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FOR CA INTERMEDIATE EXAM PREPARATION

CA Intermediate 2022 Suggested Answers · Group I (All Papers) (Old Scheme)

EXAM	YEAR	TYPE
CA Intermediate	2022	Suggested Answers

SUBJECT	DATE
Group I (All Papers) (Old Scheme)	May 2022

PAPER – 1 : ACCOUNTING

*Question No. **1** is compulsory.*

*Answer any **four** questions from the remaining **five** questions.*

Wherever necessary, suitable assumptions may be made and indicated in answer by the candidates.

Working Notes should form part of the answer.

Question 1

Answer the following questions:

(a) Suraj Limited provides you the following information:

(i) It received a Government Grant @40% towards the acquisition of Machinery worth ₹ 25 Crores.

(ii) It received a Capital Subsidy of ₹ 150 Lakhs from Government for setting up a Plant costing ₹ 300 Lakhs in a notified backward region.

(iii) It received ₹ 50 Lakhs from Government for setting up a project for supply of arsenic free water in a notified area.

(iv) It received ₹ 5 Lakhs from the Local Authority for providing Corona Vaccine free of charge to its employees and their families.

(v) It also received a performance award of ₹ 500 Lakhs from Government with a condition of major renovation in the Power Plant within 3 years. Suraj Limited incurred 90% of amount towards Capital expenditure and balance for Revenue Expenditure.

State, how you will treat the above in the books of Suraj Limited.

(b) SM Enterprises is a leading distributor of petrol. A detailed inventory of petrol in hand is taken when the books are closed at the end of each month. For the month ending on June 2021 following information is available:

(i) Sales for the month of June 2021 was ₹ 30,40,000.

(ii) General overheads cost ₹ 4,00,000.

(iii) Inventory at beginning 10,000 litres @ ₹ 92 per litre.

(iv) Purchases-June 1, 2021, 20,000 litres @ ₹ 90 per litre, June 30, 2021, 10,000 litres @ ₹ 95 per litre.

(v) Closing inventory 13,000 litres.

You are required to compute the following by FIFO method as per AS 2:

(i) Value of Inventory on 30th June, 2021.

(ii) Amount of cost of goods sold for June,2021.

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(iii) Profit/Loss for the month of June,2021.

(c) XYZ Limited provided you the following information for the year ended 31st March, 2022.

(i) The carrying amount of a property at the end of the year amounted to ₹ 2,16,000 (cost/value ₹ 2,50,000 and accumulated depreciation ₹ 34,000). On this date the property was revalued and was deemed to have a fair value of ₹ 1,90,000. The balance in the revaluation surplus relating to a previous revaluation gain for this property was ₹ 20,000.

You are required to calculate the revaluation loss as per AS 10 (Revised) and give its treatment in the books of accounts.

(ii) An asset that originally cost ₹ 76,000 and had accumulated depreciation of ₹ 62,000 was disposed of during the year for ₹ 4,000 cash.

You are required to explain how the disposal should be accounted for in the financial statements as per AS 10 (Revised).

(d) Zebra Limited began construction of a new plant on 1st April,2021 and obtained a special loan of ₹ 20,00,000 to finance the construction of the plant. The rate of interest on loan was 10%.

The expenditure that was incurred on the construction of plant was as follows:

	₹
1st April,2021	*10,00,000*
1st August,2021	*24,00,000*
1st January,2022	*4,00,000*

The company's other outstanding non-specific loan was ₹ 46,00,000 at an interest rate of 12%.

The construction of the plant completed on 31st March,2022.

You are required to:

(a) Calculate the amount of interest to be capitalized as per the provisions of AS 16 "Borrowing Cost".

(b) Pass a journal entry for capitalizing the cost and the borrowing cost in respect of the plant. ***(4 Parts X 5 Marks = 20 Marks)***

Answer

(a) (i) As per AS 12 “Accounting for Govt. Grants”, two methods of presentation in financial statements of grants related to specific fixed assets are regarded as acceptable alternatives. Under the first alternative, the grant of ₹ 10 crores (40% of 25 crores) is shown as a deduction from the gross value of the asset concerned in arriving at its book value. The grant is thus recognized the profit and loss statement over the useful

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life of a depreciable asset by way of a reduced depreciation charge. Under second alternative method, grant amounting ₹ 10 crores is treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(ii) In the given case, the grant amounting ₹ 150 lakhs received from the Central Government for setting up a plant in notified backward area may be considered as in the nature of promoters' contribution. Thus, amount of ₹ 150 lakhs should be credited to capital reserve-and the plant will be shown at ₹ 300 lakhs.

(iii) ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water in notified area should be credited to capital reserve.

Alternatively, if it is assumed that the project consists of capital asset only, then the amount of ₹ 50 lakhs received from Govt. for setting up a project for supply of arsenic free water should either be deducted from cost of asset of the project concerned in the balance sheet or treated as deferred income which is recognized in the profit and loss statement on a systematic and rational basis over the useful life of the asset.

(iv) ₹ 5 lakhs received from the local authority for providing corona vaccine to the employees is a grant received in nature of revenue grant. Such grants are generally presented as a credit in the profit and loss account, either separately or under a general heading 'Other Income'. Alternatively, ₹ 5 lakhs may be deducted in reporting the related expense i.e. employee benefit expenses.

(v) ₹ 500 Lakhs will be reduced from the renovation cost of power plant or will be treated as deferred income irrespective of the expenditure done by the entity out of it as it was specifically received for the purpose major renovation of power plant. However, it may be, later on, decided by the Govt. whether the grant will have to be refunded or not due to non-compliance of conditions attached to the grant.

(b)

	₹
Cost of closing inventory for 13,000 litres as on 30th June 2021	
10,000 litres @ ₹ 95	9,50,000
3,000 litres @ ₹ 90	2,70,000
Value of inventory (determined at cost in absence of NRV)	12,20,000
Calculation of cost of goods sold	
Opening inventories (10,000 litres @ ₹ 92)	9,20,000
Purchases June – 1 (20,000 litres @ ₹ 90)	18,00,000
June – 30 (10,000 litres @ ₹ 95)	9,50,000
	36,70,000

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Less: Closing inventories	(12,20,000)
Cost of Goods Sold	24,50,000
Calculation of Profit	
Sales (Given) (A)	30,40,000
Cost of Goods Sold	24,50,000
Add: General Overheads	4,00,000
Total Cost (B)	28,50,000
Profit (A-B)	1,90,000

(c) (i) As per AS 10, a decrease in the carrying amount of an asset arising on revaluation should be charged to the statement of profit and loss. However, the decrease should be debited directly to owners' interests under the heading of revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Calculation of revaluation loss and its accounting treatment

		₹
Carrying value of the asset as on 31st March, 2022	a	2,16,000
Revalued amount of the asset	b	(1,90,000)
Total revaluation loss on asset	c=a-b	26,000
Adjustment of previous revaluation reserve	d	(20,000)
Net revaluation loss to be charged to the Profit and loss account	e=c-d	6,000

(ii) AS 10 states that the carrying amount of an item of property, plant and equipment is derecognized on disposal of the asset. It further states that the gain or loss arising from the derecognition of an item of property, plant and equipment should be included in the statement of profit and loss when the item is derecognized. Gains should also not be classified as revenue.

Calculation of loss on disposal of the asset and its accounting treatment

		₹
Original cost of the asset	a	76,000
Accumulated depreciation till date	b	62,000
Carrying value of the asset as on 31st March, 2022	c=a-b	14,000
Cash received on disposal of the asset	d	4,000
Loss on disposal of asset charged to the Profit and loss account	e=c-d	10,000

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(d) Total expenses to be capitalized for borrowings as per AS 16 "Borrowing Costs":

	₹
Cost of Plant (10,00,000 + 24,00,000 + 4,00,000)	38,00,000
Add: Amount of interest to be capitalized (W.N.)	3,24,000
	41,24,000

Journal Entry

		₹	₹
31st March, 2022	Plant A/c Dr. To Bank A/c [Being amount of cost of plant and borrowing cost thereon capitalized]	41,24,000	41,24,000

Working Note:

Computation of interest to be capitalized:

	Expenditure			₹
1st April, 2021	10,00,000	On specific borrowing	₹ 10,00,000 x 10%	1,00,000
1st August, 2021	24,00,000	On specific borrowing	₹ 10,00,000 x 10%	1,00,000
1st August, 2021		On non-specific borrowings	₹ 14,00,000 $\times \frac{8}{12}$ x 12%	1,12,000
1st January, 2022	4,00,000	On non-specific borrowings	₹ 4,00,000 $\times \frac{3}{12}$ x 12%	12,000
				3,24,000

Alternatively, interest cost to be capitalized can be derived by computing average accumulated expenses in the following manner.

Computation of Average Accumulated Expenses:

1st April, 2021	10,00,000 x 12/12	10,00,000
1st August, 2021	10,00,000 x 12/12	10,00,000
	14,00,000 x 8/12	9,33,333
1st January, 2022	4,00,000 x 3/12	1,00,000
		30,33,333

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Computation of interest to be capitalized:

		₹
On specific borrowing	₹ 20,00,000 x 10%	2,00,000
On non-specific borrowing	₹ (30,33,333- 20,00,000) x 12%	1,24,000
		3,24,000

NOTE: Since specific borrowings are earmarked for construction of a particular qualifying asset, it cannot be used for construction of any other qualifying asset except for temporary investment. Therefore, once the commencement of capitalization of borrowing cost criteria are met, actual borrowing cost incurred on specific borrowing shall be capitalized irrespective of the fact that amount had been utilized in parts.

Question 2

(a) The following particulars relate to hire purchase transactions:

(i) Mita purchased three bikes from Nita on hire purchase basis, the cash price of each bike being ₹ 1,00,000

(ii) Mita charged depreciation @ 20% on written down value method.

(iii) Two bikes were seized by the Nita when second instalment was not paid at the end of the second year. Nita valued the two bikes at cash price less 30% depreciation charged under written down valued method.

(iv) Nita spent ₹ 5,000 on repairs of the bikes and then sold them for a total amount of ₹ 85,000.

You are required to compute:

(i) Agreed value of two bikes taken back by Nita.

(ii) Book value of the bike left with Mita.

(iii) Profit or loss to Mita on two bikes taken back by Nita.

(iv) Profit or loss of bikes repossessed, when sold by Nita. ***(10 Marks)***

(b) Surya Limited, which operates a wholesale warehouse, had a fire in the premises on 31st January 2022 which destroyed most of the building, although stock of the value of ₹ 3.96 lakhs was salvaged.

The company has an insurance policy covering the stock for ₹ 600 Lakhs, and loss of profits including standing charges for ₹ 250 Lakhs with a six-month period of indemnity.

The company's last annual accounts for the year ended December 31st ,2021 showed the following position:

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Particulars	*(₹ in Lakhs)*	*Particulars*	*(₹ in Lakhs)*
To Opening Stock	*412.50*	*By Sales*	*2000.00*
To Purchases	*1812.50*	*By Closing Stock*	*525.00*
To Gross Profit c/d	*300.00*		
	2525.00		*2525.00*
To Variable Expenses	*80.00*	*By Gross Profit b/d*	*300.00*
To Standing Charges	*167.50*		
To Net Profit	*52.50*		
	300.00		*300.00*

The company's record show that the turnover for January 2022 of ₹ 100 Lakhs had been the same as for the corresponding month in the previous year, payments made in January 2022 to trade creditors were ₹ 106.68 Lakhs and at the end of that month the balance owing to trade creditors had increased by ₹ 3.32 Lakhs.·

The company's business was disrupted until the end of April 2022, during which period the turnover fell by ₹ 180.00 Lakhs compared with the same period in the previous year.

You are required to compute the claim to be lodged with the Insurance Company for Loss of Stock and Loss of Profit. ***(10 Marks)***

Answer

(a)

		₹
(i)	Price of two Bikes = ₹ 1,00,000 x 2	2,00,000
	Less: Depreciation for the first year @ 30%	60,000
		1,40,000
	Less: Depreciation for the second year = ₹ 1,40,000 x $\frac{30}{100}$	42,000
	Agreed value of two Bikes taken back by the hire vendor	98,000
(ii)	Cash purchase price of one Bike	1,00,000
	Less: Depreciation on ₹ 1,00,000 @20% for the first year	20,000
	Written drown value at the end of first year	80,000
	Less: Depreciation on ₹ 80,000 @ 20% for the second year	16,000
	Book value of Bike left with the hire purchaser	64,000
(iii)	Book value of one Bike as calculated above	64,000
	Book value of Two Bikes = ₹ 64,000 x 2	1,28,000

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	Value at which the two Bikes were taken back, calculated in (i) above	98,000
	Hence, loss to hire purchaser on machine taken back by hire vendor (₹ 1,28,000 – ₹ 98,000)	₹ 30,000
(iv)	Profit or loss on Bikes repossessed when sold by hire vendor	
	Sale proceeds	85,000
	Less: Value at which Bikes were taken back 98,000	
	Repairs 5,000	(1,03,000)
	Loss on resale	18,000

(b) Computation of claim for Loss of Stock

Calculation of the value of stock destroyed by fire:	₹ (in lakhs)
Value of stock as per Memorandum Trading A/c (W.N. 1)	550.00
Less: Salvaged value of stock	3.96
Value of claim to be lodged for loss of stock	546.04

As Policy amount is ₹ 600 lakhs and the insurable amount is 550 lakhs so average clause will not be applicable. The value of claim is equal to value of loss i.e. ₹ 546.04 lakhs.

Computation of claim for loss of profit

	₹ (in lakhs)
Short sales (given in the question)	180
Gross Profit:	
Net Profit for the last financial year 52.50	
Add: Insured Standing Charges 167.50	
220.00	
Turnover for the last financial year	
Rate of Gross Profit = 220/2,000 X 100 = 11%	
Sales for 12 months up to date of loss is ₹ 2,000 lakhs	
Claim: Loss of profit for short sales (11% of ₹180 lakhs)	19.80
G.P. on sales up to the date of loss of fire is ₹ 220 lakhs	
Insurable amount = ₹ 220 lakhs	
Loss of profit policy taken = ₹ 250 lakhs	
As policy amount is more than insurable amount average clause will not be applicable.	
Value of claim to be lodged for loss of profit = ₹ 19.80 lakhs	

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Working Notes:

1. Memorandum Trading Account

	₹ (in lakhs)		₹ (in lakhs)
To Opening Stock	525	By Sales	100
To Purchases	110	By closing stock (bal. fig.)	550
To Gross profit* (15% of 100 Lakhs)	15		
	650		650

* Gross profit ratio = 300/2000 = 15%

2. Trade Creditors A/c

	₹ (in lakhs)		₹ (in lakhs)
To Bank A/c	106.68	By Balance b/d	106.68
To Balance c/d (106.68 + 3.32)	110.00	By Purchases	110.00
	216.68		216.68

Note: It is assumed that all standing charges are insured for the purpose of computation of gross profit.

Question 3

(a) Stevie and Alicia are in partnership sharing profits and losses equally. They maintain their books on Single Entry System.

The following balances are available from their books as on 31.3.2021 and 31.3.2022:

Particulars	***31.3.2021*** ***₹***	***31.3.2022*** ***₹***
Building	*3,00,000*	*3,00,000*
Equipment	*4,80,000*	*5,44,000*
Furniture	*50,000*	*50,000*
Debtors	*?*	*2,00,000*
Creditors	*1,30,000*	*?*
Stock	*?*	*1,40,000*
Bank loan	*90,000*	*70,000*
Cash	*1,20,000*	*?*

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The transactions during the year ended 31.3.2022 were the following:

Collection from Debtors	*7,60,000*
Payment to Creditors	*5,00,000*
Expenses Paid	*80,000*
Drawings by Stevie	*60,000*
Discount allowed	*11,000*
Discount received	*9,600*

Other information:

(i) On 1.4.2021, an equipment of book value ₹ 40,000 was sold for ₹ 30,000. On 1.10.2021, some more equipment were purchased.

(ii) Cash sales amounted to 10% of total sales.

(iii) Credit sales amounted to ₹ 9,00,000.

(iv) Credit purchases were 80% of total purchases.

(v) Cash purchases amounted to ₹ 1,30,000.

(vi) The firm sells goods at cost plus 25%.

(vii) Outstanding expenses were ₹ 6,000 as on 31.3.2022.

(viii) Capital of Stevie as on 31.3.2021 was ₹ 30,000 more than the capital of Alicia, equipment and furniture to be depreciated at 10% p.a. and building @ 2% p.a. (apply depreciation of new equipment for 1/2 year)

You are required to prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2022 and;

(ii) Balance Sheet as on that date. ***(12 Marks)***

(b) PQR Limited has three departments L, M and N. The following information is provided for the year ended 31.3.2022:

	L ₹	*M ₹*	*N ₹*
Opening stock	*10,000*	*16,000*	*38,000*
Opening reserve for unrealized Profit	*-*	*4,000*	*6,000*
Materials Consumed	*32,000*	*40,000*	*-*
Direct labour	*18,000*	*20,000*	*-*
Closing stock	*10,000*	*40,000*	*10,000*
Sales	*-*	*-*	*1,60,000*
Area occupied (sq. mtr.)	*5,000*	*3,000*	*2,000*
No. of employees	*60*	*40*	*20*

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The following information is provided:

Stocks of each department are valued at cost to the department concerned.

Stocks of L are transferred to M at cost plus 20% and stocks of M are transferred to N at a gross profit of 20% on sales.

Other common expenses are salaries and staff welfare, ₹ 36,000 and Rent, ₹ 12,000.

You are required to prepare Departmental Trading, Profit and Loss Account for the year ending 31.3 .2022. ***(8 Marks)***

Answer

(a) Trading and Profit and Loss A/c for the year ended 31.3.2022

		₹			₹
To Opening stock (W.N.3)		2,90,000	By Sales - Cash (W.N.1)	1,00,000	
To Purchases-Cash	1,30,000		Credit	9,00,000	10,00,000
Credit (W.N.2)	5,20,000	6,50,000	By Closing stock		1,40,000
To Gross profit c/d		2,00,000			
		11,40,000			11,40,000
To Loss on sale of equipment (40,000-30,000)		10,000	By Gross profit b/d		2,00,000
To Depreciation			By Discount received		9,600
Building	6,000				
Furniture	5,000				
Equipment (W.N.4)	49,200	60,200			
To Expenses paid	80,000				
Add: Outstanding expenses	6,000	86,000			
To Discount allowed		11,000			
To Net profit transferred to:					
Stevie's capital A/c	21,200				
Alicia's capital A/c	21,200	42,400			
		2,09,600			2,09,600

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Balance Sheet as on 31st March, 2022

Equity and Liabilities		₹	Assets		₹
Stevie's capital (W.N.7)	5,60,500		Building	3,00,000	
Less: Drawings	(60,000)		*Less:* Depreciation	(6,000)	2,94,000
	5,00,500		Equipment	5,44,000	
Add: Net profit	21,200	5,21,700	*Less:* Depreciation	(49,200)	4,94,800
Alicia's capital (W.N.7)	5,30,500		Furniture	50,000	
Add: Net profit	21,200	5,51,700	*Less:* Depreciation	(5,000)	45,000
Sundry creditors (W.N.5)		1,40,400	Debtors		2,00,000
Bank loan		70,000	Stock		1,40,000
Outstanding expenses		6,000	Cash balance (W.N.8)		1,16,000
		12,89,800			12,89,800

Working Notes:

1. Calculation of total sales

Cash sales = 10% of total sales

Credit sales = 90% of total sales = ₹ 9,00,000

$$\text{Total sales} = \frac{9,00,000}{90} \times 100 = 10,00,000$$

Cash sales = 10% of 10,00,000 = ₹ 1,00,000

2. Calculation of total purchases

Cash purchases = ₹ 1,30,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

$$\text{Total purchases} = \frac{1,30,000}{20} \times 100 = ₹\ 6,50,000$$

Credit purchases = 6,50,000 – 1,30,000 = ₹ 5,20,000

3. Calculation of opening stock

Stock Account

	₹		₹
To Balance b/d (Bal. Fig.)	2,90,000	By Cost of goods sold $\frac{10,00,000}{125} \times 100$	8,00,000

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To Total purchases (W.N.2)	6,50,000	By Balance c/d	1,40,000
	9,40,000		9,40,000

4. Purchase of equipment & depreciation on equipment

Equipment Account

	₹		₹
To Balance b/d	4,80,000	By Cash -equipment sold	30,000
To Cash-purchase (Bal. Fig.)	1,04,000	By Profit and Loss Account (Loss on sale)	10,000
		By Balance c/d	5,44,000
	5,84,000		5,84,000

Depreciation on equipment:

@ 10% p.a. on ₹ 4,40,000 (i.e. ₹ 4,80,000 – ₹ 40,000)	=	44,000
@ 10% p.a. on ₹ 1,04,000 for 6 months (i.e. during the year)	=	5,200
		49,200

5. Calculation of closing balance of creditors

Creditors Account

	₹		₹
To Cash	5,00,000	By Balance b/d	1,30,000
To Discount received	9,600	By Credit purchases (W.N.2)	5,20,000
To Balance c/d (Bal. Fig.)	1,40,400		
	6,50,000		6,50,000

6. Calculation of opening balance of debtors

Debtors Account

	₹		₹
To Balance b/d (Bal. Fig.)	71,000	By Cash	7,60,000
To Sales (Credit)	9,00,000	By Discount allowed	11,000
		By Balance c/d	2,00,000
	9,71,000		9,71,000

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7. Calculation of capital accounts of Stevie & Alicia as on 31.3.2021

Balance Sheet as on 31.3.2021

Liabilities	₹	*Assets*	₹
Combined Capital Accounts of Stevie & Alicia (Bal. Fig.)	10,91,000	Building	3,00,000
		Equipment	4,80,000
Creditors	1,30,000	Furniture	50,000
Bank Loan	90,000	Debtors (W.N.6)	71,000
		Stock (W.N.3)	2,90,000
		Cash balance	1,20,000
	13,11,000		13,11,000

	₹
Combined Capitals of Stevie & Alicia	10,91,000
Less: Difference in capitals of Stevie & Alicia	(30,000)
	10,61,000

Stevie's capital as on 31.3.2021= $\frac{10,61,000}{2}$ = 5,30,500 + 30,000 = ₹ 5,60,500

Alicia's capital as on 31.3.2021 = $\frac{10,61,000}{2}$ = ₹ 5,30,500

8. Cash Account

		₹			₹
To	Balance b/d	1,20,000	By	Creditors	5,00,000
To	Debtors	7,60,000	By	Purchases	1,30,000
To	Equipment (sales)	30,000	By	Expenses	80,000
To	Cash sales (W.N.1)	1,00,000	By	Stevie's drawings	60,000
			By	Bank loan paid (90,000-70,000)	20,000
			By	Equipment purchased (W.N.4)	1,04,000
			By	Balance c/d (Bal. Fig.)	1,16,000
		10,10,000			10,10,000

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(b)

PQR Ltd.

Departmental Trading and Profit and Loss Account

for the year ended 31st March, 2022

	L	*M*	*N*	*Total*		*L*	*M*	*N*	*Total*
	₹	₹	₹	₹		₹	₹	₹	₹
To Opening stock	10,000	16,000	38,000	64,000	By Sales			1,60,000	1,60,000
To Material consumed	32,000	40,000		72,000	By Inter-depart-mental				
To Direct labour	18,000	20,000		38,000	transfer	60,000	1,20,000		1,80,000
To Inter-depart-mental transfer		60,000	1,20,000	1,80,000	By Closing stock	10,000	40,000	10,000	60,000
To Gross profit	10,000	24,000	12,000	46,000					
	70,000	1,60,000	1,70,000	4,00,000		70,000	1,60,000	1,70,000	4,00,000
To Salaries and staff welfare	18,000	12,000	6,000	36,000	By Gross profit b/d	10,000	24,000	12,000	46,000
To Rent	6,000	3,600	2,400	12,000	By Net loss	14,000			14,000
To Net profit		8,400	3,600	12,000					
	24,000	24,000	12,000	60,000		24,000	24,000	12,000	60,000

Combined Profit and loss account for the

year ended 31st March, 2022

	₹		₹
To Net loss (L)	14,000	By Stock reserve b/d	
To Stock reserve (M 3,333 + N 2,667) (Refer W.N.)	6,000	(M 4,000 + N 6,000)	10,000
		By Net profit (M 8,400 + N 3,600)	12,000
To Balance transferred to profit and loss account	2,000		
	22,000		22,000

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Working Notes:

1. Calculation of Inter Department Transfer

(i) From Dept L to Dept M

Opening Stock + Material Consumed + Direct Labour Cost – Closing Stock

10,000 + 32,000 + 18,000 -10,000 = 50,000/-

Profit on transfer is 20% of Cost = ₹ 10,000/-. Hence transfer = ₹ 60,000

(ii) From Dept M to Dept N

Opening Stock + Material Consumed + Direct Labour + Inward Transfer – Closing Stock

16,000 + 40,000 + 20,000 + 60,000 – 40,000 = ₹ 96,000/-

Profit on transfer = 20% of sale value i.e. 25% of cost price = ₹ 24,000

Hence, stock transferred to N at a value of ₹ 1,20,000

2. Calculation of unrealized profit on closing stock

(i) Stock reserve of M department

	₹
Cost - Material consumed + Direct labour cost	60,000
Transfer from L department	60,000
	1,20,000
Closing Stock of M department	40,000

Proportion of stock of L department = ₹ 40,000 × $\frac{₹\ 60,000}{₹\ 1,20,000}$ = ₹ 20,000

Stock reserve =₹ 20,000 × $\frac{20}{120}$ = ₹ 3,333 (approx.)

(ii) Stock reserve of N department

	₹
Closing Stock (being stock transferred from M department)	10,000
Less: Profit (stock reserve) 10,000 × 20%	(2,000)
Cost to M department	8,000

Proportion of stock of L department = ₹ 8,000 × $\frac{₹\ 60,000}{₹\ 1,20,000}$ = ₹ 4,000

Stock reserve = 4,000 × $\frac{20}{120}$ = ₹ 667 (approx.)

Total stock reserve = ₹ 2,000 + ₹ 667 = ₹ 2,667

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Question 4

Cool Limited was formed to take over a running business of Fire Enterprises with effect from 1st April,2021. The company was incorporated on 1st August,2021 and the certificate of commencement of business was received on 1st October 2021. No entries relating to the transfer of the business were entered in the books which were continued until 31st March,2022. The following Trial Balance was extracted from the books as on 31st March,2022.

Particulars	***Dr. (₹)***	***Cr. (₹)***
Sales		*19,20,000*
Cost of Goods sold	*15,54,000*	
Rent	*80,000*	
Salaries	*42,000*	
Travelling Expenses	*16,800*	
Depreciation	*9,600*	
Carriage outward	*800*	
Printing & Stationary	*4,800*	
Advertisement	*16,000*	
Miscellaneous Expenses	*25,200*	
Directors' fees	*1,200*	
Managing Director's Remuneration	*8,200*	
Bad debts	*3,200*	
Commission & Brokerage to selling Agents	*16,000*	
Audit fees	*6,000*	
Interest on Debentures	*3,000*	
Interest to Vendors	*4,200*	
Selling & Distribution Expenses	*24,000*	
Preliminary Expenses	*3,000*	
Underwriting Commission	*1,800*	
Fixed Assets	*7,30,000*	
Current Assets	*87,600*	
Cool Limited's Capital as on 1st April, 2021		*5,56,000*
Current Liabilities		*61,400*
Debentures		*1,00,000*
Total	*26,37,400*	*26,37,400*

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***Additional Information**:*

(a) *Total Sales for the year arose evenly up to the date of the certificate of commencement where-after they spurted to record an increase of two third during the rest of the year.*

(b) *The Company deals in one type of product. The unit cost of goods sold was reduced by 10% since 1st August, 2021 as compared to the pre incorporation period.*

(c) *Rent of old office building was increased by 20% since 1st November,2021. It had to also occupy additional space from 1stJuly, 2021 for which rent was ₹6,000 p.m.*

(d) *The Salaries were tripled from 1st July,2021.*

(e) *Travelling Expenses include ₹4,800 towards sales promotion.*

(f) *Depreciation includes, ₹600 for new assets acquired in August 2021.*

(g) *Purchase consideration was discharged by the company on 30th September, 2021 by issuing ₹60,000 Equity shares of ₹10 each.*

You are required to prepare the Profit & Loss Statement in a columnar form for the year ended 31st March,2022 showing the allocation of profits between pre-incorporation and post-incorporation periods indicating the basis of apportionment. ***(20 Marks)***

Answer

Statement of Profit & Loss of Cool Limited for the year ended 31st March,2022

showing the allocation of profits between pre and post incorporation periods

	Particulars	Note	Pre-incorporation ₹	Post-incorporation ₹
	Revenue from Operations (W.N 2)		4,80,000	14,40,000
	Other Income		-	-
I.	Total Income		4,80,000	14,40,000
II	Expenses:			
	Costs of Goods sold (W.N. 3)		4,20,000	11,34,000
	Employee Benefits Expense	1	8,400	41,800
	Finance Costs	2	2,800	4,400
	Depreciation and Amortization Expense	3	3,000	6,600
	Other Expenses	4	44,200	1,54,600
	Total Expenses		4,78,400	13,41,400
III	Profit for the Period (I-II)		1,600	98,600

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Notes relating to apportionment of expenses

for pre and post incorporation periods for the year ended 31.3.2022

	Particulars	Ratio	Total	Pre Incorporation ₹	Post Incorporation ₹
1	Employee benefit expenses:				
	Salaries (W.N.5)	1:4	42,000	8,400	33,600
	Managing director's remuneration	post	8,200	-	8,200
				8,400	41,800
2	Finance cost:				
	Debenture interest (post-incorporation)	post	3,000	-	3,000
	Interest paid to vendor (2:1) (W.N.7)		4,200	2,800	1,400
				2,800	4,400
3	Other expenses:				
	Rent (office building) (W.N.4)		80,000	14,000	66,000
	Travelling expenses (W.N.6)	1:2	12,000	4,000	8,000
	Carriage outward	1:3	800	200	600
	Printing & Stationery	1:2	4,800	1,600	3,200
	Advertisement	1:3	16,000	4,000	12,000
	Misc. expenses	1:2	25,200	8,400	16,800
	Sales promotion expenses (W.N.6)		4,800	1,200	3,600
	Commission & brokerage	1:3	16,000	4,000	12,000
	Selling & distribution expenses	1:3	24,000	6,000	18,000
	Audit fee*	post	6,000		6,000
	Director's fee (post-incorporation)	post	1,200	-	1,200
	Bad debts	1:3	3,200	800	2,400
	Preliminary expenses	post	3,000		3,000
	Underwriting commission	post	1,800		1,800
				44,200	1,54,600
4	Depreciation on fixed assets (W.N.8)		9,600	3,000	6,600

*Audit fee considered to be relating with company audit. If considered as related with tax audit, it will be divided in pre and post incorporation periods on the basis of turnover.

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Working Notes:

1. Time Ratio

Pre incorporation period = 1st April, 2021 to 31st July, 2021

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Sales ratio

Let the monthly sales for first 6 months (i.e. from 1.4.2021 to 30.09. 2021) be x

Then, sales for 6 months = 6x

Monthly sales for next 6 months (i.e. from 1.10.21 to 31.3.2022) = $x + \frac{2}{3}x = \frac{5}{3}x$

Then, sales for next 6 months = $\frac{5}{3}x \times 6 = 10x$

Total sales for the year = 6x + 10x = 16x

Monthly sales in the pre incorporation period = ₹ 19,20,000/16 = ₹ 1,20,000

Total sales for pre-incorporation period = ₹ 1,20,000 x 4 = ₹ 4,80,000

Total sales for post incorporation period = ₹ 19,20,000 – ₹ 4,80,000 = ₹ 14,40,000

Sales Ratio = 4,80,000 : 14,40,000

Sales Ratio = 1 : 3

3. Cost of goods sold

Cost of goods ratio between pre and post incorporation periods can be calculated as follows:

Let cost of goods sold in the pre-incorporation period be ₹100

Then cost of goods sold in the post-incorporation period is ₹90

Sales Ratio (as calculated above) = 1:3

Then, cost of goods sold ratio = (100 x 1): (90 x 3) = 100: 270= 10:27

4. Apportionment of Rent

	₹
Total Rent	80,000
Less: additional rent from 1.7.2021 to 31.3.2022	54,000
Rent of old premises for 12 months	26,000

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Let monthly rent for old building is x pm.

Rent for April to July will be 4x and rent from Aug to March will be :

9x i.e. (x + x + x + 1.2x + 1.2x + 1.2x + 1.2x + 1.2x)

	Pre	Post
Apportionment of rent for old space (₹ 26,000 in 4:9 ratio)	8,000	18,000
Add: Rent for new space	6,000	48,000
Total	14,000	66,000

5. Apportionment of Salary

Let the salary per month from 01.04.2021 to 30.06.2021 is x

Salary per month from 01.7.2021 to 31.03.2022 will be 3x

Hence, pre incorporation salary (01.04.2021 to 31.07.2021) = 6x

Post incorporation salary from 01.08.2021 to 31.03.2022 = (3x X 8) i.e.24x

Ratio for division 6x: 24x or 1: 4

i.e. pre = ₹ 8,400 and

for post = ₹ 33,600

6. Travelling expenses and sales promotion expenses

	Pre ₹	*Post* ₹
Traveling expenses ₹ 12,000 (i.e. ₹ 16,800- ₹ 4,800) distributed in Time ratio (1:2)	4,000	8,000
Sales promotion expenses ₹ 4,800 distributed in Sales ratio (1:3)	1,200	3,600

7. Interest paid to vendor till 30th September, 2021

	Pre ₹	*Post* ₹
Interest for pre-incorporation period $\left(\frac{₹\ 4,200}{6}\times 4\right)$	2,800	
Interest for post incorporation period i.e. for August, 2021 & September, 2021 = $\left(\frac{₹\ 4,200}{6}\times 2\right)$		1,400

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8. Depreciation

		Pre ₹	Post ₹
Total depreciation	9,600		
Less: Depreciation exclusively for post incorporation period	600		600
Remaining (for pre and post incorporation period)	9,000		
Depreciation for pre-incorporation period $\left[9,000\times\frac{4}{12}\right]$		3,000	
Depreciation for post incorporation period $\left[9,000\times\frac{8}{12}\right]$			6,000
		3,000	6,600

Question 5

(a) Given below is the extract of Balance Sheet of Daisy Limited as at 31st March,2021.

Particulars	₹
15% 650 Redeemable Preference Shares of ₹ 100 each, ₹ 80 per share paid up	*52,000*
22,500 Equity Shares off ₹ 10 each, ₹ 9.50 per share paid up	*2,13,750*
Revaluation Reserve	*45,000*
Capital Reserve (realized in cash)	*500*
General Reserve	*40,000*
Securities Premium	*500*
Profit & Loss Account	*40,500*
Current Liabilities	*1,07,750*
Fixed Assets	*3,71,500*
Non-Current Investments [Face value ₹ 50,000]	*1,00,000*
Bank Balance	*28,500*

The following information are provided:

On 1st April,2021, the Board of Directors decided to make a final call of ₹ 20 on Redeemable Preference Shares and to redeem the same at a premium of 10% on 1st June, 2021.

The investments of the face value of ₹ 20,000 are sold at the market price which was 150% of the face value.

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It is decided to issue sufficient number of Equity Shares of ₹ 10 each at a premium of 25% after leaving a balance of ₹ 50,000 in bank account.

It was also decided to convert the partly paid-up Equity shares into fully paid up without requiring the shareholders to pay for the same.

On 1st July,2021 the Board decided to issue fully paid bonus shares to the equity shareholders in the ratio of one for five.

You are required to pass the necessary journal entries for the above. ***(10 Marks)***

(b) *Walkaway Footwears has its head office at Nagpur and Branch at Patna. It invoiced goods to its branch at 20% less than the list price which is cost plus 100%, with instruction that cash sales were to be made at invoice price and credit sales at catalogue price (i.e. list price).*

The following information was available at the branch for the year ended 31st March,2022.

(Figures in ₹)

Stock on 1st April,2021 (invoice price)		*12,000*
Debtors on 1st April, 2021		*10,000*
Goods received from head office (invoice price)		*1,32,000*
Sales:		
Cash	*46,000*	
Credit	*1,00,000*	*1,46,000*
Cash received from debtors		*85,000*
Expenses at branch		*17,500*
Debtors on 31st March, 2022		*25,000*
Stock on 31st March,2022 (invoice price)		*17,600*
Remittances to head office		*1,20,000*

You are required to prepare Branch Stock Account, Branch Adjustment Account, Branch Profit & Loss Account and Branch Debtors Account for the year ended 31st March,2022.

(10 Marks)

Answer

(a) **Journal Entries**

2021			Dr. (₹)	Cr. (₹)
April 1	15% Redeemable Preference Share Final Call A/c	Dr.	13,000	
	To 15% Preference Share Capital A/c			13,000
	(For final call made on 650 preference shares @ ₹ 20 each to make them fully paid up)			

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	Bank A/c	Dr.	13,000	
	To 15% Preference Share Final Call A/c			13,000
	(For receipt of final call money on preference shares)			
1st June	15% Redeemable preference share capital A/c	Dr.	65,000	
	Premium on redemption of pref. share A/c	Dr.	6,500	
	To Redeemable Preference Shareholders A/c			71,500
	(Being amount payable to preference shareholders on redemption)			
	Bank A/c	Dr.	30,000	
	Profit & Loss A/c	Dr.	10,000	
	To Investment A/c			40,000
	(Being investment sold out and loss on sale debited to Profit & Loss A/c) [Book value = ₹ 1,00,000 x ₹ 20,000/ ₹ 50,000 = ₹ 40,000. Sale proceeds = ₹ 20,000 x 150/100 = ₹ 30,000]			
	Bank A/c	Dr.	50,000	
	To Equity share capital A/c			40,000
	To Securities premium A/c			10,000
	(Being 4,000 equity shares of ₹ 10 issued at premium of ₹ 2.50 per share)			
	Preference shareholders A/c	Dr.	71,500	
	To Bank A/c			71,500
	(Being amount paid to preference shareholders)			
	Profit and loss A/c/ General reserve A/c *	Dr.	25,000	
	To Capital redemption reserve A/c			25,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law i.e. face value of shares redeemed ₹ 65,000 less fresh equity shares issued ₹ 40,000)			
	Profit and Loss A/c **	Dr.	6,500	
	To Premium on redemption of preference shares A/c			6,500
	(Being premium on preference shares adjusted from P&L A/c)			

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	Profit & Loss/ General reserve A/c*	Dr.	11,250	
	To Bonus to shareholders A/c			11,250
	(Being 50 paisa for 22,500 shares making partly paid up as fully paid up)			
	Share final call A/c	Dr.	11,250	
	To Equity share capital A/c			11,250
	(for making the final call due)			
	Bonus to shareholders A/c	Dr.	11,250	
	To Equity share final call A/c			11,250
	(Adjusted at final call)			
July 1	Capital Redemption Reserve A/c	Dr.	25,000	
	Securities Premium A/c	Dr.	10,500	
	Capital Reserve A/c	Dr.	500	
	Profit & Loss A/c / General Reserve*	Dr.	17,000	
	To Bonus to shareholders A/c			53,000
	(Being balance in reserves capitalized to issue bonus shares)			
	Bonus to shareholders A/c	Dr.	53,000	
	To Equity share capital A/c			53,000
	(Being 5,300 fully paid equity shares of ₹ 10 each issued as bonus in ratio of 1 share for every 5 shares held (22,500+4,000) divided by 5)			

Note: *Different combination of utilisation of available balances of general reserve and P& L A/c is possible in the given entries.

** Securities premium has not been utilized for the purpose of premium payable on redemption of preference shares assuming that the company referred in the question is governed by Section 133 of the Companies Act, 2013 and hence the company has to comply with the prescribed Accounting Standards.

*** As per the sequence of the information given in the question it has been considered that the fresh issue of equity shares is made at the time of the redemption of preference shares. Alternatively, it may be assumed that shares are issued after the redemption of preference shares. In that case the amount transferred to Capital Redemption Reserve will get changed.

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(b) In the books of walkaway footwears

Patna Branch Stock Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
1.1.21	To Balance b/d	12,000	31.12.21	By Bank A/c (Cash sales)	46,000
31.12.21	To Goods sent to branch A/c	1,32,000		By Branch debtors A/c (credit sales)	1,00,000
	To Branch adjustment A/c (Surplus over invoice price)	20,000	31.12.21	By Shortage in stock A/c	400
				By Balance c/d	17,600
		1,64,000			1,64,000

Patna Branch Adjustment Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
31.12.21	To Stock reserve - ₹ 17,600 x 60/160 (closing stock)	6,600	31.12.21	By Stock reserve – ₹ 12,000 x 60/160 (Opening stock)	4,500
	To Shortage (400x 60/160)	150		By Goods sent to branch A/c (₹ 1,32,000 x 60/160)	49,500
	To Branch profit & loss A/c (Gross profit)	67,250		By Branch stock A/c	20,000
		74,000			74,000

Branch Profit & Loss Account

Particulars	Amount (₹)	Particulars	Amount (₹)
To Branch expenses A/c	17,500	By Branch adjustment A/c (Gross Profit)	67,250
To Shortage in stock A/c	250		
To Net profit (transferred to Profit & Loss A/c)	49,500		
	67,250		67,250

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Branch Debtors Account

	Particulars	Amount (₹)		Particulars	Amount (₹)
1.1.21	To Balance b/d	10,000	31.12.21	By Bank A/c	85,000
31.12.21	To Branch stock A/c	1,00,000		By Balance c/d (bal. fig.)	25,000
		1,10,000			1,10,000

Question 6

*Answer any **four** of the following:*

(a) The following information is provided by Exe Limited for 31st March,2022:

Particulars	*₹*
Net Profit before Income Tax and Managerial Remuneration, but after Depreciation and Provision for Repairs	*9,40,000*
Depreciation provided in the Books	*4,05,000*
Provision for repairs for Machinery during the year	*35,000*
Depreciation Allowable under Schedule II	*3,40,000*
Actual Expenditure incurred on Repairs during the year	*25,000*
Provision for Income Tax	*1,50,000*

You are required to calculate the Managerial Remuneration for Exe Limited as on 31st March, 2022 in the following situations:

(i) There is only one Whole Time Director.

(ii) There are two Whole Time Directors.

(iii) There are two Whole Time Directors, a part time Director and a Manager.

(b) Following is the extract of the Balance Sheet of Sujata Foods Limited as at 31st March,2021:

Particulars	*₹*
Authorised Capital	
1,00,000 12% Preference shares of ₹10 each	*10,00,000*
5,00,000 Equity shares of ₹10 each	*50,00,000*
	60,00,000
Issued and Subscribed capital	
8,000 12% Preference shares of ₹10 each fully paid	*80,000*

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90,000 Equity shares of ₹ 10 each, ₹ 8 paid up	*7,20,000*
Reserves and Surplus	
General Reserve	*1,20,000*
Capital Redemption Reserve	*75,000*
Securities Premium (Collected in cash)	*25,000*
Profit and Loss Account	*2,00,000*
Revaluation Reserve	*80,000*

On 1st April 2021, the company has made final call @ ₹ 2 each on 90,000 equity shares. The call money was received by 15th April,2021. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held, it also decided that there should be minimum reduction in free reserves.

On 1st June 2021, the Company issued right shares at the rate of two shares for every five shares held on that date at issue price of ₹ 12 per share. All the right shares were accepted by the existing shareholders and the money was duly received by 20th June,2021.

You are required to pass necessary journal entries in the books of the Sujata Foods Limited for bonus issue and rights issue.

(c) State whether the following statements are 'True' or 'False'. Also give reason for your answer.

(i) Certain fundamental accounting assumptions underline the preparation and presentation of financial statements. They are usually specifically stated because their acceptance and use are not assumed.

(ii) If fundamental accounting assumptions are not followed in presentation and preparation of financial statements, a specific disclosure is not required.

(iii) All significant accounting policies adopted in the preparation and presentation of financial statements should form part of the financial statements.

(iv) Any change in an accounting policy, which has a material effect should be disclosed. Where the amount by which any item in the financial statements is affected by such change is not ascertainable, wholly or in part, the facts need not to be indicated.

(d) The following information is provided by Alpha Limited, for the year ended 31st March, 2022:

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 40 lakhs.

(ii) Depreciation on Fixed Assets ₹ 10 lakhs.

(iii) Discount on issue of Debentures written of ₹ 60,000.

(iv) Interest on Debentures paid ₹ 7,00,000.

(v) Book value of investments ₹ 6 lakhs (Sale of Investments for ₹ 6,40,000).

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(vi) *Interest received on investments ₹ 1,20,000.*

(vii) *Compensation received ₹ 1,80,000 by the company in a suit filed.*

(viii) *Income tax paid ₹ 21,00,000*

(ix) *Current assets and current liabilities in the beginning and at the end of the year were as detailed below:*

	As on 31.3.2021 ₹	As on 31.3.2022 ₹
Stock	24,00,000	26,36,000
Sundry Debtors	4,16,000	4,26,200
Cash in hand	3,92,600	70,600
Bills Receivable	1,00,000	80,000
Bills Payable	90,000	80,000
Sundry Creditors	3,32,000	3,42,600
Outstanding Expenses	1,50,000	1,63,600

You are required to prepare Cash Flow Statement from Operating Activities in accordance with AS-3 (revised) using the indirect method for the year ended 31st March,2022.

(e) *On 1st April 2021 Ms. Jayshree has 5,000 equity shares of Rama Limited (a listed company) of face value of ₹ 10 each. Ms. Jayshree has purchased the above shares at ₹ 15 per share and paid a brokerage of 2% and stamp duty of 1 %.*

On 15th May,2021 Ms. Jayshree purchased another 5,000 shares of Rama Limited at ₹ 18 including brokerage and stamp duty.

On 26th August,2021 Rama Limited issued one bonus equity share for every 1 equity share held by the shareholders.

On 23rd October,2021 Rama Limited announced a Right Issue which entitles the holders to subscribe 1 equity share for every 2 equity shares held at ₹ 20 per share. Shareholders can exercise their rights in full or in part. Ms. Jayshree sold 1/4th of entitlement to Mr. Mike for a consideration of ₹ 10 per share and subscribed the rest on 1st November 2021.

Ms. Jayshree also sold 10,000 shares at ₹ 25 per share on 1st November,2021.

The shares of Rama Limited were quoted at ₹ 11 per share on 31st March,2022.

You are required to prepare Investment account for Ms. Jayshree for the year ended 31st March 2022. ***(4 Parts X 5 Marks = 20 Marks)***

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Answer

(a) Calculation of net profit u/s 198 of the Companies Act, 2013

	₹	₹
Net profit before income tax and managerial remuneration but after depreciation and provision for repairs		9,40,000
Add: Depreciation provided	4,05,000	
Provision for repairs	35,000	4,40,000
		13,80,000
Less: Repairs	25,000	
Depreciation as per schedule III	3,40,000	3,65,000
Profit u/s 198		10,15,000

Maximum Managerial remuneration under Companies Act, 2013

(i) When there is only one Whole time director: The remuneration payable to any one managing director; or whole-time director or manager should not exceed 5% of the net profits of the company. Therefore Managerial remuneration will be ₹ 50,750 i.e 5% of ₹10,15,000.

(ii) When there are two Whole time directors: if there are more than one such director, remuneration should not exceed 10% of the net profits to all such directors and manager taken together. Therefore Managerial remuneration will be ₹1,01,500 i.e 10% of ₹10,15,000.

(iii) When there are two whole time directors, a part time director and a manager, then 11% of the net profits of the company. Therefore Managerial remuneration will be ₹ 1,11,650 i.e 11% of ₹10,15,000.

(b) Journal Entries in the books of Sujata Foods Ltd.

2021			Dr.	Cr.
			₹	₹
April 1	Equity Share Final Call A/c	Dr.	1,80,000	
	To Equity Share Capital A/c			1,80,000
	(Final call of ₹ 2 per share on 90,000 equity shares made due)			
April 15	Bank A/c	Dr.	1,80,000	

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	To Equity Share Final Call A/c			1,80,000
	(Final call money on equity shares received)			
	Capital Redemption Reserve A/c	Dr.	75,000	
	Securities Premium A/c	Dr.	25,000	
	General Reserve A/c	Dr.	1,20,000	
	Profit and Loss A/c	Dr.	5,000	
	To Bonus to Shareholders A/c			2,25,000
	(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated…….)			
	Bonus to Shareholders A/c	Dr.	2,25,000	
	To Equity Share Capital A/c			2,25,000
	(Capitalization of profit)			
June 20	Bank A/c	Dr.	5,40,000	
	To Securities Premium A/c			90,000
	To Equity Share Capital A/c			4,50,000
	(Being Right issue of 2 shares for every 5 shares held as per board resolution dated ……..)			

(c) **(i)** **False:** As per AS 1 "Disclosure of Accounting Policies", certain fundamental accounting assumptions underlie the preparation and presentation of financial statements. They are usually not specifically stated because their acceptance and use are assumed. Disclosure is necessary if they are not followed.

(ii) **False:** As per AS 1, if the fundamental accounting assumptions, viz. Going Concern, Consistency and Accrual are followed in financial statements, specific disclosure is not required. If a fundamental accounting assumption is not followed, the fact should be disclosed.

(iii) **True:** To ensure proper understanding of financial statements, it is necessary that all significant accounting policies adopted in the preparation and presentation of financial statements should be disclosed. The disclosure of the significant accounting policies as such should form part of the financial statements and they should be disclosed in one place.

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(iv) **False:** Any change in the accounting policies which has a material effect in the current period or which is reasonably expected to have a material effect in later periods should be disclosed. Where such amount is not ascertainable, wholly or in part, the fact should be indicated.

(d)

Alpha Ltd.

Cash Flow Statement (from Operating Activities)

for the year ended 31st March, 2022

	₹	₹
Cash flow from Operating Activities		
Net profit before income tax and extraordinary items:		40,00,000
Adjustments for:		
Depreciation on Property, plant and equipment	10,00,000	
Discount on issue of debentures	60,000	
Interest on debentures paid	7,00,000	
Interest on investments received	(1,20,000)	
Profit on sale of investments	(40,000)	16,00,000
Operating profit before working capital changes		56,00,000
Adjustments for:		
Increase in inventory	(2,36,000)	
Increase in Sundry Debtors	(10,200)	
Decrease in Bills receivables	20,000	
Increase in Sundry Creditors	10,600	
Increase in Bills payables	(10,000)	
Increase in outstanding expenses	13,600	(2,12,000)
Cash generated from operations		53,88,000
Income tax paid		(21,00,000)
Cash flow from ordinary items		32,88,000
Cash flow from extraordinary items:		
Compensation received in a suit filed		1,80,000
Net cash flow from operating activities		34,68,000

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(e) **In the books of Ms. Jayshree**

Investment Account
(Equity shares in Rama Ltd.)

Date	*Particulars*	*No. of shares*	*Amount (₹)*	*Date*	*Particulars*	*No. of shares*	*Amount (₹)*
1.4.21	To Balance b/d	5,000	77,250	1.11.21	By Bank A/c	10,000	2,50,000
15.5.21	To Bank A/c	5,000	90,000	31.3.22	By Balance c/d	17,500	1,92,500
26.8.21	To Bonus issue	10,000	---	31.3.22	By Profit & Loss		
1.11.21	To Bank A/c (right shares)	7,500	1,50,000		A/c (loss on valuation)		9,386
1.11.21	To Profit & Loss A/c		1,34,636				
		27,500	4,51,886			27,500	4,51,886

Working Notes:

(1) Profit on sale of shares (average cost basis) on 1.11.21

10,000 shares @ ₹ 25 per share = 2,50,000

Cost of shares sold = [(77,250 + 90,000 + 1,50,000)/27,500 x 10,000]

= ₹ 1,15,364

Profit on sale of shares = ₹ 1,34,636

(2) Value of shares on 31.3.22 [(77,250 + 90,000 + 1,50,000)/27,500 x 17,500] = ₹ 2,01,886 or ₹ 1,92,500 (17,500 shares at ₹ 11)

Shares will be valued at ₹, 1,92,500 as market value is less than cost.

Note: Average cost basis has been considered for valuation of shares at the year end and for calculation of cost of shares sold in the given answer.

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PAPER – 2 : CORPORATE & OTHER LAW

*Question No. **1** is compulsory.*

*Attempt any **three** questions from the remaining **four** questions.*

Question 1

(a) *MNP Limited is a registered public company having the following:*

i	*Directors and their Relatives*	*18*
ii	*Employees*	*26*
iii	*Ex-Employees (Shares were allotted during employment)*	*15*
iv	*Members holding shares jointly (7 x 2)*	*14*
v	*Other Members*	*137*

The Board of Directors of MNP Limited proposes to convert the company into a private limited company. Referring the provisions of the Companies Act, 2013, advise:

i. Whether the company can be converted into a private company?

ii. Whether existing number of members need to be reduced for the proposed private company? ***(3 + 3 = 6 Marks)***

(b) (i) *SKIP Limited (the Company) was incorporated on 01.04.2019. The balances extracted from its audited financial statement are as given below:*

Financial Year (FY)	***Net Profit before tax***	***Net Profit after tax*** *(Ignore Income Tax computation)*
2019-20	*₹ 5.00 crore*	*₹ 3.75 crore*
2020-21	*₹ 7.00 crore*	*₹ 5.25 crore*

The Company proposes to allocate the minimum required amount for CSR Activities to be undertaken during FY 2021-22, if it is mandatory. You are requested to advice the Company in this regard and compute the minimum amount to be allocated, if so required, taking into account the relevant provisions of the Companies Act, 2013.

(3 Marks)

(ii) *SKS Limited issued 8% ₹ 1,50,000; Redeemable Preference Shares of ₹ 100 each in the month of May, 2010, which are liable to be redeemed within a period of 10 years. Due to the Covid-19 pandemic, the Company is neither in a position to redeem the preference shares nor to pay dividend in accordance with the terms of issue. The Company with the consent of Redeemable Preference Shareholders of 70% in value, made a petition to the Tribunal [NCLT] to accord approval to issue further redeemable preference shares equal to the amount due. Will the petition be approved by the Tribunal in the light of the provisions of the Companies Act, 2013?*

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Can the company include the dividend unpaid in the above issue of redeemable preference shares? ***(3 Marks)***

(c) (i) *Ramu has given authority to Prem to buy certain goods at the market rate. Prem buys the goods at a higher rate than the market rate. However, Ramu accepted the purchase in spite of higher rate. Afterwards, Ramu comes to know that the goods purchased belonged to Prem himself. Decide, whether Ramu is bound by ratification done?*

(ii) *Hari, authorises Bharat, a merchant in Mumbai, to recover dues from Bankey & Co. Bharat instructs Deepak, a solicitor, to take legal proceedings against Bankey & Co., for recovery of the money. Explain the legal position of Deepak, referring provisions of the Indian Contract Act, 1872, related to agency.* ***(2 + 2 = 4 Marks)***

(d) *Examine the validity of the following statements with reference to the Negotiable Instruments Act, 1881.*

(i) *When payment on an instrument is made in due course, both the instrument and the parties to it are discharged.*

(ii) *Alteration of rate of interest specified in the Promissory Note is not a material alteration.*

(iii) *Conversion of the blank indorsement into an indorsement in full is not a material alteration and it does not require authentication.* ***(3 Marks)***

Answer

(a) According to Section 2(68) of the Companies Act, 2013, "Private company" means a company having prescribed minimum paid-up share capital, and which by its articles, limits the number of its members to two hundred.

However, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member.

It is further provided that following shall not be included in the number of members -

(A) persons who are in the employment of the company; and

(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased.

Accordingly, total Number of members in MNP Limited are:

(i)	Directors and their relatives	18
(ii)	Joint shareholders (7x2)	7
(iii)	Other Members	137
	Total	**162**

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(i) MNP Limited may be converted into a private company only if the total members of the company are limited to 200. In the instant case, since existing number of members are 162 which is within the prescribed maximum limit of 200, so MNP Limited can be converted into a private company.

(ii) There is no need for reduction in the number of members for the proposed private company as existing number of members are 162 which does not exceed maximum limit of 200.

(b) (i) According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board.

Further, according to section 135(5), the Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Here, the "Net Profit" shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.

In the instant case,

1. Net Profit before tax of SKIP Limited for the FY 2020-21 is ₹ 7 crore, hence, SKIP Limited is required to constitute a CSR committee during FY 2021-22 as the Net profit before tax for the FY exceeds ₹ 5 crore.
2. Minimum contribution towards CSR will be: 2% of average net profits since incorporation (SKIP Limited was incorporated on 1.04.2019.)

   Average Net Profit since incorporation: (₹ 5 crore + ₹ 7 crore)/ 2 = ₹ 6 crore

   Minimum contribution towards CSR will be: 2% of ₹ 6 crore = ₹ 0.12 crore or ₹ 12 Lacs

(ii) According to section 55(3) of the Companies Act, 2013, where a company is not in a position to redeem any preference shares or to pay dividend, if any, on such shares in accordance with the terms of issue (such shares hereinafter referred to as unredeemed preference shares), it may—

- with the consent of the holders of three-fourths in value of such preference shares, and
- with the approval of the Tribunal on a petition made by it in this behalf,

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issue further redeemable preference shares equal to the amount due, including the dividend thereon, in respect of the unredeemed preference shares, and on the issue of such further redeemable preference shares, the unredeemed preference shares shall be deemed to have been redeemed.

Provided that the Tribunal shall, while giving approval under this sub-section, order the redemption forthwith of preference shares held by such persons who have not consented to the issue of further redeemable preference shares.

In the instant case, since the company made a petition to the NCLT with the consent of Redeemable Preference Shareholders of 70% in value, the said petition is not valid and will not be approved by the NCLT.

If the consent has been taken by three-fourths (75%) in value of such preference shares, the company can include the dividend unpaid in the above issue of redeemable preference shares.

(c) (i) According to section 198 of the Indian Contract Act, 1872, no valid ratification can be made by a person whose knowledge of the facts of the case is materially defective.

In the instant case, Ramu has given authority to Prem to buy certain goods at the market rate. Prem buys the goods at a higher rate than the market rate. However, Ramu accepted the purchase inspite of higher rate. Afterwards, Ramu comes to know that the goods belonged to Prem himself. The ratification is not binding on Ramu.

(ii) As per section 194 of the Indian Contract Act, 1872, where an agent, holding an express or implied authority to name another person to act for the principal in the business of the agency, has named another person accordingly, such person shall be an agent of the principal for such part of the business of the agency as is entrusted to him.

In the instant case, Hari, authorizes Bharat, a merchant in Mumbai, to recover dues from Bankey & Co. Bharat instructs Deepak, a solicitor, to take legal proceedings against Bankey & Co. for recovery of the money.

Here, Deepak, a solicitor, is a substituted agent to act for the principal in the business of the agency, to take legal proceedings for recovering of money.

(d) (i) **When payment on an instrument is made in due course, both the instrument and the parties to it are discharged:** Valid

Reasoning: As per section 78 of the Negotiable Instrument Act, 1881, when payment on an instrument is made in due course, both the instrument and the

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parties to it are discharged subject to the provision of section 82(c). The payment on an instrument may be made by any party to the instrument. It may even be made by a stranger provided it is made on account of the party liable to pay.

(ii) **Alteration of rate of interest specified in the Promissory Note is not a material alteration:** Not valid

Reasoning: An alteration is material which in any way alters the operation of the instrument and affects the liability of parties thereto. Hence, Alteration of rate of interest is material alteration.

(iii) **Conversion of the blank indorsement into an indorsement in full is not a material alteration and it does not require authentication:** Valid

Reasoning: Conversion of a blank indorsement into an indorsement in full [under Section 49 of the Negotiable Instruments Act, 1881] is not a material alteration. It has been authorised by the Act and do not require any authentication.

Question 2

(a) (i) Beauty Limited obtained a working capital loan from a Nationalized Bank against the hypothecation of Stocks & Accounts receivable of the Company. An instrument creating the charge was duly signed by the Company and the Bank. The Company is not willing to register the charges with the Registrar of Companies. In the light of the provisions, if the Companies Act, 2013, discuss:

(1) Is there any provision empowering the Nationalized Bank (charge holder) to get the charges registered?

(2) When can the Registrar refuse to register the charges the present scenario?

(4 Marks)

(ii) ABC Ltd. has declared dividend of ₹ 2/- per equity share in the general meeting. Mr. Suresh is holding 5000 equity shares of ₹ 10 face value each, on which ₹ 10,000 towards call money is due. Whether the dividend amount payable to him be adjusted against such dues as per the provisions of the Companies Act, 2013? Give reasons for your answer. ***(2 Marks)***

(b) XYZ Ltd. received a communication from Central Government for preparation of periodical financial results and complete audit or limited review of such periodical financial results. The Board of Directors have raised an objection on the ground that as it is an unlisted company, periodical financial results need not to be prepared. Examine, referring the provisions of the Companies Act, 2013, in this regard. ***(4 Marks)***

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(c) Examine the validity of the following statements under the provisions of the Indian Contract Act, 1872.

(i) Creditor should proceed legal action first against the Principal Debtor and later against the surety.

(ii) A guarantee which extends to a single debt/ specific transaction is called continuing Guarantee.

(iii) Variation which is not material and beneficial to the surety will not discharge him of his liability.

(iv) If the bailee does not use the goods according to the terms and conditions of bailment, the contract of bailment becomes void. ***(4 Marks)***

(d) Healthcare Services Limited (the Bidder), bids the tender floated by Super Care Hospital (the Tenderer), attaching a cheque dated 01.04.2021 for ₹ 5,00,000 towards earnest money deposit. Since the tender process was extended, the Tenderer returned the cheque expiring on 30.06.2021 to the Bidder for its resubmission after having revalidated by changing the date of the cheque to 01.07.2021. Accordingly, the revalidated cheque was resubmitted by the Bidder to the Tenderer. The cheque was presented by the Tenderer to the banker. It was dishonoured by the bank. Examine, whether the cheque altered with a new date shall be deemed to be a valid cheque binding the Bidder for payment as per the Negotiable Instruments Act, 1881? ***(3 Marks)***

Answer

(a) (i) (1) Registration by charge holder: Section 78 of the Companies Act, 2013, empowers the holder of charge to get the charge registered in case the company creating the charge on its property fails to do so.

Accordingly, if a charge is created, the company is primarily responsible for registering the charge however it fails to do so within the prescribed period of 30 days [as provided in section 77 (1)], the person in whose favour the charge is created (i.e. charge-holder) may apply to the Registrar for registration of the charge along with the instrument of charge within the prescribed time, form and manner. In light of above provisions, the Nationalized Bank can get the charges registered.

(2) Registrar refuse to register the charges: However, the Registrar shall not allow such registration by the charge-holder, if the company itself registers the charge or shows sufficient cause why such charge should not be registered.

(ii) As per clause (d) of proviso to section 127 of the Companies Act, 2013, where the dividend is declared by a company and there remains calls in arrears or any other sum due from a member, then the dividend can be lawfully adjusted by the company against any such dues.

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Thus, ABC Ltd. can adjust the call money dues from Mr. Suresh of ₹ 10,000 against the dividend amount payable to him of ₹ 10,000 (5000 shares x ₹ 2 /- per share).

(b) Periodical Financial Results [Section 129A of the Companies Act, 2013]

The Central Government may, require such class or classes of unlisted companies, as may be prescribed,—

(a) to prepare the financial results of the company on periodical basis and in prescribed form

(b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in the prescribed manner; and

(c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Therefore, the objection of the Board of Directors on the ground that as XYZ Ltd. is an unlisted company, periodical financial results need not be prepared, is not correct. Section 129A clearly specifies that even unlisted company has to prepare Periodical Financial Results.

(c) (i) Creditor should proceed legal action first against the Principal Debtor and later against the surety: Invalid

Reasoning: As per Section 128 of the Indian Contract Act, 1872, the surety's liability is co-extensive with that of Principal debtor. It's not mandatory that creditor should proceed legal action in case of default, first against the Principal debtor and later against the surety. It is on creditor to start action first either against the Principal debtor or the surety.

(ii) A guarantee which extends to a single debt/ specific transaction is called continuing Guarantee: Invalid

Reasoning: Continuing Guarantee [Section 129 of the Indian Contract Act, 1872] - A guarantee which extends to a series of transaction is called a continuing guarantee. It applies not to a specific number of transactions but to any number of transactions and makes the surety liable for the unpaid balance at the end of the guarantee.

(iii) Variation which is not material and beneficial to the surety will not discharge him of his liability: Valid

Reasoning: Based on the principle held in the *M.S Anirudhan v Thomco's Bank Ltd. AIR 1963 SC 746* that the surety's liability will not be discharged where the alteration is for beneficial to him and is not substantial in nature.

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(iv) If the bailee does not use the goods according to the terms and conditions of bailment, the contract of bailment becomes void: Invalid

Reasoning: As per Section 153, a contract of bailment is voidable at the option of the bailor, if the bailee does not use the goods according to the terms and conditions of bailment.

(d) An alteration is material which in any way alters the operation of the instrument and affects the liability of parties thereto.

By material alteration the identity of original instrument is destroyed and those parties who had agreed to be liable on the original instrument cannot be made liable on the new contract contained in the altered instrument to which they never consented (*Gour Chandra vs Prasanna Kumar 33 Cal 812*). It makes no difference whether the alteration is made by a party who is in possession of the same, or by a stranger while the instrument was in the custody of a party, because the party in custody of instrument is bound to preserve it in its integrity. The rule is defended on the ground that no man shall be permitted to take the chance of committing a fraud without running any risk of loss by the event when it is detected.

The party who consents to the alteration as well as the party who makes the alteration are disentitled to complain against such alteration.

In the given question, the tenderer (Super Care Hospital) returned the cheque to the bidder (i.e. the drawer of cheque- Healthcare Services Limited) for its resubmission after having revalidated by changing the date of the cheque. The drawer himself altered the date of the cheque for re-validating the same instrument, he cannot take advantage of it by saying that the cheque becomes void as there was a material alteration thereto. It is always open to a drawer to voluntarily re-validate a negotiable instrument including a cheque [*Veera Exports v T. Kalavathy (2002) 1 SCC97*].

In the light of the above discussion, the cheque altered with a new date shall be deemed to be a valid cheque and thus, binding the Bidder for payment.

Question 3

(a) As per the financial statement as at 31.03.2021, the Authorized and Issued share capital of Manorama Travels Private Limited (the Company) is of ₹ 100 Lakh divided into 10 Lakh equity shares of ₹ 10 each. The subscribed and paid-up share capital on that date is ₹ 80 Lakh divided into 8 Lakh equity shares of ₹ 10 each. The Company has reduced its share capital by cancelling 2 Lakh issued but unsubscribed equity shares during the financial year 2021-22, without obtaining the confirmation from the National Company Law Tribunal (the Tribunal). It is noted that the Company has amended its Memorandum of Association by passing the requisite resolution at the duly convened meeting for the above purpose. While filing the relevant e-form the Practicing Company Secretary

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refused to certify the form for the reason that the action of the Company reducing the share capital without confirmation of the Tribunal is invalid.

In light of the above facts and in accordance with the provisions of the Companies Act, 2013, you are requested to (i) examine, the validity of the decision of the Company and contention of the practicing Company Secretary and (ii) state, the type of resolution required to be passed for amending the capital clause of the Memorandum of Association. ***(5 Marks)***

(b) *The Board of Directors of ABC Limited are proposing to raise funds from the public through issue of equity shares. However due to volatile financial markets, the price per share and the number of shares to be issued are left open and to be decided post closure of the issue. As a financial advisor of the company, what would you suggest to the Board in this regard as per the provisions of the Companies Act, 2013?* ***(5 Marks)***

(c) *'A' draws a cheque for ₹5,000 in favour of 'B'. 'A' had sufficient funds in his bank account to meet it, when the cheque ought to be presented in the bank. The bank fails before the cheque is presented. 'B' wants to claim it from 'A'. Decide, whether 'A' is liable as per the Negotiable Instruments Act, 1881.* ***(4 Marks)***

(d) *Explain the provision related to 'Effect of Repeal' as per the General Clauses Act, 1897.*

(3 Marks)

Answer

(a) According to section 61 of the Companies Act, 2013, a limited company having a share capital is empowered to alter its capital clause of the Memorandum of Association. The provisions are as under:

(1) According to the section, a limited company having a share capital may, if so authorised by its articles, alter its memorandum in its general meeting to cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.

(2) It provides that the cancellation of shares shall not be deemed to be a reduction of share capital.

According to the given facts, in the said question, the company reduced its share capital without obtaining the confirmation from the NCLT. The Company amended its memorandum by passing the requisite resolution at the duly convened meeting. However, Company Secretary refused to certify stating that action of company reducing the share capital without confirmation of the Tribunal, is invalid.

Accordingly, in the light of the stated facts, following shall be the answers:

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(i) Decision of the company is valid, as for alteration of share capital by cancellation of shares and diminishing of amount of share capital by the amount of the shares so cancelled, does not require confirmation of the Tribunal. As per the law, passing of the resolution in that behalf at the duly convened meeting by amending Memorandum of Association, is the sufficient compliance. Therefore, contention of practicing Company Secretary is not valid.

(ii) According to section13, save as provided in section 61 of the Companies Act, 2013, company may alter the provisions of its memorandum with the approval of the members by a special resolution.

(b) As a financial consultant the Board of Directors of ABC Limited would be advised to issue a Red Herring Prospectus. The expression "red herring prospectus" means a prospectus which does not include complete particulars of the quantum or price of the securities included therein. [Explanation to Section 32]

Thus, ABC Limited may raise funds from public through red herring prospectus whereby the price per security and number of securities are left open to be decided post closure of the issue.

The company may follow the provisions of section 32 in issuing a red herring prospectus:

(1) **Red Herring Prospectus is issued prior to issue of Prospectus:** A company proposing to make an offer of securities may issue a red herring prospectus prior to the issue of a prospectus.

(2) **Filing with the registrar:** A company proposing to issue a red herring prospectus shall file it with the Registrar at least three days prior to the opening of the subscription list and the offer.

(3) **Obligations under Red Herring Prospectus vis-à-vis Prospectus:** A red herring prospectus shall carry the same obligations as are applicable to a prospectus and any variation between the red herring prospectus and a prospectus shall be highlighted as variations in the prospectus.

(4) **Filing of Red Herring Prospectus with Registrar and SEBI upon closing of Offer:** Upon the closing of the offer of securities under this section, the prospectus stating therein the total capital raised, whether by way of debt or share capital, and the closing price of the securities and any other details as are not included in the red herring prospectus shall be filed with the Registrar and the Securities and Exchange Board.

(c) According to section 84 of the Negotiable Instruments Act, 1881, if a holder does not present a cheque within reasonable time after its issue, and the bank fails causing damage to the drawer, the drawer is discharged as against the holder to the extent of the actual damage suffered by him.

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In the given situation, when the cheque ought to be presented, 'A' had sufficient funds at the bank to meet it. The bank failed before the cheque was presented. Thus, the drawer ('A') is discharged, but the holder ('B') can prove against the bank for the amount of the cheque.

(d) "Effect of Repeal": According to section 6 of the General Clauses Act, 1897, where any Central legislation or any regulation made after the commencement of this Act repeals any Act made or yet to be made, unless another purpose exists, the repeal shall not:

- Revive anything not enforced or prevailed during the period at which repeal is effected or;
- Affect the previous operation of any enactment so repealed or anything duly done or suffered thereunder; or
- Affect any right, privilege, obligation or liability acquired, accrued or incurred under any enactment so repealed; or
- Affect any penalty, forfeiture or punishment incurred in respect of any offence committed against any enactment so repealed; or
- Affect any inquiry, litigation or remedy with regard to such claim, privilege, debt or responsibility or any inquiry, litigation or remedy may be initiated, continued or insisted.

Question 4

(a) (i) ABC Private Ltd. has two wholly owned subsidiary companies, D Private Limited and E Private Limited. Examine, whether, D Private Limited and E Private Limited will be treated as related party as per the provisions of the Companies Act, 2013?

(ii) Sapphire Private Limited has registered its articles along with memorandum as on 1st July 2021. The directors of the company seeks your advice regarding the effect of registration of the company on the company itself and on its members.

(3 + 3 = 6 Marks)

(b) ABC Limited is an unlisted company, having its registered office at Kolkata. The Annual General Meeting was held at Goa on 1st July 2021 at 3.00 PM and concluded at 8.00 PM. Consent of all the members to conduct AGM at Goa were received by 24th June 2021 by Email.

(i) Examine the validity of the meeting as per the provisions of the Companies Act, 2013.

(ii) State, the consequences if a resolution has passed in such meeting, without sufficient disclosure regarding interest of a director. ***(2 + 2 = 4 Marks)***

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(c) The Ministry of Corporate Affairs (MCA) published in the Gazette of India, the proposed draft of Rules further to amend certain rules under the Companies Act, 2013. The MCA made some modifications in the draft Rules already published. In the light of the provisions of the General Clauses Act, 1897, answer the following:

(i) Is it required for MCA to publish a draft of the proposed Rules?

(ii) In case of any irregularities in the publication of the draft, can it be questioned?

(iii) Is MCA entitled to make suitable changes in the draft?

(iv) Is it necessary to re-publish the Rules in the amended form when the changes made are ancillary to the earlier draft? ***(4 Marks)***

(d) Does an explanation added to a section widen the ambit of a section? ***(3 Marks)***

Answer

(a) (i) According to section 2(76)(viii) of the Companies Act, 2013, Related party, with reference to a company, means any body corporate which is -

(A) a holding, subsidiary or an associate company of such company;

(B) a subsidiary of a holding company to which it is also a subsidiary; or

(C) an investing company or the venturer of the company;

In the given question, D Private Limited and E Private Limited are wholly owned subsidiary companies of ABC Private Ltd. According to stated clause (B), above, D Private Limited and E Private Limited are related parties.

However, as per the Notification No. G.S.R. 464(E) dated 5th June, 2015, clause (viii) shall not apply with respect to section 188 to a private company, though being a related parties.

Alternate Answer

According to section 2(76)(viii)(B) of the Companies Act, 2013, Related party, with reference to a company, means any body corporate which is a subsidiary of a holding company to which it is also a subsidiary.

However, Clause (viii) shall not apply with respect to section 188 (Related Party transactions) to a private company vide Notification No. G.S.R. 464(E) dated 5th June, 2015.

In the given question, D Private Limited and E Private Limited are wholly owned subsidiary companies of ABC Private Ltd. According to stated clause (B), above, D Private Limited and E Private Limited are related parties.

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However, as per the mentioned Notification, clause (viii) shall not apply with respect to section 188 to a private company. Therefore, D Private Limited and E Private Limited are not related parties for the purpose of section 188.

(ii) As per Section 9 and 10 of the Companies Act, 2013 following shall be the effect of registration of a company:

(1) From the date of incorporation, the subscribers to the memorandum and all members of the company, shall become a body corporate.

(2) Such a registered company shall be capable of exercising all the functions of an incorporated company with the perpetual succession with power to acquire, hold and dispose of property, and to contract and to sue and be sued.

(3) The memorandum and articles shall, when registered, bind the company and the members thereof to the same extent as if they respectively had been signed by the company and by each member, and contained covenants on its and his part to observe all the provisions of the memorandum and of the articles.

(4) All monies payable by any member to the company under the memorandum or articles shall be a debt due from him to the company.

(b) (i) Section 96(2) of the Companies Act, 2013, states that every annual general meeting shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated.

Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

In the given question, ABC Limited is an unlisted company and consent of all members to conduct the AGM at Goa has been received in advance (24th June, 2021). Also, the meeting was started well within the prescribed time i.e. at 3.00 PM. Hence, the meeting was validly called.

(ii) Section 102 of the Companies Act, 2013 mentions that where any special business is to be transacted at the company's general meeting, then an 'Explanatory Statement' should be annexed to the notice calling such general meeting, which must specify, the nature of concern or interest, financial or otherwise, if any, in respect of each item of every director and the manager, if any.

Effect of non-disclosure: As per section 102(4), if as a result non-disclosure or insufficient disclosure in explanatory statement, any benefit accrues to a director,

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such director shall hold such benefit in trust for the company, and shall be liable to compensate the company to the extent of the benefit received by him.

If any default is made in complying with the provisions of this section, every such director who is in default, shall be liable for such contravention with penalty [Section 102(5)].

(c) The answer can be given in terms of section 23 of the General Clauses Act, 1897. Following shall be the answers in the light of the given information and the relevant legal provisions:

(i) Yes, MCA is required to publish a draft of the proposed Rules for the information of persons likely to be affected thereby.

(ii) No, in case of any irregularities in the publication of the draft, it cannot be questioned. The publication in the Official Gazette of a rule or bye-law after previous publication, shall be conclusive proof that the rule or bye-laws has been duly made. It raises a conclusive presumption that after the publication of the rules in the Official Gazette, it is to be inferred that the procedure for making the rules had been followed. Any irregularities in the publication of the draft cannot therefore be questioned.

(iii) Yes, MCA is entitled to make suitable changes in the draft before finally publishing them.

(iv) No, it is not necessary to re-publish the Rules in the amended form when the changes made are ancillary to the earlier draft.

(d) Sometimes an explanation is added to a section of an Act for the purpose of explaining the main provisions contained in that section. If there is some ambiguity in the provisions of the main section, the explanation is inserted to harmonise and clear up the ambiguity in the main section. Something may added to or something may be excluded from the main provision by insertion of an explanation. But the explanation should not be construed to widen the ambit of the section.

Question 5

(a) HD Software Private Limited is engaged in the business of providing software services. The company appointed its statutory auditors. The engagement letter was signed with a clause that fee to be mutually decided. However, the remuneration was not finalized. Directors of the company seeks your advice for, provisions related to remuneration of directors[1] as per the provisions of the Companies Act, 2013.

[1] To be read as 'auditors'

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OR

ABC & Co., Chartered Accountants, are statutory auditors of Moon Exports Limited. In an inquiry, it is proved that 'A', one of the partners of the firm has acted in fraudulent manner and colluded in fraud to its partners. Explain the consequences of such act under the provisions of the Companies Act, 2013. ***(5 Marks)***

(b) (i) Mr. Ram, a shareholder of PQR Ltd., has made a request to the company for providing a copy of minutes book of general meeting. Whether the shareholder of a company is entitled to receive a copy of minutes book? Explain, provisions of the Companies Act, 2013. ***(3 Marks)***

(ii) Explain the provision relating to 'Credit Rating' which an 'Eligible Company' should follow to raise public deposits as per the Companies Act, 2013. ***(2 Marks)***

(c) Mr. Truth deposited 100 bags of groundnut in the factory of Mr. False for safe keeping. Mr. False mixed the groundnut bags with the other groundnut bags in the factory with the consent of Mr. Truth and consumed it to produce edible oil.

(i) Whether Mr. Truth is entitled to claim his share in the edible oil produced under the provisions of the Indian Contact Act, 1872?

(ii) What will be the consequences in case the groundnut bags were mixed without the consent of Mr. Truth under the above said Act? ***(4 Marks)***

(d) What is the effect of proviso? Does it qualify the main provisions of the enactment? Explain it with reference to Interpretation of Statutes. ***(3 Marks)***

Answer

(a) Section 142 of the Companies Act, 2013, provides for remuneration of auditors. According to this section the remuneration of the auditors of a company shall be fixed by the company in general meeting or in such manner as the company in general meeting may determine.

The remuneration shall, in addition to the fee payable to an auditor, include the expenses, if any, incurred by the auditor in connection with the audit of the company and any facility extended to him but does not include any remuneration paid to him for any other service rendered by him at the request of the company.

As per the facts of the question and stated provision, remuneration of the appointed statutory auditors of a company shall be fixed by the HD Software Private Limited in general meeting or in such manner as the company in general meeting may determine.

OR

According to section 147(5) of the Companies Act, 2013, where, in case of audit of a company being conducted by an audit firm, it is proved that the partner or partners of the audit firm has or have acted in a fraudulent manner or abetted or colluded in any fraud

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by, or in relation to or by, the company or its directors or officers, the liability, for such act shall be of the partner or partners concerned of the audit firm and of the firm jointly and severally.

Provided that in case of criminal liability of an audit firm, in respect of liability other than fine, the concerned partner or partners, who acted in a fraudulent manner or abetted or, as the case may be, colluded in any fraud shall only be liable.

Here, 'A' the partner of ABC & Co. on inquiry was found that he acted in a fraudulent manner or colluded in fraud to its partners.

Accordingly, 'A' the partner, partners concerned and the firm 'ABC & Co.' jointly and severally liable for the fine.

With respect to criminal liability of the firm 'ABC & Co.', the concerned partner or partners, who acted in a fraudulent manner or colluded in any fraud, shall only be liable.

(b) **(i)** In line with section 119 read with Rule 26 of the Companies (Management and Administration) Rules, 2014, any member shall be entitled to be furnished, within seven working days after he has made a request in that behalf to the company, with a copy of any minutes of any general meeting, on payment of such sum as may be specified in the articles of association of the company.

As Mr. Ram, in the given case, is the shareholder of PQR Ltd., so shall be entitled to receive a copy of any minutes book of general meeting.

(ii) **Obtaining of Credit Rating:** The provisions relating to obtaining of 'Credit Rating' to be followed by an 'eligible company' are contained in Section 76 (1) of the Companies Act, 2013 read with Rule 3(8) of the Companies (Acceptance of Deposits) Rules, 2014 as amended from time to time.

Accordingly, an 'eligible company' which desires to raise public deposits shall be required to obtain the rating (including its net-worth, liquidity and ability to pay its deposits on due date) from a recognised credit rating agency. The given rating which ensures adequate safety, shall be informed to the public at the time of invitation of deposits from the public. Further, the rating shall be obtained every year during the tenure of deposits.

(c) The given question is based on section 155, 156 & 157 of the Indian Contract Act, 1872.

(i) W.r.t. this part of the question, Mr. Truth deposited his ground nut bags for safe keeping in the factory of the Mr. False. He mixed the ground nut bags of Mr. Truth with the other ground nut bags lying in the factory with the consent of Mr. Truth and consumed the same for producing edible oils.

According to section 155 of the Indian Contract Act, 1872, if the Bailee, mixes the goods bailed with his own goods, with the consent of the bailor, both the parties

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shall have an interest in proportion to their respective shares in the mixture thus produced.

Accordingly, Mr. Truth is entitled to claim his share in the edible oil produced.

(ii) According to section 156 & 157 of the Indian Contract Act, 1872, where the bailee, without the consent of the bailor, mixes the goods bailed with his own goods and the goods can be separated or divided, the property in the goods remains in the parties respectively; but the bailee is bound to bear the expense of separation or division and any damage arising from the mixture.

In the given case, the goods were mixed without consent of Mr. Truth, and if such mixture can be separated, then Mr. False will bear the expense of separation and the damage, if any, arising from mixture.

However, in the light of given facts, as mixture of goods were consumed to produce oil, and so it cannot be separated and therefore Mr. False shall be liable to compensate Mr. Truth.

(d) Normally a Proviso is added to a section of an Act to except something or qualify something stated in that particular section to which it is added. A proviso should not be, ordinarily, interpreted as a general rule. Usually, a proviso is embedded in the main body of the section and becomes an integral part of it.

The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general.

It is a cardinal rule of interpretation that a proviso or exception to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. *(Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax, AIR 1955 SC 765)*.

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PAPER – 3: COST AND MANAGEMENT ACCOUNTING

*Question No. **1** is compulsory.*

*Attempt any **four** questions out of the remaining **five** questions.*

In case, any candidate answers extra question(s)/ sub-question(s) over and above the required number, then only the requisite number of questions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.

Working notes should form part of the answer

Question 1

Answer the following:

(a) *A Limited a toy company purchases its requirement of raw material from S Limited at ₹120 per kg. The company incurs a handling cost of ₹400 plus freight of ₹350 per order. The incremental carrying cost of inventory of raw material is ₹0.25 per kg per month. In addition the cost of working capital finance on the investment in inventory of raw material is ₹15 per kg per annum. The annual production of the toys is 60,000 units and 5 units of toys are obtained from one kg. of raw material.*

Required:

(i) *Calculate the Economic Order Quantity (EOQ) of raw materials.*

(ii) *Advise, how frequently company should order to minimize its procurement cost. Assume 360 days in a year.*

(iii) *Calculate the total ordering cost and total inventory carrying cost per annum as per EOQ.*

(b) *PQR Limited has replaced 72 workers during the quarter ended 31st March 2022. The labour rates for the quarter are as follows:*

Flux method	*16%*
Replacement method	*8%*
Separation method	*5%*

You are required to ascertain:

(i) *Average number of workers on roll (for the quarter),*

(ii) *Number of workers left and discharged during the quarter,*

(iii) *Number of workers recruited and joined during the quarter,*

(iv) *Equivalent employee turnover rates for the year.*

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(c) *Top-tech a manufacturing company is presently evaluating two possible machines for the manufacture of superior Pen-drives. The following information is available:*

Particulars	*Machine A*	*Machine B*
Selling price per unit	*₹ 400.00*	*₹ 400.00*
Variable cost per unit	*₹ 240.00*	*₹ 260.00*
Total fixed costs per year	*₹ 350 lakhs*	*₹ 200 lakhs*
Capacity (in units)	*8,00,000*	*10,00,000*

Required:

(i) Recommend which machine should be chosen?

(ii) Would you change your answer, if you were informed that in near future demand will be unlimited and the capacities of the two machines are as follows?

Machine A - 12,00,000 units

Machine B - 12,00,000 units

Why?

(d) *Coal is transported from two mines X & Y and unloaded at plots in a railway station. X is at distance of 15 kms and Y is at a distance of 20 kms from the rail head plots. A fleet of lorries having carrying capacity of 4 tonnes is used to transport coal from the mines. Records reveal that average speed of the lorries is 40 kms per hour when running and regularly take 15 minutes to unload at the rail head.*

At Mine X average loading time is 30 minutes per load, while at mine Y average loading time is 25 minutes per load.

Additional Information:

Drivers' wages, depreciation, insurance and taxes, etc. ₹ 12 per hour

Operated Fuel, oil tyres, repairs and maintenance, etc. ₹ 1.60 per km

You are required to prepare a statement showing the cost per tonne kilometre of carrying coal from each mine 'X' and 'Y'. ***(4 x 5 = 20 Marks)***

Answer

(a) Annual requirement of raw material in kg. (A) = $\frac{60{,}000 \text{ units}}{5 \text{ units per kg.}}$ = **12,000 kg.**

Ordering Cost (Handling & freight cost) (O) = ₹ 400 + ₹ 350 = ₹ 750

Carrying cost per unit per annum i.e. inventory carrying cost + working capital cost (c × i)

= (₹ 0.25 × 12 months) + ₹15

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= ₹ 18 per kg.

(i) E.O.Q. $= \sqrt{\frac{2 \times 12{,}000 \text{ kgs.} \times ₹\ 750}{₹\ 18}}$ **= 1,000 kg.**

(ii) Frequency of orders for procurement:

Annual consumption (A) = 12,000 kg.

Quantity per order (EOQ) = 1,000 kg.

No. of orders per annum $\left(\frac{A}{EOQ}\right) = \frac{12{,}000 \text{ kg.}}{1{,}000 \text{ kg.}} = 12$

Frequency of placing orders (in months) $= \frac{12 \text{ months}}{12 \text{ orders}}$ **= 1 months**

Or, (in days) $= \frac{360 \text{ days}}{12 \text{ orders}}$ **= 30 days**

(iii) Calculation of total ordering cost and total inventory carrying cost as per EOQ:

	Amount/Quantity
Size of the order	1,000 kg.
No. of orders	12
Cost of placing orders	**₹ 9,000** (12 orders × ₹ 750)
Inventory carrying cost	**₹ 9,000** (1,000 kg. × ½ × ₹ 18)
Total Cost	₹18,000

(b) Working Note:

(i) Average number of workers on roll (for the quarter):

Employee Turnover rate using Replacement method

$$= \frac{\text{No. of replacements}}{\text{Average number of workers on roll}} \times 100$$

Or, $\frac{8}{100} = \frac{72}{\text{Average number of workers on roll}}$

Or, Average number of workers on roll $= \frac{72 \times 100}{8}$ **= 900**

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(ii) Number of workers left and discharged:

Employee turnover rate (Separation method)

$$= \frac{\text{No. of Separations(S)}}{\text{Average number of workers on roll}} \times 100 = \frac{5}{100} = \frac{S}{900} \text{ Or, } S = 45$$

Hence, number of workers left and discharged comes **to 45**

(iii) Number of workers recruited and joined:

Employee turnover rate (Flux method)

$$= \frac{\text{No. of Separations*(S)+No. of Accessions(A)}}{\text{Average number of workers on roll}}$$

$$\text{Or, } \frac{16}{100} = \frac{45+A}{900} \quad \text{Or, } A = \left\lfloor \frac{14400}{100} - 45 \right\rfloor = 99$$

No. of workers recruited and joined 99

(iv) Calculation of Equivalent employee turnover rates:

$$= \frac{\text{EmployeeTurnove rate for the quarter(s)}}{\text{Number of quarter(s)}} \times 4 \text{ quarters}$$

Using Flux method $= \frac{16\%}{1} \times 4 = 64\%$

Using Replacement method $= \frac{8\%}{1} \times 4 = 32\%$

Using Separation method $= \frac{5\%}{1} \times 4 = 20\%$

(c)

		Machine-A	Machine-B	Total
A	Selling price per unit (₹)	400	400	
B	Variable cost per cost (₹)	240	260	
C	Contribution per unit (₹) [A-B]	160	140	
D	Units	8,00,000	10,00,000	
E	Total contribution (₹ [C×D]	12,80,00,000	14,00,00,000	26,80,00,000
F	Fixed Cost (₹)	3,50,00,000	2,00,00,000	5,50,00,000
G	Profit [E-F] (₹)	9,30,00,000	12,00,00,000	21,30,00,000
H	Profit per unit [G÷D] (₹)	116.25	120.00	

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(i) Machine B has the higher profit of ₹2,70,00,000 than the Machine-A. Further, Machine-B's fixed cost is less than the fixed cost of Machine-A and higher capacity. Hence, **Machine B be recommended.**

Note: This question can also be solved as below:

Indifferent point = Difference in fixed cost / difference in variable cost per unit

= 1,50,00,000 / 20 = 7,50,000 units

At the level of demand 7,50,000 units both machine options equally profitable.

If demand below 7,50,000 units, select machine B (with lower FC).

If demand above 7,50,000 units, select machine A (with lower VC).

(ii) When the capacities of both the machines are same and demand for the product is unlimited, calculation of profit will be as follows:

		Machine-A	Machine-B	Total
A	Contribution per unit (₹)	160	140	
B	Units	12,00,000	12,00,000	
C	Total contribution (₹) [A×B]	19,20,00,000	16,80,00,000	36,00,00,000
D	Fixed Cost (₹)	3,50,00,000	2,00,00,000	5,50,00,000
E	Profit [C-E] (₹)	15,70,00,000	14,80,00,000	30,50,00,000
F	Profit per unit [E÷B] (₹)	130.83	123.33	

Yes, the preference for the machine would change because now, Machine A is having higher contribution and higher profit, hence recommended.

(d) Statement showing the cost per tonne-kilometre of carrying mineral from each mine

	Mine X (₹)	Mine Y (₹)
Fixed cost per trip: (Refer to working note 1)		
(Driver's wages, depreciation, insurance and taxes)		
X: 1 hour 30 minutes @ ₹ 12 per hour	18.00	
Y: 1 hour 40 minutes @ ₹ 12 per hour		20.00
Running and maintenance cost:		
(Fuel, oil, tyres, repairs and maintenance)		
X: 30 km. ₹ 1.60 per km.	48.00	
Y: 40 km. ₹ 1.60 per km.		64.00

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Total cost per trip (₹)	66.00	84.00
Cost per tonne – km (Refer to working note 2)	1.1 $\left(\frac{₹\ 66}{60\ \text{tonne - km}}\right)$	1.05 $\left(\frac{₹\ 84}{80\ \text{tonne - km}}\right)$

Working notes:

		Mine- X	Mine- Y
(1)	Total operated time taken per trip		
	Running time to & fro	**45 minutes** $\left(30\,\text{km.} \times \frac{60\,\text{minutes}}{40\,\text{km.}}\right)$	**60 minutes** $\left(40\,\text{km.} \times \frac{60\,\text{minutes}}{40\,\text{km.}}\right)$
	Un-loading time	15 minutes	15 minutes
	Loading time	30 minutes	25 minutes
	Total operated time	**90 minutes or** 1 hour 30 minutes	**100 minutes or** 1 hour 40 minutes
(2)	Effective tones – km.	60 (4 tonnes × 15 km.)	80 (4 tonnes × 20 km.)

Question 2

(a) In a manufacturing company, the overhead is recovered as follows:

Factory Overheads: a fixed percentage basis on direct wages and

Administrative overheads: a fixed percentage basis on factory cost.

The company has furnished the following data relating to two jobs undertaken by it in a period.

	Job 1 (₹)	*Job 2 (₹)*
Direct materials	*1,08,000*	*75,000*
Direct wages	*84,000*	*60,000*
Selling price	*3,33,312*	*2,52,000*
Profit percentage on total cost	*12%*	*20%*

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You are required to:

(i) Compute the percentage recovery rates of factory overheads and administrative overheads.

(ii) Calculate the amount of factory overheads, administrative overheads and profit for each of the two jobs.

(iii) Using the above recovery rates, determine the selling price to be quoted for job 3. Additional data pertaining to Job 3 is as follows:

Direct materials	*₹ 68,750*
Direct wages	*₹ 22,500*
Profit percentage on selling price	*15%*

(10 Marks)

(b) Paramount Constructions Limited is engaged in construction and erection of bridges under long term contracts. It has entered into a big contract at an agreed price of ₹ 250 Lakhs subject to an escalation clause for material and labour as spelt out in the contract and corresponding actual are as follows:

	Standard		*Actual*	
Material	*Quantity Tonnes*	*Rate Per Tonne (₹)*	*Quantity Tonnes*	*Rate Per Tonne (₹)*
P	*2,800*	*1,500*	*3,000*	*1,750*
Q	*3,100*	*900*	*2,900*	*800*
R	*800*	*4,500*	*950*	*4,350*
S	*150*	*32,500*	*120*	*34,200*
Labour	*Hours*	*Hourly rate (₹)*	*Hours*	*Hourly rate (₹)*
LM	*65,000*	*60*	*61,500*	*70*
LN	*46,000*	*45*	*45,000*	*50*

Required:

(i) Prepare a statement showing admissible additional claim of material and labour due to escalation clause.

(ii) Determine the final price payable after admissible escalation claim. ***(5 Marks)***

(c) Distinguish between Job costing and Process Costing. (Any five points of differences)

(5 Marks)

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Answer

(a) (i) Computation of percentage recovery rates of factory overheads and administrative overheads.

Let the factory overhead recovery rate as percentage of direct wages be F and administrative overheads recovery rate as percentage of factory cost be A.

Factory Cost of Jobs:

Direct materials + Direct wages + Factory overhead

For Job 1 = ₹ 1,08,000 +₹ 84,000 + ₹ 84,000F

For Job 2 = ₹ 75,000 +₹ 60,000 + ₹ 60,000F

Total Cost of Jobs:

Factory cost + Administrative overhead

For Job 1 = (₹ 1,92,000 + ₹ 84,000F) + (₹ 1,92,000 + ₹ 84,000F) A = ₹ 2,97,600*

For Job-2 = (₹ 1,35,000 + ₹ 60,000F) + (₹1,35,000+ ₹ 60,000F) A = ₹ 2,10,000**

The value of F & A can be found using following equations

1,92,000 + 84,000F + 1,92,000A + 84,000AF = ₹ 2,97,600 .....eqn (i)

1,35,000 + 60,000F + 1,35,000A + 60,000AF = ₹ 2,10,000 .....eqn (ii)

Multiply equation (i) by 5 and equation (ii) by 7

9,60,000 + 4,20,000F + 9,60,000A + 4,20,000AF = ₹14,88,000 ...eqn (iii)

9,45,000 + 4,20,000F + 9,45,000A + 4,20,000AF = ₹ 14,70,000 ...eqn (iv)

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15,000 + 15,000A = ₹18,000

15,000 A = 18,000 – 15,000

A = 0.20

Now putting the value of A in equation (i) to find the value of F

1,92,000 + 84,000F + (1,92,000 × 0.20) + (84,000 F × 0.20)= ₹ 2,97,600

Or

1,92,000 + 84,000F+38,400+16,800 F = ₹2,97,600

1,00,800 F = 67,200

F = 0.667

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On solving the above relations: F = 0.667 and A = 0.20

Hence, percentage recovery rates of:

Factory overheads = 66.7% or 2/3rd of wages and

Administrative overheads = 20% of factory cost.

Working note:

$$\text{Total Cost} = \frac{\text{Selling price}}{(100\% + \text{Percentage of profit})}$$

$$\text{*For Job 1} = \frac{₹\ 3,33,312}{(100\% + 12\%)} = ₹\ 2,97,600$$

$$\text{**For Job 2} = \frac{₹2,52,000}{(100\% + 20\%)} = ₹\ 2,10,000$$

(ii) Statement of jobs, showing amount of factory overheads, administrative overheads and profit:

	Job 1	Job 2
	(₹)	(₹)
Direct materials	1,08,000	75,000
Direct wages	84,000	60,000
Prime cost	1,92,000	1,35,000
Factory overheads		
2/3rd of direct wages	**56,000**	**40,000**
Factory cost	2,48,000	1,75,000
Administrative overheads		
20% of factory cost	**49,600**	**35,000**
Total cost	**2,97,600**	**2,10,000**
Profit (12% & 20% respectively)	**35,712**	**42,000**
Selling price	3,33,312	2,52,000

(iii) Selling price of Job 3

	(₹)
Direct materials	68,750
Direct wages	22,500

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Prime cost	91,250
Factory overheads (2/3rd of Direct Wages)	15,000
Factory cost	1,06,250
Administrative overheads (20% of factory cost)	21,250
Total cost	**1,27,500**
Profit margin (balancing figure)	22,500
Selling price $\left[\frac{\text{Total Cost}}{85\%}\right]$	**1,50,000**

(b) Statement showing Additional claim

	Standard Qty/Hrs.	Standard Rate (₹)	Actual Rate (₹)	Variation in Rate (₹)	Escalation Claim (₹)
	(a)	(b)	(c)	(d) = (c)–(b)	(e) =(a) × (d)
Materials					
P	2,800	1,500	1,750	250	7,00,000
Q	3,100	900	800	(100)	(3,10,000)
R	800	4,500	4,350	(150)	(1,20,000)
S	150	32,500	34,200	1,700	2,55,000
				Materials escalation claim: (A)	5,25,000
Wages					
LM	65,000	60	70	10	6,50,000
LN	46,000	45	50	5	2,30,000
				Wages escalation claim: (B)	8,80,000
				Final claim: (A + B)	14,05,000

Statement showing final price payable

	(₹)	(₹)
Agreed price		2,50,00,000
Add: Agreed escalation		
Material cost	5,25,000	
Labour cost	8,80,000	**14,05,000**
Final price payable		**2,64,05,000**

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(c)

Job Costing	Process Costing
(i) A Job is carried out or a product is produced by specific orders.	The process of producing the product has a continuous flow and the product produced is homogeneous.
(ii) Costs are determined for each job.	Costs are compiled on time basis i.e., for production of a given accounting period for each process or department.
(iii) Each job is separate and independent of other jobs.	Products lose their individual identity as they are manufactured in a continuous flow.
(iv) Each job or order has a number and costs are collected against the same job number.	The unit cost of process is an average cost for the period.
(v) Costs are computed when a job is completed. The cost of a job may be determined by adding all costs against the job.	Costs are calculated at the end of the cost period. The unit cost of a process may be computed by dividing the total cost for the period by the output of the process during that period.
(vi) As production is not continuous and each job may be different, so more managerial attention is required for effective control.	Process of production is usually standardized and is therefore, quite stable. Hence control here is comparatively easier.

Question 3

(a) SR Ltd. is a manufacturer of Garments. For the first three months of financial year 2022-23 commencing on 1st April 2022, production will be constrained by direct labour. It is estimated that only 12,000 hours of direct labour hours will be available in each month.

For market reasons, production of either of the two garments must be at least 25% of the production of the other. Estimated cost and revenue per garment are as follows:

	Shirt (₹)	*Short (₹)*
Sales price	*60*	*44*
Raw Materials		
Fabric @12 per metre	*24*	*12*
Dyes and cotton	*6*	*4*
Direct labour @ 8 per hour	*8*	*4*
Fixed Overhead @ 4 per hour	*4*	*2*
Profit	*18*	*22*

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From the month of July 2022 direct labour will no longer be a constraint. The company expects to be able to sell 15,000 shirts and 20,000 shorts in July, 2022. There will be no opening stock at the beginning of July 2022.

Sales volumes are expected to grow at 10% per month cumulatively thereafter throughout the year. Following additional information is available:

- *The company intends to carry stock of finished garments sufficient to meet 40% of the next month's sale from July 2022 onwards.*
- *The estimated selling price will be same as above.*

Required:

I. Calculate the number of shirts and shorts to be produced per month in the first quarter of financial year 2022-2023 to maximize company's profit.

II. Prepare the following budgets on a monthly basis for July, August and September 2022:

(i) Sales budget showing sales units and sales revenue for each product.

(ii) Production budget (in units) for each product. ***(10 Marks)***

(b) The following data are available from the books and records of A Ltd. for the month of April 2022:

Particulars	*Amount (₹)*
Stock of raw materials on 1st April 2022	*10,000*
Raw materials purchased	*2,80,000*
Manufacturing wages	*70,000*
Depreciation on plant	*15,000*
Expenses paid for quality control check activities	*4,000*
Lease Rent of Production Assets	*10,000*
Administrative Overheads (Production)	*15,000*
Expenses paid for pollution control and engineering & maintenance	*1,000*
Stock of raw materials on 30th April 2022	*40,000*
Primary packing cost	*8,000*
Research & development cost (Process related)	*5,000*
Packing cost for redistribution of finished goods	*1,500*
Advertisement expenses	*1,300*

Stock of finished goods as on 1st April 2022 was 200 units having a total cost of ₹ 28,000. The entire opening stock of finished goods has been sold during the month.

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Production during the month of April, 2022 was 3,000 units. Closing stock of finished goods as on 30th April, 2022 was 400 units.

You are required to:

I. Prepare a Cost Sheet for the above period showing the:

(i) Cost of Raw Material consumed

(ii) Prime Cost

(iii) Factory Cost

(iv) Cost of Production

(v) Cost of goods sold

(vi) Cost of Sales

II. Calculate selling price per unit, if sale is made at a profit of 20% on sales.

(10 Marks)

Answer

(a) I. Calculation of number of shirts & shorts to be produced per month:

Contribution per labour hour:

		Shirts (₹)	Shorts (₹)
A	Sales Price per unit	60	44
B	Variable Cost:		
	- Raw materials	30	16
	- Direct labour	8	4
		38	20
C	Contribution per unit [A-B]	22	24
D	Labour hour per unit	1 hour	0.5 hour
E	Contribution per labour hour [C÷D]	**22**	**48**

Production plan for the first three months:

Since, Shorts has the higher Contribution per labour hour, it will be made first. Shirts will be 25% of Shorts. The quantity will be determined as below:

Let the Quantity of Shorts be X and Shirts will be 0.25 X, then

(Qty. of Shorts × labour hour per unit) + (Qty. of Shirts × labour hour per unit) = Total labour hours available

Or, (X × 0.5 hour) + (0.25X × 1 hour) = 12,000 hours

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Or, 0.5X + 0.25X = 12,000

Or, 0.75X = 12,000

Or, X = 12,000÷0.75

= 16,000 units of Shorts

Therefore, for Shirts = 25% of 16,000 units

= 4,000 units

Production per month for the first quarter will be:

Shorts- 16,000 units &

Shirts- 4,000 units

II. (i) Sales Budget for the month of July, August & September 2022:

		July 2022		August 2022		September 2022	
		Shirts	Shorts	Shirts	Shorts	Shirts	Shorts
A	Sales demand	15,000	20,000	16,500	22,000	18,150	24,200
B	Selling price per unit (₹)	60	44	60	44	60	44
C	Sales Revenue (₹)	9,00,000	8,80,000	9,90,000	9,68,000	10,89,000	10,64,800

(ii) Production budget for the month of July, August & September 2022:

		July 2022		August 2022		September 2022		October 2022	
		Shirts	Shorts	Shirts	Shorts	Shirts	Shorts	Shirts	Shorts
A	Opening stock	0	0	6,600	8,800	7,260	9,680		
B	Sales demand	15,000	20,000	16,500	22,000	18,150	24,200	19,965	26,620
C	Closing stock	6,600	8,800	7,260	9,680	7,986	10,648		
D	Production [B+C-A]	21,600	28,800	17,160	22,880	18,876	25,168		

(b) I. Statement of Cost (for the month of April, 2022)

S. No.	Particulars	Amount (₹)	Amount (₹)
	Opening stock of Raw material	10,000	
	Add: Purchase of Raw material	2,80,000	
	Less: Closing stock of raw materials	(40,000)	
(i)	**Raw material consumed**		**2,50,000**
	Manufacturing wages		70,000

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(ii)	**Prime Cost**		**3,20,000**
	Factory/work overheads:		
	Depreciation on plant	15,000	
	Lease rent of production Asset	10,000	
	Expenses paid for pollution control and engineering & Maintenance	1,000	26,000
(iii)	**Factory/Work Cost**		**3,46,000**
	Expenses paid for quality control check activity		4,000
	Research and Development Cost		5,000
	Administration Overheads (Production)		15,000
	Primary Packing Cost		8,000
(iv)	**Cost of Production**		**3,78,000**
	Add: Opening stock of finished goods		28,000
	Less: Closing stock of finished goods		**(50,400)**
(v)	**Cost of Goods Sold**		**3,55,600**
	Advertisement expenses		1,300
	Packing cost for re-distribution of finished goods sold		1,500
(vi)	**Cost of Sales**		**3,58,400**

Note: Valuation of Closing stock of finished goods

$$= \frac{3,78,000}{3000 \text{ units}} \times 400 \text{ units}$$

$$= ₹50,400$$

II. Cost per unit sold $= \frac{3,58,400}{200+3,000-400} = ₹\ 128$ per unit

$\therefore$ Selling Price $= \frac{128}{80\%}$ = **₹160 per unit**

Question 4

(a) STG Limited is a manufacturer of Chemical 'GK', which is required for industrial use. The complete production operation requires two processes. The raw material first passes through Process I, where Chemical 'G' is produced. Following data is furnished for the month April 2022:

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Particulars	*(in kgs.)*
Opening work-in-progress quantity (Material 100% and conversion 50% complete)	*9,500*
Material input quantity	*1,05,000*
Work Completed quantity	*83,000*
Closing work-in-progress quantity (Material 100% and conversion 60% complete)	*16,500*

You are further provided that:

Particulars	*(in ₹)*
Opening work-in-progress cost	
Material cost	*29,500*
Processing cost	*14,750*
Material input cost	*3,34,500*
Processing cost	*2,53,100*

Normal process loss may be estimated to be 10% of material input. It has no realizable value. Any loss over and above normal loss is considered to be 100% complete in material and processing.

The Company transfers 60,000 kgs. of output (Chemical G) from Process I to Process II for producing Chemical 'GK'. Further materials are added in Process II which yield 1.20 kg. of Chemical 'GK' for every kg. of Chemical 'G' introduced. The chemicals transferred to Process II for further processing are then sold as Chemical 'GK' for ₹ 10 per kg. Any quantity of output completed in Process I, are sold as Chemical 'G' @ ₹ 9 per kg.

The monthly costs incurred in Process II (other than the cost of Chemical 'G') are:

Input 60,000 kg. of Chemical 'G'

Materials Cost *₹ 85,000*

Processing Costs *₹ 50,000*

You are required:

(i) Prepare Statement of Equivalent production and determine the cost per kg. of Chemical 'G' in Process I using the weighted average cost method.

(ii) Prepare a statement showing cost of Chemical 'G' transferred to Process II, cost of abnormal loss and cost of closing work-in progress.

(iii) STG is considering the option to sell 60,000 kg. of Chemical 'G' of Process I without processing it further in Process-II. Will it be beneficial for the company over the current pattern of processing 60,000 kg in process-II? ***(10 Marks)***

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(Note: You are not required to prepare Process Accounts)

(b) *UV Limited started a manufacturing unit from 1st October 2021. It produces designer lamps and sells its lamps at ₹ 450 per unit.*

During the quarter ending on 31st December, 2021, it produced and sold 12,000 units and suffered a loss of ₹ 35 per unit.

During the quarter ending on 31st March, 2022, it produced and sold 30,000 units and earned a profit of ₹ 40 per unit.

You are required to calculate:

(i) *Total fixed cost incurred by UV ltd. per quarter.*

(ii) *Break Even sales value (in rupees)*

(iii) *Calculate Profit, if the sale volume reaches 50,000 units in the next quarter (i.e., quarter ending on 30th June, 2022).* ***(5 Marks)***

(c) *Journalize the following transactions assuming the cost and financial accounts are integrated:*

Particulars	*Amount (₹)*
Direct Materials issued to production	*₹ 5,88,000*
Allocation of Wages (Indirect)	*₹ 7,50,000*
Factory Overheads (Over absorbed)	*₹ 2,25,000*
Administrative Overheads (Under absorbed)	*₹ 1,55,000*
Deficiency found in stock of Raw material (Normal)	*₹ 2,00,000*

(5 Marks)

Answer

(a) (i) Statement of Equivalent Production

Particulars	Input quantity	Particulars	Total	Material		Processing Cost	
				%	Units	%	Units
Opening WIP	9,500	Units completed	83,000	100%	83,000	100%	83,000
Material Input	1,05,000	Normal loss (10% of 1,05,000)	10,500	-	-	-	-
		Abnormal loss (Bal. fig.)	4,500	100%	4,500	100%	4,500

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		Closing WIP	16,500	100%	16,500	60%	9,900
	1,14,500		1,14,500		1,04,000		97,400

Statement of Cost for each element

Particulars	Material	Processing	Total cost
	(₹)	(₹)	(₹)
Cost of opening WIP	29,500	14,750	44,250
Cost incurred during the month	3,34,500	2,53,100	5,87,600
Total cost (A)	3,64,000	2,67,850	6,31,850
Equivalent production (B)	1,04,000	97,400	
Cost per kg of Chemical 'G' (A/B)	**3.5**	**2.75**	6.25

Alternative Presentation

Statement showing cost per kg of each statement

	(₹)	(₹)
Material	$\frac{29,500+3,34,500}{1,04,000}$	3.5
Processing cost	$\frac{14,750+2,53,100}{97,400}$	2.75
Total Cost per kg		6.25

(ii) Statement showing cost of Chemical 'G' transferred to Process II, cost of abnormal loss and cost of closing work-in- progress

	(₹)
Units transferred (60,000 × 6.25)	**3,75,000**
Abnormal loss (4,500 × 6.25)	**28,125**
Closing work in progress:	
Material (16,500 × 3.5)	**57,750**
Processing cost (9,900 × 2.75)	**27,225**
	84,975

(iii) Calculation of Incremental Profit / Loss after further processing

Particulars	(₹)	(₹)
Sales if further processed (A) (60,000 x 1.20 x ₹ 10)	7,20,000	

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Calculation of cost in Process II		
Chemical transferred from Process I	3,75,000	
Add: Material cost	85,000	
Add: Process cost	50,000	
Total cost of finished stock (B)	5,10,000	
Profit, if further processed (C = A – B)		2,10,000
If sold without further processing then,		
Sales (60,000 x ₹ 9)	5,40,000	
Less: Cost of input without further processing	3,75,000	
Profit without further processing (D)		1,65,000
Incremental Profit after further processing (C – D)		45,000
Additional net profit on further processing in Process II is 45,000. Therefore, it is advisable to process further chemical 'G'.		

Alternative Presentation

Calculation of Incremental Profit / Loss after further processing

	(₹)
If 60,000 units are sold @ ₹ 9	5,40,000
If 60,000 units are processed in process II (60,000 × 1.2 × ₹ 10)	7,20,000
Incremental Revenue (A)	**1,80,000**
Incremental Cost: (B)	
Material Cost	85,000
Processing Cost	50,000
	1,35,000
Incremental Profit (A-B)	45,000

Additional net profit on further processing in Process II is 45,000. Therefore, it is advisable to process further chemical 'G'.

(b)

	Quarter ending 31st December, 2021 (₹)	Quarter ending 31st March, 2022 (₹)
Sales (No. of units sold x ₹ 450 per unit)	54,00,000	1,35,00,000

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Profit (Loss)	(4,20,000) [12,000 × 35]	12,00,000 [30,000 × 40]

$$\text{P/V Ratio} = \frac{\text{Change in profit}}{\text{Change in Sales}} \times 100$$

$$\therefore \frac{16,20,000}{81,00,000} \times 100 = \mathbf{20\%}$$

(i) Fixed Cost = Sales × P/V ratio – profit

= ₹ 1,35,00,000 × 20% – 12,00,000

= ₹ 15,00,000

Alternative Presentation for the calculation of Fixed cost

	Quarter ending 31st December, 2021 (₹)	**Quarter ending 31st March, 2022 (₹)**
Sales (No. of units sold x ₹ 450 per unit)	54,00,000	1,35,00,000
Profit (Loss)	(4,20,000) [12,000 × 35]	12,00,000 [30,000 × 40]
Total cost	58,20,000	1,23,00,000

VC per unit = (1,23,00,000 – 58,20,000) / (30,000 – 12,000)

= 64,80,000 / 18,000 =₹ 360 per unit

Fixed cost = TC – VC , 58,20,000 (360 x12,000 units) ₹15,00,000

(ii) Break even sales value (in Rupees) $= \frac{\text{Fixed cost}}{\text{P/V ratio}} \times 100$

$$= \frac{15,00,000}{20\%} = \mathbf{₹75,00,000}$$

(iii) Profit, if sales reach 50,000 units for the quarter ending 30th June, 2022

	(₹)
Sales (50,000 × ₹ 450)	2,25,00,000
Less: Variable cost	1,80,00,000
Contribution	45,00,000
Less: Fixed cost	15,00,000
Profit	**30,00,000**

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(c)

Particulars		(₹)	(₹)
(i) Work-in-Progress Ledger Control A/c	Dr.	5,88,000	
To Stores Ledger Control A/c			5,88,000
(Being issue of direct materials to production)			
(ii) Factory Overhead control A/c	Dr.	7,50,000	
To Wages Control A/c			7,50,000
(Being allocation of Indirect wages)			
(iii) Factory Overhead Control A/c	Dr.	2,25,000	
To Costing Profit & Loss A/c			2,25,000
(Being transfer of over absorption of Factory overhead)			
(iv) Costing Profit & Loss A/c	Dr.	1,55,000	
To Administration Overhead Control A/c			1,55,000
(Being transfer of under absorption of Administration overhead)			
(v) Factory Overhead Control A/c	Dr.	2,00,000	
To Stores Ledger Control A/c			2,00,000
(Being transfer of deficiency in stock of raw material)			

(Note: Costing P/&/L = P/&/L and SLC = MLC)

Question 5

(a) Star Limited manufacture three products using the same production methods. A conventional product costing system is being used currently. Details of the three products for a typical period are:

Product	*Labour Hrs. per unit*	*Machine Hrs. per unit*	*Materials per Unit*[1]	*Volume in Units*
AX	*1.00*	*2.00*	*35*	*7,500*
BX	*0.90*	*1.50*	*25*	*12,500*
CX	*1.50*	*2.50*	*45*	*25,000*

Direct Labour costs ₹ 20 per hour and production overheads are absorbed on a machine hour basis. The overhead absorption rate for the period is ₹ 30 per machine hour.

[1] Material cost per unit

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Management is considering using Activity Based Costing system to ascertain the cost of the products. Further analysis shows that the total production overheads can be divided as follows:

Particulars	*%*
Cost relating to set-ups	*40*
Cost relating to machinery	*10*
Cost relating to material handling	*30*
Costs relating to inspection	*20*
Total production overhead	*100*

The following activity volumes are associated with the product line for the period as a whole. Total activities for the period:

Product	*No. of set-ups*	*No. of movements of Materials*	*No. of inspections*
AX	*350*	*200*	*200*
BX	*450*	*280*	*400*
CX	*740*	*675*	*900*
Total	*1,540*	*1,155*	*1,500*

Required:

(i) Calculate the cost per unit for each product using the conventional method.

(ii) Calculate the cost per unit for each product using activity based costing method.

(10 Marks)

(b) A manufacturing department of a company has employed 120 workers. The standard output of product "NPX" is 20 units per hour and the standard wage rate is ₹ 25 per labour hour.

In a 48 hours week, the department produced 1,000 units of 'NPX' despite 5% of the time paid being lost due to an abnormal reason. The hourly wages actually paid were ₹ 25.70 per hour.

Calculate:

(i) Labour Cost Variance

(ii) Labour Rate Variance

(iii) Labour Efficiency Variance

(iv) Labour Idle time Variance ***(5 Marks)***

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(c) RST Limited produces three joint products X, Y and Z. The products are processed further. Pre-separation costs are apportioned on the basis of weight of output of each joint product. The following data are provided for the month of April, 2022.

Cost incurred up to separation point: ₹10,000

	Product X	*Product Y*	*Product Z*
Output (in Litre)	*100*	*70*	*80*
	₹	*₹*	*₹*
Cost incurred after separation point	*2,000*	*1,200*	*800*
Selling Price per Litre:			
After further processing	*50*	*80*	*60*
At pre-separation point (estimated)	*25*	*70*	*45*

You are required to:

(i) Prepare a statement showing profit or loss made by each product after further processing using the presently adopted method of apportionment of pre-separation cost.

(ii) Advise the management whether, on purely financial consideration, the three products are to be processed further or not. ***(5 Marks)***

Answer

(a) (i) Statement showing "Cost per unit" using "conventional method"

Particulars of Costs	**AX (₹)**	**BX (₹)**	**CX (₹)**
Direct Materials	35	25	45
Direct Labour	20	18	30
Production Overheads	60	45	75
Cost *per unit*	**115**	**88**	**150**

(ii) Statement Showing "Cost *per unit* using "Activity Based Costing"

Products	**AX**	**BX**	**CX**
Production (units)	7,500	12,500	25,000
	(₹)	**(₹)**	**(₹)**
Direct Materials	2,62,500	3,12,500	11,25,000
Direct Labour	1,50,000	2,25,000	7,50,000
Machine Related Costs	**45,000**	**56,250**	**1,87,500**

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Products	AX	BX	CX
Setup Costs	**2,62,500**	**3,37,500**	**5,55,000**
Material handling Cost	**1,50,000**	**2,10,000**	**5,06,250**
Inspection Costs	**77,000**	**1,54,000**	**3,46,500**
Total Costs	9,47,000	12,95,250	34,70,250
Cost *per unit* (Total Cost ÷ Units)	**126.267**	**103.62**	**138.81**

Working Notes:

Calculation of Total Machine hours

Particulars	AX	BX	CX
(A) Machine hours per unit	2	1.5	2.5
(B) Production (units)	7,500	12,500	25,000
(C) Total Machine hours (A× B)	15,000	18,750	62,500

Total Machine hours = 96,250

Total Production overheads = 96,250 × 30 = ₹ 28,87,500

Calculation of Cost Driver Rate

Cost Pool	%	Overheads (₹)	Cost Driver (Basis)	Cost Driver (Units)	Cost Driver Rate (₹)
Set up	40	11,55,000	No of set ups	1,540	750 per set up
Machine Operation	10	2,88,750	Machine hours	96,250	3 per machine hour
Material Handling	30	8,66,250	No of material movement	1,155	750 per material movement
Inspection	20	5,77,500	No of inspection	1,500	385 per inspection

(b) Working Notes:

1. Calculation of standard man hours

When 120 worker works for 1 hr., then the std. output is 20 units.

Std. man hour per unit = $\frac{120 \text{ hrs.}}{20 \text{ units}}$ = 6 hrs.

2. Calculation of std. man hours for actual output

Total std. man hours = 1,000 units × 6 hrs. = 6,000 hrs.

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Standard for actual			Actual				
Hours	Rate (₹)	Amount (₹)	Actual hrs. paid	Idle time hrs.	Production hrs.	Rate (₹)	Amount paid (₹)
6,000	25	1,50,000	5,760 (48 hrs. x 120 workers)	288	5,472	25.70	1,48,032

(i) Labour cost variance

= Std. labour cost – Actual labour cost

= 1,50,000 – 1,48,032 = ₹ 1,968 F

(ii) Labour rate variance

= (SR – AR) × AH_{Paid}

= (25 - 25.70) × 5,760 = ₹ 4,032 A

(iii) Labour efficiency variance

= (SH – AH) × SR

= (6,000 – 5,472) × 25 = ₹ 13,200 F

(iv) Labour Idle time variance

= Idle Hours × SR

= 288 × 25 = ₹ 7,200 A

Note: Variances can also be calculated for one worker instead of 120.

(c) (i) Statement showing profit/loss by each product after further processing products

	Product X (in ₹)	Product Y (in ₹)	Product Z (in ₹)
Sales value after further processing	5,000	5,600	4,800
Less: Further processing cost	2,000	1,200	800
Less: Joint Cost* (as apportioned)	4,000	2,800	3,200
Profit/(loss)	(1,000)	1,600	800

* Statement showing apportionment of joint cost on the basis of physical units

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	Product X (in ₹)	Product Y (in ₹)	Product Z (in ₹)	Total (₹)
Output (in litre)	100	70	80	250
Weight	0.4 (100/250)	0.28 (70/250)	0.32 (80/250)	
Joint cost apportioned	4,000	2,800	3,200	

(ii) Decision whether to process further or not

	Product X (in ₹)	Product Y (in ₹)	Product Z (in ₹)
Incremental Revenue	2,500 [(50-25) × 100]	700 [(80-70) × 70]	1,200 [(60-45) × 80]
Less: Further processing cost	2,000	1,200	800
Incremental profit /(loss)	**500**	**(500)**	**400**

	Product X (in ₹)	Product Y (in ₹)	Product Z (in ₹)	Total
Sales	2500	4900	3600	11000
Pre separation costs	4000	2800	3200	10000
Profit/(Loss)	(1500)	2100	400	1000

It is advisable to further process only product X and Z and to sale product Y at the point of separation.

Question 6

Answer any four of the following:

(a) Briefly explain the essential features of a good Cost Accounting System.

(b) Write down the treatment of following items associated with purchase of materials.

(i) Cash discount

(ii) IGST

(iii) Demurrage

(iv) Shortage

(v) Basic Custom Duty

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(c) Explain the treatment of Overtime Premium in following situations:

(i) SV & Co. wants to grab some special orders, and overtime is required to meet the same.

(ii) Dept. X has to work overtime to make up a shortfall in production due to some fault of management in dept. Y.

(iii) S Ltd. has to work overtime regularly throughout the year as a policy due to the workers' shortage.

(iv) Due to flood in Odisha, RS Ltd. has to work overtime to complete the job.

(v) A customer requested the company MN Ltd. to expedite the job because of his urgency of work.

(d) Discuss briefly some of the criticism which may be levelled against the Standard Costing System.

(e) Identify the methods of costing from the following statements:

(i) Costs are directly charged to a group of products.

(ii) Nature of the product is complex and method cannot be ascertained.

(iii) Costs ascertained for a single product.

(iv) All costs are directly charged to a specific job.

(v) Costs are charged to operations and averaged over units produced.

(4 x 5 = 20 Marks)

Answer

(a) The essential features, which a good cost accounting system should possess, are as follows:

(a) Informative and simple: Cost accounting system should be tailor-made, practical, simple and capable of meeting the requirements of a business concern. The system of costing should not sacrifice the utility by introducing inaccurate and unnecessary details.

(b) Accurate and authentic: The data to be used by the cost accounting system should be accurate and authenticated; otherwise it may distort the output of the system and a wrong decision may be taken.

(c) Uniformity and consistency: There should be uniformity and consistency in classification, *treatment and reporting of cost data and related information.* This is required for benchmarking and comparability of the results of the system for both horizontal and vertical analysis.

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(d) **Integrated and inclusive:** The cost accounting system should be integrated with other systems like financial accounting, taxation, statistics and operational research etc. to have a complete overview and clarity in results.

(e) **Flexible and adaptive:** The cost accounting system should be flexible enough to *make necessary amendment and modifications* in the system to incorporate changes in technological, reporting, regulatory and other requirements.

(f) **Trust on the system:** Management should have trust on the system and its output. For this, an active role of management is required for the development of such a system that reflects a strong conviction in using information for decision making.

(b) Treatment of items associated with purchase of materials is tabulated as below

S. No.	Items	Treatment
(i)	**Cash Discount**	Cash discount **is not deducted** from the purchase price. It is treated as interest and finance charges. It is ignored.
(ii)	**Integrated Goods and Service Tax (IGST)**	Integrated Goods and Service Tax (IGST) is paid on inter-state supply of goods and provision of services and collected from the buyers. It **is excluded from the cost of purchase if credit for the same is available**. Unless mentioned specifically it should not form part of cost of purchase.
(iii)	**Demurrage**	Demurrage is a penalty imposed by the transporter for delay in uploading or offloading of materials. It is an **abnormal cost and not included with cost of purchase**
(iv)	**Shortage**	Shortage in materials are treated as follows: **Shortage due to normal reasons: Good units absorb the cost of shortage due to normal reasons.** Losses due to breaking of bulk, evaporation, or due to any unavoidable conditions etc. are the reasons of normal loss. **Shortage due to abnormal reasons:** Shortage arises due to abnormal reasons such as material mishandling, pilferage, or due to any avoidable reasons are not absorbed by the good units. Losses due to abnormal reasons **are debited to costing profit and loss account**.
(v)	**Basic Custom Duty**	Basic Custom duty is paid on import of goods from outside India. It **is added** with the purchase cost.

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(c) Treatment of Overtime premium in different situations

Situation	Treatment
(i) SV & Co. wants to grab some special orders, and overtime is required to meet the same.	If overtime is required to cope with general production programmes or for meeting urgent orders, **the overtime premium should be treated as overhead cost of the particular department or cost centre which works overtime.**
(ii) Dept. X has to work overtime to make up a shortfall in production due to some fault of management in dept. Y.	If overtime is worked in a department due to the fault of another department, **the overtime premium should be charged to the latter department (Y).**
(iii) S Ltd. has to work overtime regularly throughout the year as a policy due to the workers' shortage.	The overtime premium is treated as a part of **employee cost and job is charged at an effective average wage rate.**
(iv) Due to flood in Odisha, RS Ltd. has to work overtime to complete the job.	Overtime worked on account of abnormal conditions such as flood, earthquake etc., should **not be charged to cost, but to Costing Profit and Loss Account.**
(v) A customer requested the company MN Ltd. to expedite the job because of his urgency of work.	Where overtime is worked at the request of the customer, overtime premium is also **charged to the job/ customer directly.**

(d) Criticism of Standard Costing

(i) Variation in price: One of the chief problem faced in the operation of the standard costing system is the precise estimation of likely prices or rate to be paid. The variability of prices is so great that even actual prices are not necessarily adequately representative of cost. But the use of sophisticated forecasting techniques should be able to cover the price fluctuation to some extent. Besides this, the system provides for isolating uncontrollable variances arising from variations to be dealt with separately.

(ii) Varying levels of output: If the standard level of output set for pre-determination of standard costs is not achieved, the standard costs are said to be not realised. However, the statement that the capacity utilisation cannot be precisely estimated for absorption of overheads may be true only in some industries of jobbing type. In vast majority of industries, use of forecasting techniques, market research, etc., help to estimate the output with reasonable accuracy and thus the variation is unlikely to be very large. Prime cost will not be affected by such variation and, moreover, variance analysis helps to measure the effects of idle time.

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(iii) **Changing standard of technology:** In case of industries that have frequent technological changes affecting the conditions of production, standard costing may not be suitable. This criticism does not affect the system of standard costing. Cost reduction and cost control is a cardinal feature of standard costing because standards once set do not always remain stable. They have to be revised.

(iv) **Attitude of technical people:** Technical people are accustomed to think of standards as physical standards and, therefore, they will be misled by standard costs. Since technical people can be educated to adopt themselves to the system through orientation courses, it is not an insurmountable difficulty.

(v) **Mix of products:** Standard costing presupposes a pre-determined combination of products both in variety and quantity. The mixture of materials used to manufacture the products may vary in the long run but since standard costs are set normally for a short period, such changes can be taken care of by revision of standards.

(vi) **Level of Performance:** Standards may be either too strict or too liberal because they may be based on (a) theoretical maximum efficiency, (b) attainable good performance or (c) average past performance. To overcome this difficulty, the management should give thought to the selection of a suitable type of standard. The type of standard most effective in the control of costs is one which represents an attainable level of good performance.

(vii) **Standard costs cannot possibly reflect the true value in exchange:** If previous historical costs are amended roughly to arrive at estimates for ad hoc purposes, they are not standard costs in the strict sense of the term and hence they cannot also reflect true value in exchange. In arriving at standard costs, however, the economic and technical factors, internal and external, are brought together and analysed to arrive at quantities and prices which reflect optimum operations. The resulting costs, therefore, become realistic measures of the sacrifices involved.

(viii) **Fixation of standards may be costly:** It may require high order of skill and competency. Small concerns, therefore, feel difficulty in the operation of such system.

(e) Method of costing followed:

Situation	Method of costing
(i) Costs are directly charged to a group of products.	Batch costing
(ii) Nature of the product is complex and method cannot be ascertained.	Multiple costing
(iii) Cost is ascertained for a single product.	Unit/ Single/Output costing
(iv) All costs are directly charged to a specific job.	Job costing
(v) Costs are charged to operations and averaged over units produced.	Process costing

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PAPER – 4 : TAXATION

SECTION A : INCOME TAX LAW

Part - II

*Question No.**1** is compulsory.*

*Candidates are also required to answer any **two** questions from the remaining **three** questions.*

Working notes should form part of the respective answers.

All questions relate to assessment year 2022-23, unless otherwise stated.

Question 1

Mrs. Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in the previous year 2020-21 was ₹ 250 lakhs and in the current previous year 2021-22, it is ₹ 600 lakhs. The net profit as per the profit and loss account as on 31-03-2022 is ₹ 5,61,000. She provides the following additional information those were not considered while making the profit and loss account for the previous year 2021-22.

(i) Depreciation has not been debited to profit and loss account. The details of the plant & machinery employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2021	Opening written down value of machinery used for manufacturing purpose	4,75,000
03-07-2021	New machinery purchased during the year, payment made by an account pay cheque.	7,25,000
10-03-2022	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

(ii) Received subsidy of 20% on new machine purchased on 03-07-2021 during the previous year under technology upgradation fund Scheme from the Central Government.

(iii) She paid a job charges for the value addition on the fabrics ₹ 90,000 without deduction of tax to job worker by an account payee cheque.

(iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting ₹ 50,000, has now been received back during previous year 2021-22, from the agent due to settlement with commission agent.

(v) ₹ 25,000 paid to creditor for goods in cash.

The Suggested Answers for Paper 4A: Income-tax Law are based on the provisions of Income-tax Act as amended by the Finance Act, 2021 which are relevant for May, 2022 Examination. The relevant assessment year is A.Y.2022-23.

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(vi) Incurred loss of ₹ 1,17,500 from an eligible transaction carried out in respect of trading in derivatives in a recognised stock exchange.

(vii) Interest received amounting ₹ 2,00,000, duly authorised by partnership deed of M/s Ramji textiles @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.

(viii) She Received ₹ 60,000 by pre-mature withdrawals from deposit including interest ₹ 5,000, in post office time deposit, eligible for deduction under Section 80C.

(ix) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2021 for ₹ 5,00,000, which was acquired for ₹ 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of ₹ 50,000. (cost inflation index 2004-05:113, 2007-08:129 and 2021-22:317)

(x) She received a gold coin (bullion) worth ₹ 55,000 (FMV) from her cousin (daughter of uncle) during the previous year 2021-22.

(xi) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) ₹ 75,000.

(xii) She deposited a sum of ₹ 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.

(xiii) She purchased the new residential house during the previous year and paid stamp duty and registration fee ₹ 1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs. Nisha for the assessment year 2022-23. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary.

(14 Marks)

Answer

Computation of total income of Mrs. Nisha for A.Y. 2022-23

	Particulars	₹	₹	₹
I.	**Income from business or profession**			
	Net Profit as per profit and loss account		5,61,000	
	***Add*: Items not credited but taxable while computing business income**			
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2021-22 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		

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	- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
			2,10,000	
			7,71,000	
	***Less*: Items not debited but allowable while computing business income**			
	- Job charges without deduction of tax [₹ 90,000 – 30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2020-21 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia). Remaining job charges paid would be allowable as deduction while computing business income	63,000		
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash by virtue of section 40A(3)]	-		
			63,000	
			7,08,000	
	Less: Depreciation as per Income-tax Rules			
	Opening WDV of machinery 4,75,000			
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2021-22 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new			

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	machinery is to be reduced from actual cost (₹ 7,25,000 – ₹ 1,45,000).	5,80,000			
		10,55,000			
	Less: Sale proceeds	75,000			
	WDV as on 31.3.2022 before depreciation for P.Y. 2021-22	9,80,000			
	Depreciation @15% on ₹ 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y. 2021-22, depreciation and additional depreciation will be allowed in full)			2,63,000	
				4,45,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			1,17,500	
					3,27,500
II	**Capital Gains**				
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months				
	Sales consideration		5,00,000		
	Less: Cost of acquisition (40,000 x 317/113)		1,12,212		
	Less: Cost of improvement (50,000 x 317/129)		1,22,868		
	Long- term capital gain on sale of gold bracelet			2,64,920	
	Note – *In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the question but only stamp*				

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	duty and registration fee is given which would also be the part of cost of house. In such case exemption u/s 54F would be ₹ 2,64,920 x 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be ₹ 1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would be ₹ 5,060 (instead of ₹ 12,500) and tax liability of Mrs. Nisha would be Nil (instead of ₹ 9,340).			
	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70.		75,000	
				1,89,920
III	**Income from Other Sources**			
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]		55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawal from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha]		60,000	1,15,000
	Gross Total Income			**6,32,420**
	Less: **Deduction under Chapter VI-A**			
	Deduction under section 80C			
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to		1,50,000	
	Deduction under section 80DD			
	Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]		1,25,000	2,75,000
	Total Income			**3,57,420**

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Computation of tax liability of Mrs. Nisha for A.Y.2022-23

Particulars	₹
Tax on long-term capital gains @20% on ₹ 1,07,420 [₹ 1,89,920 – ₹ 82,500, being unexhausted basic exemption limit (₹ 2,50,000 – ₹1,67,500)]	21,484
Tax on other income of ₹ 1,67,500 [₹ 3,57,420 – ₹ 1,89,920, being LTCG], being lower than the basic exemption limit	Nil
	21,484
Less: Rebate u/s 87A [Tax payable or ₹12,500, whichever is less]	**12,500**
	8,984
Add: Health and education cess@4%	359
Tax liability	**9,343**
Tax liability (rounded off)	9,340

Note - The last two lines in the first para of the question reads as follows–

"The net profit as per the profit and loss account as on 31.3.2022 is ₹ 5,61,000. ***She provides the following additional information those were not considered while making the profit and loss account for the previous year 2021-22"***

Items (i) to (xiii) are listed thereunder.

On a plain reading of the above sentences, it appears that none of the expenditures/receipts in (i) to (xiii) were considered while making the profit and loss account. The above solution has been prepared accordingly.

*Alternatively, it is possible to interpret the last sentence (**bold underlined above**) to mean that as far as items (iii) and (v) are concerned, wherein disallowance of expenditure is attracted u/s 40(a)(ia) and 40A(3), respectively, such disallowances (and not the expenditure itself) were not considered while making the profit and loss account of the previous year 2021-22. If so interpreted, then, for item (iii), instead of reducing ₹ 63,000, ₹ 27,000 has to be added back. Likewise for item (v), ₹ 25,000 has to be added back. In such a case, profits and gains from business and profession, Gross Total Income, Total Income and Tax Payable would change accordingly. An alternate solution based on this interpretation has been worked out as follows:*

Alternate solution

Computation of total income of Mrs. Nisha for A.Y. 2022-23

	Particulars	₹	₹	₹
I.	**Income from business or profession**			
	Net Profit as per profit and loss account		5,61,000	

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	***Add*: Items not credited but taxable while computing business income**			
	- Commission from agent on settlement [Since deduction was allowed in respect of commission in earlier year and during the P.Y. 2021-22 Mrs. Nisha received back such amount due to settlement, the same would be deemed as her income]	50,000		
	- Interest on capital from partnership firm [₹ 2,00,000/15% x 12%] [Since interest on capital from M/s Ramji textiles is authorized by partnership deed, interest@12% p.a. would be allowed as deduction in the hands of firm under section 40(b). Consequently, interest @ 12% p.a. would be the business income of Mrs. Nisha under section 28. For allowability of interest in the hands of the firm, there is no requirement that the partner should be a working partner]	1,60,000		
			2,10,000	
			7,71,000	
	***Add*: Disallowances not considered while computing business income**			
	- Job charges without deduction of tax [30% of ₹ 90,000] [Mrs. Nisha's turnover for the P.Y. 2020-21 exceeds ₹ 1 crore, hence, she is liable to deduct tax at source u/s 194C on Job charges of ₹ 90,000. Since Mrs. Nisha has not deducted tax at source on ₹ 90,000, 30% would be disallowed under section 40(a)(ia).	27,000		
	- Payment to creditor in cash [Payment to creditor in cash is not allowable as business expenditure, since such amount exceeds ₹ 10,000 and paid in cash as per section 40A(3)]	25,000		
			52,000	
			8,23,000	

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	Less: Depreciation as per Income-tax Rules				
	Opening WDV of machinery	4,75,000			
	Add: Purchase of machinery for ₹ 7,25,000 during the P.Y. 2021-22 by A/c payee cheque. Subsidy of ₹ 1,45,000, being 20% of cost, received from Central Government on new machinery is to be reduced from actual cost (₹ 7,25,000 – ₹ 1,45,000).	**5,80,000**			
		10,55,000			
	Less: Sale proceeds	75,000			
	WDV as on 31.3.2022 before depreciation for P.Y. 2021-22	9,80,000			
	Depreciation @15% on ₹ 9,80,000		1,47,000		
	Additional Depreciation@20% on ₹ 5,80,000		1,16,000		
	(As new machinery is used in manufacturing business and put to use for more than 180 days in the P.Y.2021-22, depreciation and additional depreciation will be allowed in full)			2,63,000	
				5,60,000	
	Less: Loss from eligible transaction carried out in respect of trading in derivatives in a recognized stock exchange is not a speculative business and hence, the same is allowed to be set off from textile business income as per section 70.			1,17,500	
					4,42,500
II	**Capital Gains**				
	Long term capital gain on sale of gold bracelet since it is held for more than 36 months				
	Sales consideration		5,00,000		
	Less: Cost of acquisition (40,000 x 317/113)		1,12,212		
	Less: Cost of improvement (50,000 x 317/129)		1,22,868		

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	Long- term capital gain on sale of gold bracelet	2,64,920	
	Note – *In the additional information (xiii), it is mentioned that Mrs. Nisha has purchased a new residential house during the previous year. In such a case, she would be eligible for exemption u/s 54F in respect of amount invested in purchase of new residential house from long term capital gain on sale of gold bracelet. However, the cost of new residential house is not provided in the question but only stamp duty and registration fee is given which would also be the part of cost of house. In such case, exemption u/s 54F would be ₹ 2,64,920 x 1,55,000/5,00,000 = ₹ 82,125. Accordingly, long term capital gain would be ₹ 1,07,795 (instead of ₹ 1,89,920). In such a case, Rebate u/s 87A would remain as ₹ 12,500 and tax liability of Mrs. Nisha would be ₹ 11,111, before rounding off (instead of ₹ 28,193).*		
	Less: Long term capital loss from sale of STT paid shares of an Indian company allowed to be set off from long term capital gain on sale of gold bracelet as per section 70	75,000	
			1,89,920
III	**Income from Other Sources**		
	Fair market value of gold coin received from cousin [Taxable u/s 56(2)(x), since cousin is not a relative and the fair market value exceeds ₹ 50,000]	55,000	
	Pre-mature withdrawal from post office time deposit [Amount including interest received on pre-mature withdrawn from post office time deposit, in respect of which deduction u/s 80C was claimed, would be deemed to be the income of Mrs. Nisha	60,000	
			1,15,000
	Gross Total Income		**7,47,420**
	Less: **Deduction under Chapter VI-A**		
	Deduction under section 80C		
	Stamp duty and registration fee of ₹ 1,55,000 for the purpose of transfer of house property, restricted to	1,50,000	

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	Deduction under section 80DD Sum deposited with LIC for the maintenance of her dependent mother and suffering from severe disability [Eligible for higher deduction ₹1,25,000 in case of severe disability irrespective of amount deposited with LIC]		1,25,000	2,75,000
	Total Income			**4,72,420**

Computation of tax payable by Mrs. Nisha for A.Y.2022-23

Particulars	₹
Tax on long-term capital gains @20% on ₹1,89,920	37,984
Tax on other income of ₹ 2,82,500 [₹ 4,72,420 – ₹ 1,89,920, being LTCG] – 5% of ₹ 32,500 (₹ 2,82,500 – basic exemption limit ₹ 2,50,000)	1,625
	39,609
Less: Rebate u/s 87A [Tax payable or ₹ 12,500, whichever is less]	12,500
	27,109
Add: Health and education cess@4%	1,084
Tax Payable	**28,193**
Tax Payable (rounded off)	28,190

Question 2

(a) Discuss the liability of tax deduction at source under the Income-tax Act, 1961 in respect of the following cases with reference to A.Y. 2022-23.

(i) XY a partnership firm is selling its product 'R' through the E-commerce Platform provided by AB Ltd. (E-commerce Operator). AB Ltd., credited in its books of account, the account of XY on 28th February, 2022 by sum of ₹4,90,000 for the sale of product R, made during the month February, 2022.

Mr. Rai, who purchased product 'R' through the platform provided by AB Ltd. made payment of ₹60,000 directly to XY on 21st February, 2022.

(ii) ABC Ltd is a producer of natural gas. During the year it sold natural gas worth ₹26,50,000 to M/s Deep Co., a partnership firm. It also incurred ₹1,70,000 as freight for the transportation of gas. It raised the invoice and clearly segregated the value of gas as well as the transportation charges.

(iii) ABC LLP paid job charges to XYZ, a partnership firm for doing embroidery work on the fabric supplied by the ABC LLP during the previous year 2021-22 as under:

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BILL NO.	DATE	AMOUNT ₹
1	30-04-2021	27,000
57	30-06-2021	25,000
105	30-09-2021	28,000
151	30-12-2021	32,000

(6 Marks)

(b) *Mr. Harsh furnishes the following details for the year ended on 31-03-2022:*

PARTICULARS	AMOUNT (₹)
Salary received from partnership firm (the same was allowed to the firm)	8,50,000
Loss on sale of shares listed in stock exchange held for 18 months and the STT paid on the sale and acquisition	6,00,000
Long term capital gain on sale of land	5,00,000
Brought forward business loss of assessment year 2014-15	6,00,000
Loss of the specified business covered in Section 35AD	3,50,000
Loss from house property	2,50,000
Income from betting (gross)	50,000
Loss from card games	35,000

Compute the total income and show the item eligible for carry forward of Mr. Harsh for the assessment year 2022-23. **(4 Marks)**

(c) *Mr. Sarthak is a member of HUF. It consists of himself, his wife Juhi and his major son Arjun and his minor daughter Aditi. Mr. Sarthak transferred his house property acquired through his personal income to the HUF without any consideration.*

On 01-10-2021, HUF is partitioned and such property being divided equally. Net annual value of the property for the Previous Year 2021-22 is ₹ 1,00,000. Determine the tax implications. **(4 Marks)**

Answer

(a) (i) AB Ltd, an e-commerce operator is required to deduct tax @1% under section 194-O on ₹ 5,50,000 (i.e., ₹ 4,90,000 credited on 28.2.2022 *plus* deemed payment of ₹ 60,000 on 21.2.2022, being payment directly made by Mr. Rai to the e-commerce participant XY), being the gross amount of sale of product 'R' of XY, an e-commerce participant, since such sale is effected in February, 2022 is facilitated by AB Ltd. through its e-commerce platform.

Hence, TDS u/s 194O = 1% on ₹ 5,50,000 = ₹ 5,500

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(ii) Since ABC Ltd., being the producer of the natural gas, sells as well as transports the gas to M/s. Deep Co., the purchaser, till the point of delivery, where the ownership of gas is simultaneously transferred to M/s. Deep Co, the manner of raising the invoice (whether the transportation charges are embedded in the cost of gas or shown separately) does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C.

Therefore, in such circumstances, the TDS provisions would not be attracted on ₹1,70,000, being the component of gas transportation charges paid by M/s. Deep Co. to ABC Ltd.

Alternate Answer:

The above solution is based on Circular No. 9/2012 dated 17.10.2012, wherein it has been clarified that in case the Owner/Seller of the gas sells as well as transports the gas to the purchaser till the point of delivery, where the ownership of gas to the purchaser is simultaneously transferred, the manner of raising the sale bill, does not alter the basic nature of such contract which remains essentially a 'contract for sale' and not a 'works contract' as envisaged in section 194C of the Act.

Since, the question is silent on the timing of the transfer of ownership of the gas to the purchaser, an assumption that the ownership of the gas to the purchaser is transferred before its transportation is possible. In such a case, the transportation of gas after transfer of ownership may be considered as a separate contract for transportation of gas i.e. 'works contract' u/s 194C, and hence TDS @ 2% has to be deducted by M/s. Deep Co. on ₹ 1,70,000/- i.e. ₹ 3,400/-.

(iii) In this case, the individual contract payments (through the bills dated 30.4.2021, 30.6.2021 and 30.9.2021) made by ABC LLP to XYZ does not exceed ₹ 30,000. However, since the aggregate amount paid to XYZ during the P.Y. 2021-22 exceeds ₹ 1,00,000 (on account of the last payment of ₹ 32,000, due on 30.12.2021, taking the total from ₹ 80,000 to ₹ 1,12,000), the TDS provisions under section 194C would get attracted on the entire sum of ₹ 1,12,000.

Tax has to be deducted @ 2% (since payment is to a firm, XYZ) on the entire amount of ₹ 1,12,000, from the last payment of ₹ 32,000 on 30.12.2021.

Hence, TDS u/s 194C = ₹ 2,240.

(b) Computation of total income of Mr. Harsh for the A.Y.2022-23

Particulars	₹	₹
Profits and gains from business and profession		
Salary received from partnership firm (would be fully taxable in the hands of Mr. Harsh as business income, since the same was allowed to the firm as deduction)	8,50,000	

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Less: Loss from house property ₹ 2,50,000 (can be set-off against income from any other head only to the extent of ₹ 2 lakh)	2,00,000	
	6,50,000	
Less: Set-off of brought forward business loss of A.Y. 2014-15 (since the eight year time period for set-off has not expired)	6,00,000	
		50,000
Capital Gains		
Long-term capital gain on sale of land	5,00,000	
Less: Set-off of long-term capital losses (since held for 18 months i.e., more than 12 months) on sale of STT paid listed shares [Such set-off is permissible since it is a loss from a source of income taxable u/s 112A]	5,00,000	-
Income from Other Sources		
Income from betting (gross)		50,000
[No Loss can be set off against income from betting]		
Loss of ₹ 35,000 from card games can neither be set-off nor be carried forward		-
Total Income		**1,00,000**
Losses to be carried forward to A.Y. 2023-24		**₹**
Loss from house property (₹ 2,50,000 – ₹ 2,00,000)		50,000
Loss from specified business covered u/s 35AD [Entire loss is to be carried forward, since there is no income from any specified business for A.Y.2022-23. Such loss has to be carried forward for set-off against income from any specified business in A.Y.2023-24]		3,50,000
Long-term capital loss on sale of listed shares (STT paid) [₹ 6,00,000 – ₹ 5,00,000]		1,00,000

(c)

	₹
Since Mr. Sarthak, who is a member of the HUF, transfers the house property acquired by him out of his personal income to the HUF without any consideration, the income from such property would continue to be included in his total income upto the date of partition. Accordingly, income from such property for six months upto the date of partition i.e., 30.9.2021 (6/12 x ₹ 70,000 [Net Annual Value of ₹ 1,00,000 *less*	35,000

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deduction under section 24(a) @30%) would be included in the total income of Mr. Sarthak.	
Since the HUF was partitioned on 1.10.2021, the income derived from such converted house property as is received by Mr. Sarthak's spouse, Juhi, on partition will be deemed to arise to Mr. Sarthak from house property transferred indirectly by him to her and consequently, such income would also be included in the total income of Mr. Sarthak. Accordingly, Mr. Sarthak's share (25%) and Juhi's share (25%) would be included in the total income of Mr. Sarthak.	
Sarthak's Share [25% of ₹ 35,000 (₹ 70,000 x 6/12)]	8,750
Juhi's Share [25% of ₹ 35,000] included in the total income of Sarthak	8,750
Income from house property includible in the income of Mr. Sarthak	**52,500**
25% share of Sarthak's minor daughter, Aditi, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in the total income of Mr. Sarthak or Juhi, whosoever's total income, before including Aditi's income, is higher. Such parent shall be entitled to an exemption of ₹ 1,500 under section 10(32). 25% share of Sarthak's major son, Arjun, i.e., ₹ 8,750, being 25% of ₹ 35,000, would be included in Arjun's total income. Distribution of house property on partition of HUF is **not** a transfer for levy of capital gains tax.	

Question 3

(a) Mr. Lalit, a dealer in shares and securities, has entered into following transactions during the previous year 2021-22:

(i) Received a motor car of ₹ 5,00,000 as gift from his friend Sunil on the occasion of his marriage anniversary.

(ii) Cash gift of ₹ 21,000 each from his four friends.

(iii) Land at Jaipur on 1st July,2021 as a gift from his friend Kabra, the stamp duty value of the land is ₹ 6 lakhs as on the date. The land was acquired by Mr. Kabra in the previous year 2001-02 for ₹ 2 lakhs.

Mr. Lalit purchased from his friend Mr. Abhishek, who is also a dealer in shares, 1000 shares of ABC Ltd. @400 each on 19th June,2021 the fair market value of which was ₹ 600 each on that date. Mr. Lalit sold these shares in the course of his business on 23rd June,2021.

Further, on 1st November, 2021, Mr. Lalit took possession of his residential house booked by him two years back at ₹ 20 lakh. The stamp duty value of the property as on 1st November, 2021 was ₹ 32 lakh and on the date of booking was ₹ 24 lakh. He had paid ₹ 1 lakh by account payee cheque as down payment on the date of booking.

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He received a shop (building) of the fair market value ₹ 1,50,000 and cash ₹ 50,000 in distribution from the ABC (P) Ltd at the time of liquidation process of the company in proportion of his share capital. The balance in general reserve of the company attributable to his share capital is ₹ 1,25,000.

On 1st March,2022, he sold the plot of land at Jaipur for ₹ 8 lakh.

The value of the cost inflation index is 100 and 317 for the previous year 2001-02 and 2021-22 respectively.

Compute the income of Mr. Lalit chargeable under the head "Income from other sources" and "Capital Gains" for A.Y. 2022-23. ***(8 Marks)***

(b) *Mrs. Shruti is an Indian citizen, is currently in employment with an overseas company located in UAE. During the previous year 2021-22, she comes to India for 157 days. She is in India for 200 days, 100 days, 76 days and 45 days in the financial years 2017-18, 2018-19, 2019-20 and 2020-21, respectively. Her annual income for the previous year 2021-22 is as follows:*

Particulars	*Amount (₹)*
Income from salary earned and received in UAE	*2,00,000*
Income earned and received from a house property situated in UAE	*5,00,000*
Income deemed to be accrued and arise in India	*5,00,000*
Income from retail business (accrued and received outside India, controlled from India)	*10,00,000*
Income accrued and arise in India	*3,00,000*
Life insurance premium paid by cheque in India	*1,50,000*

Determine the residential status of Mrs. Shruti for the assessment year 2022-23. (Support your Answer with computation) ***(4 Marks)***

(c) *The assessee is found to be the owner of the gold (market value of which is ₹ 50,00,000) during the financial year ending 31-03-2022 but he recorded to have spent ₹ 10,00,000 in acquiring the same. Explain how the Assessing Officer will deal with the issue.* ***(2 Marks)***

Answer

(a) Computation of "Income from Other Sources" of Mr. Lalit for the A.Y. 2022-23

	Particulars	₹
(i)	Motor car is not included in the definition of "property" for the purpose of section 56(2)(x), hence, value of the same is **not** taxable, even though it is received without any consideration.	-
(ii)	Cash gift is taxable under section 56(2)(x) [since the aggregate of ₹ 84,000 (₹ 21,000 x 4) exceeds ₹ 50,000]	84,000

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(iii)	Stamp value of plot of land at Jaipur, received without consideration, is taxable under section 56(2)(x), since the same exceeds ₹ 50,000	6,00,000
(iv)	Difference of ₹ 2 lakh [1000 shares x ₹ 200] in the value of shares of ABC Ltd. purchased from Mr. Abhishek, a dealer in shares, is **not** taxable as it represents the stock-in-trade of Mr. Lalit (since he is a dealer in shares) and not capital asset.[1]	-
(v)	Difference between the stamp duty value of ₹ 24 lakh on the date of booking (since advance was paid by account payee cheque on that date) and the actual consideration of ₹ 20 lakh paid is taxable under section 56(2)(x) since the difference exceeds ₹ 2,00,000, being the higher of ₹ 50,000 and 10% of consideration	4,00,000
(vi)	Distribution of assets by ABC (P) Ltd. on liquidation attributable to the accumulated profits (general reserve) of the company is taxable as dividend under section 2(22)(c).	1,25,000
Income taxable under the head "Income from other sources"		**12,09,000**

Computation of "Capital Gains" of Mr. Lalit for the A.Y.2022-23

Particulars	₹
Capital gains on sale of land at Jaipur	
Sale Consideration	8,00,000
Less: Cost of acquisition [deemed to be the stamp value charged to tax under section 56(2)(x)]	6,00,000
Short-term capital gains (since held for a period of not more than 24 months. Period of holding of previous owner, Mr. Kabra, not to be considered)	**2,00,000**
Capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
Full value of consideration for capital gains on distribution of assets on liquidation of ABC (P) Ltd.	
FMV of assets distributed	1,50,000
Cash	50,000
	2,00,000
Less: Deemed dividend under section 2(22)(c)	1,25,000
Full value of consideration for computing capital gains	**75,000**

[1] *Since Mr. Lalit is a dealer in shares and it has been mentioned that the shares were subsequently sold in the course of his business, such shares represent the stock-in-trade of Mr. Lalit.*

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Note -

*(i) As cost of acquisition of shares in ABC(P) Ltd. is **not** given in the question, capital gains on distribution of assets on liquidation of ABC(P) Ltd. in the hands of Mr. Lalit has not been computed.*

(ii) As per section 56(1)(i), dividend income is chargeable under the head "Income from Other Sources". Hence, deemed dividend u/s 2(22)(c) would be taxable under the head "Income from Other Sources" in the hands of Mr. Lalit, who is a dealer in shares[2].

(b) Mrs. Shruti is an Indian citizen in employment in UAE. She comes on a visit to India during the P.Y.2021-22 for 157 days.

Her stay in India in the four immediately preceding previous years is as follows :

P.Y.	No. of days
P.Y.2017-18	200
P.Y.2018-19	100
P.Y.2019-20	76
P.Y.2020-21	45
Total	**421**

Computation of Total Income of Mrs. Shruti (excluding income from foreign sources)

Particulars	₹
Income from salary earned and received in UAE (income from a foreign source, hence, to be excluded)	-
Income earned and received from a house property situated in UAE (income from a foreign source, hence, to be excluded)	-
Income deemed to accrue or arise in India	5,00,000
Income from retail business (to be included since the business is controlled from India, even though such income accrues and is received outside India)	10,00,000
Income accrued and arising in India	3,00,000
	18,00,000
Less: Deduction u/s 80C (LIC premium paid by cheque in India) – Assuming other conditions are fulfilled	1,50,000
Total income (excluding income from foreign sources)	**16,50,000**
Mrs. Shruti, an Indian citizen visiting India in the P.Y.2021-22, would be a resident in India for A.Y.2022-23, if she satisfies either of the following conditions -	

[2] *Alternatively, as per the tutorials given on the website of the Income-tax department, if shares are held for trading purposes, then the dividend income would be taxable under the head "Profits and gains of business or profession".*

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(i)	She is in India for **182 days** or more during the P.Y.2021-22 or
(ii)	She is in India for a period of **120 days** or more during the P.Y.2021-22 and her stay in India in the **four** immediately preceding previous years is **365 days** or more**.** [This condition will apply to her since she comes on a visit to India during the previous year 2021-22 and her total income (excluding income from foreign sources) is ₹ 16.50 lakhs, which exceeds the threshold of ₹ 15 lakhs]
This first condition is not satisfied since she is in India only for 157 days during the P.Y.2021-22. The second condition is satisfied, since she has stayed in India for 157 days during the P.Y.2021-22 and 421 days in the four immediately preceding previous years. Since she has become resident in India for A.Y.2022-23 by satisfying this condition, by default, she would be treated as resident but not ordinarily resident.	
Conclusion – Mrs. Shruti's residential status for A.Y.2022-23 is resident but not ordinarily resident.	

Note *– The provisions of section 6(1A) deeming an Indian citizen to be a resident but not ordinarily resident, irrespective of the period of her stay in India in the relevant previous year, if she is not liable to tax in any other country would not apply to Shruti, since she is a resident as per the provisions of section 6(1).*

(c) As per section 69B, if the assessee is found to be the owner of gold (market value of which is ₹ 50 lakhs) during the financial year ending 31.3.2022 but he has recorded to have spent only ₹ 10 lakhs in acquiring it, the Assessing Officer can add the difference of the market value of such gold and ₹ 10 lakhs i.e., ₹ 40 lakhs as the income of the assessee for A.Y.2022-23, if the assessee offers no satisfactory explanation thereof.

Such income would be chargeable to tax@78% (@60% plus surcharge @25% and cess @4%).

Question 4

(a) From the following particulars furnished by Mr. Suresh, aged 53 years, a resident Indian for the previous year ended March 31, 2022, you are requested to compute his total income and tax payable for the Assessment Year 2022-23. (Assuming he does not opt for the Section 115BAC):

(i) He sold his vacant land on 09.12.2021 for ₹ 15 lakhs. The Stamp Duty Value (SDV) of land at the time of transfer was ₹ 19 lakhs. The fair market value of the land as on 1st April, 2001 was ₹ 6 lakhs (SDV is ₹ 5,00,000). This land was acquired by him on 05.08.1996 for ₹ 3.40 lakhs. He had incurred registration expenses of ₹ 15,000 at that time. The cost of inflation index for the year 2021-22 and 2001-02 are 317 and 100, respectively.

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(ii) *He owns an industrial undertaking established in a Special Economic Zone (SEZ) and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 300 lakhs, which includes ₹ 120 lakhs from export turnover. This industrial undertaking fulfils all the conditions of Section 10AA of the Income-tax Act, 1961. Profit from this industrial undertaking is ₹ 30 lakhs.*

(iii) *He has income of ₹ 10,000 from crossword puzzles and ₹ 15,000 gross interest from bank fixed deposit.*

(iv) *Tuition fees of ₹ 36,000 for his three children to a school. The fees being ₹ 12,000 p.a. per child.* **(6 Marks)**

(b) *Mr. Kabra is engaged in the business of growing and curing (further processing) coffee in the state of Karnataka. The whole of coffee grown in his plantation is cured. Relevant information pertaining to the year ended 31-03-2022 are given hereunder:*

PARTICULARS	AMOUNT ₹
Opening balance of the car as on 01-04-2021	3,00,000
Opening balance of machinery as on 01-04-2021	15,00,000
Expenses incurred in growing coffee	3,10,000
Expenses of curing coffee	3,00,000
Sale value of cured coffee	22,00,000

The car is used for the agricultural operations and the machine was used for coffee curing business operations. Compute the income arising from the above activities for the assessment year 2022-23 and the written down value as on 01-04-2022 (WDV as on 31-03-2022 less depreciation for the P.Y. 2021-22). **(4 Marks)**

(c) *Explain with brief reasons, whether the return of income can be revised under Section 139(5) of the Income-tax Act, 1961 in the following cases:*

(i) *Belated return filed under Section 139(4)*

(ii) *Return already revised twice under Section 139(5)*

(iii) *Return of loss filed under Section 139(3)*

OR

Due to some inconsistent information provided in the return of income furnished under Section 139(1), the Assessing Officer considers it defective under Section 139(9) of the Income-tax Act, 1961.

(i) *How, the Assessing Officer would deal with the issue?*

(ii) *What are the consequences if defect is not rectified within the time allowed?*

(iii) *Specify the remedies available if not rectified within time allowed by the Assessing Officer?* **(4 Marks)**

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Answer

(a) Computation of Total Income and Tax Payable by Mr. Suresh for A.Y. 2022-23

Particulars	Amount (₹)	Amount (₹)
Profits and gains from business or profession		
Profit from SEZ undertaking		30,00,000
Capital Gains		
Long term capital gain on sale of vacant land [since land held for a period of more than 24 months, it is long-term capital asset]		
As per section 50C, Full value of consideration would be stamp duty value since it exceeds 110% of actual sale consideration	19,00,000	
Less: Indexed cost of acquisition [₹ 5,00,000 x 317/100]	15,85,000	
Cost of acquisition, being higher of		3,15,000
- Actual cost (₹ 3,40,000 + ₹ 15,000) ₹ 3,55,000		
- lower of FMV of ₹ 6,00,000 and stamp duty value of ₹ 5,00,000 as on 1.4.2001 ₹ 5,00,000		
Income from other sources		
Income from crossword puzzles	10,000	
Interest on fixed deposit	15,000	
		25,000
Gross Total Income		**33,40,000**
***Less:* Deductions under Chapter VI-A**		
Under section 80C – Tuition fees of two children		24,000
Less: Deduction under section 10AA (₹ 30,00,000 x 120 lakhs/300 lakhs) x 100 %, being 3rd year of operation		12,00,000
Total Income		**21,16,000**
Computation of Tax payable on total income under the regular provisions of the Income-tax Act, 1961		
Tax on LTCG @ 20% of ₹ 3,15,000		63,000
Tax on income from crossword puzzles @30% of ₹ 10,000		3,000
Tax on remaining amount of ₹ 17,91,000 [₹ 2,37,300 (30% of ₹ 7,91,000) + ₹ 1,12,500]		3,49,800
		4,15,800

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Add: Health and education cess @4%		16,632
Tax Payable under the regular provisions of the Act		**4,32,432**
Tax Payable under the regular provisions of the Act (rounded off)		**4,32,430**

Computation of Adjusted Total Income and Alternate Minimum Tax (AMT) payable

Particulars	Amount (₹)
Total Income computed under the regular provisions of the Act	21,16,000
Add: Deduction u/s 10AA	12,00,000
Adjusted Total Income	**33,16,000**
Since Adjusted Total Income exceeds ₹ 20 lakhs, the provisions of Alternate Minimum Tax (AMT) are attracted in this case	
Alternate Minimum Tax@18.5%	6,13,460
Add: Health and Education cess@4%	24,538
AMT	**6,37,998**
AMT (rounded off)	6,38,000
Since the regular income-tax payable is less than the AMT payable, the adjusted total income of ₹ 33,16,000 shall be deemed as the total income and tax is leviable@18.5% thereof plus cess@4%. Therefore, his tax liability would be ₹ 6,38,000. However, he would be entitled to AMT credit of ₹ 2,05,570 (₹ 6,38,000 – ₹4,32,430)	

(b) Computation of Income from growing and curing coffee of Mr. Kabra for A.Y. 2022-23

Particulars	Amount (₹)	Amount (₹)
Income from growing and curing coffee		
Sale value of cured coffee		22,00,000
Less: Expenses incurred in growing coffee	3,10,000	
Depreciation on Car (15% of ₹ 3,00,000)	45,000	
		3,55,000
		18,45,000
Less: Expenses of curing coffee	3,00,000	
Depreciation on machinery (15% of ₹ 15,00,000)	2,25,000	
		5,25,000
		13,20,000
Business Income [25% of ₹ 13,20,000]		**3,30,000**
Agricultural Income [75% of ₹ 13,20,000]		**9,90,000**

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Computation of Written Down Value as on 1.4.2022		
Opening balance of Car as on 1.4.2021	3,00,000	
Less: Depreciation@15% on ₹ 3 lakh	45,000	
WDV of car as on 1.4.2022	**2,55,000**	
Opening balance of machinery as on 1.4.2021	15,00,000	
Less: Depreciation@15% on ₹ 15 lakh	2,25,000	
WDV of machinery as on 1.4.2022	**12,75,000**	

(c) First Alternative

Any person who has furnished a return under section 139(1) or 139(4) can file a revised return at any time

- before three months prior to the end of the relevant assessment year or
- before the completion of assessment,

whichever is earlier, if he discovers any omission or any wrong statement in the return filed earlier. Accordingly,

(i) A belated return filed under section 139(4) can be revised.

(ii) A return revised earlier can be revised again as the first revised return replaces the original return; and the second revised return replaces the earlier return filed.

(iii) A return of loss filed under section 139(3) is deemed to be return filed under section 139(1), and therefore, can be revised under section 139(5).

(c) Second Alternative

(i) Where the Assessing Officer considers that the return of income furnished by the assessee is defective,

- he may intimate the defect to the assessee and
- give him an opportunity to rectify the defect within a period of 15 days from the date of such intimation.

The Assessing Officer has the discretion to extend the time period beyond 15 days, on an application made by the assessee.

(ii) If the defect is not rectified within the period of 15 days or such further extended period, then, the return would be treated as an invalid return. The consequential effect would be the same as if the assessee had failed to furnish the return.

(iii) The Assessing Officer has the power to condone the delay and treat the return as a valid return, if the assessee has rectified the return after the expiry of 15 days or the further extended period, but before the assessment is made.

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SECTION B: INDIRECT TAXES

1. *Section B comprises of questions from 5-8. In Section B, answer question no. 5 which is compulsory and any two questions from question nos 6-8.*
2. *Working notes should form part of the answer.*
3. *All questions in Section B should be answered on the basis of position of GST law as amended by the significant notifications/ circulars issued upto 31st October, 2021.*

Question 5

Zeon Ltd., a GST registered supplier located in Ranchi, Jharkhand, is engaged in the manufacturing of washing machines & mixer grinders. It provides you the details of various activities undertaken during the month of September, 2021 as follows:

Sl. No.	Particulars			Amount (₹)
(i)	Outward supplies made during the month			
	a.	Within Jharkhand	₹ 24,00,000	29,00,000
	b.	Outside Jharkhand	₹ 5,00,000	
(ii)	Purchase of raw materials from registered dealers within Jharkhand which includes materials worth ₹ 2,00,000 purchased from Mr. Krishna, a registered person who is paying tax under composition scheme.			7,00,000
(iii)	Bus purchased from a registered dealer in Tatanagar, Jharkhand. Bus used to ferry its 25 workers to and from factory.			12,00,000

Assume the rates of GST applicable on various supplies as follows:

Nature of supply	CGST	SGST	IGST
Composition supplies	0.5%	0.5%	-
Bus	14%	14%	28%
Raw material	6%	6%	12%
Washing machines & mixer grinders	9%	9%	18%

Opening balances of input tax credit as on 01/09/2021 were as follows:

CGST (₹)	SGST (₹)	IGST (₹)
20,000	5,000	95,000

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Note:

(i) All the figures mentioned above are exclusive of taxes.

(ii) Both inward & outward supplies within the State of Jharkhand are to be considered intra-State supplies and outside the State of Jharkhand are inter-State supplies.

(iii) Subject to information given above, all the other conditions necessary for availing ITC have been fulfilled.

Calculate the amount of net minimum GST payable in cash by Zeon Ltd. for the month of September, 2021.

Brief and suitable notes should form part of your answer. ***(8 Marks)***

Answer

Computation of minimum net GST payable in cash by Zeon Ltd. for the month of September 2021

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Outward supplies made within Jharkhand	2,16,000 [24,00,000 × 9%]	2,16,000 [24,00,000 × 9%]	
Outward supplies made outside Jharkhand			90,000 [5,00,000 × 18%]
Total output tax	2,16,000	2,16,000	90,000
Less: Input Tax Credit [Refer Working Note below]	-	5,000 (IGST)	(90,000) (IGST)
[IGST credit be first utilized for payment of IGST liability. Remaining IGST credit has been utilized for payment of SGST liability since the SGST liability is to be kept at minimum.	2,16,000 (CGST)		
After exhausting IGST credit, CGST and SGST credit to be utilized. CGST credit to be utilized for payment of CGST and SGST credit to be utilized for the payment of SGST. ITC of CGST cannot be utilized for payment of SGST and *vice versa*.]		2,03,000 (SGST)	

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Minimum net GST payable in cash	**Nil**	**8,000**	**Nil**
ITC to be carried forward next month	2,000		

Working Note:

Computation of ITC available

Particulars	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Opening balance	20,000	5,000	95,000
Purchase of raw materials from registered dealers within Jharkhand [7,00,000 – 2,00,000] [ITC on purchases of goods worth ₹ 2,00,000 on which tax has been paid under composition scheme is blocked. ITC on remaining purchases worth ₹ 5,00,000 is available, being supply of goods used/intended to be used in the course/furtherance of business.]	30,000 [5,00,000 × 6%]	30,000 [5,00,000 × 6%]	
Bus purchased from dealer in Jharkhand used to ferry 25 workers to and from factory [ITC on motor vehicles for transportation of persons with seating capacity > 13 persons (including the driver) used for any purpose is allowed.]	1,68,000 [12,00,000 × 14%]	1,68,000 [12,00,000 × 14%]	
Total ITC available	**2,18,000**	**2,03,000**	**95,000**

Question 6

(a) XYZ Pvt. Ltd. provided the following particulars relating to goods sold by it to ABC Pvt. Ltd.:

Particulars	***Amount (₹)***
List price of the goods (exclusive of taxes and discount)	*50,000*
Tax levied by the Municipal Authority on the sale of such goods	*6,000*
Packing charges (not included in the list price above)	*2,500*

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Subsidy received from a NGO, directly linked to price (included in the list price above)	*3,000*
Paid to one of the vendors by ABC Pvt.in relation to the service provided by the vendor to XYZ Pvt. Ltd. (not included in the list price above)	*2,000*

XYZ Pvt. Ltd. offers 2% turnover discount on the list price after reviewing the performance of ABC Pvt. Ltd. The discount was not known at the time of supply.

ABC Pvt. Ltd. delayed the payment and paid ₹ 5,000 (including GST of 18%) as interest to XYZ Pvt. Ltd.

Determine the value of taxable supply made by XYZ Pvt. Ltd. under GST law. ***(6 Marks)***

(b) Examine whether the following activities would amount to "supply" under GST law?

(i) Glory Ltd. is engaged in manufacturing and selling of cosmetic products. Seva Trust, a charitable organisation, approached Glory Ltd. to provide financial assistance for its charitable activities. Glory Ltd. donated a sum of ₹ 2 lakh to Seva Trust with a condition that Seva Trust will place a hoarding at the entrance of the trust premises displaying picture of products sold by Glory Ltd. ***(2 Marks)***

(ii) Mr. Swamy of Chennai is working as a manager with ABC Bank. He consulted M/s. Jacobs and Company of London and took its advice for buying a residential house in Mumbai and paid them consultancy fee of 200 UK Pound for this import of service. ***(2 Marks)***

Answer

(a) Computation of value of taxable supply made by XYZ Pvt. Ltd.

Particulars	Amount (₹)
List price of the goods (exclusive of taxes and discounts)	50,000
Tax levied by Municipal Authority on the sale of such goods [Taxes other than GST, if charged separately, are includible in the value of supply.]	6,000
Packing charges [Being incidental expenses, same are includible in the value of supply.]	2,500
Subsidy received from NGO [Since subsidy is received from a non-Government body and directly linked to the price, the same is includible in the value of supply.]	Nil

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Payment made by ABC Pvt. Ltd. in relation to service provided by vendor to XYZ Pvt Ltd[1]. [Amount that supplier is liable to pay, but incurred by the recipient, is includible in the value of supply.]	2,000
Turnover discount [Since discount is not known at the time of supply, it is not deductible from the value of supply.]	-
Interest for delayed payment (rounded off) [Includible in the value of supply]	4,237 [5,000 × 100/118]
Value of taxable supply	**64,737**

(b) (i) An activity qualifies as supply under GST only if it is for a consideration and is in course/furtherance of business. Donations received by the charitable organizations are treated as consideration only when there's an obligation on part of the recipient of the donation to do anything.

Since in the given case, the display of products sold by the donor – Glory Ltd. - in charitable organization's premises aims at advertising/promotion of its business, it is supply for consideration in course/furtherance of business and thus, qualifies as supply under GST law.

(ii) Supply includes importation of services, for a consideration whether or not in the course/furtherance of business. Thus, in the given case, the import of services by Mr. Swamy amounts to supply although it is not in course/furtherance of business.

Question 7

(a) M/s. Xing Trans of Kolkata is engaged in the trading of transmitters. On 20/05/2021, M/s. Xing Trans has sent 500 units of transmitters for exhibition at Chennai on sale or return basis. Out of the said 500 units, 300 units have been sold on 28/07/2021 at the exhibition. Out of remaining 200 units, 150 units have been brought back to Kolkata on 25/11/2021 and balance 50 units have neither been sold nor brought back.

Explain the provisions under GST law relating to issue of invoices with exact dates on which tax invoices need to be issued by M/s. Xing Trans. ***(4 Marks)***

(b) "One consolidated e-way bill can be generated for multiple invoices". Comment on the validity of the above statement with reference to GST law. ***(3 Marks)***

(c) "All taxpayers are required to file GSTR-1 only after the end of the current tax period."

Comment on the validity of the above statement with reference to GST law. ***(3 Marks)***

[1] *It has been most logically assumed that service provided by the vendor to XYZ Pvt. Ltd. is in relation to supply of goods by XYZ Pvt. Ltd. to ABC Pvt. Ltd.*

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Answer

(a) Where the goods being sent for sale or return are removed before the supply takes place, the tax invoice shall be issued before or at the time of supply or 6 months from the date of removal, whichever is earlier.

In the given case, 500 units of transmitters have been sent for exhibition on sale or return basis out of which 300 units are sold before 6 months from the date of removal. Thus, tax invoice for said 300 units needs to be issued before or at the time of supply of such goods, i.e. upto 28/07/2021.

Remaining 200 (150+ 50) units have neither been sold nor brought back till the expiry of 6 months from the date of removal goods, i.e. 20/11/2021. Thus, tax invoice for said 200 units needs to be issued upto 20/11/2021.

(b) The statement is invalid.

Multiple invoices cannot be clubbed to generate one e-way bill. If multiple invoices are issued by the supplier to recipient, for movement of such goods, multiple e-way bills have to be generated.

Thus, for each invoice, one e-way bill has to be generated, irrespective of the fact whether same or different consignors or consignees are involved.

However, after generating all these e-way bills, one consolidated e-way bill can be prepared for transportation purpose, if goods are going in one vehicle.

(c) The statement is partially valid.

A taxpayer cannot file Form GSTR-1 before the end of the current tax period.

However, following are the exceptions to this rule:

a. Casual taxpayers, after the closure of their business

b. Cancellation of GSTIN of a normal taxpayer.

A taxpayer who has applied for cancellation of registration will be allowed to file Form GSTR-1 after confirming receipt of the application.

Question 8

(a) "Under the GST law, taxes on taxable services supplied by the Central Government or the State Government to a business entity in India are payable by recipient of services".

State the exceptions of the above statement. ***(5 Marks)***

(b) Mr. B, a registered supplier of Uttar Pradesh, is doing the trading of taxable goods. He approaches you to understand the manner of utilisation of available Input Tax Credit (ITC). With reference to provisions of payment of tax, state the manner of uilisation of ITC under GST law. ***(5 Marks)***

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OR

State any five circumstances under which the proper officer can cancel the registration on his own under the CGST Act, 2017.

Answer

(a) Tax on following services supplied by the Central Government or State Government to a business entity in India is payable by the supplier of services:

(1) services of renting of immovable property provided to an unregistered business entity.

(2) services by the Department of Posts by way of speed post, express parcel post, life insurance, and agency services provided to a person other than Central Government, State Government or Union territory or local authority.

(3) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport.

(4) services of transport of goods or passengers.

(b) The manner of utlisation of ITC under GST law is as under:

1. IGST credit should first be utilized towards payment of IGST.
2. Remaining IGST credit, if any, can be utilized towards payment of CGST and SGST/UTGST in any order and in any proportion.
3. Entire ITC of IGST should be fully utilized before utilizing the ITC of CGST or SGST/UTGST.
4. Subsequently, ITC of CGST should be utilized for payment of CGST and IGST in that order.
5. ITC of SGST /UTGST should be utilized for payment of SGST/UTGST and IGST in that order.
6. ITC of SGST/UTGST should be utilized for payment of IGST, only after ITC of CGST has been utilized fully.
7. ITC of SGST/UTGST cannot be utilized for payment of CGST and vice versa.

Answer to Alternative

(b) Circumstances under which the proper officer can cancel the registration on his own under the CGST Act, 2017:

(i) A registered person has contravened any of the following prescribed provisions of the GST law:

(a) he does not conduct any business from the declared place of business.

(b) he issues invoice/bill without supply of goods/services in violation of the provisions of GST law.

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(c) he violates the provisions of anti-profeetering.

(d) he violates the provisions relating to furnishing of bank details.

(e) he avails ITC in violation of the provisions of the GST law.

(f) furnishes the details of outward supplies in GSTR-1 for one or more tax periods which is in excess of the outward supplies declared by him in his valid return for the said tax periods.

(g) he violates the provision relating to restrictions on use of amount available in electronic credit ledger

(ii) A person paying tax under composition levy has not furnished returns for 3 consecutive tax periods.

(iii) A registered person paying tax under regular scheme has not furnished returns for continuous period of 6 months.

(iv) Voluntarily registered person has not commenced the business within 6 months from the date of registration.

(v) Registration was obtained by means of fraud, wilful misstatement or suppression of facts.

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