Act provides that “advancement of any other object of general public utility" shall not be a charitable purpose, if it involves carrying on of

(i) any activity in the nature of trade, commerce or business, or

(ii) any activity of rendering of any service in relation to any trade, commerce or business, for a cess or fee or any other consideration, irrespective of the nature of use or application of the income from such activity or the retention of such income, by the concerned entity. However, "advancement of any other object of general public utility" would continue to be a "charitable purpose", if such activity is undertaken in the course of actual carrying out of such advancement of any other object of general public utility and the aggregate receipts from any activity in the nature of trade, commerce or business, or any activity of rendering any service in relation to any trade, commerce or business does not exceed 20% of the total receipts of the trust or institution undertaking such activity or activities of that previous year.

C.

Rule 4(9) of the Service Tax Rules, 1994 read with Order No. 1/2015 ST dated 28.02.2015 provides that the registration certificate may be revoked under service tax in any of the following circumstances after giving the assessee an opportunity of being heard:

1. The premises are found to be non existent or not in possession of the assessee.
2. No documents are received within 15 days of the date of filing the registration application.
3. The documents are found to be incomplete or incorrect in any respect.

D.

As per rule 6(1) of Service Tax Rules, 1994, Individuals, partnership firms and one person companies, with aggregate value of taxable services of INR 50 lakh or less in previous financial year are allowed to pay service tax on receipt basis in current year upto a total of INR 50 lakh in the current financial year. Further, partnership firm includes limited liability partnership (LLP).

18 It is assumed that the same represents the date of determination of total income under section 143(1) 19 Rounded off under Rule 119A of Income-tax Rules, 1962

In view of aforesaid provisions, LLP - ABC & Co. is allowed to pay service tax on receipt basis in financial year 2017-18 as its aggregate value of taxable services in financial year 2016-17 is less than INR 50 lakh.

As per rule 6(1) of Service Tax Rules, 1994, the due dates for payment of service tax by an LLP are as follows:

1. If service tax is paid electronically through internet banking – due date is 6th day of the month following the quarter in which the payment is received
2. In any other case – due date is 5th day of the month following the quarter in which the payment is received
3. In the case payment is received in the quarter ending in March – due date is 31st day of March.

E. As per section 65B(44) of Finance Act, 1994, a service is an activity carried out by one person for another person in lieu of a consideration. Further, Explanation 3 to section 65B(44) provides inter alia that an establishment of a person located in taxable territory and another establishment of such person located in non-taxable territory are treated as establishments of distinct persons. Also, as per explanation 4 to the said section, a person carrying on a business through a branch in any territory is treated as having an establishment in that territory.

Therefore, services provided by Mumbai branch to Head Office at New Delhi will not be 'service' in terms of section 65B(44) since both the establishments namely, Branch office and Head office are located in the taxable territory and are thus, one and the same person. However, when services are provided by Head Office at New Delhi to Singapore branch (located in non-taxable territory), the two establishments are treated as establishments of distinct persons and thus, the services provided in this case will constitute 'service' under service tax law.