# INTERMEDIATE COURSE

## GROUP – I

# REVISION TEST PAPERS

## MAY, 2022

**BOARD OF STUDIES**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**

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# Contents

# REVISION TEST PAPER, MAY, 2022 – OBJECTIVE & APPROACH

***(Students are advised to go through the following paragraphs carefully to derive maximum benefit out of this RTP)***

## I Objective of Revision Test Paper

Revision Test Papers are one among the many educational inputs provided by the Board of Studies (BOS) to its students. Popularly referred to as RTP by the students, it is one of the very old publications of the BOS whose significance and relevance from the examination perspective has stood the test of time.

RTPs provide glimpses of not only the desirable ways in which examination questions are to be answered but also of the professional quality and standard of the answers expected of students in the examination. Further, aspirants can assess their level of preparation for the examination by answering various questions given in the RTP and can also update themselves with the latest developments in the various subjects relevant from the examination point of view.

The primary objectives of the RTP are:

- To help students get an insight of their preparedness for the forthcoming examination;
- To provide an opportunity for a student to find all the latest developments relevant for the forthcoming examination at one place;
- To supplement earlier studies;
- To enhance the confidence level of the students adequately; and
- To leverage the preparation of the students by giving guidance on how to approach the examinations.

RTPs contain the following:

(i) Planning and preparing for examination

(ii) Subject-wise guidance – An overview

(iii) Updates applicable for a particular exam in the relevant subjects

(iv) Topic-wise questions and detailed answers thereof in respect of each paper

(v) Relevant announcement applicable for the particular examination

Students must bear in mind that the RTP contains a variety of questions based on different sections of the syllabi and thus a comprehensive study of the entire syllabus is a pre-requisite before answering the questions of the RTP. In other words, in order to derive maximum benefit out of the RTPs, it is advised that before proceeding to solve the questions given in the RTP, students ought to have thoroughly read the Study Materials.

The topics on which the questions are set herein have been carefully selected and meticulous attention has been paid in framing different types of questions. Detailed answers are provided to enable the students to do a self-assessment and have a focused approach for effective preparation.

Students are welcome to send their suggestions for fine tuning the RTP to the Director, Board of Studies, The Institute of Chartered Accountants of India, A-29, Sector-62, Noida 201 309 (Uttar Pradesh). RTP is also available on the Institute's website *www.icai.org* under the BOS knowledge portal in students section for downloading.

## II. Planning and preparing for examination

Ideally, when the RTP reaches your hand, you must have finished reading the relevant Study Materials of all the subjects. Make sure that you have read the Study Materials thoroughly as they cover the syllabus comprehensively. Get a good grasp of the concepts/ provisions discussed therein. Solve each and every question/illustration given therein to understand the application of the concepts and provisions.

After reading the Study Materials thoroughly, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTP is in an effective tool to revise and refresh the concepts and provisions discussed in the Study Material. RTPs are provided to you to help you assess your level of preparation. Hence you must solve the questions given therein on your own and thereafter compare your answers with the answers given therein.

### Examination tips

How well a student fares in the examination depends upon the level and depth of his preparation. However, there are certain important points which can help a student better his performance in the examination. These useful tips are given below:

- Reach the examination hall well in time.
- As soon as you get the question paper, read it carefully and thoroughly. You are given separate 15 minutes for reading the question paper.
- Plan your time so that appropriate time is awarded for each question. Keep sometime for checking the answers as well.
- First impression is the last impression. The question which you can answer in the best manner should be attempted first.
- Always attempt to do all questions. Therefore, it is important that you must finish each question within allocated time.
- Read the question carefully more than once before starting the answer to understand very clearly as to what is required.
- Answer all parts of a question one after the other; do not answer different parts of the same question at different places.
- Write in a neat and legible hand-writing.

- Always be concise and write to the point and do not try to fill pages unnecessarily.
- There must be logical expression of the answer.
- In case a question is not clear, you may state your assumptions and then answer the question.
- Check your answers carefully and underline important points before leaving the examination hall.

**III. Subject-wise Guidance – An Overview**

## PAPER – 1 : ACCOUNTING

The Revisionary Test Paper (RTP) of Accounting is divided into two parts viz Part I - Relevant announcement stating Applicability and Non-Applicability for May, 2022 examination and Part II –Questions and Answers.

It may be noted that the September 2021 edition of the Study Material is relevant for May, 2022 Examination.

**Part I of the Revisionary Test** consists of the relevant notifications and information applicable and not applicable for May, 2022 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for May, 2022 examination. The brief summary of the same has been given as under:

**A. Applicable for May, 2022 examination:**

I. Amendments in Schedule III (Division I) to the Companies Act, 2013

II. Criteria for classification of Non-Company entities for applicability of Accounting Standards

**B. Not applicable for May, 2022 examination:**

Ind ASs issued by the Ministry of Corporate Affairs.

**Part II of the Revisionary Test Paper** consists of twenty questions together with their answers. First fifteen questions are based on different topics discussed in the study material. Last five questions of this RTP are based on Accounting Standards. For easy reference the topic / accounting standard name and number on which the question is based has been quoted at the top of each question. The details of topics, on which questions in the RTP are based, are as under:

| Question No. | Topic |
|---|---|
| 1 and 2. | Preparation of Statement of Profit and Loss and Balance Sheet of Company including Managerial Remuneration |
| 3. | Cash Flow Statement |
| 4. | Profit or Loss prior to Incorporation |

| | |
|---|---|
| 5. | Accounting for Bonus Issue |
| 6. | Issue of Right Shares |
| 7. | Redemption of Preference Shares |
| 8. | Redemption of Debentures |
| 9. | Investment Accounts |
| 10. | Insurance Claim for Loss of Stock |
| 11. | Hire purchase Transactions |
| 12. | Departmental Accounts |
| 13. | Branch Accounting |
| 14. | Accounts from Incomplete Records |
| 15 | Framework for Preparation and Presentation of Financial Statements |
| 16-20 | Accounting Standards |

Answers to the questions have been given in detail along with the working notes for easy understanding and comprehending the steps in solving the problems. The answers to the questions have been presented in the manner which is expected from the students in the examination. The students are expected to solve the questions under examination conditions and then compare their solutions with the solutions given in the Revisionary Test Paper and further strategize their preparation for scoring more marks in the examination.

## PAPER – 2: CORPORATE AND OTHER LAWS

In the paper of Corporate and Other Laws, for the 'Company Law' portion, the objective is 'To develop an understanding of the provisions of company law and acquire the ability to address application-oriented issues' and for 'Other Laws' the objective is 'To develop an understanding of the provisions of select legislations and acquire the ability to address application-oriented issues, and to develop an understanding of the rules for interpretation of statutes'. The students need to prepare on basis of the objective entrusted in the syllabus for the subject. Students should also give importance to the terms/definitions for proper conceptualization of the answers. Students have to focus their study based on the major legal provisions, case laws, if any, and understand their practical implications. Also, Language is an important point of concern. This problem among many of the candidates can be overcome by way of practice writing and also undertaking self-examination by going through Revisionary Test Papers (RTP).

RTP gives an idea to the student attempting law paper to give the answer of any practical oriented questions by pinpointing the legal points or issues involved in any statement, problem or situation given in the question, explaining the relevant legal provisions clearly, co-relating the legal provisions to the given statement or problem or situation and cite the relevant case law in support of their reasoning for reflecting on the quality of the answer. For the theoretical question, the answer should be laid down by highlighting the main points with brief description and explain the same with the help of an example.

Generally, the RTP is divided into two parts -

**Part I:** Containing the relevant legislative amendments which are applicable for May 2022 examinations.

**Part II:** Topic wise questions with detailed answers

RTP is broadly categorised into two divisions – Division A (Multiple Choice Question-Integrated Case Scenario and Independent MCQs) and Division B (Detailed Questions) with their answers. The sequencing of Division B is as follows:

| QUESTION NO. | ABOUT THE QUESTION |
|---|---|
| **1 – 8** | Based on the Companies Act, 2013 |
| **9** | Deals with the Indian Contract Act, 1872 |
| **10** | Deals with the Negotiable Instruments Act,1881 |
| **11** | Based on the General Clauses Act, 1897 |
| **12** | Interpretation of Statutes, Deeds and Documents |

**Guidance on the citation of the Case Laws and Section**

Students may kindly note that in view of various Acts covered under the subject, you may find it difficult to remember various sections of the law and related case laws on the matter. Case laws and citing of the Sections reflects on the quality of your preparation for the examination and making yourself set to become a perfect professional. The answers that are reflected here have reference to sections and case laws wherever applicable. It may kindly be noted that these are given for knowledge and to mainly inculcate such a habit. However, at this level it may not affect on the scoring of the marks.

## PAPER – 3: COST AND MANAGEMENT ACCOUNTING

The Revision Test Paper (RTP) of Cost and Management Accounting comprises of fourteen questions for full coverage of the syllabus. Theoretical questions along with computational problems have also been incorporated so that you are able to give emphasis to the theoretical portion of the syllabus as well. Since this paper's inclination is more towards numerical-oriented questions which involve mathematical calculations, therefore, it is very important that you have thoroughly studied the theoretical aspects of the subject and are also clear about the concepts and logic behind the mathematical workings and formulae.

A summary of the questions both theoretical and computational has been given for your reference:

| Q. No. | Topic | About the Problem |
|---|---|---|
| 1. | Material Cost | Calculation of cost per unit. |
| 2. | Employee cost | Calculation of wages payable. |
| 3. | Overheads | Distribution and re-distribution of overheads. |

| | | |
|---|---|---|
| 4. | Activity Based Costing (ABC) Method | Calculation of operating income using ABC costing. |
| 5. | Cost Sheet | Preparation of Statement of Cost. |
| 6. | Cost Accounting System | Preparation of Control accounts. |
| 7. | Batch Costing | Calculation of optimum run size and minimum inventory holding cost. |
| 8. | Job Costing | Preparation of Job cost sheet. |
| 9. | Process Costing | Preparation of Statement of equivalent production, cost per unit and process account. |
| 10. | Service Costing | Calculation of operating cost of vehicle. |
| 11. | Standard Costing | Calculation of Labour variances. |
| 12. | Marginal Costing | Calculation of PV ratio, total contribution, profit and Break-even sales. |
| 13. | Budget and Budgetary Control | Preparation of Revenue (Flexible) budget. |
| 14(a) | Introduction to Cost and Management Accounting | Controllable & uncontrollable costs. |
| 14(b) | Contract Costing | Cost plus contract. |
| 14(c) | Cost Accounting Systems | Reconciliation of cost accounts and financial accounts. |
| 14(d) | Introduction to Cost and Management Accounting | Information Technology in Cost Accounting. |

## PAPER – 4: TAXATION

### Section A: Income-tax Law (60 Marks)

The Income-tax law, as amended by the Finance Act, 2021 and significant notifications, circulars and other legislative amendments upto 31.10.2021 are relevant for May, 2022 Examination. The relevant assessment year for May, 2022 examination is A.Y. 2022-23.

The June, 2021 edition of the Study Material, comprising of three modules (Modules 1-3), is applicable for May, 2022 Examination. Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines"** in the initial pages of Module 1 of the Study Material.

The above referred study material has to be read along with Statutory Update for May, 2022 Examination webhosted at https://resource.cdn.icai.org/68038bos54507.pdf at BoS Knowledge Portal, which contains the significant notifications/circulars issued upto 31.10.2021, which are not included in the June, 2021 edition of the Study Material, but relevant for May, 2022 Examination.

You have to read the Study Material thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. The amendments made by the Finance Act, 2021 and latest notifications and circulars have been given in *italics/**bold italics***. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Work out the exercise questions at the end of each chapter and then, compare your answers with the answers given to test your level of understanding. Thereafter, solve all the questions in the January, 2022 edition of the publication "Booklet on MCQs & Case Scenarios" to hone your analytical and problem solving skills. This will help you gain speed and accuracy in solving MCQ based questions for 18 Marks.

Finally, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

**Section B: Indirect Taxes (40 Marks)**

For Section B: Indirect Taxes of Paper 4: Taxation, the provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the Finance Act, 2021, including significant notifications and circulars issued and other legislative amendments made, up to $31^{st}$ October, 2021, are applicable for May 2022 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of **"Study Guidelines for May, 2022 Examination"**. The same is given as part of "**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2022 - Intermediate Examination"** appended at the end of this Revision Test Paper.

The August, 2021 edition of the Study Material is applicable for Intermediate Course Paper 4: Taxation, Section B: Indirect Taxes. The Study Material has been divided into two modules for ease of handling by students.

Study Material is based on the provisions of the CGST Act and IGST Act as amended upto 30.04.2021. The amendments made by the notifications, circulars and other legislative amendments, between 01.05.2021 and 31.10.2021 in GST laws are given in the Statutory Update web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org. For the ease of reference, the amendments have been grouped into Chapters which correspond with the Chapters of the Study Material.

You have to read the Study Material alongwith the Statutory Update thoroughly to attain conceptual clarity. Tables, diagrams and flow charts have been extensively used to facilitate easy understanding of concepts. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your knowledge.

Thereafter, solve the questions given in this RTP independently and compare the same with the answers given to assess your level of preparedness for the examination.

## PAPER – 1: ACCOUNTING

### PART – I: ANNOUNCEMENTS STATING APPLICABILITY & NON-APPLICABILITY

**A. Applicable for May, 2022 examination**

**I. Amendments in Schedule III (Division I) to the Companies Act, 2013**

In exercise of the powers conferred by sub-section (1) of section 467 of the Companies Act, 2013 (18 of 2013), the Central Government made amendments in Schedule III (Division I) to the said Act, vide MCA Notification dated 24th March, 2021, applicable with effect from 1st day of April, 2021. These amendments have been incorporated in Annexure "Schedule III to the Companies Act" to chapter 4 of September, 2021 Edition. The students are advised to refer the link https://resource.cdn.icai.org/66494bos53751-cp4-annex.pdf for the revised content.

**II. Criteria for classification of Non-Company entities for applicability of Accounting Standards**

The Council, at its 400th meeting, held on March 18-19, 2021, revised the criteria relating to applicability of Accounting Standards issued by The Institute of Chartered Accountants of India (ICAI), to Non-company entities (Enterprises). The scheme for applicability of Accounting Standards to Non-company entities shall come into effect in respect of accounting periods commencing on or after April 1, 2020. For the purpose of applicability of Accounting Standards, Non-company entities are classified into four categories, viz., Level I, Level II, Level III and Level IV. Level I entities are large size entities, Level II entities are medium size entities, Level III entities are small size entities and Level IV entities are micro entities. Level IV, Level III and Level II entities are referred to as Micro, Small and Medium size entities (MSMEs). The terms 'Small and Medium Enterprise' and 'SME' used in Accounting Standards shall be read as 'Micro, Small and Medium size entity' and 'MSME' respectively. Level I entities are required to comply in full with all the Accounting Standards. However, certain exemptions/relaxations have been provided to Level II, Level III and Level IV Non-company entities.

The revised criteria for classification of Non-Company entities reg. applicability of Accounting Standards has been incorporated in the revised chapter 3 unit 1 of September, 2021 Edition of the Study Material. The students are advised to refer the link https://resource.cdn.icai.org/66492bos53751-cp3-u1.pdf for the revised content.

| |
|---|
| **NOTE:** September, 2021 Edition of the Study Material on Paper 1 Accounting is applicable for May, 2022 Examination which incorporates the above amendments. The students who have editions prior to September, 2021 may refer the uploaded chapters for the revised content. |

**B. Not applicable for May, 2022 examination**

**Non-Applicability of Ind AS for May, 2022 Examination**

The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS are not applicable for May, 2022 Examination.

## PART – II: QUESTIONS AND ANSWERS

## QUESTIONS

### Preparation of Statement of Profit and Loss and Balance Sheet

1. (a) Following is the trial balance of Delta limited as on 31.3.2021.

(Figures in ₹ '000)

| Particulars | Debit | Particulars | Credit |
|---|---|---|---|
| Land at cost | 800 | Equity share capital (shares of ₹ 10 each) | 500 |
| Calls in arrears | 5 | 10% Debentures | 300 |
| Cash in hand | 2 | General reserve | 150 |
| Plant & Machinery at cost | 824 | Profit & Loss A/c (balance on 1.4.20) | 75 |
| Trade receivables | 120 | Securities premium | 40 |
| Inventories (31-3-21) | 96 | Sales | 1200 |
| Cash at Bank | 28 | Trade payables | 30 |
| Adjusted Purchases | 400 | Provision for depreciation | 150 |
| Factory expenses | 80 | Suspense Account | 10 |
| Administrative expenses | 45 | | |
| Selling expenses | 25 | | |
| Debenture Interest | 30 | | |
| | 2455 | | 2455 |

Additional Information :

(i) The authorized share capital of the company is 80,000 shares of ₹ 10 each.

(ii) The company revalued the land at ₹ 9,60,000.

(iii) Equity share capital includes shares of ₹ 50,000 issued for consideration other than cash.

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2020. The cost of the machinery was ₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

(v) Depreciation is to be provided on plant and machinery at 10% on cost.

(vi) Balance at bank includes ₹ 5,000 with ABC Bank Ltd., which is not a Scheduled Bank.

(vii) Make provision for income tax @30%.

(viii) Trade receivables of ₹ 50,000 are due for more than six months.

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2021 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2021 as per Schedule III. Ignore previous year's figures & taxation.

(b) "Current maturities of long term borrowing are disclosed separately under the head Other current liabilities in the balance sheet of a company." You are required to comment in line with schedule III to the Companies Act 2013.

**Managerial remuneration**

2. The following is the extract of Balance Sheet of Jupiter Ltd. as at 31st March 2021:

| | ₹ |
|---|---|
| Equity and Liabilities | |
| ***Authorized Capital:*** | |
| 40,000, 14% preference shares of ₹ 100 | 40,00,000 |
| 4,00,000 Equity shares of ₹ 100 each | 4,00,00,000 |
| | 4,40,00,000 |
| **Issued and Subscribed Capital:** | |
| 30,000, 14% Preference Shares of ₹100 each, fully paid up | 30,00,000 |
| 2,40,000 Equity Shares of ₹100 each, ₹80 paid-up | 1,92,00,000 |
| Share Suspense Account | 40,00,000 |
| Reserve & Surplus: | |
| Capital reserves (60% is revaluation reserve) | 5,00,000 |
| Securities Premium | 1,00,000 |
| Secured loans: | |
| 15% Debentures | 1,30,00,000 |

| | |
|---|---:|
| Unsecured loans: | |
| Public deposits | 7,40,000 |
| Cash credit loan from IDBI (short term) | 9,30,000 |
| Current Liabilities: | |
| Trade payables | 6,90,000 |
| **Assets** | |
| Investment in Shares, debentures, etc. | 1,50,00,000 |
| Profit and Loss Account | 30,50,000 |
| Preliminary expenses not written off | 1,10,000 |

Share Suspense Account represents application money received on shares, the allotment of which is not yet made.

Jupiter Ltd. has been incurring losses for the last few years. Jupiter Ltd. has only one whole-time director.

You are required to compute effective capital as per provisions of schedule V to the Companies Act, 2013. Would your answer differ if Jupiter Ltd. is an investment company? Also calculate the amount of maximum remuneration that can be paid if no special resolution is passed at the general meeting of the company in respect of payment for a period not exceeding three years.

**Cash Flow Statement**

3. From the following details relating to the accounts of Omega Ltd. prepare Cash Flow Statement for the year ended 31st March, 2021:

| | 31.03.2021(₹) | 31.03.2020 (₹) |
|---|---:|---:|
| Share Capital | 14,00,000 | 11,20,000 |
| General Reserve | 5,60,000 | 3,50,000 |
| Profit and Loss Account | 1,40,000 | 84,000 |
| Debentures | 2,80,000 | - |
| Provision for taxation | 1,40,000 | 98,000 |
| Trade payables | 9,80,000 | 11,48,000 |
| Plant and Machinery | 9,80,000 | 7,00,000 |
| Land and Building | 8,40,000 | 5,60,000 |
| Investments | 1,40,000 | - |
| Trade receivables | 7,00,000 | 9,80,000 |
| Inventories | 5,60,000 | 2,80,000 |
| Cash in hand and at Bank | 2,80,000 | 2,80,000 |

(i) Depreciation @ 20% was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 70,000 (WDV 28,000) was sold for ₹ 49,000. Purchase of machinery was also made at the year end.

(iii) ₹ 70,000 was paid towards Income tax during the year.

(iv) Land & Building is not subject to any depreciation. Expenses on renovation of building amount ₹ 2,80,000 were incurred during the year.

Prepare Cash Flow Statement.

**Profit/Loss prior to Incorporation**

4. The partners of Shamsher converted their partnership firm into a Private Limited Company named Smriti (P) Ltd. w.e.f 1st January, 2020 which was incorporated on 1st June, 2020. The purchase consideration amounting to ₹ 11,40,000 was payable later on an interest of 12% per annum. To make the payment of purchase consideration and meet working capital requirements a loan worth ₹ 17,10,000 @ 10% per annum was availed on 1st June, 2020 & payment for purchase consideration was made. The company obtained a building on lease at a monthly rent of ₹ 19,000 on 1st July, 2020.Following is the information of the company as on 31st March, 2021 (for the period of 15 months):

| | ₹ | ₹ |
|---|---|---|
| Sales | | 37,62,000 |
| Less: | | |
| Cost of goods sold | 22,57,200 | |
| Discount | 87,780 | |
| Director's remuneration | 1,14,000 | |
| Salaries | 1,71,000 | |
| Rent | 2,56,500 | |
| Interest | 1,99,500 | |
| Depreciation | 57,000 | |
| Office expenses | 1,99,500 | |
| Sales promotion expenses | 62,700 | |
| Preliminary expenses | 28,500 | (34,33,680) |
| Profit | | 3,28,320 |

Sales between June 2020 and December, 2020 were 2 ½ times of the average sales, which further increased to 3½ times in January to March quarter, 2021. The salaries from July, 2020 doubled. Prepare a statement showing the calculation of profits or losses for the pre-incorporation and post-incorporation periods.

**Accounting for Bonus Issue**

5. Mobile Limited has authorized share capital of 1,00,000 equity shares @ ₹ 10 each. The company has already issued 60% of its capital for cash. Now the company wishes to issue bonus shares in the ratio 1:5 to its existing shareholders. The following is the status of Reserve and Surplus of the company:

| | |
|---|---|
| General Reserve | ₹ 1,60,000 |
| Plant Revaluation Reserve | ₹ 25,000 |
| Securities Premium Account (Realised in cash) | ₹ 60,000 |
| Capital Redemption Reserve | ₹ 80,000 |

Answer the following questions:

(a) What is the number of Bonus shares to be issued?

(b) Can company issue Bonus out of General Reserve only?

(c) Give Journal Entries and also give the extracts of the balance-sheet after such Bonus issue.

(d) Is it possible for the company to issue partly paid-up bonus shares?

**Issue of Right Shares**

6. (a) A company offers new right shares of ₹ 100 each at 20% premium to existing shareholders on one for four shares. The cum-right market price of a share is ₹ 140. You are required to calculate (i) Ex-right value of a share; (ii) Value of a right.

(b) A company having 1,00,000 shares of ₹ 10 each as its issued share capital, and having a market value of ₹ 45 issues rights shares in the ratio of 1:5 at an issue price of ₹ 25. Pass journal entry for issue of right shares.

**Redemption of Preference Shares**

7. Rohan Ltd. gives you following information as at 31st March, 2021:

| Particulars | | ₹ | ₹ |
|---|---|---|---|
| <u>Equity and Liabilities</u> | | | |
| Issued & subscribed capital: | | | |
| Equity shares capital: | | | |
| 60,000 Equity shares of ₹ 10 each fully paid up | | 6,00,000 | |
| 12% Redeemable Preference share Capital: | | | |
| 5,000 share of ₹ 100 each | 5,00,000 | | |
| Less: Calls in arrear | <u>(4,000)</u> | <u>4,96,000</u> | 10,96,000 |
| (final call of ₹ 20 on 200 shares) | | | |

| | | |
|---|---|---|
| Reserve & surplus | | |
| Profit and Loss Account | 3,00,000 | |
| Securities Premium Account | 30,000 | 3,30,000 |
| Non- current liability | | |
| Long term borrowings: 14% Debentures | | 1,50,000 |
| Current liabilities | | |
| Trade payables | | 74,000 |
| Assets | | |
| Non-current Assets | | |
| (i) Property, Plant & Equipment | | 13,00,000 |
| (ii) Non- current Investment | | 1,00,000 |
| Current Assets | | |
| (i) Inventory | | 50,000 |
| (ii) Trade Receivables | | 20,000 |
| (iii) Bank | | 1,80,000 |

On April 1, 2021, the Board of Directors decided to redeem the preference shares (excluding 200 shares on which there are calls in arrear) at 10% premium and to sell the investment at its market price of ₹ 80,000. They also decided to issue sufficient number of equity shares of ₹ 10 at a premium of ₹ 1 per share and the balance in profit and loss account was to be maintained at ₹ 1,00,000. Premium on redemption can't be set off against securities premium account as Rohan Ltd. is governed by section 133 of the Companies act, 2013 and comply with Accounting Standards.

You are required to show the journal entries and the balance sheet of the company immediately after completion of redemption as per Schedule III. Show working for availability of profits for redemption and determination of bank balance at the end. All the above formalities and transactions were completed up to the end of 15th May, 2021.

**Redemption of Debentures**

8. Case Ltd. (unlisted company other than AIFI, Banking company, NBFC and HFC) provides the following information as at 31st March, 2021:

| Particulars | ₹ |
|---|---|
| **Shareholder's Funds** | |
| (a) Share Capital | |
| Authorized share capital: | |
| 45,000 equity shares of ₹ 10 each fully paid | 4,50,000 |

| | |
|---|---|
| Issued and subscribed share capital: | |
| 30,000 equity shares of ₹ 10 each fully paid | 3,00,000 |
| (b) Reserves and Surplus | |
| Profit & Loss Account | 1,62,000 |
| Debenture Redemption Reserve | 18,000 |
| **Non-current liabilities** | |
| (a) Long term borrowings | |
| 12% Debentures | 1,80,000 |
| **Current Liabilities** | |
| (a) Trade payables | 1,72,500 |
| **Non-current assets** | |
| (a) Property, Plant and Equipment (Freehold property) | 1,72,500 |
| (b) Non-current Investment: DRR Investment | 27,000 |
| **Current assets** | |
| (a) Inventories | 2,02,500 |
| (b) Trade receivables | 1,12,500 |
| (c) Cash and bank balances: | |
| Cash at bank | 2,73,000 |
| Cash in hand | 45,000 |

At the Annual General Meeting on 1.4.2021, it was resolved:

(a) To give existing shareholders the option to purchase one ₹ 10 share at ₹ 15 for every four shares (held prior to the bonus distribution). This option was taken up by all the shareholders.

(b) To issue one bonus share for every five shares held.

(c) To repay the debentures at a premium of 3%.

Give the necessary journal entries and the company's Balance Sheet after these transactions are completed.

**Investment Accounts**

9. Mr. Wise had 12% Debentures of Face Value ₹ 100 of Alpha Ltd. as current investments.

He provides the following details relating to the investments.

| | |
|---|---|
| 1-4-2020 | Opening balance 4,000 debentures costing ₹ 98 each |
| 1-6-2020 | Purchased 2,000 debentures @ ₹ 120 cum interest |

| | |
|---|---|
| 1-9-2020 | Sold 3,000 debentures @ ₹ 110 cum interest |
| 1-12-2020 | Sold 2,000 debentures @ ₹ 105 ex interest |
| 31-1-2021 | Purchased 3,000 debentures @ ₹ 100 ex interest |
| 31-3-2021 | Market value of the investments ₹ 105 each |

Interest due dates are 30th June and 31st December.

Mr. Wise closes his books on 31-3-2021. He incurred 2% brokerage for all his transactions.

Show investment account in the books of Mr. Wise assuming FIFO method is followed.

**Insurance Claim for loss of stock**

10. A fire occurred in the premises of M/s Star & Sons on 21st March 2020. The concern had taken Insurance Policy of ₹ 70,000 which was subject to average clause. From the books of accounts, the following particulars are available relating to the period 1st April 2019 to March 21st 2020:

| | | |
|---|---|---|
| (i) | Stock as on April 1st 2019 | ₹ 1,50,500 |
| (ii) | Purchases (including purchase of ₹ 40,000 for which purchase invoices had not been received from suppliers, though goods have been received in godown) | ₹ 3,17,000 |
| (iii) | Cost of goods distributed as, samples for advertising from April 1st 2019 to the date of fire, included in above purchases | ₹ 32,000 |
| (iv) | Sales (excluding goods sold on approval basis having sale value ₹ 35,000) | ₹ 4,55,000 |
| | Approval has been received for all goods sold on approval basis, before the date of fire. | |
| (v) | Purchase return | ₹ 15,000 |
| (vi) | Wages (including salary of Manager ₹ 10000) | ₹ 65,000 |
| (vii) | Average Rate of Gross Profit @ 20% on sales. | |
| (viii) | Cost of goods salvaged | ₹ 12,000 |

You are required to calculate the amount of claim to be lodged to Insurance Company.

**Hire Purchase Transactions**

11. M/s Beta Enterprises bought 3 trucks from Gamma Ltd. on 01-04-2017 on the following terms:

| | ₹ |
|---|---|
| Down Payment | 6,50,000 |

| | |
|---|---|
| 3 Instalments to be paid, each at the end of each year:<br>1st Instalment ₹ 3,55,000<br>2nd Instalment ₹ 3,38,000<br>3rd Instalment ₹ 3,30,000<br>Interest is charged @ 10 % p.a. and included in above instalments.<br>M/s Beta Enterprises provides depreciation @ 20 % on the diminishing balance of the Trucks | |

On 31st March, 2020, M/s Beta Enterprises failed to pay the 3rd Instalment upon which Gamma Ltd. repossessed 1 truck. Gamma Ltd. agreed to leave 2 trucks with M/s Beta Enterprises and adjusted the value of 1 truck against the amount due.

The truck taken over was valued on the basis of 30% depreciation annually on written down value basis.

The balance amount remaining in the Vendor's Account after the above adjustment was paid by M/s. Beta Enterprises after 2 months with interest @ 18 % p.a.

You are required to:

(i) Calculate the Cash Price of the trucks and the amount of Interest paid with each instalment.

(ii) Prepare Truck Account, Gamma Ltd.'s Account in the books of M/s Beta Enterprises assuming that the books of accounts are closed on 31st March every year.

**Departmental Accounts**

12. P Ltd. has two Departments X and Y. From the following particulars you are required to prepare Departmental Trading Account and Combined Trading and P & L Account for the year ending 31st March, 2021.

| Particulars | Department X<br>₹ | Department Y<br>₹ |
|---|---|---|
| Opening stock (at Cost) | 70,000 | 54,000 |
| Purchase | 2,14,000 | 1,66,000 |
| Carriage inwards | 6,000 | 6,000 |
| Wages | 21,000 | 24,450 |
| Sales | 3,10,000 | 2,54,000 |
| Purchased goods transferred by Dept. Y to Dept. X | 30,000 | - |
| Purchased goods transferred by Dept. X to Dept. Y | - | 24,000 |
| Finished goods transferred by Dept. Y to Dept. X | 80,000 | - |
| Finished goods transferred by Dept. X to Dept. Y | - | 1,00,000 |

| | | |
|---|---:|---:|
| Return of Finished Goods by Dept. Y to Dept. X | 25,000 | - |
| Return of Finished Goods by Dept. X to Dept. Y | - | 17,000 |
| Closing Stock of Purchased Goods | 12,000 | 15,000 |
| Closing Stock of Finished Goods | 60,000 | 35,000 |

Purchased goods have been transferred mutually at their respective departmental purchase cost and finished goods at departmental market price and that 20% of the finished stock (closing) at each department represented finished goods received from the other department.

**Accounting for Branches**

13. Mr. Chena Swami of Chennai trades in Refined Oil and Ghee. It has a branch at Salem. He despatches 30 tins of Refined Oil @ ₹ 1,500 per tin and 20 tins of Ghee @ ₹ 5,000 per tin on 1st of every month. The Branch has incurred expenditure of ₹ 45,890 which is met out of its collections; this is in addition to expenditure directly paid by Head Office.

Following are the other details:

| | Chennai H.O. | Salem B.O. |
|---|---:|---:|
| | Amount (₹) | Amount (₹) |
| Purchases: | | |
| Refined Oil | 27,50,000 | |
| Ghee | 48,28,000 | |
| Direct Expenses | 6,35,800 | |
| Expenses paid by H.O. | | 76,800 |
| Sales: | | |
| Refined Oil | 24,10,000 | 5,95,000 |
| Ghee | 38,40,500 | 14,50,000 |
| Collection during the year | | 20,15,000 |
| Remittance by Branch to Head Office | | 19,50,000 |

| Chennai H.O. | | |
|---|---:|---:|
| Balance as on | 01-04-2020<br>Amount (₹) | 31-03-2021<br>Amount (₹) |
| Stock: | | |
| Refined Oil | 44,000 | 8,90,000 |
| Ghee | 10,65,000 | 15,70,000 |
| Building | 5,10,800 | 7,14,780 |
| Furniture & Fixtures | 88,600 | 79,740 |

| Salem Brach Office | | |
|---|---|---|
| Balance as on | 01-04-2020 Amount (₹) | 31-03-2021 Amount (₹) |
| Stock: | | |
| Refined Oil | 22,500 | 19,500 |
| Ghee | 40,000 | 90,000 |
| Sundry Debtors | 1,80,000 | ? |
| Cash in hand | 25,690 | ? |
| Furniture & Fixtures | 23,800 | 21,420 |

Additional information:

(i) Addition to Building on 01-04-2020 ₹ 2,41,600 by H.O.

(ii) Rate of depreciation: Furniture & Fixtures @ 10% and Building @ 5% (already adjusted in the above figure)

(iii) The Branch Manager is entitled to 10% commission on Branch profits (after charging his commission).

(iv) The General Manager is entitled to a salary of ₹ 20,000 per month.

(v) General expenses incurred by Head Office is ₹ 1,86,000.

You are requested to prepare Branch Account in the Head Office books and also prepare Chena Swami's Trading and Profit & loss Account (excluding branch transactions) for the year ended 31st March, 2021.

**Accounts from Incomplete Records**

14. The following is the Balance Sheet of Mr. Kumar as on 31st March, 2020:

| Equity and Liabilities | ₹ | Assets | ₹ |
|---|---|---|---|
| Capital Account | 4,10,000 | Machinery | 1,60,000 |
| Sundry Creditors for purchases | 60,000 | Furniture | 35,000 |
| | | Stock | 25,000 |
| | | Debtors | 1,45,000 |
| | | Cash in Hand | 25,000 |
| | | Cash at Bank | 80,000 |
| | 4,70,000 | | 4,70,000 |

Riots occurred and fire broke out on the evening of 31st March, 2021, destroying the books of account and furniture. The cash available in the cash box was stolen.

The trader gives you the following information:

(i) Sales are 25% for cash and the balance on credit. His total sales for the year ended 31st March, 2021 were 25% higher than the previous year. All the sales and purchases of goods were evenly spread throughout the year (as also in the last year).

(ii) Terms of credit

| | |
|---|---|
| Debtors | 2 Months |
| Creditors | 1 Month |

(iii) Stock level was maintained at ₹ 25,000 all throughout the year.

(iv) A steady Gross Profit rate of 25% on the turnover was maintained throughout the year. Creditors are paid by cheque only, except for cash purchases of ₹ 60,000.

(v) His private records and the Bank Pass-book disclosed the following transactions for the year.

| | | |
|---|---|---|
| a. | Miscellaneous Business expenses | ₹ 1,85,500 (including ₹ 20,000 paid by cheque) |
| b. | Travelling expenses | ₹ 24,000 (paid by cash) |
| c. | Addition to Machinery | ₹ 1,00,000 (paid by cheque) (on 1st April, 2020) |
| d. | Private drawings | ₹ 10,000 (paid by cash) |
| e. | Introduction of additional capital by deposited into the Bank | ₹ 25,000 |

(vi) Collection from debtors were all through cheques.

(vii) Depreciation on Machinery is to be provided @ 15% p.a.

(viii) The Cash stolen is to be charged to the Profit and Loss Account,

(ix) Loss of furniture is to be adjusted from Capital Account.

Prepare Trading, Profit and Loss Account for the year ended 31st March, 2021 and a Balance Sheet as on that date.

**Framework for Preparation and Presentation of Financial Statements**

15. Summarised Balance Sheet of Cloth Trader as on 31.03.2020 is given below:

| Equity and Liabilities | Amount (₹) | Assets | Amount (₹) |
|---|---|---|---|
| Proprietor's Capital | 3,00,000 | Fixed Assets | 3,60,000 |
| Profit & Loss Account | 1,25,000 | Closing Stock | 1,50,000 |
| 10% Loan Account | 2,10,000 | Trade receivables | 1,00,000 |
| Trade payables | 50,000 | Deferred Expenses | 50,000 |

| | | | |
|---|---|---|---|
| | | Cash & Bank | 25,000 |
| | 6,85,000 | | 6,85,000 |

Additional Information is as follows:

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realizable value of fixed assets on 31.03.2021 was ₹ 3,25,000.

(2) Purchases and Sales in 2020-21 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2021 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000 which includes interest on 10% loan amount for the year.

(5) Deferred Expenses are amortized equally over 5 years.

(6) Trade receivables on 31.03.2021 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

(7) Closing trade payables are ₹ 75,000, likely to be settled at 10% discount.

(8) Cash balance as on 31.03.2021 is ₹ 4,22,000.

(9) There is an early repayment penalty for the loan of ₹ 25,000.

You are required to prepare: (Not assuming going concern)

(1) Profit & Loss Account for the year 2020-21.

(2) Balance Sheet as on 31st March, 2021.

**Applicability of Accounting Standards**

16. (a) A company with a turnover of ₹ 225 crores and borrowings of ₹ 51 crore during the year ended 31st March, 2021, wants to avail the exemptions available in adoption of Accounting Standards applicable to companies for the year ended 31.3.2021. Advise the management on the exemptions that are available as per the Companies (Accounting Standards) Rules, 2021.

(b) An organization whose objects are charitable or religious, believes that the Accounting Standards are not applicable to it since only a very small proportion of its activities are business in nature. Comment.

**AS 2 Valuation of Inventories**

17. (a) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognize them as expenses in the period in which they are incurred". Provide examples of such costs as per AS 2 'Valuation of Inventories'.

(b) On the basis of information given below, find the value of inventory (by periodic inventory method) as per AS 2, to be considered while preparing the Balance Sheet as on 31st March, 2021 on weighted Average Basis.

**Details of Purchases:**

| Date of purchase | Unit (Nos.) | Purchase cost per unit (₹) |
|---|---|---|
| 01-03-2021 | 20 | 108 |
| 08-03-2021 | 15 | 107 |
| 17-03-2021 | 30 | 109 |
| 25-03-2021 | 15 | 107 |

**Details of issue of Inventory:**

| Date of Issue | Unit (Nos.) |
|---|---|
| 03-03-2021 | 10 |
| 12-03-2021 | 20 |
| 18-03-2021 | 10 |
| 24-03-2021 | 20 |

Net realizable value of inventory as on 31st March, 2021 is ₹ 107.75 per unit.

You are required to compute the value of Inventory as per AS 2?

(c) Rohan Pvt. Ltd., a wholesaler in agriculture products, has valued the inventory on Net Realizable Value on the ground that AS 2 does not apply to inventory of agriculture products.

**AS 10 Property, Plant and Equipment**

18. (a) A Ltd. has incurred the following costs. Determine if the following costs can be added to the invoiced purchase price and included in the initial recognition of the cost of the item of property, plant and equipment:

1. Import duties paid
2. Shipping costs and cost of road transport for taking the machinery to factory
3. Insurance for the shipping
4. Inauguration costs for the factory
5. Professional fees charged by consulting engineer for the installation process
6. Costs of advertising and promotional activities
7. Administration and other general overhead costs
8. Cost of site preparation.

**AS 11 The Effects of Changes in Foreign Exchange Rates**

(b) Kumar Ltd. borrowed US $ 3,00,000 on 31-12-2020 which will repaid as on 30-06-2021. Kumar Ltd. prepares its financial statements ending on 31-03-2021. Rate of exchange between reporting currency (Rupee) and foreign currency (US$) on different dates are as under:

| | |
|---|---|
| 31-12-2020 | 1 US $ = ₹ 44.00 |
| 31-03-2021 | 1 US $ = ₹ 44.50 |
| 30-06-2021 | 1 US $ = ₹ 44.75 |

(i) Calculate Borrowings in reporting currency to be recognized in the books on above mentioned dates and also show journal entries for the same.

(ii) if borrowings were repaid on 28-2-2021 on which date exchange rate was 1 US $ = ₹ 44.20 then what entry should be passed?

**AS 12 Accounting for Government Grants**

19. (a) A fixed asset is purchased for ₹ 30 lakhs. Government grant received towards it is ₹ 12 lakhs. Residual Value is ₹ 6 lakhs and useful life is 4 years. The company charges depreciation based on Straight-Line method. Asset is shown in the balance sheet net of grant. After 1 year, grant becomes refundable to the extent of ₹ 7.5 lakhs due to non-compliance with certain conditions. You are required to give necessary journal entries for second year.

**AS 13 Accounting for Investments**

(b) JVR Limited has made investment of ₹ 97.84 Crores in Equity Shares of QSR Limited in 2016-17. The investment has been made at par. QSR Limited has been in continuous losses for the last 2 years. JVR Limited is willing to re-assess the carrying amount of its investment in QSR Limited and wish to provide for diminution in value of investment for the year ended 31st March, 2021. Discuss whether the connection of JVR Limited to bring down the carrying Amount of investment in QSR Limited is in accordance with Accounting Standards.

**AS 16 Borrowing Costs**

20. (a) An enterprise has constructed a complex piece of equipment (qualifying asset) that is to be installed on the production line of a manufacturing plant. The equipment has been constructed over a period of 15 months. However, on installation, certain calibrations are required to achieve the desired level of production before it is finally commissioned. This process is expected to take approximately 2 months during which test runs will be made. Should the borrowing costs attributable to borrowings pertaining to the 2 months test run period be capitalized?

(b) Should capitalization of borrowing costs be continued when the qualifying asset has been constructed but marketing activities to sell the asset are still in progress?

## SUGGESTED ANSWERS

**1. (a) Delta Limited**

**Balance Sheet as at 31st March 2021**

| Particulars | Note No. | (₹ in '000) |
|---|---|---|
| **A. Equity and Liabilities** | | |
| **1. Shareholders' funds** | | |
| (a) Share Capital | 1 | 495.00 |
| (b) Reserves and Surplus | 2 | 807.20 |
| **2. Non-Current Liabilities** | | |
| (a) Long Term Borrowings | 3 | 300.00 |
| **3. Current Liabilities** | | |
| (a) Trade Payables | | 30.00 |
| (b) Short- term provision | 4 | 163.80 |
| Total | | 1,796.00 |
| **B. Assets** | | |
| **1. Non-Current Assets** | | |
| (a) Property, Plant and Equipment | 5 | 1,550.00 |
| **2. Current Assets** | | |
| (a) Inventories | | 96.00 |
| (b) Trade Receivables | 6 | 120.00 |
| (c) Cash and Cash equivalents | 7 | 30.00 |
| Total | | 1,796.00 |

**Statement of Profit and Loss for the year ended 31st March 2021**

| Particulars | Note No. | (₹ in '000) |
|---|---|---|
| I. Revenue from Operations | | 1200.00 |
| II. Other Income | 8 | 6.00 |
| III. Total Income (I +II) | | 1,206.00 |
| IV. Expenses: | | |
| Purchases (adjusted) | | 400.00 |
| Finance Costs | 9 | 30.00 |

| | | | |
|---|---|---|---|
| | Depreciation (10% of 800) | | 80.00 |
| | Other expenses | 10 | 150.00 |
| | Total Expenses | | 660.00 |
| V. | Profit / (Loss) for the period before tax (III – IV) | | 546.00 |
| VI. | Tax expenses @30% | | 163.80 |
| VII | Profit for the period | | 382.20 |

**Notes to Accounts**

| | Particulars | | (₹ in '000) |
|---|---|---|---|
| 1 | Share Capital | | |
| | Equity Share Capital | | |
| | Authorised | | |
| | 80,000 Shares of ₹ 10/- each | | 800 |
| | Issued, Subscribed and Called-up | | |
| | 50,000 Shares of ₹ 10/- each | 500 | |
| | (Out of the above 5,000 shares have been issued for consideration other than cash) | | |
| | *Less:* Calls in arrears | (5) | 495 |
| 2 | Reserves and Surplus | | |
| | Securities Premium | | 40.00 |
| | Revaluation Reserve ₹ (960 – 800) | | 160.00 |
| | General Reserve | | 150.00 |
| | Surplus i.e. Profit & Loss Account Balance | | |
| | Opening Balance | 75.00 | |
| | *Add:* Profit for the period | 382.20 | 457.20 |
| | | | 807.20 |
| 3 | Long-Term Borrowings | | |
| | 10% Debentures | | 300 |
| 4. | Short – term provision | | |
| | Provision for tax | | 163.80 |
| 5 | Property, plant & equipment | | |
| | Land | | |
| | Opening Balance | 800 | |

| | | | |
|---|---|---|---|
| | *Add:* Revaluation adjustment | 160 | |
| | Closing Balance | | 960 |
| | Plant and Machinery | | |
| | Opening Balance | 824 | |
| | *Less:* Disposed off | (24) | |
| | | 800 | |
| | *Less:* Depreciation ₹ (150 – 20 + 80) | (210) | |
| | Closing Balance | | 590 |
| | Total | | 1,550 |
| 6 | Trade receivables | | |
| | Debits outstanding for a period exceeding six months | 50 | |
| | Other debts | 70 | 120 |
| 7 | Cash and Cash Equivalents | | |
| | Cash at Bank With scheduled banks | 23 | |
| | With others (ABC Bank Limited) | 5 | |
| | Cash in hand | 2 | 30 |
| 8 | Other Income | | |
| | Profit on sale of machinery | | |
| | Sale value of machinery | 10 | |
| | *Less*: Book value of machinery (24 – 20) | (4) | 6 |
| 9 | Finance Costs | | |
| | Debenture Interest | | 30 |
| 10 | Other Expenses: | | |
| | Factory expenses | 80 | |
| | Selling expenses | 25 | |
| | Administrative expenses | 45 | 150 |

**(b)** Current maturities of loan term borrowing are shown under 'short term borrowings' and not under 'Other current liabilities' as per the amendment to Schedule III vide MCA notification dated 24th March, 2021. Hence the statement given in the question is not valid.

**2. Calculation of effective capital**

| Particulars | Where Jupiter Ltd. is a non-investment Company (₹) | Where Jupiter Ltd. is an investment Company (₹) |
|---|---|---|
| Paid-up share capital | | |
| 30,000, 14% Preference Shares | 30,00,000 | 30,00,000 |
| 2,40,000 Equity Shares | 1,92,00,000 | 192,00,000 |
| Capital Reserves excluding revaluation reserve | 2,00,000 | 2,00,000 |
| Securities Premium | 1,00,000 | 1,00,000 |
| 15% Debentures | 1,30,00,000 | 1,30,00,000 |
| Public Deposits | 7,40,000 | 7,40,000 |
| Total (A) | 362,40,000 | 362,40,000 |
| Investments | 1,50,00,000 | |
| Profit and Loss Account (Dr. balance) | 30,50,000 | 30,50,000 |
| Preliminary Expenses not written off | 1,10,000 | 1,10,000 |
| Total (B) | 181,60,000 | 31,60,000 |
| **Effective Capital [A – B]** | 1,80,80,000 | 3,30,80,000 |

Effective capital of the company for both the situations is less than 5 crores. Hence maximum remuneration payable to director should be @ ₹ 60,00,000 per annum.

**3. Omega Ltd.**

**Cash Flow Statement for the year ended 31st March, 2021**

| | | |
|---|---|---|
| **Cash Flow from Operating Activities** | | |
| Increase in balance of Profit and Loss Account | 56,000 | |
| Provision for taxation | 1,12,000 | |
| Transfer to General Reserve | 2,10,000 | |
| Depreciation | 1,40,000 | |
| Profit on sale of Plant and Machinery | (21,000) | |
| Operating Profit before Working Capital changes | 4,97,000 | |
| Increase in Inventories | (2,80,000) | |
| Decrease in Trade receivables | 2,80,000 | |
| Decrease in Trade payables | (1,68,000) | |

| | | |
|---|---|---|
| Cash generated from operations | 3,29,000 | |
| Income tax paid | (70,000) | |
| Net Cash from operating activities | | 2,59,000 |
| **Cash Flow from Investing Activities** | | |
| Purchase of plant & machinery | (4,48,000) | |
| Expenses on building | (2,80,000) | |
| Increase in investments | (1,40,000) | |
| Sale of old machine | 49,000 | |
| Net Cash used in investing activities | | (8,19,000) |
| **Cash Flow from Financing activities** | | |
| Proceeds from issue of shares | 2,80,000 | |
| Proceeds from issue of debentures | 2,80,000 | |
| Net cash from financing activities | | 5,60,000 |
| Net increase in cash or cash equivalents | | NIL |
| Cash and Cash equivalents at the beginning of the year | | 2,80,000 |
| Cash and Cash equivalents at the end of the year | | 2,80,000 |

**Working Notes:**

**Provision for taxation account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Cash (Tax Paid) | 70,000 | By Balance b/d | 98,000 |
| To Balance c/d | 1,40,000 | By Profit and Loss A/c (Balancing figure) | 1,12,000 |
| | 2,10,000 | | 2,10,000 |

**Plant and Machinery account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | 7,00,000 | By Depreciation | 1,40,000 |
| To Profit and Loss A/c (profit on sale of machine) | 21,000 | | |
| To Cash (Balancing figure) | 4,48,000 | By Cash (sale of machine) | 49,000 |
| | | By Balance c/d | 9,80,000 |
| | 11,69,000 | | 11,69,000 |

**4. Statement showing the calculation of Profits/losses for the pre-incorporation and post-incorporation periods**

| **Particulars** | **Total Amount** | **Basis of Allocation** | **Pre. Inc.** | **Pos. Inc.** |
|---|---|---|---|---|
| Sales | 37,62,000 | Sale Ratio | 5,70,000 | 31,92,000 |
| Less: Cost of goods sold | 22,57,200 | Sales Ratio | 3,42,000 | 19,15,200 |
| Discount | 87,780 | Sales Ratio | 13,300 | 74,480 |
| Director's Remuneration | 1,14,000 | Post | ----- | 1,14,000 |
| Salaries | 1,71,000 | (W.N. 3) | 35,625 | 1,35,375 |
| Rent | 2,56,500 | (W.N. 4) | 28,500 | 2,28,000 |
| Interest | 1,99,500 | (W.N. 5) | 57,000 | 1,42,500 |
| Depreciation | 57,000 | Time Ratio | 19,000 | 38,000 |
| Office Expenses | 1,99,500 | Time Ratio | 66,500 | 1,33,000 |
| Preliminary Expenses | 28,500 | Post | ----- | 28,500 |
| Sales Promotion expenses | 62,700 | Sales Ratio | 9,500 | 53,200 |
| Net Profit/loss | | | (1,425) | 3,29,745 |

**Working Notes:**

1. **Calculation of Time ratio**

   Date of Purchase : 01/01/2020

   Date of Incorporation: 01/06/2020

   Date of Closing of Books of Accounts : 31/03/2021

   Time Ratio = 5:10 i.e 1:2

2. **Computation of sales ratio:**

   Let average Sale per month= 1

   Then average Sale for June to Dec. 20 = 2.5 per month

   Average Sale from January to March 21 = 3.5 per month

| **Month Sale** | **Average Sale** | **Month Sale** | **Average Sale** |
|---|---|---|---|
| January | 1 | September | 2.5 |
| February | 1 | October | 2.5 |
| March | 1 | November | 2.5 |
| April | 1 | December | 2.5 |
| May | 1 | January | 3.5 |

| | | | |
|---|---|---|---|
| June | 2.5 | February | 3.5 |
| July | 2.5 | March | 3.5 |
| August | 2.5 | | |

Total Sale during Pre-Incorporation Period = 5

& Post Incorporation Period = 28

Hence Sales Ratio = 5:28

3. **Computation of ratio for salaries:**

Let Salary from January 20 to June 20 = 1 per month

Then Salary from July 20 to March 21 = 2 per month

| Month Sale | Average Salary | Month Salary | Average Salary |
|---|---|---|---|
| January | 1 | September | 2 |
| February | 1 | October | 2 |
| March | 1 | November | 2 |
| April | 1 | December | 2 |
| May | 1 | January | 2 |
| June | 1 | February | 2 |
| July | 2 | March | 2 |
| August | 2 | | |

Total Salary during Pre-Incorporation Period = 5

& Post Incorporation Period = 19

Hence Salary Ratio = 5:19

4. **Computation of Rent:**

| | | |
|---|---|---|
| Total rent | | 2,56,500 |
| *Less:* Building rent for 9 months @ 19,000 p.m. | | 1,71,000 |
| Rent of old premises apportioned in time ratio | | 85,500 |
| Apportionment | Pre Inc. | Post Inc. |
| Old premises rent | 28,500 | 57,000 |
| Building Rent | ___ | 1,71,000 |
| | 28,500 | 2,28,000 |

5. **Computation of interest:**

Pre-incorporation period from Jan, 2020 to May, 2020

$$\left[\frac{11,40,000 \times 12 \times 5}{100 \times 12}\right] = 57,000$$

Post incorporation period from June, 2020 to March, 2021

$$\left[\frac{17,10,000 \times 10 \times 10}{100 \times 12}\right] = \underline{1,42,500}$$

$$\underline{1,99,500}$$

5. (a) **Number of Bonus shares to be issued:**

Existing paid up Capital = 60,000 Shares

Number of Bonus Shares = (60,000 × 1) ÷ 5 = 12,000 Shares (i.e. for ₹ 1,20,000)

(b) **Bonus out of General Reserve:**

It is a usual practice to utilize specific reserve (available for specific purpose). Therefore, if CRR and Securities Premium are available, then company should utilize these reserves in priority over other free reserves. It is clear that company should not use General Reserve, in the given example, as Capital Redemption Reserve and Securities Premium are sufficiently available

(c) **Journal Entries in the Books of Mobile Ltd.**

| Particulars | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Capital Redemption Reserve A/c | Dr. | 80,000 | |
| Securities Premium A/c | Dr. | 40,000 | |
| To Bonus to Shareholders A/c | | | 1,20,000 |
| (Being issue of 1 Share for every 5 Shares held, by utilizing various reserves as per Board's Resolution dated …..) | | | |
| Bonus to Shareholders A/c | Dr. | 1,20,000 | |
| To Equity Share Capital A/c | | | 1,20,000 |
| (Capitalization of profits) | | | |

**Extracts of the Balance-Sheet after Bonus issue**

| | Particulars | Note No. | Amount (₹) |
|---|---|---|---|
| | **EQUITY AND LIABILITIES** | | |
| 1. | **Shareholder's funds** | | |
| | (a) Share Capital | 1 | 7,20,000 |
| | (b) Reserves and Surplus | 2 | 2,05,000 |

**Notes to Accounts**

| | | | |
|---|---|---|---|
| 1. | **Share capital** | | |
| | **Authorised Capital** | | |
| | 1,00,000 Equity Shares @ ₹ 10 each | | 10,00,000 |
| | **Issued, Called up & Paid up Capital** | | |
| | 72,000 Equity Shares @ ₹ 10 each | | 7,20,000 |
| | (Out of above, 12,000 shares have been issued as bonus shares). | | |
| 2. | **Reserve and Surplus** | | |
| | Plant Revaluation Reserve | 25,000 | |
| | Securities Premium A/c | 20,000 | |
| | General Reserve | 1,60,000 | 2,05,000 |

**(d) Fully Paid up bonus shares only**

As per section 63 of the Companies Act, 2013, only fully paid up bonus shares can be issued. Therefore, it is not possible for the company to issue partly paid-up bonus shares.

**6. (a)** (i) Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares X Issue Price) / (Existing Number of shares + No. of right shares)

= (₹ 140 X 4 Shares + ₹ 120 X 1 Share) / (1 + 4) Shares

= ₹ 680 / 5 shares = ₹ 136 per share.

(ii) Value of right = Cum-right value of the share – Ex-right value of the share

= ₹ 140 – ₹ 136 = ₹ 4 per share.

**(b)** The entry at the time of subscription of right shares by the existing shareholders will be:

| | | | |
|---|---|---|---|
| Bank A/c | Dr. | 5,00,000 | |
| To Equity Share Capital A/c | | | 2,00,000 |
| To Securities Premium A/c | | | 3,00,000 |

(Being issue of 20,000 right shares @ ₹ 25 offered)

**7. Journal Entries in the books of Rohan Ltd.**

| | | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| Bank A/c | Dr. | 80,000 | |
| Profit & Loss A/c (Loss on sale) | Dr. | 20,000 | |
| To Investment A/c | | | 1,00,000 |
| (Being sale of Investments and transfer of Loss to Profit and Loss A/c) | | | |
| 12% Preference Share Capital A/c | Dr. | 4,80,000 | |
| Premium Payable on Redemption A/c | Dr. | 48,000 | |
| To Preference Shareholders Account | | | 5,28,000 |
| (Being amount payable to Preference Shareholders on redemption of Preference Shares at a premium of 10%) | | | |
| Bank Account | Dr. | 3,82,800 | |
| To Equity Share Application & Allotment A/c | | | 3,82,800 |
| (Being application money received on Equity Shares issued) | | | |
| Equity Share Application & Allotment A/c | Dr. | 3,82,800 | |
| To Equity Share Capital A/c | | | 3,48,000 |
| To Securities Premium A/c | | | 34,800 |
| (Being the allotment of 34,800 equity shares of ₹ 10 each at a premium of ₹ 1 per share) | | | |
| Profit & Loss Account | Dr. | 1,32,000 | |
| To Capital Redemption Reserve Account | | | 1,32,000 |
| Being creation of CRR to the extent of nominal value of Preference Shares redeemed out of profits.) | | | |
| Profit & loss Account | | 48,000 | |
| To Premium Payable on Redemption A/c | | | 48,000 |
| (Being Premium Payable on Redemption written off.) | | | |
| Preference Shareholders Account | Dr. | 5,28,000 | |
| To Bank Account | | | 5,28,000 |
| (Being amount paid to Preference Shareholders holding 4,800 preference shares on Redemption.) | | | |

**Balance Sheet of Rohan Limited**

**As at 15th May 2021 (After Redemption of Preference Shares)**

| | Particulars | Note No. | Amount (₹) |
|---|---|---|---|
| **I** | **EQUITY AND LIABILITIES** | | |
| | **1 Shareholders' funds** | | |
| | (a) Share Capital | 1 | 9,64,000 |
| | (b) Reserve and surplus | 2 | 2,96,800 |
| | **2. Non-Current Liabilities** | | |
| | Long Term Borrowings (14% Debentures) | | 1,50,000 |
| | **3. Current Liabilities** | | |
| | (a) Trade Payables | | 74,000 |
| | **Total** | | **14,84,800** |
| **II** | **ASSETS** | | |
| | **1 Non-current Assets** | | |
| | (a) PPE | | 13,00,000 |
| | **2. Current Assets** | | |
| | (a) Inventories | | 50,000 |
| | (b) Trade Receivables | | 20,000 |
| | (c) Cash and Cash Equivalent (W.N -4) | | 1,14,800 |
| | **Total** | | **14,84,800** |

**Notes to Accounts**

| | | ₹ | ₹ |
|---|---|---|---|
| **1** | **Share Capital** | | |
| | **Equity Share Capital** | | |
| | Issued Subscribed and paid up: | | |
| | 94,800 Equity Shares of ₹ 10 each fully paid up | | 9,48,000 |
| | 12% Preference share Capital | | |
| | 200, 12% Preference Shares fully called up | 20,000 | |
| | Less: Calls-in-arrears (@ ₹ 20 per share) | (4,000) | 16,000 |
| | **Total** | | **9,64,000** |
| **2** | **Reserve and Surplus** | | |
| | (a) Capital redemption Reserve Account | | 1,32,000 |

| | | | |
|---|---|---|---|
| | (Transfer from Profit and Loss A/c) | | |
| | (b) Securities Premium Account | | |
| | Opening Balance | 30,000 | |
| | Add: Received on Fresh Issue (34,800 Shares × ₹ 1 each) | 34,800 | 64,800 |
| | (c) Profit and Loss A/c balance | | 1,00,000 |
| | Total | | 2,96,800 |

**Working Notes:**

1. 200 preference shares having calls in arrears, will not be redeemed. The amount of fresh issue under section 55 of the Companies Act has been calculated taking into consideration the redemption of 4,800 Preference shares, which are fully paid-up.

2 Calculation of Profits Available for Redemption

| | |
|---|---|
| Balance given in the Question | 3,00,000 |
| Less: Loss on sale of Investment (1,00,000 – 80,000) | (20,000) |
| Less: Minimum balance to be maintained in P& L A/c | (1,00,000) |
| Less: Premium on redemption of Preference shares | (48,000) |
| Closing Balance | 1,32,000 |

3 No. of shares to be issued

| | |
|---|---|
| Total Nominal Value of Preference Shares | 4,80,000 |
| Less: Amount of profit available for redemption of Preference shares | (1,32,000) |
| Amount required out of fresh issue | 3,48,000 |

$$\text{No. of Shares to be issued} = \left(\frac{\text{Amount required out of proceeds of fresh issue of shares}}{\text{Par value per share (proposed Issue)}}\right)$$

$$= \frac{3,48,000}{10} = 34,800 \text{ shares of ₹ 10 each}$$

4. **Determination of closing bank balance**

| | |
|---|---|
| Opening bank balance | 1,80,000 |
| *Add:* Proceeds from sale of Investment | 80,000 |
| *Add:* Proceeds from fresh issue of 34,800 equity shares @ ₹ 11 | 3,82,800 |
| *Less:* Paid to Preference Shareholders on Redemption (4,800 × ₹ 110) | (5,28,000) |
| Closing Balance | 1,14,800 |

8. **Journal Entries in the Books of Case Ltd.**

| | | Dr. ₹ | Cr. ₹ |
|---|---|---|---|
| Bank A/c | Dr. | 1,12,500 | |
| To Equity Shareholders A/c | | | 1,12,500 |
| (Application money received on 7,500 shares @ ₹ 15 per share to be issued as rights shares in the ratio of 1:4) | | | |
| Equity Shareholders A/c | Dr. | 1,12,500 | |
| To Equity Share Capital A/c | | | 75,000 |
| To Securities Premium A/c | | | 37,500 |
| (Share application money on 7,500 shares @ ₹ 10 per share transferred to Share Capital Account, and ₹ 5 per share to Securities Premium Account vide Board's Resolution dated…) | | | |
| Securities Premium A/c | Dr. | 37,500 | |
| Profit & Loss A/c | Dr. | 37,500 | |
| To Bonus to Shareholders A/c | | | 75,000 |
| (Amount transferred for issue of bonus shares to existing shareholders in the ratio of 1:5 *vide* General Body's resolution dated...) | | | |
| Bonus to Shareholders A/c | Dr. | 75,000 | |
| To Equity Share Capital A/c | | | 75,000 |
| (Issue of bonus shares in the ratio of 1 for 5 vide Board's resolution dated....) | | | |
| 12% Debentures A/c | Dr. | 1,80,000 | |
| Premium Payable on Redemption A/c (@ 3%) | Dr. | 5,400 | |
| To Debenture holders A/c | | | 1,85,400 |
| (Amount payable to debentures holders) | | | |
| Profit and loss A/c | Dr. | 5,400 | |
| To Premium Payable on Redemption A/c | | | 5,400 |
| (Premium payable on redemption of debentures charged to Profit & Loss A/c) | | | |
| Debenture Redemption Reserve A/c | Dr. | 18,000 | |
| To General Reserve | | | 18,000 |
| (For DRR transferred to general reserve) | | | |

| | | | |
|---|---|---|---|
| Bank A/c | Dr. | 27,000 | |
| To Debenture Redemption Reserve Investment | | | 27,000 |
| (for DRR Investment realised) | | | |
| Debenture holders A/c | Dr. | 1,85,400 | |
| To Bank A/c | | | 1,85,400 |
| (Amount paid to debenture holders on redemption) | | | |

**Balance Sheet of Case Ltd. as at...... (after completion of transactions)**

| **Particulars** | **Note No** | **₹** |
|---|---|---|
| **I. Equity and liabilities** | | |
| **(1) Shareholder's Funds** | | |
| (a) Share Capital | 1 | 4,50,000 |
| (b) Reserves and Surplus | 2 | 1,37,100 |
| **(2) Current Liabilities** | | |
| (a) Trade payables | | 1,72,500 |
| **Total** | | 7,59,600 |
| **II. Assets** | | |
| **(1) Non-current assets** | | |
| (a) Property, Plant and Equipment | 3 | 1,72,500 |
| **(2) Current assets** | | |
| (a) Inventories | | 2,02,500 |
| (b) Trade receivables | | 1,12,500 |
| (c) Cash and bank balances | 4 | 2,72,100 |
| **Total** | | 7,59,600 |

**Notes to Accounts**

| | | | ₹ |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| | 45,000 shares of ₹ 10 each fully paid (7,500 shares of ₹ 10 each, fully paid issued as bonus shares out of securities premium and P&L Account) | | 4,50,000 |
| **2.** | **Reserve and Surplus** | | |
| | Profit & Loss Account | 1,62,000 | |
| | Less: Premium on redemption of debenture | (5,400) | |
| | Less: Utilisation for issue of bonus shares | (37,500) | |

| | | | |
|---|---|---|---|
| | | 1,19,100 | |
| | General Reserve | 18,000 | 1,37,100 |
| **3.** | **Property, Plant and Equipment** | | |
| | Freehold property | | 1,72,500 |
| **4.** | **Cash and bank balances** | | |
| | Cash at bank (2,73,000 + 1,12,500 - 1,85,400 + 27,000) | 2,27,100 | |
| | Cash in hand | 45,000 | 2,72,100 |

**9. Investment A/c of Mr. Wise**

**for the year ending on 31-3-2021**

**(Scrip: 12% Debentures of Alpha Limited)**

**(Interest Payable on 30th June and 31st December)** Amount in ₹

| *Date* | *Particulars* | *Nominal Value* | *Interest* | *Cost* | *Date* | *Particulars* | *Nominal Value* | *Interest* | *Cost* |
|---|---|---|---|---|---|---|---|---|---|
| 1.4.2020 | To Balance b/d | 4,00,000 | 12,000 | 3,92,000 | 30.6.2020 | By Bank (6,00,000 x 6%) | - | 36,000 | - |
| 1.6.2020 | To Bank | 2,00,000 | 10,000 | 2,34,800 | 1.9.2020 | By Bank | 3,00,000 | 6,000 | 3,17,400 |
| 1.9.2020 | To Profit & Loss A/c | | | 23,400 | 1.12.2020 | By Bank | 2,00,000 | 10,000 | 2,05,800 |
| 31.1.2021 | To Bank | 3,00,000 | 3,000 | 3,06,000 | 1.12.2020 | By Profit & Loss a/c | - | - | 9,600 |
| 31.3.2021 | To Profit & Loss A/c (Bal. fig.) | | 45,000 | | 31.12.20 | By Bank (1,00,000 x 6%) | - | 6,000 | - |
| | | | | | 31.3.2021 | By Profit & Loss A/c | - | - | 3,400 |
| | | | | | 31.3.2021 | By Balance c/d | 4,00,000 | 12,000 | 4,20,000 |
| | | 9,00,000 | 70,000 | 9,56,200 | | | 9,00,000 | 70,000 | 9,56,200 |

**Working Notes:**

**1. Valuation of closing balance as on 31.3.2021**

| | ₹ | |
|---|---|---|
| Market value of 4,000 Debentures at ₹ 105 | | 4,20,000 |
| Cost price of 1,000 debentures at | 1,17,400 | |

| | | |
|---|---|---|
| 3,000 debentures at<br>Value at the end = ₹ 4,20,000 i.e. whichever is less | 3,06,000 | 4,23,400 |

**2. Profit on sale of debentures as on 1.9.2020**

| | ₹ |
|---|---|
| Sales price of debentures (3,000 x ₹ 110) | 3,30,000 |
| *Less*: Brokerage @ 2% | (6,600) |
| | 3,23,400 |
| *Less:* Interest for 2 months | (6,000) |
| *Less*: Cost price of Debentures $\left(3,92,000 x \frac{3,000}{4,000}\right)$ | (2,94,000) |
| Profit on sale | 23,400 |

**3. Loss on sale of debentures as on 1.12.2020**

| | ₹ |
|---|---|
| Sales price of debentures (2,000 x ₹ 105) | 2,10,000 |
| *Less*: Brokerage @ 2% | (4,200) |
| | 2,05,800 |
| *Less*: Cost price of Debentures (98,000 + 1,17,400) | (2,15,400) |
| Loss on sale | 9,600 |

**4. Purchase Cost of 2,000 debentures on 1.6.2020**

| | ₹ |
|---|---|
| 2000 Debentures @₹ 120 cum interest | 2,40,000 |
| *Add*: Brokerage @ 2% | 4,800 |
| | 2,44,800 |
| *Less:* Interest for 5 months | (10,000) |
| Purchase cost of 2,000 debentures | 2,34,800 |

**5. Sale value for 3,000 debentures on 1.9.2020**

| | ₹ |
|---|---|
| Sales price of debentures cum interest (3,000 x ₹ 110) | 3,30,000 |
| *Less*: Brokerage @ 2% | (6,600) |
| | 3,23,400 |

| | |
|---|---|
| *Less:* Interest for 2 months | (6,000) |
| Sale value for 3,000 debentures | 3,17,400 |

**10.** **Books of M/s Star & Sons**

**Memorandum Trading Account for the period 1st April, 2019 to 21st March, 2020**

| | | ₹ | | ₹ |
|---|---|---|---|---|
| To Opening Stock | | 1,50,500 | By Sales (4,55,000 + 35,000) | 4,90,000 |
| To Purchases | 3,17,000 | | | |
| *Less:* Returns | (15,000) | | By Closing Stock (Bal. fig.) | 83,500 |
| Goods distributed as samples | (32,000) | 2,70,000 | | |
| To Wages | | 55,000 | | |
| To Gross Profit (20% of Sales) | | 98,000 | | |
| | | 5,73,500 | | 5,73,500 |

**Statement of Insurance Claim**

| | ₹ |
|---|---|
| Value of stock destroyed by fire | 83,500 |
| *Less:* Salvaged Stock | 12,000 |
| Loss of stock | 71,500 |

**Note:** Since policy amount is less than vale of stock on date of fire, average clause will apply. Therefore, claim amount will be computed by applying the formula.

$$\text{Claim}= \frac{\text{Insured value}}{\text{Total cost}} \times \text{Loss suffered}$$

Claim amount = ₹ 71,500X 70,000/ 83,500= ₹ 59,940 (rounded off)

**11. (a) (i) Calculation of Interest and Cash Price**

| *No. of instalments* | *Outstanding balance at the end after the payment of instalment* | *Amount due at the time of instalment* | *Outstanding balance at the end before the payment of instalment* | *Interest* | *Outstanding balance at the beginning* |
|---|---|---|---|---|---|
| *[1]* | *[2]* | *[3]* | *[4] = 2 +3* | *[5] = 4 x 10/110* | *[6] = 4-5* |
| 3rd | - | 3,30,000 | 3,30,000 | 30,000 | 3,00,000 |

| | | | | | |
|---|---|---|---|---|---|
| 2nd | 3,00,000 | 3,38,000 | 6,38,000 | 58,000 | 5,80,000 |
| 1st | 5,80,000 | 3,55,000 | 9,35,000 | 85,000 | 8,50,000 |

Total cash price = ₹ 8, 50,000+ 6, 50,000 (down payment) = ₹ 15, 00,000.

**(ii)** **In the books of M/s Beta Enterprises**

**Trucks Account**

| *Date* | *Particulars* | ₹ | *Date* | *Particulars* | ₹ |
|---|---|---|---|---|---|
| 1.4.2017 | To Gamma Ltd. A/c | 15,00,000 | 31.3.2018 | By Depreciation A/c | 3,00,000 |
| | | | | Balance c/d | 12,00,000 |
| | | 15,00,000 | | | 15,00,000 |
| 1.4.2018 | To Balance b/d | 12,00,000 | 31.3.2019 | By Depreciation A/c | 2,40,000 |
| | | | | Balance c/d | 9,60,000 |
| | | 12,00,000 | | | 12,00,000 |
| 1.4.2019 | To Balance b/d | 9,60,000 | 31.3.2020 | By Depreciation A/c | 1,92,000 |
| | | | | By Gamma Ltd. A/c (Value of 1 truck taken over after depreciation for 3 years @30% p.a.) {5,00,000 -(1,50,000 + 1,05,000 + 73,500)} | 1,71,500 |
| | | | | By Loss transferred to Profit and Loss a/c on surrender (Bal. fig.) or (2,56,000 - 1,71,500) | 84,500 |
| | | | | By Balance c/d 2/3 (9,60,000 - 1,92,000 = 7,68,000) | 5,12,000 |
| | | 9,60,000 | | | 9,60,000 |

**Gamma Ltd. Account**

| *Date* | *Particulars* | ₹ | *Date* | *Particulars* | ₹ |
|---|---|---|---|---|---|
| 1.4.17 | To Bank (down payment) | 6,50,000 | 1.4.17 | By Trucks A/c | |
| 31.3.18 | To Bank (1st Instalment) | 3,55,000 | 31.3.18 | By Interest A/c | 15,00,000 |

| | | | | | |
|---|---|---|---|---|---|
| | To Balance c/d | 5,80,000 | | | 85,000 |
| | | 15,85,000 | | | 15,85,000 |
| 31.3.19 | To Bank (2nd Instalment) | 3,38,000 | 1.4.18 | By Balance b/d | 5,80,000 |
| 31.3.19 | To Balance c/d | 3,00,000 | 31.3.19 | By Interest a/c | 58,000 |
| | | 6,38,000 | | | 6,38,000 |
| 31.3.20 | To Trucks A/c | 1,71,500 | 1.4.19 | By Balance b/d | 3,00,000 |
| 31.3.20 | To Balance c/d (b.f.) | 1,58,500 | 31.3.20 | By Interest A/c | 30,000 |
| | | 3,30,000 | | | 3,30,000 |
| 31.5.20 | To Bank (Amount settled after 2 months) | 1,63,255 | 1.4.20 | By Balance b/d | 1,58,500 |
| | | | 31.5.20 | By Interest A/c (@ 18% on bal.) (1,58,500x2/12 x 18/100) | 4,755 |
| | | 1,63,255 | | | 1,63,255 |

12. **P Ltd.**

**Departmental Trading A/c for the year ending 31st March, 2021**

| | *Deptt. X.* ₹ | *Deptt. Y* ₹ | | *Deptt. X* ₹ | *Deptt. Y* ₹ |
|---|---|---|---|---|---|
| To Stock | 70,000 | 54,000 | By Sales | 3,10,000 | 2,54,000 |
| To Purchases | 2,14,000 | 1,66,000 | By Purchased Goods transferred | 24,000 | 30,000 |
| To Wages | 21,000 | 24,450 | By Finished goods transferred | 1,00,000 | 80,000 |
| To Carriage inward | 6,000 | 6,000 | Return of finished Goods | 17,000 | 25,000 |
| To Purchased Goods | | | By Closing Stock: | | |
| transferred | 30,000 | 24,000 | Purchased Goods | 12,000 | 15,000 |
| To Finished Goods transferred | 80,000 | 1,00,000 | Finished Goods | 60,000 | 35,000 |
| To Return of finished Goods | 25,000 | 17,000 | | | |
| To Gross profit c/d | 77,000 | 47,550 | | | |
| | 5,23,000 | 4,39,000 | | 5,23,000 | 4,39,000 |

**Combined Trading and P & L Account for the year ending 31st March, 2021**

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening Stock (₹ 70,000 + ₹ 54,000) | 1,24,000 | By Sales (₹ 3,10,000 + ₹ 2,54,000) | 5,64,000 |
| To Purchases (₹ 2,14,000 + ₹ 1,66,000) | 3,80,000 | By Closing Stock: | |
| To Wages (₹ 21,000 + ₹ 24,450) | 45,450 | Purchased Goods (₹ 12,000 + ₹ 15,000) | 27,000 |
| To Carriage (₹ 6,000 + ₹ 6,000) | 12,000 | Finished Goods (₹ 60,000 + ₹ 35,000) | 95,000 |
| To Gross Profit c/d | 1,24,550 | | |
| | 6,86,000 | | 6,86,000 |
| To Stock Reserve | 3,200 | By Gross Profit b/d | 1,24,550 |
| To Net Profit | 1,21,350 | | |
| | 1,24,550 | | 1,24,550 |

**Working note:**

| | | Deptt. X | Deptt. Y |
|---|---|---|---|
| 1. | Calculation of Rate of Gross Profit | | |
| | Closing Stock out of transfer (20%) | 12,000 | 7,000 |
| | Sale | 3,10,000 | 2,54,000 |
| | *Add:* Transfer | 1,00,000 | 80,000 |
| | | 4,10,000 | 3,34,000 |
| | *Less:* Returns | (25,000) | (17,000) |
| | Net Sales plus Transfer | 3,85,000 | 3,17,000 |
| | Rate of Gross profit | $\frac{77,000}{3,85,000} \times 100$ = 20% | $\frac{47,550}{3,17,000} \times 100$ = 15% |

2. Unrealized Profit Deptt. X ₹ 12,000 × 15% = ₹ 1,800

Deptt. Y ₹ 7,000 × 20% = ₹ 1,400

13 **In the books of Mr. Chena Swami**

**Salem Branch Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d<br>Opening stock: | | By Bank (Remittance to H.O.) | 19,50,000 |

| | | | |
|---|---|---|---|
| Ghee | 40,000 | By Balance c/d | |
| Refined Oil | 22,500 | Closing stock: | |
| Debtors | 1,80,000 | Refined oil | 19,500 |
| Cash on hand | 25,690 | Ghee | 90,000 |
| Furniture & fittings | 23,800 | Debtors (W.N. 1) | 2,10,000 |
| To Goods sent to Branch A/c | | Cash on hand (W.N. 2) | 44,800 |
| Refined Oil (30 x ₹ 1,500x12) | 5,40,000 | Furniture & fittings | 21,420 |
| Ghee (20 x ₹ 5,000 x12) | 12,00,000 | | |
| To Bank (Expenses paid by H.O.) | 76,800 | | |
| To Manager's commission in profits | | | |
| 10% (2,26,930x10/110) | 20,630 | | |
| To Net Profit transferred | | | |
| to General P & L A/c | 2,06,300 | | |
| | 23,35,720 | | 23,35,720 |

**Mr. Chena Swami**
**Trading and Profit and Loss account for the year ended 31st March, 2021**
**(Excluding branch transactions)**

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening Stock: | | By Sales: | |
| Refined Oil | 44,000 | Refined Oil | 24,10,000 |
| Ghee | 10,65,000 | Ghee | 38,40,500 |
| To Purchases: | | By Closing Stock: | |
| Refined Oil 27,50,000 | | Refined Oil | 8,90,000 |
| *Less:* Goods sent to Branch (5,40,000) | 22,10,000 | Ghee | 15,70,000 |
| Ghee 48,28,000 | | | |
| *Less:* Goods sent to Branch (12,00,000) | 36,28,000 | | |
| To Direct Expenses | 6,35,800 | | |
| To Gross Profit | 11,27,700 | | |
| | 87,10,500 | | 87,10,500 |

| | | | |
|---|---|---|---|
| To Manager's Salary | 2,40,000 | By Gross Profit | 11,27,700 |
| To General Expenses | 1,86,000 | By Branch Profit transferred | 2,06,300 |
| To Depreciation | | | |
| Furniture (88,600 - 79,740) | 8,860 | | |
| Building (5,10,800 + 2,41,600 - 7,14,780) | 37,620 | | |
| To Net profit | 8,61,520 | | |
| | 13,34,000 | | 13,34,000 |

**Working Notes:**

**(1) Debtors Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | 1,80,000 | By Cash Collections | 20,15,000 |
| To Sales made during the year: | | By Balance c/d (Bal. Figure) | 2,10,000 |
| Refined oil | 5,95,000 | | |
| Ghee | 14,50,000 | | |
| | 22,25,000 | | 22,25,000 |

**(2) Branch Cash Account**

| | ₹ | | ₹ |
|---|---|---|---|
| To Balance b/d | 25,690 | By Remittance | 19,50,000 |
| To Collections | 20,15,000 | By Exp. | 45,890 |
| | | By Balance c/d (Bal. Figure) | 44,800 |
| | 20,40,690 | | 20,40,690 |

**14. Trading and Profit and Loss Account of Mr. Kumar for the year ended 31st March, 2021**

| | ₹ | | ₹ |
|---|---|---|---|
| To Opening Stock | 25,000 | By Sales | 14,50,000 |
| To Purchases | 10,87,500 | By Closing Stock | 25,000 |
| To Gross Profit c/d | 3,62,500 | | |
| | 14,75,000 | | 14,75,000 |
| To Business Expenses | 1,85,500 | By Gross Profit b/d | 3,62,500 |

| | | | | | |
|---|---|---|---|---|---|
| To | Repairs | 4,000 | By | Net loss | 14,000 |
| To | Depreciation (WDV basis) | 39,000 | | | |
| To | Travelling Expenses | 20,000 | | | |
| To | Loss by theft | 1,28,000 | | | |
| | | 3,76,500 | | | 3,76,500 |

**Balance Sheet of Mr. Kumar as at 31st March, 2021**

| Liabilities | ₹ | ₹ | Assets | ₹ | ₹ |
|---|---|---|---|---|---|
| Capital | 4,10,000 | | Machinery | 1,60,000 | |
| | | | *Add:* additions | 1,00,000 | |
| | | | | 2,60,000 | |
| *Add*: Additional Capital | 25,000 | | *Less*: Dep. @ 15% | (39,000) | 2,21,000 |
| *Less:* Net Loss | (14,000) | | Stock in Trade | | 25,000 |
| | 4,56,000 | | Sundry Debtors | | 1,81,250 |
| *Less*: Loss of Furniture | (35,000) | | Bank | | 34,375 |
| Drawings | (10,000) | 3,76,000 | | | |
| Sundry Creditors | | 85,625 | | | |
| | | 4,61,625 | | | 4,61,625 |

**Working Notes:**

| | | |
|---|---|---|
| 1. | Sales during 2020-2021 | ₹ |
| | Debtors as on 31st March, 2020 | 1,45,000 |
| | (Being equal to 2 months' sales) | |
| | Total credit sales in 2019- 2020, ₹ 1,45,000 × 6 | 8,70,000 |
| | Cash Sales, being equal to 1/3rd of credit sales or 1/4th of the total | 2,90,000 |
| | Sales in 2019-2020 | 11,60,000 |
| | Increase, 25% as stated in the problem | 2,90,000 |
| | Total sales during 2020-2021 | 14,50,000 |
| | Cash sales: 1/4th | 3,62,500 |
| | Credit sales: 3/4th | 10,87,500 |
| 2. | Purchases | |
| | Sales in 2020-2021 | 14,50,000 |

| | | |
|---|---|---|
| | Gross Profit @ 25% | 3,62,500 |
| | Cost of goods sold being purchases (no change in stock level) | 10,87,500 |
| 3. | Debtors equal to two months credit sales | 1,81,250 |
| 4. | Sundry Creditors for goods | |
| | (₹ 10,87,500 – ₹ 60,000) /12 = ₹ 10,27,500/12 | 85,625 |
| 5. | Collections from Debtors | |
| | Opening Balance | 1,45,000 |
| | *Add*: Credit Sales | 10,87,500 |
| | | 12,32,500 |
| | *Less*: Closing Balance | (1,81,250) |
| | | 10,51,250 |
| 6. | Payment to Creditors | |
| | Opening Balance | 60,000 |
| | *Add*: Credit Purchases (₹ 10,87,500 – ₹ 60,000) | 10,27,500 |
| | | 10,87,500 |
| | *Less*: Closing Balance | (85,625) |
| | Payment by cheque | 10,01,875 |

7. **Cash and Bank Account**

| | Cash | Bank | | Cash | Bank |
|---|---|---|---|---|---|
| To Balance b/d | 25,000 | 80,000 | By Payment to Creditors | 60,000 | 10,01,875 |
| To Collection from Debtors | – | 10,51,250 | By Misc. Expenses | 1,75,500 | 10,000 |
| To Sales | 3,62,500 | – | By Addition to Machinery | – | 1,00,000 |
| To Additional Capital | – | 50,000 | By Travelling Expenses | 24,000 | – |
| | | | By Private Drawings | 10,000 | – |
| | | | By Loss by theft | 1,18,000 | |
| | | | By Balance c/d | | 69,375 |
| | 3,87,500 | 11,81,250 | | 3,87,500 | 11,81,250 |

**15. Books of Cloth Trader**

**Profit and Loss Account for the year ended 2020-21 (not assuming going concern)**

| ***Particulars*** | | ***Amount*** | ***Particulars*** | ***Amount*** |
|---|---|---|---|---|
| | | ₹ | | ₹ |
| To | Opening Stock | 1,50,000 | By Sales | 27,50,000 |
| To | Purchases | 22,50,000 | By Closing Stock | 2,50,000 |
| To | Expenses | 78,000 | By Trade payables | 7,500 |
| To | Depreciation | 35,000 | | |
| To | Provision for doubtful debts | 30,000 | | |
| To | Deferred cost | 50,000 | | |
| To | Loan penalty | 25,000 | | |
| To | Net Profit (b.f.) | 3,89,500 | | |
| | | 30,07,500 | | 30,07,500 |

**Balance Sheet as at 31st March, 2021 (not assuming going concern)**

| *Liabilities* | *Amount* ₹ | *Assets* | *Amount* ₹ |
|---|---|---|---|
| Capital | 3,00,000 | Fixed Assets | 3,25,000 |
| Profit & Loss A/c | 5,14,500 | Stock | 2,50,000 |
| 10% Loan | 2,35,000 | Trade receivables (less provision) | 1,20,000 |
| Trade payables | 67,500 | Deferred costs | Nil |
| | | Bank | 4,22,000 |
| | 11,17,000 | | 11,17,000 |

**16. (a)** The question deals with the issue of Applicability of Accounting Standards for corporate entities. The companies can be classified under two categories viz SMCs and Non-SMCs under the Companies (Accounting Standards) Rules, 2021. As per the Companies (Accounting Standards) Rules, 2021, criteria for above classification as SMCs, are:

"Small and Medium Sized Company" (SMC) means, a company-

- whose equity or debt securities are not listed or are not in the process of listing on any stock exchange, whether in India or outside India;
- which is not a bank, financial institution or an insurance company;
- whose turnover (excluding other income) does not exceed rupees two-fifty crores in the immediately preceding accounting year;

- which does not have borrowings (including public deposits) in excess of rupees fifty crores at any time during the immediately preceding accounting year; and
- which is not a holding or subsidiary company of a company which is not a small and medium-sized company.

Since, XYZ Ltd.'s turnover was ₹ 225 crores which does not exceed ₹ 250 crores but borrowings of ₹ 51 crore are more than ₹ 50 crores, it is not a small and medium sized company (SMC). The exemptions available to SMC are not available to this company.

**(b)** Accounting Standards apply in respect of any enterprise (whether organized in corporate, co-operative or other forms) engaged in commercial, industrial or business activities, whether or not profit oriented and even if established for charitable or religious purposes. Accounting Standards however, do not apply to enterprises solely carrying on the activities, which are not of commercial, industrial or business nature, (e.g., an activity of collecting donations and giving them to flood affected people). Exclusion of an enterprise from the applicability of the Accounting Standards would be permissible only if no part of the activity of such enterprise is commercial, industrial or business in nature. Even if a very small proportion of the activities of an enterprise were considered to be commercial, industrial or business in nature, the Accounting Standards would apply to all its activities including those, which are not commercial, industrial or business in nature.

**17. (a)** As per AS 2 "Valuation of Inventories", certain costs are excluded from the cost of the inventories and are recognised as expenses in the period in which incurred. Examples of such costs are: (a) abnormal amount of wasted materials, labour, or other production costs; (b) storage costs, unless those costs are necessary in the production process prior to a further production stage; (c) administrative overheads that do not contribute to bringing the inventories to their present location and condition; and (d) selling and distribution costs.

**(b)** Net Realisable Value of Inventory as on 31st March, 2021

= ₹ 107.75 x 20 units = ₹ 2,155

Value of inventory as per Weighted Average basis

<u>Total units purchased and total cost:</u>

| | | |
|---|---|---|
| 01.03.2021 | ₹ 108 x 20 units | = ₹ 2160 |
| 08.3.2021 | ₹ 107 x 15 units | = ₹ 1605 |
| 17.03.2021 | ₹ 109 x 30 units | = ₹ 3270 |
| 25.03.2021 | ₹ 107 x 15 units | = ₹ 1605 |
| Total | 80 units | = ₹ 8640 |

Weighted Average Cost = ₹ 8640/80 units = ₹108

Total cost = ₹ 108 x 20 units = ₹ 2,160

Value of inventory to be considered while preparing Balance Sheet as on 31st March, 2021 is, Cost or Net Realisable value whichever is lower i.e. ₹ 2,155.

**(c)** AS 2 does not apply to producers of agricultural products but applies to traders in agricultural products. Hence AS 2 will apply to Rohan Pvt. Ltd. and it will have to value inventory at lower of cost or market value.

**18. (a)** Included in Cost**:**

Point no. 1,2,3,5,8

Excluded from Cost:

Point no. 4,6,7

**(b) (i)** As per AS 11 'The Effect of Changes in Foreign Exchange Rates", a foreign currency transaction should be recorded, on initial recognition in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction. Moreover, at each balance sheet date, foreign currency monetary items should be reported using the closing rate. Accordingly, on 31.12.2020 borrowings will be recorded at ₹ 1,32,00,000 (i.e., ₹ 3,00,000 × ₹ 44.00). On 31.3.2021 borrowings (monetary items) will be recorded at ₹ 1,33,50,000 (i.e. $ 3,00,000 × ₹ 44.50).

**Journal of Kumar Ltd.**

| Date | Particular | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 31-12-2020 | Bank A/c Dr. | 1,32,00,000 | |
| | To Foreign Loan Account | | 1,32,00,000 |
| 31-03-2021 | Foreign Exchange Difference Account A/c Dr. | 1,50,000 | |
| | To Foreign Loan Account | | 1,50,000 |
| 30-06-2021 | Foreign Loan Account A/c Dr. | 1,33,50,000 | |
| | Foreign Exchange Difference Account A/c Dr. | 75,000 | |
| | To Bank A/c | | 1,34,25,0000 |

**(ii)** In case borrowings were repaid before Balance Sheet Date, then the entry would be as follows:

| Date | Particular | Dr. (₹) | Cr. (₹) |
|---|---|---|---|
| 28-02-2021 | Foreign Loan Account A/c Dr. | 1,32,00,000 | |
| | Foreign Exchange Difference Account A/c Dr. | 60,000 | |
| | To Bank A/c | | 1,32,60,000 |

**Working Notes:**

(i) The exchange difference of ₹ 1,50,000 is arising because the transaction has been reported at different rate (₹ 44.50 = 1 US $) from the rate initially recorded (i.e., ₹ 44 = 1 US $) from the rate initially recorded (i.e., ₹ 44 = 1 US $)

(ii) The exchange difference of ₹ 75,000 is arising because the transaction has been settled at an exchange rate (₹ 44.75 = 1 US$) different from the rate at which reported in the last financial statements (₹ 44.50 = 1 US$).

(iii) The exchange difference of ₹ 60,000 is arising because the transaction has been settled at a different rate (i.e., ₹ 44.20 = 1 US $) than the rate at which initially recorded (1 US $ = ₹ 44.00)

**19. (a)** **Journal Entries**

| *Year* | *Particulars* | | *₹ in lakhs (Dr.)* | *₹ in lakhs (Cr.)* |
|---|---|---|---|---|
| 2nd | Fixed Asset Account | Dr. | 7.5 | |
| | To Bank Account | | | 7.5 |
| | (Being government grant on asset partly refunded which increased the cost of fixed asset) | | | |
| | Depreciation Account (W.N.) | Dr. | 5.5 | |
| | To Fixed Asset Account | | | 5.5 |
| | (Being depreciation charged on SLM on revised value of fixed asset prospectively) | | | |
| | Profit & Loss Account | Dr. | 5.5 | |
| | To Depreciation Account | | | 5.5 |
| | (Being depreciation transferred to Profit and Loss Account at the end of year 2) | | | |

**Working Note:**

**Depreciation for Year 2**

| | *₹ in lakhs* |
|---|---:|
| Cost of the Asset | 30 |
| *Less:* Government grant received | (12) |
| | 18 |
| *Less:* Depreciation for the first year $\left[\frac{18\text{-}6}{4}\right]$ | 3 |
| | 15 |
| *Add:* Government grant refundable | 7.5 |
| | 22.5 |
| Depreciation for the second year $\left[\frac{22.5\text{-}6}{3}\right]$ | 5.5 |

**(b)** The investments are classified into two categories as per AS 13, *viz.*, Current Investments and Long-term Investments. A current Investment is an investment that is by its nature readily realizable and is intended to be held for not more than one year from the date on which such investment is made. The carrying amount for current investments is the lower of cost and fair value. Any reduction to fair value and any reversals of such reductions are included in the statement of profit and loss. A long-term investment is an investment other than a current investment. The investments referred in the question can be classified as long-term investments and long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of a long-term investment, the carrying amount is reduced to recognize the decline. The contention of the company to bring down the value of investment may be correct if the decline in value is permanent in nature and the reduction in carrying amount may be charged to the statement of profit and loss. The reduction in carrying amount is reversed when there is a rise in the value of the investment, or if the reasons for the reduction no longer exist.

**20. (a)** As per AS 16 Borrowing Costs "Capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete". On installation of the equipment, an evaluation has to be made to conclude whether substantially all the activities necessary to prepare the asset are complete. After an equipment has been installed it is usually tested and adjusted for commercial production before it is finally commissioned. The calibrations and adjustments required during this period are performed in order to bring the equipment up to the stage at which it is ready to commence commercial production. Until the asset reaches the stage when it is ready to support commercial levels of production, it is not appropriate to conclude that substantially all the activities necessary to prepare the asset are complete. Thus, the borrowing cost incurred during the normal period of test runs (after the installation) are required to be capitalized.

**(b)** As per provisions of AS 16, capitalization of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Further, the standard also explains that "An asset is normally ready for its intended use or sale when its physical construction or production is complete even though routine administrative work might sill continue. If minor modifications, such as the decoration of a property to the user's specification, are all that are outstanding, this indicates that substantially all the activities are complete". The emphasis in the Standard is on "to prepare the qualifying asset for its intended use or sale" and not the actual activity of sale. Therefore, where the physical construction of the asset is complete, substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Therefore, in the given case, the borrowing costs pertaining to the period during which the marketing activities to sell the asset are still in progress should not be capitalized as part of the cost of the asset.

## PAPER – 2: CORPORATE AND OTHER LAWS

## PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR MAY, 2022 EXAMINATIONS

**Applicability for May, 2022 examinations**

The Study Material (September 2021 edition) is applicable for May, 2022 examinations. This study material is updated for all amendments till 30th April, 2021.

Further, all relevant amendments/ circulars/ notifications etc. in the Company law part for the period 1st May, 2021 to 31st October, 2021 are mentioned below:

**THE COMPANIES ACT, 2013**

### I. Chapter 2: Incorporation of company and matters incidental thereto

**Amendments related to -** Notification S.O. 2904(E) dated 22nd July, 2021

The Central Government has amended Section 16 of the Companies Act, 2013, through the Companies (Amendment) Act, 2020.

Amendment:

In **section 16** of the Companies Act, 2013:

**(i)** in sub-section (1), in clause (b), for the words "period of six months", the words "period of three months" shall be substituted;

**(ii)** for sub-section (3), the following sub-section shall be substituted, namely:—

"(3) If a company is in default in complying with any direction given under sub-section (1), the Central Government shall allot a new name to the company in such manner as may be prescribed and the Registrar shall enter the new name in the register of companies in place of the old name and issue a fresh certificate of incorporation with the new name, which the company shall use thereafter:

Provided that nothing in this sub-section shall prevent a company from subsequently changing its name in accordance with the provisions of section 13."

[Enforcement Date: 1st September, 2021]

| |
|---|
| For point (i)- Old Law (Pg 2.39) |
| (b) on an application by a registered proprietor of a trade mark that the name is identical with or too nearly resembles to a registered trade mark of such proprietor under the ……….. it may direct the company to change its name and the company shall change its name or new name, as the case may be, **within a period of 6 months** from the issue of such direction, after adopting an ordinary resolution for the purpose. |

For point (ii)- Old Law (Pg 2.39)

If a company makes default in complying with any direction—

| Liable person | Penalty/punishment |
|---|---|
| **Company** | **Fine of 1,000 rupees for every day during which the default continues** |
| **Every Officer who is in default** | **Fine varying from 5,000 rupees to 1 lakh rupees.** |

## II. Chapter 8: Declaration and Payment of Dividend

**Amendments related to -** Notification G.S.R. 396(E) dated 9th June, 2021

The Central Government has amended the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016, through the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Amendment Rules, 2021.

Amendment:

In **rule 3**, in sub-rule (2), after clause (f), the following shall be inserted, namely:-

"(fa) all shares held by the Authority in accordance with proviso of sub-section (9) of section 90 of the Act and all the resultant benefits arising out of such shares, without any restrictions;"

Old Law (Pg 8.21)

Clause (fa) is Newly inserted

## III. Chapter 9: Accounts of companies

The Ministry of Corporate Affairs have made a clarification with respect to CSR:

General Circular No. 09/2021 Dated 5th May, 2021

1. In continuation to this Ministry's General Circular No. 10/2020 dated 23.03.2020, wherein it was clarified that spending of CSR funds for COVID-19 is an eligible CSR activity, it is further clarified that spending of CSR funds for 'creating health infrastructure for COVID care', 'establishment of medical oxygen generation and storage plants', 'manufacturing and supply of Oxygen concentrators, ventilators, cylinders and other medical equipment for countering COVID-19' or similar such activities are eligible CSR activities under item nos. (i) and (xii) of Schedule VII of the Companies Act, 2013 relating to promotion of health care, including preventive health care, and, disaster management respectively.

2. Reference is also drawn to item no. (ix) of Schedule VII of the Companies Act, 2013 which permits contribution to specified research and development projects as well as contribution to public funded universities and certain Organisations engaged in conducting research in science, technology, engineering, and medicine as eligible CSR activities.

3. The companies including Government companies may undertake the activities or projects or programmes using CSR funds, directly by themselves or in collaboration as shared responsibility with other companies, subject to fulfillment of Companies (CSR Policy) Rules, 2014 and the guidelines issued by this Ministry from time to time.

General Circular 13/2021 dated 30th July, 2021

The Ministry of Corporate Affairs vide General Circular 10/2020 dated 23.03.2020 clarified that spending of CSR funds for COVID- 19 is an eligible CSR activity. In continuation to the said circular, it is further clarified that spending of CSR funds of COVID- 19 vaccination for persons other than the employees and their families, is an eligible CSR activity under item no. (i) of Schedule VII of the Companies Act, 2013 relating to promotion of health care including preventive health care and item no. (xii) relating to disaster management.

| |
|---|
| Old Law (Pg 9.47)<br>The clarifications are newly inserted |

## PART – II : QUESTIONS AND ANSWERS

## QUESTIONS

### DIVISION A: CASE SCENARIO/ MULTIPLE CHOICE QUESTIONS

1. Perfect Tyres and Rubbers Ltd. is a listed entity engaged in the business of manufacturing of tyres and tubes for Light and Heavy Commercial Vehicles. During the financial year 2019-20, the company has declared interim dividend of 5% on the equity shares in its Board meeting held on 17th October, 2019, out of the profits earned during the first quarter of FY 2019-20. Further, the Board of Directors of the company after reviewing results of the fourth quarter of FY 2019-20 again recommended for second Interim Dividend @ 5% on 25th April, 2020.

   The Board of Directors of the company approved the financial result for the FY 2019-20 in its meeting held on 5th August, 2020, and recommended a final dividend of 15% (including the interim dividends paid earlier) in this board meeting. The general meeting of the shareholders was convened on 31st August, 2020. The shareholders of the company demanded that since interim dividend @10% (5% + 5%) was declared by the company, so the final dividend should not be less than 20% (including the interim dividends). When the Company Secretary emphasised that final dividend cannot exceed, what the Board of Directors have recommended in their board meeting, some of the shareholders boycotted the meeting and moved out of the meeting hall, in protest of the company's decision. However, the agenda for declaration of the dividend was passed unanimously by rest of the shareholders present in the meeting hall, fulfilling the criteria of requirement of quorum, as per the provisions of the Companies Act, 2013.

After approval of the shareholders, the dividend amount was paid to the shareholders, however dividend to some of the shareholders could not be paid within the prescribed period for variety of reasons. The company transferred the unpaid dividend amount to a separate bank account on 15th October, 2020.

The details of the unpaid dividend amount for the previous year's lying in the unpaid dividend account is as under:

| S. No. | Dividend pertaining to the FY | Date of declaration of Dividend | Date when the amount was transferred to Unpaid dividend Account | Amount lying in the Unpaid Dividend Account (₹ in lakhs) |
|---|---|---|---|---|
| 1 | 2019-20 | 31.08.2020 | 15.10.2020 | 92.50 |
| 2 | 2018-19 | 25.08.2019 | 28.09.2019 | 85.14 |
| 3 | 2017-18 | 20.08.2018 | 22.09.2018 | 80.00 |
| 4 | 2016-17 | 05.09.2017 | 07.10.2017 | 75.25 |
| 5 | 2015-16 | 01.09.2016 | 04.10.2016 | 45.15 |
| 6 | 2014-15 | 07.09.2015 | 09.10.2015 | 35.26 |
| 7 | 2013-14 | 05.05.2014 | 08.06.2014 | 15.10 |
| 8. | 2012-13 | 06.06.2013 | 08.07.2013 | 07.25 |

Sustram, one of the investors who is holding 1000 shares in physical form, by visiting web-site of the company, came to know that company had declared the dividends in some previous years, but have not been paid to him. This happened due to the fact the company was not having his current address and bank account details. Sustram approached the company, along with all the supporting evidence to his claim and demanded the dividend amount.

The company after being satisfied, paid all the dividend amount pertaining to the FY 2013-14 to FY 2019-20. However, for FY 2012-13, the company informed that since the amount of dividend has been transferred to Investor Education and Protection Fund, it cannot be taken back now. Aggrieved from this, Sustram threatened the company officials to take appropriate legal action.

Based on the above facts, answer the following MCQs:

1.1 When the shareholders demanded for increase in the rate of dividend, but since the shareholders cannot increase the rate of dividend what the Board of Directors have recommended, some of them walked out of the meeting hall. What shall be the consequences of it:

(a) If, even after boycott, quorum is present, all the time during the course of general meeting and they have approved with majority, the rate recommended by the Board shall be treated as approved.

(b) Members present at the beginning of the meeting shall remain present all the time during the general meeting, to approve any agenda, else it will be treated as nullified.

(c) The approval of the dividend is an ordinary business resolution of the company, so if some of the members have boycotted the meeting, it will have no effect, even if the quorum is not present.

(d) The recommendation of the Board of Directors of the company relating to the rate of dividend shall stands withdrawn.

1.2 At which date, the unpaid dividend not claimed by the shareholders, shall be transferred to a separate bank account, in the above case:

(a) On 5th August, 2020 (the date of Meeting of Board)

(b) On 31st August, 2020 (the date of Meeting of Shareholders)

(c) On 30th September, 2020 (the date, after 30 days from the meeting of shareholders)

(d) Latest by 7th October, 2020 (within seven days from the date of expiry of 30 days)

1.3 The company transferred the amount of unpaid dividend to a separate bank account on 15th October, 2020.

What is the interest liability on the part of the company?

(a) No liability.

(b) Interest @ 10% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.

(c) Interest @ 12% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.

(d) Interest @ 15% p.a. on so much of the amount as has not been transferred to the Unpaid Dividend Account.

1.4 In the given case, when and how much amount, the company shall transfer the funds to the Investor Education and Protection Fund:

(a) Four years after 01.09.2016; Rs 45.15 lakh

(b) Five years after 07.09.2015; Rs 35.26 lakh

(c) Six years after 05.05.2014; ₹ 15.10 lakh

(d) Seven years after 08.07.2013: ₹ 07.25 lakh

2. Amber Limited is a manufacturer of glassware. Its paid up share capital is divided into 20,0000 shares of ₹ 100 each. The company is maintaining its register of members as per the provisions of the Companies Act, 2013. The company wanted to close its register of members for declaring dividend. It may do so by giving minimum …….. days' notice.

   (a) 7 days

   (b) 10 days

   (c) 15 days

   (d) The register of members cannot be closed.

3. ………………. interpretation concerns itself with "what the law says" and ………. interpretation, seeks to ascertain "what the law means".

   (a) Grammatical, Logical

   (b) Legal, usual

   (c) Usual, legal

   (d) Logical, grammatical

4. Arvind lends money to Mamta against the security of jewellery deposited by Mamta with Arvind. Arvind gave this jewellery to his friend Vinayak who had a safe locker at his home. Who is the pawnor in the given case?

   (a) Arvind

   (b) Mamta

   (c) Vinayak

   (d) Both Arvind and Vinayak

5. Raman, the original allottee of 2000 equity shares in ABC Limited has transferred the same to Ruchi. The instrument of transfer dated 21st August, 2020, duly stamped and signed by Raman was handed over to Ruchi. Advise Ruchi regarding the latest date by which the instrument of transfer along with share certificates must be delivered to the company, to register the transfer in its register of members.

   (a) 21st August, 2020.

   (b) 20th September, 2020

   (c) 20th October, 2020.

   (d) 19th November, 2020

## DIVISION B: DESCRIPTIVE QUESTIONS

## PART I: COMPANY LAW

### The Companies Act, 2013

1. Following are some of the securities, issued by different companies related with each other, as follows:-

| Company | Securities Issued | Remarks |
|---|---|---|
| Kleshrahit Ltd. | Listed non-convertible redeemable preference shares issued on private placement basis in terms of relevant SEBI Regulations. | Has the power to appoint 2/3rd directors in Indriyadaman Ltd. |
| Indriyadaman Ltd. | Listed non-convertible debt securities issued on private placement basis in terms of relevant SEBI Regulations. | Holding 60% voting power in Sajagta (P) Ltd. |
| Sajagta (P) Ltd. | Listed non-convertible debt securities issued on private placement basis in terms of relevant SEBI Regulations. | The company holds 52% equity shares in Pratibodh Ltd. as an investment on behalf of another company in a capacity of a trustee. |

Equity shares issued by the Kleshrahit Ltd. and Indriyadaman Ltd. are not listed in any of the recognized stock exchanges.

In the context of aforesaid facts, answer the following question(s):-

(a) Whether the aforesaid companies can be considered as listed company(ies)?

(b) Explain the relationship between the aforesaid companies?

2. Abhiyogic Ltd. having 1,000 members with paid-up capital of ₹ 1 crore, decided to hold its Annual General Meeting (AGM) on 21st August, 2022, and it received a notice on 2nd July, 2022, from its 60 members holding paid-up capital of ₹ 7 lakhs, in aggregate, for a resolution to be passed at the AGM for appointing Vedya & Co., as its auditor from F.Y. 2022-23 onwards, instead of its existing auditor, Chepal & Co. which was originally appointed for 5 years term and had completed its 4 years term.

   Such a notice for resolution was forthwith send by the company to Chepal & Co. which gave its representation in writing to the company along with a request for its notification to the members of the company, but it was received too late (3 days before the meeting) by the company.

In the context of aforesaid facts, please answer to the following question(s):-

(a) Whether the said notice was given by adequate number of members within the prescribed time limit to Abhiyogic Ltd.?

(b) Whether the company was bound to send to its members such representation made by Chepal & Co. and if it could not have been send, then in such case, what was the responsibility(ies) of the company?

3. Vrinda Limited is a company manufacturing orange and strawberry candies for kids. Now, the company wants to expand its business and start the manufacturing of 10 more types of candies. The company has raised ₹ 1 crore through the issue of non-convertible debentures not constituting a charge on the assets of the company and listed on a recognised stock exchange as per the applicable regulations made by the Securities and Exchange Board of India. Advise, whether the above amount of ₹ 1 crore will be considered as deposit?

4. The Board of Directors of Plum Limited proposes to issue a prospectus inviting offers from the public for subscribing to the equity shares of the company. State the reports which shall be included in the prospectus for the purposes of providing financial information under the provisions of the Companies Act, 2013.

5. One of the matters contained in the articles of Dhimaan Foundation, incorporated as a limited company under section 8 of the Companies Act, 2013, was altered by passing a special resolution in its general meeting and thereafter, intimation for the same was given to Registrar of Companies.

   However, such alteration in the articles was opposed by Dhwaj & Co., a partnership firm which is its member that there such alteration was not valid.

   Advise, as per the provisions of the Companies Act, 2013, whether the contention of Dhwaj & Co. was valid and whether it can be a member in such company?

6. Mr. Abhi is a Chartered Accountant and MBA by profession, has been appointed as an Executive Director on the Board of XYZ Limited. His job profile includes advising the Board of Directors of the company on various compliance matters, strategies, business plans, and risk matters relating to the company. Keeping in view of above position whether Mr. Abhi can be classified as the Promoter of XYZ Limited? Please examine the same under the provisions of the Companies Act, 2013.

7. Krish Limited created a charge on its assets on 2nd February, 2021. However, the company did not register the charge with the Registrar of companies till 15th March, 2021.

   (a) What procedure should the company follow to get the charge registered?

   (b) Suppose the company realises its mistake of not registering the charge on 27th May, 2021 (instead of 15th March, 2021), can it still register the charge?

   Advise with reference to the relevant provisions of the Companies Act, 2013.

8. Vishal Limited has paid dividend consistently every year at the rate of 10% on its equity share capital in the last 5 years (2015-2016 to 2019-2020). The company has incurred loss in the current financial year (FY 2020-2021). It still wants to declare dividend for the FY 2020-2021. Whether the company can do so? Explain.

**PART II: OTHER LAWS**

**The Indian Contract Act, 1872**

9. 'Surendra' guarantees 'Virendra' for the transactions to be done between 'Virendra' & 'Jitendra' during the month of March, 2021. 'Virendra' supplied goods of ₹ 30,000 on 01.03.2021 and of ₹ 20,000 on 03.03.2021 to 'Jitendra'. On 05.03.2021, 'Surendra' died in a road accident. On 10.03.2021, being ignorant of the death of 'Surendra', 'Virendra' further supplied goods of ₹ 40,000. On default in payment by 'Jitendra' on due date, 'Virendra' sued on legal heirs of 'Surendra' for recovery of ₹ 90,000. Describe, whether legal heirs of 'Surendra' are liable to pay ₹ 90,000 under the provisions of Indian Contract Act 1872.

   What would be your answer, if the estate of 'Surendra' is worth of ₹ 45,000 only?

**The Negotiable Instruments Act, 1881**

10. 'Anjum' drew a cheque for ₹ 20,000 payable to 'Babloo' and delivered it to him. 'Babloo' indorsed the cheque in favour of 'Rehansh' but kept it in his table drawer. Subsequently, 'Babloo' died, and cheque was found by 'Rehansh' in 'Babloo's table drawer. 'Rehansh' filed the suit for the recovery of cheque. Whether 'Rehansh' can recover cheque under the provisions of the Negotiable Instrument Act 1881?

**The General Clauses Act, 1897**

11. Ayush and Vipul are good friends and pursuing CA course. While doing group studies for the paper of "Corporate and Other Law", they are confused about the provisions of section 3 of the Companies Act 2013. Section 3 provides "A company may be formed for any lawful purpose by……………." Both Ayush and Vipul are in difficulty about the meaning of word "may". Whether it should be taken as mandatory or directory?

**Interpretation of Statutes**

12. When can the Preamble be used as an aid to interpretation of a statute?

## SUGGESTED ANSWERS

### ANSWER TO CASE SCENARIO / MULTIPULE CHOICE QUESTIONS

**1.1 (a)**

**1.2 (d)**

**1.3 (c)**

**1.4 (d)**

**2. (a)**

**3. (a)**

**4. (b)**

**5. (c)**

### ANSWER TO DESCRIPTIVE QUESTIONS

**1. (a)** According to section 2(52) of the Companies Act, 2013, listed company means a company which has any of its securities listed on any recognised stock exchange;

Provided that such class of companies, which have listed or intend to list such class of securities, as may be prescribed in consultation with the Securities and Exchange Board, shall not be considered as listed companies.

According to rule 2A of the Companies (Specification of definitions details) Rules, 2014, the following classes of companies shall not be considered as listed companies, namely:-

(a) Public companies which have not listed their equity shares on a recognized stock exchange but have listed their –

(i) non-convertible debt securities issued on private placement basis in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008; or

(ii) non-convertible redeemable preference shares issued on private placement basis in terms of SEBI (Issue and Listing of Non-Convertible Redeemable Preference Shares) Regulations, 2013; or

(iii) both categories of (i) and (ii) above.

(b) Private companies which have listed their non-convertible debt securities on private placement basis on a recognized stock exchange in terms of SEBI (Issue and Listing of Debt Securities) Regulations, 2008;

(c) Public companies which have not listed their equity shares on a recognized stock exchange but whose equity shares are listed on a stock exchange in a jurisdiction as specified in sub-section (3) of section 23 of the Act.

| Company Name | Analysis and Conclusion |
|---|---|
| Kleshrahit Ltd. | Equity shares issued by the company are not listed. However, the company has issued listed non-convertible redeemable preference shares issued on private placement basis in terms of relevant SEBI Regulations which falls in the exceptions to the listed company, given as per clause (a)(ii) to Rule 2A, as aforesaid, and accordingly, Kleshrahit Ltd. **shall not be considered as a listed company.** |
| Indriyadaman Ltd. | Equity shares issued by the company are not listed. However, the company has issued listed non-convertible debt securities issued on private placement basis in terms of relevant SEBI Regulations which falls in the exceptions to the listed company, given as per clause (a)(i) to Rule 2A, as aforesaid, and accordingly, Indriyadaman Ltd. **shall not be considered as a listed company.** |
| Sajagta (P) Ltd. | The company has issued listed non-convertible debt securities issued on private placement basis on a recognised Stock Exchange in terms of relevant SEBI Regulations which falls in the exceptions to the listed company given as per clause (b) to Rule 2A, as aforesaid, and accordingly, Sajagta (P) Ltd. **shall not be considered as a listed company.** |

**(b)** According to section 2(46) of the Companies Act, 2013, holding company in relation to one or more other companies, means a company of which such companies are subsidiary companies.

According to section 2(87) of the Companies Act, 2013, subsidiary company or subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company—

(i) controls the composition of the Board of Directors; or

(ii) exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies as may be prescribed shall not have layers of subsidiaries beyond such numbers as may be prescribed.

Explanation—For the purposes of this clause,—

(a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;

(b) the composition of a company's Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;

(c) the expression "company" includes any body corporate;

(d) "layer" in relation to a holding company means its subsidiary or subsidiaries; As per the notification dated 27th December 2013, Ministry clarified that the shares held by a company or power exercisable by it in another company in a fiduciary capacity shall not be counted for the purpose of determining the holding – subsidiary relationship in terms of the provision of section 2(87) of the Companies Act, 2013.

(i) Relationship between Kleshrahit Ltd. & Indriyadaman Ltd.

It is given that Kleshrahit Ltd. has the power to appoint 2/3$^{rd}$ directors in Indriyadaman Ltd. i.e. majority of the directors can be appointed by Kleshrahit Ltd.

Accordingly, as per sub-clause (i) to section 2(87) read with the Explanation given in point (b), it can be understood that Indriyadaman Ltd. is the subsidiary company of Kleshrahit Ltd. while the latter is the holding company of Indriyadaman Ltd.

(ii) Relationship between Indriyadaman Ltd. & Sajagta (P) Ltd.

It is given that Indriyadaman Ltd. is holding 60% voting power in Sajagta (P) Ltd.

Accordingly, as per sub-clause (ii) to section 2(87), it can be understood that Sajagta (P) Ltd. is the subsidiary company of Indriyadaman Ltd. while the latter is the holding company of Sajagta (P) Ltd. as Indriyadaman Ltd. controls more than one-half of the total voting power of Sajagta (P) Ltd.

(iii) Relationship between Kleshrahit Ltd. & Sajagta (P) Ltd.

It is given that Indriyadaman Ltd. is holding 60% voting power in Sajagta (P) Ltd. and it has been derived that Indriyadaman Ltd. is the subsidiary company of Kleshrahit Ltd. and Sajagta (P) Ltd. is the subsidiary company of Indriyadaman Ltd., respectively.

Accordingly, as per sub-clause (ii) to section 2(87) read with the Explanation given in point (a), that a company shall be deemed to be a subsidiary company of the holding company even if the control is of another subsidiary company of the holding company i.e. subsidiary of subsidiary company will be deemed to be a subsidiary of the holding company.

Hence, it can be understood that Sajagta (P) Ltd. is deemed to be subsidiary company of Kleshrahit Ltd. while the latter would be considered as the holding company of Sajagta (P) Ltd.

(iv) Relationship between Sajagta (P) Ltd. & Pratibodh Ltd.

It is given that Sajagta (P) Ltd. holds 52% equity shares in Pratibodh Ltd. as an investment on behalf of another company in a capacity of a trustee i.e. in a fiduciary capacity.

As per the notification dated 27th December 2013, Ministry (MCA) clarified that the shares held by a company or power exercisable by it in another company in a fiduciary capacity shall not be counted for the purpose of determining the holding–subsidiary relationship in terms of the provision of section 2(87) of the Companies Act, 2013.

Accordingly, Sajagta (P) Ltd. & Pratibodh Ltd. do not share any holding–subsidiary relationship as the former holds shares in latter just in a fiduciary capacity on behalf of another company.

**2. (a)** As per section 140(4) of the Companies Act, 2013, resolution for appointment of an auditor other than the retiring auditor at an Annual General Meeting requires special notice. As per Section 115 of the Companies Act, 2013, read with rule 23 of Companies (Management and Administration) Rules, 2014:-

Where, by any provision contained in this Act or in the Articles of Association of a company, special notice is required for passing any resolution, then the notice of the intention to move such resolution shall be given to the company by such number of members holding not less than 1% of the total voting power, or holding shares on which such aggregate sum not exceeding five lakh rupees, as may be prescribed, has been paid-up.

The afore-mentioned notice shall be sent by members to the company not earlier than 3 months but at least 14 days before the date of meeting at which the resolution is to be moved, exclusive of the day on which the notice is given and the day of the meeting.

Here, Abhiyogic Ltd. is having 1,000 members with paid-up capital of ₹ 1 crore, and it received a notice from its 60 members holding paid-up capital of ₹ 7 lakhs, in aggregate, on 2nd July, 2022 for a resolution to be passed at the AGM to be held on 21st August, 2022.

As the members who gave the notice hold more than ₹ 5 lakhs in the paid-up capital of the company, they were eligible to give such notice.

Further, the notice should have been given not earlier than 3 months but at least 14 days before the date of meeting - 21st August, 2022, and the notice was given on 2nd July, 2022 i.e. within the prescribed time limit.

Thus, it can be said that the said notice was made by adequate number of members within the prescribed time limit to Abhiyogic Ltd.

**(b) As per Section 140(4) of the Companies Act, 2013:** Where notice is given of a resolution appointing as auditor a person other than a retiring auditor and the retiring auditor makes with respect thereto representation in writing to the company (not exceeding a reasonable length) and requests its notification to members of the company, the company shall, unless the representation is received by it too late for it to do so,—

(1) in any notice of the resolution given to members of the company, state the fact of the representation having been made; and

(2) send a copy of the representation to every member of the company to whom notice of the meeting is sent, whether before or after the receipt of the representation by the company.

However, in the present case, Abhiyogic Ltd. received the representation made by Chepal & Co. too late and accordingly it was not bound to send such representation to its members even though it was requested by Chepal & Co. to do so.

Further, as per Section 140(4) of the Companies Act, 2013, if a copy of the representation is not sent as aforesaid because it was received too late or because of the company's default, the auditor may (without prejudice to his right to be heard orally) require that the representation shall be read out at the meeting such a copy of representation thereof shall be filed with the Registrar.

Accordingly, Abhiyogic Ltd., apart from giving to right to be heard orally to Chepal & Co. shall also made the representation read out at the AGM, if so required by Chepal & Co., and shall also file such representation with the Registrar, respectively.

**3.** As per sub-clause (ixa) of Rule 2 (1) (c) of the Companies (Acceptance of Deposit) Rules, 2014, any amount raised by issue of non-convertible debentures not constituting a charge on the assets of the company and listed on recognised stock exchange as per the applicable regulations made by the Securities and Exchange Board of India, are not considered as deposit.

Hence, ₹ 1 crore raised by Vrinda Limited will not be considered as deposit in terms of sub-clause (ixa) of Rule 2 (1) (c).

**4.** As per section 26(1) of the Companies Act, 2013, every prospectus issued by or on behalf of a public company either with reference to its formation or subsequently, or by or on behalf of any person who is or has been engaged or interested in the formation of a public company, shall be dated and signed and shall state such information and set out such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government.

Provided that until the Securities and Exchange Board specifies the information and reports on financial information under this sub-section, the regulations made by the Securities and Exchange Board under the Securities and Exchange Board of India Act, 1992, in respect of such financial information or reports on financial information shall apply.

According to clause (c) of section 26 (1), the prospectus shall make a declaration about the compliance of the provisions of the Companies Act, 2013 and a statement to the effect that nothing in the prospectus is contrary to the provisions of this Act, the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 and the rules and regulations made thereunder.

Accordingly, the Board of Plum Limited which proposes to issue the prospectus shall provide such reports on financial information as may be specified by the Securities and Exchange Board in consultation with the Central Government to comply with the above stated provisions and make a declaration about such compliance.

**5.** According to section 8 of the Companies Act, 2013, a company registered under this section shall not alter the provisions of its memorandum or articles except with the previous approval of the Central Government (the power has been delegated to Registrar of Companies).

Also, a firm may be a member of the company registered under section.

Here, one of the matters of articles of Dhimaan Foundation was altered by passing a special resolution in its general meeting and thereafter, intimation for the same was given to Registrar of Companies.

As per the provisions of the Act, it is necessary to take previous approval of the Registrar of Companies for the same which was not done in the present case and thus the contention of Dhwaj & Co. was valid.

Also, section 8 allows a firm to be a member of such company and hence, Dhwaj & Co. can be its member.

**6.** According to section 2(69) of the Companies Act, 2013, Promoter means a person:-

(a) Who has been named as such in a prospectus or is identified by the company in the annual return; or

(b) Who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

(c) In accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act.

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

As the job profile of Mr. Abhi is only limited to advise the Board of Directors on various compliance matters, strategies, business plans and risk matters relating to business of the company and that too only in a professional capacity, he will not be classified as a Promoter of XYZ Limited.

**7.** According to section 77(1) of the Companies Act, 2013 it shall be the duty of every company creating a charge within or outside India, on its property or assets or any of its undertakings, whether tangible or otherwise, and situated in or outside India, to register the particulars of the charge signed by the company and the chargeholder together with the instruments, if any, creating such charge in such form, on payment of such fees and in such manner as may be prescribed, with the Registrar within 30 days of its creation.

However, under clause (b) of first proviso to section 77 (1) the Registrar is empowered to extend the period of 30 days by another 30 days (i.e. sixty days from the date of creation) on payment of prescribed additional fee.

(a) Krish Limited did not register the charge with the Registrar of companies till 15th March, 2021. In this case particulars of charge were not filed within the prescribed period of 30 days (i.e. till 4th March, 2021).

Taking advantage of clause (b) of first proviso to section 77 (1), Krish Limited should immediately file the particulars of charge with the Registrar after satisfying him through making an application that it had sufficient cause for not filing the particulars of charge within 30 days of its creation.

(b) Clause (b) of second Proviso to Section 77 (1) provides another opportunity for registration of charge by granting a further period of sixty days but the company is required to pay *ad valorem* fees.

If the company realises its mistake of not registering the charge on 27th May, 2021 instead of 15th March, 2021, it shall be noted that a period of sixty days has already expired from the date of creation of charge.

Since the first sixty days from creation of charge have expired on 3rd April, 2021, Krish Limited can still get the charge registered within a further period of sixty days from 3rd April, 2021 after paying the prescribed *ad valorem* fees. The company is required to make an application to the Registrar in this respect giving sufficient cause for non-registration of charge.

**8.** As per second proviso to Section 123(1) of the Companies Act, 2013 read with Rule 3 of *the Companies (Declaration and Payment of Dividend) Rules, 2014,* where in any year there is absence of profit or there are no adequate profits for declaring dividend, the company may declare dividend out of the profits of any previous year transferred by it to the free reserves, only in accordance with the procedure laid down.

However, such declaration shall be subject to the following conditions:

(a) The rate of dividend declared shall not exceed the average of the rates at which dividend was declared by the company in the three years immediately preceding that year.

Provided that this sub-rule shall not apply to a company, which has not declared any dividend in each of the three preceding financial year.

(b) The total amount to be drawn from such accumulated profits shall not exceed 10% of the sum of its paid-up share capital and free reserves as appearing in the latest audited financial statement.

(c) The amount so drawn shall first be utilized to set off the losses incurred in the financial year in which dividend is declared and only thereafter, any dividend in respect of equity shares shall be declared.

(d) The balance of reserves after such withdrawal shall not fall below 15% of its paid-up share capital as appearing in the latest audited financial statement.

Hence, if the company wants to pay dividend in the current financial year, it can do so if all the above conditions have been fulfilled.

**9.** According to section 131 of Indian Contract Act 1872, in the absence of a contract to contrary, a continuing guarantee is revoked by the death of the surety as to the future transactions. The estate of deceased surety, however, liable for those transactions which had already taken place during the lifetime of deceased. Surety's estate will not be liable for the transactions taken place after the death of surety even if the creditor had no knowledge of surety's death.

In this question, 'Surendra' was surety for the transactions to be done between 'Virendra' & 'Jitendra' during the month of March'2021. 'Virendra' supplied goods of ₹ 30,000, ₹ 20,000 and of ₹ 40,000 on 01.03.2021, 03.03.2021 and 10.03.02021 respectively. 'Surendra' died in a road accident but this was not in the knowledge of 'Virendra'. When 'Jitendra' defaulted in payment, 'Virendra' filed suit against legal heirs of 'Surendra' for recovery of full amount i.e. ₹ 90,000.

On the basis of above, it can be said in case of death of surety ('Surendra'), his legal heirs are liable only for those transactions which were entered before 05.03.2021 i.e. for ₹ 50,000. They are not liable for the transaction done on 10.03.2021 even though Virendra had no knowledge of death of Surendra.

Further, if the worth of the estate of deceased is only ₹ 45,000, the legal heirs are liable for this amount only.

**10.** According to section 48 of the Negotiable Instrument Act 1881, a promissory note, bill of exchange or cheque payable to order, is negotiable by the holder by indorsement and delivery thereof.

The contract on a negotiable instrument until delivery remains incomplete and revocable. The delivery is essential not only at the time of negotiation but also at the time of making or drawing of negotiable instrument. The rights in the instrument are not transferred to the indorsee unless after the indorsement the same has been delivered. If a person makes the indorsement of instrument but before the same could be delivered to the indorsee the indorser dies, the legal representatives of the deceased person cannot negotiate the same by mere delivery thereof. [Section 57]

In the given case, cheque was indorsed properly but not delivered to indorsee i.e. 'Rehansh', Therefore, 'Rehansh' is not eligible to claim the payment of cheque.

**11.** The word 'shall' is used to raise a presumption of something which is mandatory or imperative while the word 'may' is used to connote something which is not mandatory but is only directory or enabling. However, sometimes Word 'may' has a mandatory force if directory force will defeat the object of the Act.

However, sometimes the words "may and shall" can be interpreted interchangeably depending on the intention of the legislator.

Ayush and Vipul, two CA students, are confused with the language of the provisions of section 3 of the Companies Act 2013 that whether the word "may" used in section should be considered as mandatory or directory.

In the given case, it can be said that the word "may" should be taken as mandatory force, because the law will never allow the formation of company with unlawful object.

Here the word used "may" shall be read as "shall". Usage of word 'may' here makes it mandatory for a company for the compliance of section 3 for its formation.

**12.** While the Preamble can be used to know the aims and objects of the legislation it cannot be used to control or qualify the precise and unambiguous language of an enactment. The preamble is the key to the mind of the maker of the law, but it cannot override in order to enlarge or restrict the enacting provision of the Act. A provision contained in the Act cannot be considered as invalid because they do not accord with the preamble, which is only a brief summary of legislative objectives behind the Act, and if there is any conflict between the preamble and any provision of an Act, the provision prevails.

The preamble merely affords help in the matter of construction if there is any ambiguity. Where the language of the Act is clear, the court is bound to give it effect.

**When will courts refer to the preamble as an aid to construction?**

Situation 1: Where there is any ambiguity in the words of an enactment the assistance of the preamble may be taken to resolve the conflict.

Situation 2: Where the words of an enactment appear to be too general in scope or application then courts may resort to the preamble to determine the scope or limited application for which the words are meant.

## PAPER – 3: COST AND MANAGEMENT ACCOUNTING

## QUESTIONS

### Material Cost

1. Sky & Co., an unregistered supplier under GST, purchased material from Vye Ltd. which is registered under GST. The following information is available for one lot of 5,000 units of material purchased:

| | |
|---|---|
| Listed price of one lot | ₹ 2,50,000 |
| Trade discount | @ 10% on listed price |
| CGST and SGST (Credit Not available) | 12% (6% CGST + 6% SGST) |
| Cash discount | @ 10% |
| (Will be given only if payment is made within 30 days.) | |
| Toll Tax paid | ₹ 5,000 |
| Freight and Insurance | ₹ 17,000 |
| Demurrage paid to transporter | ₹ 5,000 |
| Commission and brokerage on purchases | ₹ 10,000 |
| Amount deposited for returnable containers | ₹ 30,000 |
| Amount of refund on returning the container | ₹ 20,000 |
| Other Expenses | @ 2% of total cost |

20% of material shortage is due to normal reasons.

The payment to the supplier was made within 21 days of the purchases.

You are required to CALCULATE cost per unit of material purchased by Sky & Co.

### Employee Cost

2. A total of 108 labour hours have been put in a particular job card for repair work engaging a semi-skilled and skilled labour (Mr. Deep and Mr. Sam respectively).

The hours devoted by both the workers individually on daily basis for this particular job are given below:

| Monday | Tuesday | Wednesday | Thursday | Friday |
|---|---|---|---|---|
| 10.5 | 8.0 | 10.5 | 9.5 | 10.5 |

The skilled labour also worked on Saturday for 10 hours.

Sunday is a weekly holiday and each worker has to work for 8 hours on all week days and 5 hours on Saturdays; the workers are however paid full wages for Saturday (8 hours for 5 hours worked).

Semi-skilled and skilled worker is paid ordinary wage @ ₹ 400 and ₹ 600 respectively per day of 8 hours labour. Further, the workers are also paid dearness allowance @ 20%.

Extra hours worked over and above 8 hours are also paid at ordinary wage rate however, overtime premium of 100% of ordinary wage rate is paid if a worker works for more than 9 hours in a day AND 48 hours in a week.

You are required to COMPUTE the wages payable to Mr. Deep (Semi-skilled) and Mr. Sam (Skilled).

**Overheads: Absorption Costing Method**

3. Pretz Ltd. is a manufacturing company having two production departments, 'A' & 'B' and two service departments 'X' & 'Y'. The following is the budget for March, 2022:

| | Total (₹) | A (₹) | B (₹) | X (₹) | Y (₹) |
|---|---|---|---|---|---|
| Direct material | | 2,00,000 | 4,00,000 | 4,00,000 | 2,00,000 |
| Direct wages | | 10,00,000 | 4,00,000 | 2,00,000 | 4,00,000 |
| Factory rent | 9,00,000 | | | | |
| Power (Machine) | 5,10,000 | | | | |
| Depreciation | 2,00,000 | | | | |
| General Lighting | 3,00,000 | | | | |
| Perquisites | 4,00,000 | | | | |
| Additional information: | | | | | |
| Area (Sq. ft.) | | 500 | 250 | 250 | 500 |
| Capital value of assets (₹ lakhs) | | 40 | 80 | 20 | 20 |
| Light Points | | 10 | 20 | 10 | 10 |
| Machine hours | | 1,000 | 2,000 | 1,000 | 1,000 |
| Horse power of machines | | 50 | 40 | 15 | 25 |

A technical assessment of the apportionment of expenses of service departments is as under:

| | A | B | X | Y |
|---|---|---|---|---|
| Service Dept. 'X' (%) | 55 | 25 | – | 20 |
| Service Dept. 'Y' (%) | 60 | 35 | 5 | – |

You are required to:

(a) PREPARE a statement showing distribution of overheads to various departments.

(b) PREPARE a statement showing re-distribution of service departments expenses to production departments using-

(i) Simultaneous equation method

(ii) Trial and error method

(iii) Repeated Distribution Method.

**Activity Based Costing**

4. PCP Limited belongs to the apparel industry. It specializes in the distribution of fashionable garments. It buys from the industry and resells the same to the following two different supermarkets:

(i) Supermarket A dealing in Adults' garments (Age group 15 - 30)

(ii) Supermarket B dealing in Kids' garments (Age group 5 - 10)

The following data for the month of April in respect of PCP Limited has been reported*:*

| | Supermarket A (₹) | Supermarket B (₹) |
|---|---|---|
| Average revenue per delivery | 1,69,950 | 57,750 |
| Average cost of goods sold per delivery | 1,65,000 | 55,000 |
| Number of deliveries | 660 | 1,650 |

In the past, PCP Limited has used gross margin percentage to evaluate the relative profitability of its supermarket segments.

The company plans to use activity –based costing for analysing the profitability of its supermarket segments.

The April month's operating costs (other than cost of goods sold) of PCP Limited are ₹ 16,55,995. These operating costs are assigned to five activity areas. The cost in each area and Activity analysis including cost driver for the month of April are as follows:

| Activity Area | Total costs (₹) | Cost Driver |
|---|---|---|
| Store delivery | 3,90,500 | Store deliveries |
| Cartons dispatched to store | 4,15,250 | Cartons dispatched to a store per delivery |
| Shelf-stocking at customer store | 64,845 | Hours of shelf-stocking |
| Line-item ordering | 3,45,400 | Line-items per purchase order |
| Customer purchase order processing | 4,40,000 | Purchase orders by customers |

Other data for the month of April include the following:

| | Supermarket A | Supermarket B |
|---|---|---|
| Total number of store deliveries | 1,100 | 2,805 |
| Average number of cartons shipped per store delivery | 250 | 50 |
| Average number of hours of shelf-stocking per store delivery | 6 | 1.5 |
| Average number of line items per order | 14 | 12 |
| Total number of orders | 770 | 1,980 |

Required:

(i) COMPUTE gross-margin percentage for each of its supermarket segments and compute PCP Limited's operating income.

(ii) COMPUTE the operating income of each supermarket segments using the activity-based costing information.

**Cost Sheet**

5. A Ltd. produces a single product X. During the month of December 2021, the company has produced 14,560 tonnes of X. The details for the month of December 2021 are as follows:

(i) Materials consumed ₹ 15,00,000

(ii) Power consumed 13,000 Kwh @ ₹ 7 per Kwh

(iii) Diesels consumed 1,000 litres @ ₹ 93 per litre

(iv) Wages & salary paid – ₹ 64,00,000

(v) Gratuity & leave encashment paid – ₹ 44,20,000

(vi) Hiring charges paid for HEMM- ₹ 13,00,000

(vii) Hiring charges paid for cars used for official purpose – ₹ 80,000

(viii) Reimbursement of diesel cost for the cars – ₹ 20,000

(ix) The hiring of cars attracts GST under RCM @5% without credit.

(x) Maintenance cost paid for weighing bridge (used for weighing of final goods at the time of despatch) – ₹ 7,000

(xi) AMC cost of CCTV installed at weighing bridge (used for weighing of final goods at the time of despatch) and factory premises is ₹ 6,000 and ₹ 18,000 per month respectively.

(xii) TA/ DA and hotel bill paid for sales manager- ₹ 16,000

(xiii) The company has 180 employees works for 26 days in a month.

Required:

(a) PREPARE a Cost sheet for the month of December 2021.

(b) COMPUTE Earnings per manshift (EMS) and Output per manshift (OMS) for the month of December 2021.

**Cost Accounting System**

6. X Ltd. maintains a non-integrated accounting system for the purpose of management information. The following are the data related with year 2021-22:

| Particulars | Amount ('000) |
|---|---|
| Opening balances: | |
| - Stores ledger control A/c | 48,000 |
| - Work-in-process control A/c | 12,000 |
| - Finished goods control A/c | 2,58,000 |
| - Building construction A/c | 6,000 |
| - Cost ledger control A/c | 3,24,000 |
| During the year following transactions took place: | |
| Materials: | |
| - Purchased | 24,000 |
| - Issued to production | 30,000 |
| - Issued to general maintenance | 3,600 |
| - Issued to building construction | 2,400 |
| Wages: | |
| - Gross wages paid | 90,000 |
| - Indirect wages paid | 24,000 |
| - For building construction | 6,000 |
| Factory overheads: | |
| - Actual amount incurred (excluding items shown above) | 96,000 |
| - Absorbed in building construction | 12,000 |
| - Under-absorbed | 4,800 |
| Royalty paid | 3,000 |
| Selling distribution and administration overheads | 15,000 |
| Sales | 2,70,000 |

At the end of the year, the stock of raw material and work-in-process was ₹3,30,00,000 and ₹15,00,000 respectively. The loss arising in the raw material account is treated as factory overheads. The building under construction was completed during the year. Gross profit margin is 20% on sales.

Required:

PREPARE the relevant control accounts to record the above transactions in the cost ledger of the company.

**Batch Costing**

7. Brostom Ltd. manufactures 'Stent' that is used by hospitals in angioplasty, a procedure used to open blocked coronary arteries without open-heart surgery. As per the estimates provided by Pharmaceutical Industry Bureau, there will be a demand of 1 crore 'Stents' in the coming year. Brostom Ltd. is having a market share of 10% of the total market demand of the Stents. It is estimated that it costs ₹ 3.00 as inventory holding cost per stent per month and that the set-up cost per run of stent manufacture is ₹ 450.

   Required:

   (i) WHAT would be the optimum run size for Stent manufacture?

   (ii) WHAT is the minimum inventory holding cost?

**Job Costing**

8. KJ Motors Ltd. is a manufacturer of auto components. Following are the details of expenses for the year 2020-21:

| | | (₹) |
|---|---|---:|
| (i) | Opening Stock of Material | 15,00,000 |
| (ii) | Closing Stock of Material | 20,00,000 |
| (iii) | Purchase of Material | 1,80,50,000 |
| (iv) | Direct Labour | 90,50,000 |
| (v) | Factory Overhead | 30,80,000 |
| (vi) | Administrative Overhead | 20,50,400 |

   During the FY 2021-22, the company has received an order from a car manufacturer where it estimates that the cost of material and labour will be ₹ 80,00,000 and ₹ 40,50,000 respectively. The company charges factory overhead as a percentage of direct labour and administrative overheads as a percentage of factory cost based on previous year's cost.

   Cost of delivery of the components at customer's premises is estimated at ₹ 9,50,000.

   You are required to:

   (i) CALCULATE the overhead recovery rates based on actual costs for 2020-21.

(ii) PREPARE a Job cost sheet for the order received and the price to be quoted if the desired profit is 25% on sales.

**Process Costing**

9. A company produces a component, which passes through two processes. During the month of December, 2021, materials for 40,000 components were put into Process-I of which 30,000 were completed and transferred to Process-II. Those not transferred to Process- II were 100% complete as to materials cost and 50% complete as to labour and overheads cost. The Process- I costs incurred were as follows:

| | |
|---|---|
| Direct Materials | ₹ 6,00,000 |
| Direct Wages | ₹ 7,00,000 |
| Factory Overheads | ₹ 4,90,000 |

Of those transferred to Process II, 28,000 units were completed and transferred to finished goods stores. There was a normal loss with no salvage value of 200 units in Process II. There were 1,800 units, remained unfinished in the process with 100% complete as to materials and 25% complete as regard to wages and overheads.

Costs incurred in Process-II are as follows:

| | |
|---|---|
| Packing Materials | ₹ 1,60,000 |
| Direct Wages | ₹ 1,42,250 |
| Factory Overheads | ₹ 1,70,700 |

Packing material cost is incurred at the end of the second process as protective packing to the completed units of production.

Required:

(i) PREPARE Statement of Equivalent Production, Cost per unit and Process I A/c.

(ii) PREPARE statement of Equivalent Production, Cost per unit and Process II A/c.

**Service Costing**

10. Navya LMV Pvt. Ltd, operates cab/ car rental service in Delhi/NCR. It provides its service to the offices of Noida, Gurugram and Faridabad. At present it operates CNG fuelled cars but it is also considering to upgrade these into Electric vehicle (EV). The details related with the owning of CNG & EV propelled cars are as tabulated below:

| Particulars | CNG Car | EV Car |
|---|---|---|
| Car purchase price (₹) | 9,20,000 | 15,20,000 |
| Govt. subsidy on purchase of car (₹) | -- | 1,50,000 |
| Life of the car | 15 years | 10 years |

| | | |
|---|---|---|
| Residual value (₹) | 95,000 | 1,70,000 |
| Mileage | 20 km/kg | 240 km per charge |
| Electricity consumption per full charge | -- | 30 Kwh |
| CNG cost per Kg (₹) | 60 | -- |
| Power cost per Kwh (₹) | -- | 7.60 |
| Annual Maintenance cost (₹) | 8,000 | 5,200 |
| Annual insurance cost (₹) | 7,600 | 14,600 |
| Tyre replacement cost in every 5 -year (₹) | 16,000 | 16,000 |
| Battery replacement cost in every 8- year (₹) | 12,000 | 5,40,000 |

Apart from the above, the following are the additional information:

| Particulars | |
|---|---|
| Average distance covered by a car in a month | 1,500 km |
| Driver's salary (₹) | 20,000 p.m |
| Garage rent per car (₹) | 4,500 p.m |
| Share of Office & Administration cost per car (₹) | 1,500 p.m |

Required:

CALCULATE the operating cost of vehicle per month per car for both CNG & EV options.

**Standard Costing**

11. The standard output of a Product 'D' is 50 units per hour in manufacturing department of a Company employing 100 workers. In a 40 hours week, the department produced 1,920 units of product 'D' despite 5% of the time paid was lost due to an abnormal reason. The hourly wage rates actually paid were ₹ 12.40, ₹ 12.00 and ₹ 11.40 respectively to Group 'A' consisting 10 workers, Group 'B' consisting 30 workers and Group 'C' consisting 60 workers. The standard wage rate per labour is same for all the workers. Labour Efficiency Variance is given ₹ 480 (F).

    You are required to COMPUTE:

    (i) Total Labour Cost Variance.

    (ii) Total Labour Rate Variance.

    (iii) Total Labour Gang Variance.

    (iv) Total Labour Yield Variance, and

    (v) Total Labour Idle Time Variance.

**Marginal Costing**

12. A Limited manufactures three different products and the following information has been collected from the books of accounts:

| | Products | | |
|---|---|---|---|
| | S | T | U |
| Sales Mix | 25% | 35% | 40% |
| Selling Price | ₹ 600 | ₹800 | ₹400 |
| Variable Cost | ₹ 300 | ₹400 | ₹240 |
| Total Fixed Costs | | | ₹ 36,00,000 |
| Total Sales | | | ₹ 1,20,00,000 |

The company has currently under discussion, a proposal to discontinue the manufacture of Product U and replace it with Product M, when the following results are anticipated:

| | Products | | |
|---|---|---|---|
| | S | T | M |
| Sales Mix | 40% | 35% | 25% |
| Selling Price | ₹ 600 | ₹ 800 | ₹ 600 |
| Variable Cost | ₹ 300 | ₹ 400 | ₹ 300 |
| Total Fixed Costs | | | ₹ 36,00,000 |
| Total Sales | | | ₹ 1,28,00,000 |

Required:

(i) COMPUTE the PV ratio, total contribution, profit and Break-even sales for the existing product mix.

(ii) COMPUTE the PV ratio, total contribution, profit and Break-even sales for the proposed product mix

**Budget and Budgetary Control**

13. Maharatna Ltd., a public sector undertaking (PSU), produces product A. The company is in process of preparing its revenue budget for the year 2022. The company has the following information which can be useful in preparing the budget:

(i) It has anticipated 12% growth in sales volume from the year 2021 of 4,20,000 tonnes.

(ii) The sales price of ₹23,000 per tonne will be increased by 10% provided Wholesale Price Index (WPI) increases by 5%.

(iii) To produce one tonne of product A, 2.3 tonnes of raw material are required. The raw material cost is ₹4,500 per tonne. The price of raw material will also increase by 10% if WPI increase by 5%.

(iv) The projected increase in WPI for 2022 is 4%

(v) A total of 6,000 employees works for the company. The company works 26 days in a month.

(vi) 85% of employees of the company are permanent and getting salary as per 5- year wage agreement. The earnings per manshift (means an employee cost for a shift of 8 hours) is ₹ 3,000 (excluding terminal benefits). The new wage agreement will be implemented from 1st July 2022 and it is expected that a 15% increase in pay will be given.

(vii) The casual employees are getting a daily wage of ₹ 850. The wages in linked to Consumer Price Index (CPI). The present CPI is 165.17 points and it is expected to be 173.59 points in year 2022.

(viii) Power cost for the year 2021 is ₹ 42,00,000 for 7,00,000 units (1 unit = 1 Kwh). 60% of power is used for production purpose (directly related to production volume) and remaining are for employee quarters and administrative offices.

(ix) During the year 2021, the company has paid ₹ 60,00,000 for safety and maintenance works. The amount will increase in proportion to the volume of production.

(x) During the year 2021, the company has paid ₹ 1,20,000 for the purchase of diesel to be used in car hired for administrative purposes. The cost of diesel will increase by 15% in year 2022.

(xi) During the year 2021, the company has paid ₹ 6,00,000 for car hire charges (excluding fuel cost). In year 2022, the company has decided to reimburse the diesel cost to the car rental company. Doing this will attract 5% GST on Reverse Charge Mechanism (RCM) basis on which the company will not get GST input credit.

(xii) Depreciation on fixed assets for the year 2021 is ₹ 80,40,00,000 and it will be 15% lower in 2022.

Required:

From the above information PREPARE Revenue (Flexible) budget for the year 2022 and also show the budgeted profit/ loss for the year.

**Miscellaneous**

14. (a) EXPLAIN the difference between controllable & uncontrollable costs?

(b) DEFINE cost plus contract? STATE its advantages.

(c) "Is reconciliation of cost accounts and financial accounts necessary in case of integrated accounting system?" EXPLAIN.

(d) DISCUSS the impact of Information Technology in Cost Accounting.

## SUGGESTED HINTS/ANSWERS

**1. Calculation of cost per unit:**

| **Particulars** | **Units** | **(₹)** |
|---|---|---|
| Listed Price of Materials | 5,000 | 2,50,000 |
| *Less:* Trade discount @ 10% on invoice price | | (25,000) |
| | | 2,25,000 |
| *Add:* CGST @ 6% of ₹ 2,25,000 | | 13,500 |
| *Add:* SGST @ 6% of ₹ 2,25,000 | | 13,500 |
| | | 2,52,000 |
| *Add:* Toll Tax | | 5,000 |
| Freight and Insurance | | 17,000 |
| Commission and Brokerage Paid | | 10,000 |
| *Add:* Cost of returnable containers:<br>Amount deposited ₹ 30,000<br>*Less:* Amount refunded ₹ 20,000 | | 10,000 |
| | | 2,94,000 |
| *Add:* Other Expenses @ 2% of Total Cost $\left(\frac{₹\ 2,94,000}{98} \times 2\right)$ | | 6,000 |
| Total cost of material | | 3,00,000 |
| *Less:* Shortage material due to normal reasons @ 20% | 1,000 | - |
| Total cost of material of good units | 4,000 | 3,00,000 |
| Cost per unit (₹ 3,00,000/4,000 units) | | 75 |

**Note:**

1. GST is payable on net price i.e., listed price less discount.
2. Cash discount is treated as interest and finance charges; hence it is ignored.
3. Demurrage is penalty imposed by the transporter for delay in uploading or off-loading of materials. It is an abnormal cost and not included.
4. Shortage due to normal reasons should not be deducted from cost to ascertain total cost of good units.

2. **Calculation of total normal hours to be paid for Mr. Deep (Semi-skilled):**

| Day | Normal hours | Extra hours | Overtime hours | Equivalent normal hours for overtime worked | Total normal hours |
|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D = C×2** | **E = A+B+D** |
| Monday | 8 | 1 | 1½ | 3 | 12 |
| Tuesday | 8 | -- | -- | -- | 8 |
| Wednesday | 8 | 1 | 1½ | 3 | 12 |
| Thursday | 8 | 1 | ½ | 1 | 10 |
| Friday | 8 | 1 | 1½ | 3 | 12 |
| Saturday | -- | -- | -- | -- | -- |
| Total | 40 | 4 | 5 | 10 | 54 |

**Calculation of total normal hours to be paid for Mr. Sam (Skilled):**

| Day | Normal hours | Extra hours | Overtime hours | Equivalent normal hours for overtime worked | Total normal hours |
|---|---|---|---|---|---|
| | **A** | **B** | **C** | **D = C×2** | **E = A+B+D** |
| Monday | 8 | 1 | 1½ | 3 | 12 |
| Tuesday | 8 | --- | --- | --- | 8 |
| Wednesday | 8 | 1 | 1½ | 3 | 12 |
| Thursday | 8 | 1 | ½ | 1 | 10 |
| Friday | 8 | 1 | 1½ | 3 | 12 |
| Saturday | 5 | 3* + 1 | 1** | 2 | 11 |
| **Total** | **45** | **8** | **6** | **12** | **65** |

*Mr. Sam will be paid for equivalent 8 normal working hours at ordinary wage rate, though 5 hours of working is required on Saturday. Further, extra 9th hour worked will also be paid at ordinary wage rate.

** Overtime of 1 hour worked over and above 9 hours will be paid at overtime rate.

**Wages payable:**

| | Mr. Deep | Mr. Sam |
|---|---:|---:|
| Basic Wages per hour (₹ 400/8, ₹ 600/8) (₹) | 50 | 75 |
| Dearness allowance per hour (@ 20%) (₹) | 10 | 15 |
| Hourly rate (₹) | 60 | 90 |
| Total equivalent normal hours | 54 | 65 |
| **Total Wages payable (₹)** | **3,240** | **5,850** |

3. (a) **Primary Distribution of Overheads**

| | Basis | Total (₹) | A (₹) | B (₹) | X (₹) | Y (₹) |
|---|---|---:|---:|---:|---:|---:|
| Direct materials | Direct | 6,00,000 | – | – | 4,00,000 | 2,00,000 |
| Direct wages | Direct | 6,00,000 | – | – | 2,00,000 | 4,00,000 |
| Factory rent (2:1:1:2) | Area | 9,00,000 | 3,00,000 | 1,50,000 | 1,50,000 | 3,00,000 |
| Power (Machine) (10:16:3:5)* | H.P. × Machine Hrs. | 5,10,000 | 1,50,000 | 2,40,000 | 45,000 | 75,000 |
| Depreciation (2:4:1:1) | Capital value | 2,00,000 | 50,000 | 1,00,000 | 25,000 | 25,000 |
| General Lighting (1:2:1:1) | Light Points | 3,00,000 | 60,000 | 1,20,000 | 60,000 | 60,000 |
| Perquisites (5:2:1:2) | Direct Wages | 4,00,000 | 2,00,000 | 80,000 | 40,000 | 80,000 |
| | | **35,10,000** | **7,60,000** | **6,90,000** | **9,20,000** | **11,40,000** |

*{(1000×50) : (2000×40) : (1000×15) : (1000×25)}

(50000 : 80000 : 15000 : 25000)

(10 : 16 : 3 : 5)

(b) (i) **Redistribution of Service Department's expenses using 'Simultaneous equation method'**

X = 9,20,000 + 0.05 Y

Y = 11,40,000 + 0.20 X

Substituting the value of X,

$$Y = 11,40,000 + 0.20\ (9,20,000 + 0.05\ Y)$$

$$= 13,24,000 + 0.01\ Y$$

$$Y - 0.01Y = 13,24,000$$

$$Y = \frac{13,24,000}{0.99}$$

$$Y = ₹\ 13,37,374$$

The total expense of **Y is ₹ 13,37,374** and that of **X is ₹ 9,86,869** *i.e.,* ₹ 9,20,000 + (0.05 × ₹ 13,37,374).

**Distribution of Service departments' overheads to Production departments**

| | **Production Departments** | |
|---|---|---|
| | **A (₹)** | **B (₹)** |
| Overhead as per primary distribution | 7,60,000 | 6,90,000 |
| Dept- X (55% and 25% of ₹ 9,86,869) | 5,42,778 | 2,46,717 |
| Dept- Y (60% and 35% of ₹ 13,37,374) | 8,02,424 | 4,68,081 |
| | **21,05,202** | **14,04,798** |

**(ii) Redistribution of Service Department's expenses using 'Trial and Error Method':**

| | **Service Departments** | |
|---|---|---|
| | **X (₹)** | **Y (₹)** |
| Overheads as per primary distribution | 9,20,000 | 11,40,000 |
| (i) Apportionment of Dept-X expenses to Dept-Y (20% of ₹ 9,20,000) | --- | 1,84,000 |
| | --- | 13,24,000 |
| (ii) Apportionment of Dept-Y expenses to Dept-X (5% of ₹ 13,24,000) | 66,200 | --- |
| (i) Apportionment of Dept-X expenses to Dept-Y (20% of ₹ 66,200) | --- | 13,240 |
| (ii) Apportionment of Dept-Y expenses to Dept-X (5% of ₹ 13,240) | 662 | --- |

| | | | |
|---|---|---|---|
| (i) | Apportionment of Dept-X expenses to Dept-Y (20% of ₹ 662) | | 132 |
| (ii) | Apportionment of Dept-Y expenses to Dept-X (5% of ₹ 132) | 7 | |
| **Total** | | **9,86,869** | **13,37,372** |

**Distribution of Service departments' overheads to Production departments**

| | Production Departments | |
|---|---|---|
| | **A (₹)** | **B (₹)** |
| Overhead as per primary distribution | 7,60,000 | 6,90,000 |
| Dept- X (55% and 25% of ₹ 9,86,869) | 5,42,778 | 2,46,717 |
| Dept- Y (60% and 35% of ₹ 13,37,372) | 8,02,423 | 4,68,080 |
| | **21,05,201** | **14,04,797** |

**(iii) Redistribution of Service Department's expenses using 'repeated distribution method':**

| | A (₹) | B (₹) | X (₹) | Y (₹) |
|---|---|---|---|---|
| Overhead as per primary distribution | 7,60,000 | 6,90,000 | 9,20,000 | 11,40,000 |
| Dept. X overhead apportioned in the ratio (55:25:—:20) | 5,06,000 | 2,30,000 | (9,20,000) | 1,84,000 |
| Dept. Y overhead apportioned in the ratio (60:35:5: —) | 7,94,400 | 4,63,400 | 66,200 | (13,24,000) |
| Dept. X overhead apportioned in the ratio (55:25:—:20) | 36,410 | 16,550 | (66,200) | 13,240 |
| Dept. Y overhead apportioned in the ratio (60:35:5: —) | 7,944 | 4,634 | 662 | (13,240) |
| Dept. X overhead apportioned in the ratio (55:25:—:20) | 364 | 166 | (662) | 132 |

| | | | | |
|---|---|---|---|---|
| Dept. Y overhead apportioned in the ratio (60:35:5: —) | 79 | 46 | 7 | (132) |
| Dept. X overhead apportioned in the ratio (55:25:—:20) | 4 | 3 | (7) | - |
| | **21,05,201** | **14,04,799** | – | – |

4. (i) **PCP Limited's**

**Statement of operating income and gross margin percentage for each of its supermarket segments**

| Particulars | Supermarket A | Supermarket B | Total |
|---|---|---|---|
| Revenues: (₹) | 11,21,67,000<br>(660 × ₹ 1,69,950) | 9,52,87,500<br>(1,650 × ₹ 57,750) | 20,74,54,500 |
| *Less:* Cost of goods sold: (₹) | 10,89,00,000<br>(660 × ₹ 1,65,000) | 9,07,50,000<br>(1650 × ₹ 55,000) | 19,96,50,000 |
| **Gross Margin: (₹)** | **32,67,000** | **45,37,500** | **78,04,500** |
| *Less:* Other operating costs: (₹) | | | 16,55,995 |
| Operating income: (₹) | | | **61,48,505** |
| **Gross Margin** | **2.91%** | **4.76 %** | **3.76%** |
| **Operating income %** | | | **2.96%** |

(ii) **Operating Income Statement of each distribution channel in April (Using the Activity based Costing information)**

| | Supermarket A | Supermarket B |
|---|---|---|
| Gross margin (₹) : (A)<br>(Refer to (i) part of the answer) | 32,67,000 | 45,37,500 |
| Operating cost (₹): (B)<br>(Refer to working note) | 6,55,600 | 10,00,395 |
| **Operating income (₹): (A–B)** | **26,11,400** | **35,37,105** |
| **Operating income (in %)<br>(Operating income/Revenue) ×100** | **2.33** | **3.71** |

**Working note:**

**Computation of rate per unit of the cost allocation base for each of the five activity areas for the month of April**

| | (₹) |
|---|---|
| Store delivery<br>[₹ 3,90,500/ (1,100 + 2,805 store deliveries)] | 100 per delivery |
| Cartons dispatched<br>[₹ 4,15,250/ {(250×1,100) +( 50×2,805)} carton dispatches] | 1 per carton dispatch |
| Shelf-stocking at customer store (₹)<br>[₹ 64,845/ {(6×1,100) + (1.5×2,805)} hours] | 6 per hour |
| Line item ordering<br>[₹ 3,45,400/ {(14×770) + (12×1,980)} line items] | 10 per line item order |
| Customer purchase order processing<br>[₹ 4,40,000/ (770 + 1,980 orders)] | 160 per order |

**Computation of operating cost of each distribution channel:**

| | Supermarket A (₹) | Supermarket B (₹) |
|---|---:|---:|
| Store delivery | 1,10,000<br>(₹ 100 × 1,100 deliveries) | 2,80,500<br>(₹ 100 × 2,805 deliveries) |
| Cartons dispatched | 2,75,000<br>(₹ 1× 250 cartons × 1,100 deliveries) | 1,40,250<br>(₹ 1 × 50 cartons × 2,805 deliveries) |
| Shelf stocking | 39,600<br>(₹ 6 × 1,100 deliveries × 6 Av. hrs.) | 25,245<br>(₹ 6 × 2,805 deliveries × 1.5 Av. hrs) |
| Line item ordering | 1,07,800<br>(₹ 10 × 14 line item x 770 orders) | 2,37,600<br>(₹ 10 × 12 line item x 1,980 orders) |
| Customer purchase order processing | 1,23,200<br>(₹ 160 × 770 orders) | 3,16,800<br>(₹ 160 × 1,980 orders) |
| **Operating cost** | **6,55,600** | **10,00,395** |

5. (a) **Cost Sheet of A Ltd. for the month of December 2021**

| **Particulars** | **Amount (₹)** | **Amount (₹)** |
|---|---|---|
| Materials consumed | | 15,00,000 |
| Wages & Salary | 64,00,000 | |
| Gratuity & leave encashment | 44,20,000 | 1,08,20,000 |
| Power cost (13,000 kwh × ₹ 7) | 91,000 | |
| Diesel cost (1,000 ltr × ₹ 93) | 93,000 | 1,84,000 |
| HEMM hiring charges | | 13,00,000 |
| **Prime Cost** | | **1,38,04,000** |
| AMC cost of CCTV installed at factory premises | | 18,000 |
| **Cost of Production/ Cost of Goods Sold** | | **1,38,22,000** |
| Hiring charges of cars | 80,000 | |
| Reimbursement of diesel cost | 20,000 | |
| | 1,00,000 | |
| *Add:* GST @5% on RCM basis | 5,000 | 1,05,000 |
| Maintenance cost for weighing bridge | 7,000 | |
| AMC cost of CCTV installed at weigh bridge | 6,000 | 13,000 |
| TA/ DA & hotel bill of sales manager | | 16,000 |
| **Cost of Sales** | | **1,39,56,000** |

**(b)** Manshift = 180 employees × 26 days = 4,680 manshifts

**Computation of earnings per manshift (EMS):**

$$\text{EMS} = \frac{\text{Total employee benefits paid}}{\text{Manshift}}$$

$$= \frac{₹\ 1,08,20,000}{4,680} = ₹\ 2,312$$

**Computation of Output per manshift (OMS):**

$$\text{OMS} = \frac{\text{Total Output/ Production}}{\text{Manshift}}$$

$$= \frac{14,560 \text{ Tonne}}{4,680} = 3.11 \text{ tonne}$$

6. **Cost Ledger Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Costing P&L A/c | 2,70,000 | By Balance b/d | 3,24,000 |
| To Building Construction A/c | 26,400 | By Stores Ledger Control A/c | 24,000 |
| To Balance c/d | 2,89,800 | By Wages Control A/c | 90,000 |
| | | By Factory overhead control A/c | 96,000 |
| | | By Royalty A/c | 3,000 |
| | | By Selling, Distribution and Administration overheads | 15,000 |
| | | By Costing P&L A/c | 34,200 |
| | 5,86,200 | | 5,86,200 |

**Stores Ledger Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Balance b/d | 48,000 | By WIP control A/c | 30,000 |
| To Cost Ledger control A/c | 24,000 | By Factory overheads control A/c | 3,600 |
| | | By Building construction A/c | 2,400 |
| | | By Factory overhead control A/c (loss) (Bal. fig) | 3,000 |
| | | By Balance c/d | 33,000 |
| | 72,000 | | 72,000 |

**Work-in-process Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Balance b/d | 12,000 | By Finished goods control A/c | 1,99,800 |
| To Stores Ledger control A/c | 30,000 | | |
| To Wages Control A/c | 60,000 | | |
| To Factory overhead control A/c | 1,09,800 | | |
| To Royalty A/c | 3,000 | By Balance c/d | 15,000 |
| | 2,14,800 | | 2,14,800 |

**Finished Goods Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Balance b/d | 2,58,000 | By Cost of Goods Sold A/c (Refer working note) | 2,16,000 |
| To WIP control A/c | 1,99,800 | By Balance c/d | 2,41,800 |
| | 4,57,800 | | 4,57,800 |

**Cost of Sales Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Cost of Goods Sold A/c | 2,16,000 | By Costing P&L A/c | 2,31,000 |
| To Selling, Distribution and Administration A/c | 15,000 | | |
| | 2,31,000 | | 2,31,000 |

**Costing P&L Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Cost of Sales A/c | 2,31,000 | By Cost Ledger control A/c | 2,70,000 |
| To Factory overhead control A/c | 4,800 | | |
| To Cost Ledger control A/c | 34,200 | | |
| | 2,70,000 | | 2,70,000 |

**Building Construction Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Balance b/d | 6,000 | By Cost Ledger control A/c | 26,400 |
| To Stores Ledger control A/c | 2,400 | | |
| To Wages Control A/c | 6,000 | | |
| To Factory overhead control A/c | 12,000 | | |
| | 26,400 | | 26,400 |

**Factory Overhead Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Stores Ledger control A/c | 3,600 | By Building Construction A/c | 12,000 |
| To Wages Control A/c | 24,000 | By WIP Control A/c | 1,09,800 |
| To Cost Ledger control A/c | 96,000 | By Costing P&L A/c | 4,800 |

| | | | |
|---|---|---|---|
| To Stores Ledger control A/c (loss) | 3,000 | | |
| | 1,26,600 | | 1,26,600 |

**Wages Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Cost Ledger control A/c | 90,000 | By Factory overhead control A/c | 24,000 |
| | | By Building Construction A/c | 6,000 |
| | | By WIP Control A/c | 60,000 |
| | 90,000 | | 90,000 |

**Royalty Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Cost Ledger control A/c | 3,000 | By WIP Control A/c | 3,000 |
| | 3,000 | | 3,000 |

**Cost of Goods Sold Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Finished Goods control A/c | 2,16,000 | By Cost of sales A/c | 2,16,000 |
| | 2,16,000 | | 2,16,000 |

**Selling, Distribution and Administration Overhead Control Account**

| Particulars | (₹ in '000) | Particulars | (₹ in '000) |
|---|---|---|---|
| To Cost Ledger control A/c | 15,000 | By Cost of sales A/c | 15,000 |
| | 15,000 | | 15,000 |

**Trial Balance**

| Particulars | Dr. | Cr. |
|---|---|---|
| | (₹ in '000) | (₹ in '000) |
| Stores Ledger Control A/c | 33,000 | |
| WIP Control A/c | 15,000 | |
| Finished Goods Control A/c | 2,41,800 | |
| Cost Ledger Control A/c | | 2,89,800 |
| | 2,89,800 | 2,89,800 |

**Working Note:**

Cost of Goods sold = 2,70,000 × 80/100 = ₹ 2,16,000

**7. (i) Computation of Optimum Run size of 'Stents' or Economic Batch Quantity (EBQ)**

Economic Batch Quantity (EBQ) = $\sqrt{\frac{2DS}{C}}$

Where, D = Annual demand for the Stents

= 1,00,00,000 × 10% = 10,00,000 units

S = Set- up cost per run

= ₹ 450

C = Carrying cost per unit per annum

= ₹ 3 × 12 = ₹ 36

EBQ = $\sqrt{\frac{2 \times 10,00,000 \times ₹\ 450}{₹\ 36}}$

= 5,000 units of Stents

**(ii) Minimum inventory holding cost**

Minimum Inventory Cost = Average Inventory × Inventory Carrying Cost per unit per annum

= (5,000 ÷ 2) × ₹ 36

= ₹ 90,000

**(iii) Calculation of the extra cost due to manufacturing policy**

| | When run size is 6,000 units | When run size is 5,000 units i.e. at EBQ |
|---|---|---|
| Total set up cost | $=\frac{10,00,000}{6,000}$ × ₹ 450<br>= ₹ 75,000 | $\frac{10,00,000}{5,000}$ × ₹ 450<br>= ₹ 90,000 |
| Total Carrying cost | ½ × 6,000 × ₹ 36<br>= ₹ 1,08,000 | ½ × 5,000 × ₹ 36<br>= ₹ 90,000 |
| Total Cost | **₹ 1,83,000** | **₹ 1,80,000** |

Extra cost = ₹ 1,83,000 - ₹ 1,80,000 = **₹ 3,000**

**8. (i) Calculation of Overhead Recovery Rate:**

Factory Overhead Recovery Rate $= \frac{\text{Factory Overhead in 2020-21}}{\text{Direct labour cost in 2020-21}} \times 100$

$= \frac{₹\ 30,80,000}{₹\ 90,50,000} \times 100 = 34\%$ of Direct labour

Administrative Overhead Recovery Rate $= \frac{\text{Administrative Overhead in 2020-21}}{\text{Factory cost in 2020-21 (W.N)}} \times 100$

$= \frac{₹\ 20,50,400}{₹\ 2,96,80,000} \times 100 = 6.91\%$ of Factory Cost

**Working Note: Calculation of Factory Cost in 2020-21**

| Particulars | Amount (₹) |
|---|---|
| Opening Stock of Material | 15,00,000 |
| *Add:* Purchase of Material | 1,80,50,000 |
| *Less:* Closing Stock of Material | (20,00,000) |
| Material Consumed | 1,75,50,000 |
| Direct Labour | 90,50,000 |
| Prime Cost | 2,66,00,000 |
| Factory Overhead | 30,80,000 |
| Factory Cost | 2,96,80,000 |

**(ii) Job Cost Sheet for the order received in 2021-22**

| Particulars | Amount (₹) |
|---|---|
| Material | 80,00,000 |
| Labour | 40,50,000 |
| Factory Overhead (34% of ₹ 40,50,000) | 13,77,000 |
| Factory Cost | 1,34,27,000 |
| Administrative Overhead (6.91% of ₹ 1,34,27,000) | 9,27,806 |
| Cost of delivery | 9,50,000 |
| Total Cost | 1,53,04,806 |
| *Add:* Profit @ 25% of Sales or 33.33% of cost | 51,01,602 |
| Sales value (Price to be quoted for the order) | 2,04,06,408 |

Hence the price to be quoted is ₹ 2,04,06,408.

9. (i) **Process I**

**Statement of Equivalent Production and Cost**

| Input (Units) | Particulars | Output Units | Equivalent Production | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Materials | | Labour | | Overheads | |
| | | | (%) | Units | (%) | Units | (%) | Units |
| 40,000 | Completed | 30,000 | 100 | 30,000 | 100 | 30,000 | 100 | 30,000 |
| | Closing WIP | 10,000 | 100 | 10,000 | 50 | 5,000 | 50 | 5,000 |
| 40,000 | | 40,000 | | 40,000 | | 35,000 | | 35,000 |

| Particulars | Materials | Labour | Overhead | Total |
|---|---|---|---|---|
| Cost incurred (₹) | 6,00,000 | 7,00,000 | 4,90,000 | 17,90,000 |
| Equivalent units | 40,000 | 35,000 | 35,000 | |
| Cost per equivalent unit (₹) | 15 | 20 | 14 | 49 |

**Process-I Account**

| Particulars | Units | (₹) | Particulars | Units | (₹) |
|---|---|---|---|---|---|
| To Materials | 40,000 | 6,00,000 | By Process-II A/c (30,000 units × ₹49) | 30,000 | 14,70,000 |
| To Labour | | 7,00,000 | By Closing WIP* | 10,000 | 3,20,000 |
| To Overhead | | 4,90,000 | | | |
| | 40,000 | 17,90,000 | | 40,000 | 17,90,000 |

* (Material 10,000 units × ₹ 15) + (Labour 5,000 units × ₹ 20) + (Overheads 5,000 units × ₹ 14)

= ₹ 1,50,000 + ₹ 1,00,000 + ₹ 70,000 = ₹ 3,20,000

(ii) **Process II**

**Statement of Equivalent Production and Cost**

| Input (Units) | Particulars | Output Units | Equivalent Production | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Materials | | Labour | | Overheads | |
| | | | (%) | Units | (%) | Units | (%) | Units |
| 30,000 | Completed | 28,000 | 100 | 28,000 | 100 | 28,000 | 100 | 28,000 |
| | Normal loss | 200 | | -- | | -- | | -- |
| | Closing WIP | 1,800 | 100 | 1,800 | 25 | 450 | 25 | 450 |
| 30,000 | | 30,000 | | 29,800 | | 28,450 | | 28,450 |

| Particulars | Materials | Labour | Overhead | Total |
|---|---|---|---|---|
| Process-I Cost | 14,70,000 | -- | -- | 14,70,000 |
| Cost incurred (₹) | -- | 1,42,250 | 1,70,700 | 3,12,950 |
| Equivalent units | 29,800 | 28,450 | 28,450 | -- |
| Cost per equivalent unit (₹) | 49.3289 | 5.00 | 6.00 | 60.3289 |

**Process-II Account**

| Particulars | Units | (₹) | Particulars | Units | (₹) |
|---|---|---|---|---|---|
| To Process-I A/c | 30,000 | 14,70,000 | By Normal loss A/c | 200 | -- |
| To Packing Material | -- | 1,60,000 | By Finished Goods Stock A/c | 28,000* | 18,49,209 |
| To Direct Wages | -- | 1,42,250 | By Closing WIP | 1,800** | 93,741 |
| To Factory Overhead | -- | 1,70,700 | | | |
| | 30,000 | 19,42,950 | | 30,000 | 19,42,950 |

* 28,000 × ₹ 60.3289 = ₹ 16,89,209 + ₹1,60,000 (Packing Material Cost) = ₹ 18,49,209

** 1,800 units × ₹ 49.3289 + 450 units × (₹ 5 + ₹6) = ₹ 93,741

**10. Working Notes:**

**1. Calculation of Depreciation per month:**

| | Particulars | CNG Car | EV Car |
|---|---|---|---|
| A | Car purchase price (₹) | 9,20,000 | 15,20,000 |
| B | *Less:* Govt. subsidy (₹) | -- | (1,50,000) |
| C | *Less:* Residual value (₹) | (95,000) | (1,70,000) |
| D | Depreciable value of car (₹) [A-B-C] | 8,25,000 | 12,00,000 |
| E | Life of the car | 15 years | 10 years |
| F | Annual depreciation (₹) [D÷E] | 55,000 | 1,20,000 |
| **G** | **Depreciation per month (₹) [F÷12]** | **4,583.33** | **10,000** |

**2. Fuel/ Electricity consumption cost per month:**

| | Particulars | CNG Car | EV Car |
|---|---|---|---|
| A | Average distance covered in a month (KM) | 1,500 | 1,500 |
| B | Mileage (KM) | 20 | 240 |

| | | | |
|---|---|---|---|
| C | Qty. of CNG/ Full charge required [A÷B] | 75 kg. | 6.25 |
| D | Electricity Consumption [C×30kwh] | - | 187.5 |
| E | Cost of CNG per kg (₹) | 60 | - |
| F | Power cost per Kwh (₹) | - | 7.60 |
| **G** | **CNG Cost per month (₹) [C×E]** | **4,500** | **-** |
| **H** | **Power cost per month (₹) [D×F]** | **-** | **1,425** |

**3. Amortised cost of Tyre replacement:**

| | Particulars | CNG Car | EV Car |
|---|---|---|---|
| A | Life of vehicle | 15 years | 10 years |
| B | Replacement interval | 5 years | 5 years |
| C | No. of time replacement required | 2 times | 1 time |
| D | Cost of tyres for each replacement (₹) | 16,000 | 16,000 |
| E | Total replacement cost (₹) [C×D] | 32,000 | 16,000 |
| F | Amortised cost per year (₹) [E÷A] | 2,133.33 | 1,600 |
| **E** | **Cost per month (₹) [F÷12]** | **177.78** | **133.33** |

**4. Amortised cost of Battery replacement:**

| | Particulars | CNG Car | EV Car |
|---|---|---|---|
| A | Life of vehicle | 15 years | 10 years |
| B | Replacement interval | 8 years | 8 years |
| C | No. of time replacement required | 1 time | 1 time |
| D | Cost of battery for each replacement (₹) | 12,000 | 5,40,000 |
| E | Total replacement cost (₹) [C×D] | 12,000 | 5,40,000 |
| F | Amortised cost per year (₹) [E÷A] | 800 | 54,000 |
| **E** | **Cost per month (₹) [F÷12]** | **66.67** | **4,500** |

**Calculation of Operating cost per month:**

| | Particulars | CNG Car (₹) | EV Car (₹) |
|---|---|---|---|
| **A** | **Running cost:** | | |
| | Fuel cost/ Power consumption cost [Refer WN-2] | 4,500 | 1,425 |

| | | | |
|---|---|---|---|
| **B** | **Maintenance cost:** | | |
| | Annual Maintenance cost [Annual cost ÷12] | 666.67 | 433.33 |
| | Annual Insurance cost [Annual cost ÷12] | 633.33 | 1,216.67 |
| | Amortised cost of Tyre replacement [Refer WN-3] | 177.78 | 133.33 |
| | Amortised cost of Battery replacement [Refer WN-4] | 66.67 | 4,500 |
| | | 1,544.45 | 6,283.33 |
| **C** | **Fixed cost:** | | |
| | Depreciation [Refer WN-1] | 4,583.33 | 10,000 |
| | Driver's salary | 20,000 | 20,000 |
| | Garage rent | 4,500 | 4,500 |
| | Share of Office & Administration cost | 1,500 | 1,500 |
| | | 30,583.33 | 36,000 |
| **D** | **Operating cost per month [A+B+C]** | **36,627.78** | **43,708.33** |

11. **Working Notes:**

1. **Calculation of Standard Man hours**

When 100 workers work for 1 hour, the standard output is 50 units.

Standard man hours per unit $= \frac{100 \text{ hours}}{50 \text{ units}}$ **= 2 hours per unit**

2. **Calculation of standard man hours for actual output:**

= 1,920units x 2 hours **= 3,840 hours.**

3. **Calculation of actual cost**

| Type of Workers | No of Workers | Actual Hours Paid | Rate (₹) | Amount (₹) | Idle Hours (5% of hours paid) | Actual hours Worked |
|---|---|---|---|---|---|---|
| Group 'A' | 10 | 400 | 12.40 | 4,960 | 20 | 380 |
| Group 'B' | 30 | 1,200 | 12 | 14,400 | 60 | 1,140 |
| Group 'C' | 60 | 2,400 | 11.40 | 27,360 | 120 | 2,280 |
| | **100** | **4,000** | | **46,720** | **200** | **3,800** |

**4. Calculation of Standard wage Rate:**

| | |
|---|---|
| Labour Efficiency Variance | = 480F |
| (Standard hours for Actual production – Actual Hours) x SR | = 480F |
| (3,840 – 3,800) x SR | = 480 |
| Standard Rate (SR) | **= ₹ 12 per hour** |

**(i) Total Labour Cost Variance**

= (Standard hours x Standard Rate) – (Actual Hours x Actual rate)

= (3,840 x 12) – 46,720 **= 640A**

**(ii) Total Labour Rate Variance**

= (Standard Rate – Actual Rate) x Actual Hours

| | | |
|---|---|---|
| Group 'A' = (12 - 12.40) 400 | = | 160A |
| Group 'B' = (12 - 12) 1,200 | = | 0 |
| Group 'C' = (12 – 11.40) 2,400 | = | 1,440F |
| | | **1,280F** |

**(iii) Total Labour Gang Variance**

= Total Actual Time Worked (hours) × {Average Standard Rate per hour of Standard Gang -Average Standard Rate per hour of Actual Gang@}

@ on the basis of hours worked

$= 3,800 \times \left(12 - \frac{3,840 \times 12}{3,800}\right)$

**= 0**

[Note: As the number of workers in standard and actual is the same, there is no difference in mix ratio, so labour gang variance will be NIL]

**(iv) Total Labour Yield Variance**

= Average Standard Rate per hour of Standard Gang × {Total Standard Time (hours) - Total Actual Time worked (hours)}

= 12 x (3,840 – 3,800)

= **480F**

**(v) Total Labour idle time variance**

= Total Idle hours x standard rate per hour

= 200 hours x 12

**= 2,400A**

**12. (i) Computation of PV ratio, contribution, profit and break-even sales for existing product mix**

| | Products | | | Total |
|---|---|---|---|---|
| | S | T | U | |
| Selling Price (₹) | 600 | 800 | 400 | |
| *Less:* Variable Cost (₹) | 300 | 400 | 240 | |
| Contribution per unit (₹) | 300 | 400 | 160 | |
| P/V Ratio (Contribution/Selling price) | 50% | 50% | 40% | |
| Sales Mix | 25% | 35% | 40% | |
| Contribution per rupee of sales (P/V Ratio × Sales Mix) | 12.5% | 17.5% | 16% | 46% |
| Present Total Contribution (₹1,20,00,000 × 46%) | | | | ₹ 55,20,000 |
| *Less:* Fixed Costs | | | | ₹ 36,00,000 |
| Present Profit | | | | ₹ 19,20,000 |
| Present Break Even Sales (₹ 36,00,000/0.46) | | | | ₹ 78,26,087 |

**(ii) Computation of PV ratio, contribution, profit and break-even sale for proposed product mix**

| | Products | | | |
|---|---|---|---|---|
| | S | T | M | Total |
| Selling Price (₹) | 600 | 800 | 600 | |
| *Less:* Variable Cost (₹) | 300 | 400 | 300 | |
| Contribution per unit (₹) | 300 | 400 | 300 | |
| P/V Ratio (Contribution/Selling price) | 50% | 50% | 50% | |
| Sales Mix | 40% | 35% | 25% | |
| Contribution per rupee of sales (P/V Ratio x Sales Mix) | 20% | 17.5% | 12.5% | 50% |
| Proposed Total Contribution (₹ 1,28,00,000 x 50%) | | | | ₹ 64,00,000 |
| *Less:* Fixed Costs | | | | ₹ 36,00,000 |
| Proposed Profit | | | | ₹ 28,00,000 |
| Proposed Break- Even Sales (₹ 36,00,000/0.50) | | | | ₹ 72,00,000 |

**13. Revenue Budget (Flexible Budget) of Maharatna Ltd. for the Year 2022**

| | **Particulars** | **PY 2021** | **CY 2022** |
|---|---|---|---|
| A | Sales Volume (Tonnes) | 4,20,000 | 4,70,400 [112%×4,20,000] |
| B | Selling Price per tonne (₹) | 23,000 | 23,000 |
| | | **(₹ in lakh)** | **(₹ in lakh)** |
| **C** | **Sales value [A×B]** | **96,600** | **1,08,192** |
| D | **Raw material Cost:** | | |
| (i) | Qty. of Material [2.3 tonnes × A] (tonnes) | 9,66,000 | 10,81,920 |
| (ii) | Price per tonne (₹) | 4,500 | 4,500 |
| (iii) | **Total raw material cost (₹ in lakh) [(i)×(ii)]** | **43,470** | **48,686.40** |
| E | **Wages & Salary Cost:** | | |
| (i) | Wages to casual employees (15% × 6,000 = 900 employees) | 2,386.80 [900 × 26 × 12 × ₹ 850] | 2,508.47 [900 × 26 × 12 × ₹ 893.33] |
| (ii) | Salary to permanent employees (85% × 6,000 = 5,100 employees) | 47,736 [5100 × 26 × 12 × ₹ 3,000] | 51,316.20 [(5100 × 26 × 6 × ₹ 3,000) + (5100 × 26 × 6 × ₹ 3,450)] |
| (iii) | **Total wages & salary [(i)+(ii)]** | **50,122.80** | **53,824.67** |
| F | **Power cost:** | | |
| (i) | For production (units) | 4,20,000 [60% × 7,00,000] | 4,70,400 [112% × 4,20,000] |
| (ii) | For employees & offices (units) [40% × 7,00.000] | 2,80,000 | 2,80,000 |
| (iii) | Total Power consumption (units) [(i)+(ii)] | 7,00,000 | 7,50,400 |
| (iv) | Power rate per unit (₹) [₹42,00,000 ÷ 7,00,000] | 6.00 | 6.00 |
| (v) | Total power cost [(iii)×(iv)] | **42** | **45.024** |
| G | **Safety and maintenance Cost** | **60** | **67.20 [112% × 60,00,000]** |
| H | **Diesel cost** | **1.2** | **-** |

| | | | |
|---|---|---|---|
| I | **Car Hire charge:** | | |
| (i) | Car hire charge | 6 | 6 |
| (ii) | Fuel reimbursement cost | - | 1.38<br>[115% × 1.2] |
| (iii) | GST@5% on RCM basis<br>[5%×(i+ii)] | - | 0.369 |
| (iv) | **Total Car hire charge cost [(i)+(ii)+(iii)]** | **6** | **7.749** |
| **J** | **Depreciation** | **8,040** | **6,834**<br>**[85% × 8040]** |
| K | Total Cost [Sum of D to J] | 1,01,742 | 1,09,465.043 |
| **L** | **Profit/ (Loss) [C-L]** | **(5,142)** | **(1273.043)** |

**14. (a) Controllable costs and Uncontrollable costs*:*** Cost that can be controlled, typically by a cost, profit or investment centre manager is called controllable cost. Controllable costs incurred in a particular responsibility centre can be influenced by the action of the executive heading that responsibility centre.

Costs which cannot be influenced by the action of a specified member of an undertaking are known as uncontrollable costs.

**(b) Cost plus contract:** Under cost plus contract, the contract price is ascertained by adding a percentage of profit to the total cost of the work. Such types of contracts are entered into when it is not possible to estimate the contract cost with reasonable accuracy due to unstable condition of material, labour services etc.

**Following are the advantages of cost plus contract:**

(i) The contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.

(ii) It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.

(iii) Contractee can ensure himself about the 'cost of contract' as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of contract.

**(c)** In integrated accounting system cost and financial accounts are kept in the same set of books. Such a system will have to afford full information required for Costing as well as for Financial Accounts. In other words, information and data should be recorded in such a way so as to enable the firm to ascertain the cost (together with the necessary analysis) of each product, job, process, operation or any other identifiable activity. It also ensures the ascertainment of marginal cost, variances, abnormal losses and gains. In fact all information that management requires from a system of Costing for doing its work properly is made available. The integrated accounts give full information in such a manner so that the profit and loss account and the balance sheet can be prepared according to the requirements of law and the management maintains full control over the liabilities and assets of its business.

Since, only one set of books are kept for both cost accounting and financial accounting purpose so there is no necessity of reconciliation of cost and financial accounts.

**(d)** The impact of IT in cost accounting may include the following:

(i) After the introduction of ERPs, different functional activities get integrated and as a consequence a single entry into the accounting system provides custom made reports for every purpose and saves an organisation from preparing different sets of documents. Reconciliation process of results of both cost and financial accounting systems become simpler and less sophisticated.

(ii) A move towards paperless environment can be seen where documents like Bill of Material, Material Requisition Note, Goods Received Note, labour utilisation report etc. are no longer required to be prepared in multiple copies, the related department can get e-copy from the system.

(iii) Information Technology with the help of internet (including intranet and extranet) helps in resource procurement and mobilisation. For example, production department can get materials from the stores without issuing material requisition note physically. Similarly, purchase orders can be initiated to the suppliers with the help of extranet. This enables an entity to shift towards Just-in-Time (JIT) approach of inventory management and production.

(iv) Cost information for a cost centre or cost object is ascertained with accuracy in timely manner. Each cost centre and cost object is codified and all related costs are assigned to the cost object or cost centre. This process automates the cost accumulation and ascertainment process. The cost information can be customised as per the requirement. For example, when an entity manufactures or provide services, it can know information job-wise, batch-wise, process-wise, cost centre wise etc.

(v) Uniformity in preparation of report, budgets and standards can be achieved with the help of IT. ERP software plays an important role in bringing uniformity irrespective of location, currency, language and regulations.

(vi) Cost and revenue variance reports are generated in real time basis which enables the management to take control measures immediately.

(vii) IT enables an entity to monitor and analyse each process of manufacturing or service activity closely to eliminate non-value-added activities.

The above are examples of few areas where Cost Accounting is done with the help of IT.

## PAPER 4: TAXATION

## SECTION A: INCOME TAX LAW

The Income-tax law, as amended by the Finance Act, 2021, including significant notifications/circulars and legislative amendments made upto 31st October, 2021, are applicable for May, 2022 examination. The relevant assessment year for May, 2022 examination is A.Y.2022-23. The June, 2021 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance Act, 2021 and significant notifications/circulars and legislative amendments made upto 15.6.2021, and hence, the same is relevant for May 2022 examination. The significant notifications/circulars issued upto 31.10.2021 which are relevant for May, 2022 examination but not covered in the June 2021 edition of the Study Material is webhosted at https://resource.cdn.icai.org/68038bos54507.pdf

## QUESTIONS AND ANSWERS

**Case Scenario**

Mr. Subhash is a retailer of car spare parts. He started his business in May, 2020. His turnover for the P.Y. 2020-21 was ₹ 10.50 crores. He generally purchases goods from Car accessories & Co. only. Car accessories & Co. manufactures and sells spare parts directly to the customers as well as through an e-commerce platform – CarParts.com. Car accessories & Co.'s turnover from the business for the P.Y. 2020-21 was ₹ 15 crores.

The relevant information of purchases made by Mr. Subhash in P.Y. 2021-22 is given hereunder:

| Date of credit to account of Car accessories & Co. | Date of Payment to Car accessories & Co. | Value of spare parts without GST (₹) | GST @18% | Total value of spare parts/ payment |
|---|---|---|---|---|
| 15.05.2021 | 02.06.2021 | 40,00,000 | 7,20,000 | 47,20,000 |
| 18.06.2021 | 30.06.2021 | 15,00,000 | 2,70,000 | 17,70,000 |
| 28.08.2021 | 17.08.2021 | 21,50,000 | 3,87,000 | 25,37,000 |
| 14.02.2022 | 28.02.2022 | 10,50,000 | 1,89,000 | 12,39,000 |

In addition to the above, Mr. Subhash also purchased spare parts of Car accessories & Co. for ₹ 12,00,000 inclusive of GST@18% through CarParts.com on 31.12.2021. The payment was made directly to Car accessories & Co. on 15.1.2022. PAN is duly furnished by Mr. Subhash, Car accessories & Co. and CarParts.com. The GST portion is indicated separately in the invoice of Car accessories & Co. but it is not shown separately when the goods are purchased through CarParts.com.

Based on the above facts, choose the **most appropriate answer** to Q. NO. 1 to 5 -

1. Is Mr. Subhash required to deduct tax at source in respect of the purchase transactions made directly with Car accessories & Co. If yes, when and what is the amount of tax to be deducted?

   (a) Yes; ₹ 2,150 on 17.08.2021 and ₹ 1,050 on 14.02.2022

   (b) Yes; ₹ 2,537 on 17.08.2021 and ₹ 1,050 on 14.02.2022

   (c) Yes; ₹ 500 on 18.06.2021, ₹ 2,150 on 17.08.2021 and ₹ 1,050 on 14.02.2022

   (d) No, Mr. Subhash is not liable to deduct tax at source.

2. Is Car accessories & Co. required to collect tax at source in respect of the sale transactions with Mr. Subhash. If yes, when and what is the amount of tax to be collected?

   (a) Yes; ₹ 500 on 30.06.2021, ₹ 2,150 on 17.08.2022 and ₹ 1,050 on 28.02.2022

   (b) Yes; ₹ 1,490 on 30.06.2021, ₹ 2,537 on 17.08.2021 and ₹ 1,239 on 28.02.2022

   (c) Yes; ₹ 1,490 on 30.06.2021

   (d) No, Car accessories & Co. is not liable to collect tax at source.

3. Assume that Mr. Subhash has started the retail business of car spare parts in May, 2021. In such case, would the answer of MCQ 1 and 2 be different? If yes, what would be the answer of MCQ 1 and 2?

   (a) No, the answer of MCQ 1 and 2 would be the same

   (b) Yes, the answer of MCQ 1 would change to (d) but the answer of MCQ 2 would be the same

   (c) Yes, the answer of MCQ 1 would change to (d) and the answer of MCQ 2 would change to (b)

   (d) Yes, the answer of MCQ 1 would change to (d) and the answer of MCQ 2 would change to (a)

4. Are the provisions of tax deduction/ collection at source attracted in respect of the transactions with CarParts.com? If yes, who has to deduct/ collect at source and at what rate?

   (a) Mr. Subhash is required to deduct tax at source on ₹ 12 lakhs @0.1%.

   (b) Car accessories & Co. is required to collect tax at source on ₹ 12 lakhs @0.1%.

   (c) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @0.1%.

   (d) CarParts.com is required to deduct tax at source on ₹ 12 lakhs @1%.

5. If Mr. Subhash has not furnished his PAN to Car accessories & Co. but has furnished his Aadhar number, what would be the rate of TCS for the purpose of MCQ 2.

   (a) 5%

   (b) 1%

   (c) 0.1%

   (d) Car accessories & Co. is not liable to collect tax at source.

6. Ashiyana Developers has completed one of its housing projects in Gurugram in January, 2021 which comprises of 10 residential units. It has transferred 9 residential units in February, 2021 and remaining one residential unit in May, 2021 to Mr. Suraj. All the units were transferred by way of first time allotment. The consideration received from Suraj for the residential unit is ₹ 50 lakhs while the stamp duty value of the unit in May, 2021 is ₹ 57 lakhs. Due to some emergency in the family, Mr. Suraj was in urgent need of funds and he sold such residential unit to Mr. Prakash in December, 2021 for ₹ 53 lakhs. The stamp duty value of the unit was ₹ 61 lakhs in December, 2021. Determine the capital gain/ income which is chargeable to tax in the hands of Mr. Suraj and Mr. Prakash from the above transactions for A.Y. 2022-23.

   (a) In the hands of Mr. Suraj – STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head "Other sources"

   (b) In the hands of Mr. Suraj – ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 4 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head "Other sources"

   (c) In the hands of Mr. Suraj – STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – Nil

   (d) In the hands of Mr. Suraj – ₹ 7 lakhs as income under the head "Other sources", STCG of ₹ 11 lakhs; In the hands of Mr. Prakash – ₹ 8 lakhs as income under the head "Other sources"

7. Mr. Rajesh, aged 53 years, and his wife, Mrs. Sowmya, aged 50 years, are citizens of Country X. They are living in Country X since birth. They are not liable to tax in Country X. Both of them have keen interest in Indian Culture. Mr. Rajesh's parents and grandparents were born in Country X. Mrs. Sowmya visits India along with Mr. Rajesh for four months every year to be with her parents, who were born in Delhi and have always lived in Delhi. During their stay in India, they organize Cultural Programme in Delhi-NCR. Income of Mr. Rajesh and Mrs. Sowmya from the Indian sources for the P.Y. 2021-22 is ₹ 18 lakhs and ₹ 16 lakhs, respectively.

   What is the residential status of Mr. Rajesh and Mrs. Sowmya for A.Y.2022-23?

   (a) Both are resident and ordinarily resident in India

   (b) Both are non-resident in India

(c) Mr. Rajesh is resident but not ordinarily resident in India and Mrs. Sowmya is non-resident

(d) Mrs. Sowmya is resident but not ordinarily resident in India and Mr. Rajesh is resident and ordinarily resident in India.

8. Mr. A has taken two ULIPs. ULIP “X” is issued on 1.1.2021 and ULIP “Y” on 1.5.2021. The sum assured of ULIP “X” and ULIP “Y” is ₹ 30 lakhs and ₹ 40 lakhs, respectively. The annual premium paid by Mr. A during the P.Y. 2021-22 is ₹ 3 lakhs and ₹ 4 lakhs, respectively. What would be the taxability of the consideration received by Mr. A on maturity of both the ULIPs?

(a) Consideration received on the maturity of ULIP “X” would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP “Y” would be taxable.

(b) Consideration received on the maturity of ULIP “Y” would be exempt u/s 10(10D) while the profits and gains from receipt of consideration on the maturity of ULIP “X” would be taxable.

(c) Consideration received on the maturity of both ULIP “X” and ULIP “Y” would be exempt u/s 10(10D)

(d) The profits and gains from receipt of consideration on the maturity of both ULIP “X” and ULIP “Y” would be taxable.

9. From the following particulars of income furnished by Mr. Ashutosh, aged 65 years, pertaining to year ended 31.03.2022, compute the total income for the A.Y. 2022-23, if he is

(a) Resident and ordinarily resident

(b) Non-resident

| | **Particulars** | **Amount (₹)** |
|---|---|---|
| (i) | Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India. The consideration is also received outside India in foreign currency | 1,50,000 |
| (ii) | Rent from property in Delhi, let out to a branch of a foreign company. The rent agreement is entered outside India. Monthly rent is also received outside India | 1,20,000 |
| (iii) | Agricultural income from a land situated in Nepal, received in Nepal | 55,000 |
| (iv) | Interest on savings bank deposit in UCO Bank, Delhi | 18,000 |
| (v) | Income earned from business in London which is controlled from Delhi (₹ 35,000 is received in India) | 60,000 |
| (vi) | Gift received from his daughter on his birthday | 55,000 |

| | | |
|---|---|---|
| (vii) | Past foreign taxed income brought to India | 37,000 |
| (viii) | Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India | 12,000 |

10. Mr. Sunil is the CEO of Sheetal Textiles Ltd. His basic salary is ₹ 6,00,000 p.m. He is paid 8% as D.A. He contributes 10% of his pay and D.A. towards his recognized provident fund and the company contributes the same amount. The accumulated balance in recognized provident fund as on 1.4.2020, 31.3.2021 and 31.3.2022 is ₹ 50,35,000, ₹ 71,46,700 and ₹ 94,57,700, respectively. Compute the perquisite value chargeable to tax in the hands of Mr. Sunil u/s 17(2)(vii) and 17(2)(viia) for the A.Y. 2021-22 and A.Y. 2022-23.

11. Mr. Aditya is a proprietor of Star Stores having 2 units. On 1.4.2021, he has transferred Unit 2, which he started in 2004-05, by way of slump sale for a total consideration of ₹ 18 lakhs. The professional fees & brokerage paid for this transfer are ₹ 78,000. His Balance Sheet as on 31-03-2021 is as under :

| Liabilities | ₹ | Assets | Unit 1 ₹ | Unit 2 ₹ | Total |
|---|---|---|---|---|---|
| Own Capital | 20,50,000 | Land | 12,75,000 | 7,50,000 | 20,25,000 |
| Revaluation reserve | 2,50,000 | Furniture | 2,00,000 | 5,00,000 | 7,00,000 |
| Bank Loan (70% for Unit 1) | 8,50,000 | Debtors | 2,00,000 | 3,50,000 | 5,50,000 |
| Trade Creditors (20% for Unit 2) | 4,50,000 | Patents | - | 7,25,000 | 7,25,000 |
| Unsecured Loan (30% for Unit 2) | 4,00,000 | | | | |
| | **40,00,000** | | **16,75,000** | **23,25,000** | **40,00,000** |

**Other Information:**

1. Land of Unit 2 was purchased at ₹ 5,00,000 in the year 2004 and revalued at ₹ 7,50,000 as on 31.3.2021.
2. No individual value of any asset is considered in the transfer deed.
3. Patents were acquired on 01-12-2019 on which no depreciation has been provided.
4. Furniture of Unit 2 of ₹ 5,00,000 were purchased on 01-12-2020 on which no depreciation has been provided.
5. Fair market value of capital asset transferred by way of slump sale of Unit 2 is ₹ 18,10,000.

Compute the capital gain for A.Y. 2022-23.

12. Mr. Samrat and his wife, Mrs. Komal, holds 12% voting power each in ABC (P) Ltd. Mr. Samrat and Mrs. Komal are working in ABC (P) Ltd. However, Mrs. Komal is not qualified for the job. From the following information given in respect of F.Y. 2021-22, you are required to compute the gross total income of Mr. Samrat and Mrs. Komal for the A.Y. 2022-23

    (i) Dividend of ₹ 22,500 and ₹ 45,000 is received by Mr. Samrat and Mrs. Komal, respectively, from ABC (P) Ltd. Mr. Samrat has instructed the company to pay 50% of his dividend to Ms. Kajal, daughter of his deceased brother.

    (ii) Salary earned by Mr. Samrat and Mrs. Komal from ABC (P) Ltd. is ₹ 8,50,000 and ₹ 5,50,000, respectively.

    (iii) Business income earned by Mr. Samrat from his sole proprietary business is ₹ 15,60,000

    (iv) Interest on fixed deposit earned by Mrs. Komal of ₹ 9,00,000.

    (v) Their son, Akash, aged 10 years having PAN, received interest of ₹ 54,000 from bank on a fixed deposit created by his grandfather in his name.

13. Mr. Rajesh, a resident individual, furnished the following information in respect of income and loss earned by him for the F.Y. 2021-22

| Particulars | Amount (₹) |
|---|---|
| Income from Salary | 3,40,000 |
| Long term capital loss on sale of shares of Reliance Ltd. STT has been paid both at the time of acquisition and sale | (1,15,000) |
| Loss from let out property in Delhi | (75,000) |
| Interest on self-acquired property in Mumbai | (50,000) |
| Winnings from lottery tickets | 40,000 |
| Cost of acquisition of lottery tickets | 10,000 |
| Profit and gains from manufacturing business (after deducting normal depreciation of ₹ 10,000 and additional depreciation of ₹ 4,000) | 96,000 |
| Long term capital gains on sale of house property | 1,40,000 |

The other details of brought forward losses and unabsorbed depreciation pertaining to A.Y. 2021-22 are as follow:

| | |
|---|---|
| Brought forward business loss from manufacturing business | (35,000) |
| Unabsorbed normal depreciation | (10,000) |
| Brought forward loss from the activity of owning and maintaining the race horses | (50,000) |

Compute the Gross total income of Mr. Rajesh for the Assessment Year 2022-23 and the amount of loss, if any, that can be carried forward if he wants to opt for the provisions of section 115BAC for the first time.

14. Mr. Rishabh, a resident individual, aged 54 years, is engaged in the business of manufacturing clothes. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

    (i) Depreciation ₹15,40,000

    (ii) Short term capital gains on transfer of listed equity shares in a company on which STT is paid ₹10,00,000

    (iii) He received income-tax refund of ₹15,550 which includes interest on refund of ₹ 4,550.

    (iv) Dividend income from Indian companies ₹15,00,000

    Additional information –

    (i) Mr. Rishabh installed new plant and machinery for ₹ 65 lakhs on 1.10.2021 which was put to use on 1.1.2022. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules.

    (ii) Mr. Rishabh took a loan from SBI of ₹ 50 lakhs on 15.9.2021 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2022 has been paid on 31.3.2022 and the same has been debited to profit and loss account.

    (iii) Advance tax paid during the year is ₹17,50,000

    (iv) Rishabh purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.

    (v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2016.

    (vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

    (vii) On 1.7.2021, Mr. Rishabh withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with HSBC. There are no other withdrawals during the year. He regularly files his return of income.

    You are required to compute the total income and tax payable by Mr. Rishabh for the A.Y. 2022-23, in the manner so that he can make maximum tax savings.

15. Mrs. Shivani is a US Citizen. She got married to Mr. Sriram, an Indian citizen and resident of India, in the year 2015. Since then, she has been staying in India. She has a Bank account in US. She sold a residential house in US and earned a long term capital gain of ₹ 2 lakhs. She invested the whole sales consideration in Capital Gain bonds under section 54EC so that no long term capital gain is taxable. She does not have any source of income in India during the P.Y. 2021-22. Is she required to furnish her return of income? If yes, can she furnish a belated return?

## SUGGESTED ANSWERS

| MCQ No. | Most Appropriate Answer |
|---|---|
| 1. | (b) |
| 2. | (c) |
| 3. | (c) |
| 4. | (d) |

| MCQ No. | Most Appropriate Answer |
|---|---|
| 5. | (c) |
| 6. | (a) |
| 7. | (d) |
| 8. | (a) |

**9. Computation of total income of Mr. Ashutosh for the A.Y. 2022-23**

| Particulars | Resident and ordinarily resident (₹) | Non-resident (₹) |
|---|---|---|
| Capital gain on sale of land in Jaipur to Mr. Ramesh, a non-resident, outside India and received outside India | 1,50,000 | 1,50,000 |
| Rent from property in Delhi, received outside India [₹ 1,20,000 – 30% of ₹ 1,20,000 under section 24(a)] | 84,000 | 84,000 |
| Agricultural income from a land situated in Nepal, received in Nepal | 55,000 | - |
| Interest on savings bank deposit in UCO Bank, Delhi | 18,000 | 18,000 |
| Income earned from business in London which is controlled from Delhi | 60,000 | 35,000 |
| Gift received from daughter (Not taxable, since daughter is a relative) | - | - |
| Past foreign taxed income brought to India (Not taxable) | - | - |
| Fees for technical services rendered to Shine, Ltd., a foreign company, for business outside India and received also outside India | 12,000 | - |
| **Gross Total Income** | **3,79,000** | **2,87,000** |
| *Less:* Deduction under section 80TTB/80TTA | | |
| [Interest on savings bank account subject to a maximum of ₹ 50,000/₹ 10,000] | 18,000 | 10,000 |
| **Total Income** | **3,61,000** | **2,77,000** |

**Notes –**

1. In case of a resident and ordinarily resident, global income is taxable as per section 5(1). However, as per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax:

   (i) Income received or deemed to be received in India; and

   (ii) Income accruing or arising or deemed to accrue or arise in India.

   Therefore, agricultural income from a land situated in Nepal, income earned from business in London which is controlled from Delhi, received outside India and fees for technical services from a non-resident for business outside India is not taxable in case of non-resident.

2. In case of a senior citizen, being a resident aged 60 years or more, interest upto ₹ 50,000 from saving account with, *inter alia*, a bank is allowable as deduction under section 80TTB while in case of a non-resident, interest upto ₹ 10,000 from saving account with, *inter alia*, a bank is allowable as deduction under section 80TTA.

**10. Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2021-22**

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2020-21 – ₹ 7,50,000 = ₹ 27,600

2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = (PC/2)*R + (PC1 + TP1)*R

   = (27,600/2) x 0.0914 + 0

   = ₹ 1,261

| | |
|---|---|
| PC | Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2020-21 = ₹ 27,600 |
| PC1 | Nil |
| TP1 | Nil |
| R | I/Favg = 5,56,500/60,90,850 = 0.0914 |
| I | RPF balance as on 31.3.2021 – employee's and employer's contribution during the year – RPF balance as on 1.4.2020 = ₹ 5,56,500 (₹ 71,46,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 50,35,000) |
| Favg | Balance to the credit of recognized provident fund as on 1st April, 2020 + Balance to the credit of recognized provident fund as on 31st March, 2021)/2 = (₹ 50,35,000 + ₹ 71,46,700)/2 = ₹ 60,90,850 |

**Computation of perquisite value taxable u/s 17(2)(vii) and 17(2)(viia) for A.Y. 2022-23**

1. Perquisite value taxable u/s 17(2)(vii) = ₹ 7,77,600, being employer's contribution to recognized provident fund during the P.Y. 2021-22 – ₹ 7,50,000 = ₹ 27,600
2. Perquisite value taxable u/s 17(2)(viia) = Annual accretion on perquisite taxable u/s 17(2)(vii) = (PC/2)*R + (PC1 + TP1)*R

   = (27,600/2) x 0.0910 + (27,600 + 1,261) x 0.0910

   = ₹ 1,256 + ₹ 2,626

   = ₹ 3,882

| | |
|---|---|
| PC | Sheetal Textile Ltd.'s contribution in excess of ₹ 7.5 lakh to recognized provident fund during P.Y. 2021-22 = ₹ 27,600 |
| PC1 | Amount of employer's contribution in excess of ₹ 7,50,000 to RPF in P.Y. 2020-21 = ₹ 27,600 |
| TP1 | Taxable perquisite under section 17(2)(viia) for the P.Y. 2020-21 = ₹ 1,261 |
| R | I/Favg = 7,55,800/83,02,200 = 0.0910 |
| I | RPF balance as on 31.3.2022 – employee's and employer's contribution during the year – RPF balance as on 1.4.2021 = ₹ 7,55,800 (₹ 94,57,700 – ₹ 7,77,600 – ₹ 7,77,600 – ₹ 71,46,700) |
| Favg | Balance to the credit of recognized provident fund as on 1st April, 2021 + Balance to the credit of recognized provident fund as on 31st March, 2022)/2 = (₹ 71,46,700 + ₹ 94,57,700)/2 = ₹ 83,02,200 |

***Note –*** *Since the employee's contribution to RPF exceeds ₹ 2,50,000 in the P.Y.2021-22, interest on ₹ 5,27,600 (i.e., ₹ 7,77,600 – ₹ 2,50,000) will also be chargeable to tax.*

**11.** As per section 50B, any profits and gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.

If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

**Computation of capital gain on slump sale of Unit 2**

| Particulars | ₹ |
|---|---|
| Full value of consideration for slump sale of Unit 2 [Fair market value of capital asset transferred by way of slump sale (i.e., ₹ 18,10,000) or fair market value of the consideration received (value of the monetary consideration received i.e., ₹ 18,00,000) whichever is higher] | 18,10,000 |

| | |
|---|---|
| *Less:* Expenses on sale [professional fees & brokerage] | 78,000 |
| Net full value of consideration | 17,32,000 |
| *Less:* Cost of acquisition, being the net worth of Unit 2 **(Note 1)** | 13,35,781 |
| **Long term capital gains arising on slump sale** | **3,96,219** |
| (The capital gains is long-term as the Unit 2 is held for more than 36 months) | |

**Notes**

**1. Computation of net worth of Unit 2**

| Particulars | | ₹ |
|---|---|---|
| (1) Book value of non-depreciable assets | | |
| (i) Land (Revaluation not to be considered) | | 5,00,000 |
| (ii) Debtors | | 3,50,000 |
| (2) Written down value of depreciable assets under section 43(6) | | |
| (i) Furniture ***(See Note 2)*** | | 4,75,000 |
| (ii) Patents ***(See Note 3)*** | | 4,75,781 |
| Aggregate value of total assets | | 18,00,781 |
| *Less:* Current liabilities of Unit 2 | | |
| Bank Loan [₹ 8,50,000 x 30%] | 2,55,000 | |
| Trade Creditors [₹ 4,50,000 x 20%] | 90,000 | |
| Unsecured Loan [₹ 4,00,000 x 30%] | 1,20,000 | 4,65,000 |
| **Net worth of unit 2** | | **13,35,781** |

**2. Written down value of furniture as on 1.4.2021**

| Value of patents | ₹ |
|---|---|
| Cost as on 1.12.2020 | 5,00,000 |
| *Less:* Depreciation @ 10% x 50% for Financial Year 2020-21 | 25,000 |
| **WDV as on 1.4.2021** | **4,75,000** |

**3. Written down value of patents as on 1.4.2021**

| Value of patents | ₹ |
|---|---|
| Cost as on 1.12.2019 | 7,25,000 |
| *Less:* Depreciation @ 25% x 50% for Financial Year 2019-20 | 90,625 |
| WDV as on 1.4.2020 | 6,34,375 |
| *Less:* Depreciation@25% for Financial Year 2020-21 | 1,58,594 |
| **WDV as on 1.4.2021** | **4,75,781** |

**12. Computation of Gross Total Income of Mr. Samrat and Mrs. Komal for A.Y. 2022-23**

| **Particulars** | **Mr. Samrat** | | **Mrs. Komal** | |
|---|---|---|---|---|
| | ₹ | ₹ | ₹ | ₹ |
| Salary of Samrat | 8,50,000 | | | - |
| *Less:* Standard deduction under section 16(ia) | 50,000 | 8,00,000 | | - |
| Salary of Komal | 5,50,000 | | | - |
| *Less:* Standard deduction under section 16(ia) | 50,000 | 5,00,000 | | - |
| [Salary earned by Mrs. Komal has to be included in the total income of Mr. Samrat, since he has substantial interest in the concern (i.e., having 24% voting power in ABC (P) Ltd., along with his wife) and Mrs. Komal does not have any professional qualification for the job.] | | | | |
| Business Income | | 15,60,000 | | - |
| Dividend income from ABC (P) Ltd. [Taxable in the hands of Mr. Samrat as per section 60, since he transferred the income i.e., dividend without transferring the asset i.e., shares] | [22,500/90 x 100 x 2] | 50,000 | [45,000/90 x 100] | 50,000 |
| Interest on Fixed Deposit earned by Mrs. Komal | | - | | 9,00,000 |
| **Total Income (before including minor's income)** | | 29,10,000 | | 9,50,000 |
| Income of minor child to be included in Mr. Samrat's income, since his total income before including minor's income is higher than that of Mrs. Komal. [₹ 54,000 /90 x 100] | 60,000 | | | |
| *Less:* Exemption of ₹ 1,500 u/s 10(32) in respect of the income of each child so included. | 1,500 | 58,500 | | |
| **Gross Total Income** | | **29,68,500** | | **9,50,000** |

**13. Computation of gross total income of Mr. Rajesh for A.Y. 2022-23**

| Particulars | Amount (₹) | Amount (₹) |
|---|---|---|
| **Income from Salary** | 3,40,000 | |
| *Less:* Loss under the head "Income from house property" [Loss from house property is not allowed to be set off with any other head of income since Mr. Rajesh is opting for section 115BAC] | - | 3,40,000 |
| **Income from house property** | | |
| Self-occupied property [Interest u/s 24(b) is not allowed in case of self-occupied property since Mr. Rajesh is opting for section 115BAC] | - | |
| Loss from let out property [Carried forward to A.Y. 2023-24] | (75,000) | - |
| **Profit and gains from business or profession** | | |
| Profit and gains from manufacturing business | 96,000 | |
| *Add:* Additional depreciation not allowable in case of section 115BAC | 4,000 | |
| | 1,00,000 | |
| *Less:* Brought forward loss from manufacturing business | 35,000 | |
| *Less:* Unabsorbed normal depreciation | 10,000 | 55,000 |
| **Capital Gains** | | |
| Long term capital gains on sale of house property | 1,40,000 | |
| *Less:* long term capital loss on sale of shares on which STT is paid can also be set-off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A | (1,15,000) | 25,000 |
| **Income from Other Sources** | | |
| Winnings from lottery tickets | | 40,000 |
| **Gross Total Income** | | **4,60,000** |

**Losses to be carried forward to A.Y. 2023-24**

| Particulars | Amount (₹) |
|---|---|
| Loss from let out property in Delhi | 75,000 |
| Loss from the activity of owning and maintaining the race horses | 50,000 |

**Notes -**

1. As per section 74A(3), loss from the activity of owning and maintaining the race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horse.
2. As per section 58, no expenditure is allowed from the lottery winnings.

**14. Computation of total income of Mr. Rishabh for A.Y. 2022-23 under the regular provisions of the Act**

| | Particulars | ₹ | ₹ | ₹ |
|---|---|---|---|---|
| I | **Income from business or profession** | | | |
| | Net profit as per profit and loss account | | 82,45,000 | |
| | ***Add:*** **Items of expenditure not allowable while computing business income** | | | |
| | (i) Interest on loan taken for purchase of plant & machinery<br>[Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,53,125 [₹ 50,00,000 x 10.5% x 3.5/12] has to be added back, since the same is debited to the profit and loss account] | 1,53,125 | | |
| | (ii) Purchase of goods at a price higher than the fair market value<br>[The difference between the purchase price (₹ 40 lakhs) and the fair market value (₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value] | 5,00,000 | 6,53,125 | |
| | | | 88,98,125 | |

| | | | | |
|---|---|---|---|---|
| | ***Less*: Items of income to be treated separately under the respective head of income** | | | |
| | (i) Income-tax refund including interest on refund of ₹ 4,550 | 15,550 | | |
| | (ii) Dividend from Indian companies | 15,00,000 | | |
| | (iii) Short term capital gains on transfer of listed equity shares | 10,00,000 | 25,15,550 | |
| | | | 63,82,575 | |
| | ***Less:* Depreciation on interest on loan capitalised to plant and machinery** | | | |
| | ₹ 1,53,125, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized | | | |
| | Normal depreciation @15% x 50% on such interest | 11,484 | | |
| | Additional depreciation @20% x 50% on such interest | 15,313 | 26,797 | |
| | [Since plant & machinery was put to use for less than 180 days in P.Y. 2021-22, it is eligible for 50% of the rate of depreciation] | | | |
| | | | | 63,55,778 |
| **II** | **Capital Gains** | | | |
| | Short term capital gains on transfer of listed equity shares | | | 10,00,000 |
| **III** | **Income from Other Sources** | | | |
| | Interest on income-tax refund | | 4,550 | |
| | Dividend from Indian companies | | 15,00,000 | 15,04,550 |
| | **Gross Total Income** | | | **88,60,328** |

| | | | | |
|---|---|---|---|---|
| | *Less*: Deductions under Chapter VI-A | | | |
| | - Deduction under section 80C<br>Life insurance premium for married daughter [Allowable as deduction though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5, 00,000, being the sum assured] | | 40,000 | |
| | - Deduction under section 80D<br>Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000 | | 25,000 | 65,000 |
| | **Total Income** | | | **87,95,328** |
| | **Total Income (Rounded off)** | | | **87,95,330** |

**Computation of tax payable by Mr. Rishabh for A.Y. 2022-23 under the regular provisions of the Act**

| Particulars | ₹ | ₹ |
|---|---|---|
| **Tax on total income of ₹ 87,95,330** | | |
| Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [₹ 10,00,000 x 15%] | | 1,50,000 |
| Tax on other Income of ₹ 77,95,330 | | |
| Upto ₹ 2,50,000 | Nil | |
| ₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh] | 12,500 | |
| ₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000] | 1,00,000 | |
| ₹ 10,00,001- ₹ 77,95,330 [@30% of ₹ 67,95,330] | 20,38,599 | 21,51,099 |
| | | 23,01,099 |
| *Add:* Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore | | 2,30,110 |
| | | 25,31,209 |
| *Add:* Health and education cess@4% | | 1,01,248 |

| | | |
|---|---|---|
| **Total tax liability** | | 26,32,457 |
| *Less:* TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore | 1,00,000 | |
| *Less:* Advance tax paid | 17,50,000 | 18,50,000 |
| **Tax payable** | | **7,82,457** |
| **Tax payable (rounded off)** | | **7,82,460** |

**Computation of total income of Mr. Rishabh as per section 115BAC for A.Y. 2022-23**

| Particulars | ₹ | ₹ |
|---|---|---|
| **Gross Total Income as per regular provisions of the Income-tax Act** | | **88,60,328** |
| *Add:* Additional depreciation on plant and machinery | | |
| - On interest which is capitalised | 15,313 | |
| - On cost of plant and machinery [₹ 65 lakhs x 20% x 50%] | 6,50,000 | 6,65,313 |
| **Gross Total Income/ Total Income as per section 115BAC** | | **95,25,641** |
| [No deduction under section 10AA or under Chapter VI-A allowable except u/s 80JJAA] | | |
| **Total Income as per section 115BAC (rounded off)** | | **95,25,640** |

**Computation of tax liability as per section 115BAC**

| Particulars | ₹ | ₹ |
|---|---|---|
| **Tax on total income of ₹ 95,25,640** | | |
| Tax on STCG of ₹ 10,00,000@15% u/s 111A | | 1,50,000 |
| **Tax on remaining total income of ₹ 85,25,640** | | |
| Upto ₹ 2,50,000 | Nil | |
| ₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakhs] | 12,500 | |
| ₹ 5,00,001 – ₹ 7,50,000 [@10% of ₹ 2.50 lakhs] | 25,000 | |
| ₹ 7,50,001 – ₹ 10,00,000 [@15% of ₹ 2.5 lakhs] | 37,500 | |
| ₹ 10,00,001 – ₹ 12,50,000 [@20% of ₹ 2.5 lakhs] | 50,000 | |
| ₹ 12,50,001 – ₹ 15,00,000 [@25% of ₹ 2.5 lakhs] | 62,500 | |
| ₹ 15,00,001 – ₹ 85,25,640 [@30% of ₹ 70,25,640] | 21,07,692 | 22,95,192 |
| | | 24,45,192 |
| *Add:* Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore | | 2,44,519 |
| | | 26,89,711 |

| | | |
|---|---|---|
| *Add:* Health and education cess@4% | | 1,07,588 |
| **Total tax liability** | | 27,97,299 |
| *Less:* TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore | 1,00,000 | |
| *Less:* Advance tax paid | 17,50,000 | 18,50,000 |
| Tax payable | | **9,47,299** |
| Tax payable (rounded off) | | **9,47,300** |

Since tax liability as per section 115BAC is higher than the tax computed as per normal provisions of the Income-tax Act, 1961, it is beneficial for Mr. Rishabh not to exercise option under section 115BAC. In such case, the tax payable by him would be ₹ 7,82,460 as per the regular provisions of the Act.

**15.** An individual whose total income without giving effect to, *inter alia*, section 54EC exceeds the maximum amount not chargeable to tax i.e., ₹ 2,50,000, is required to file a return of income on or before the due date under section 139(1) i.e., 31st July, 2022.

Every person, being a resident other than not ordinarily resident in India, would be required to file a return of income or loss for the previous year, even if his total income does not exceed the basic exemption limit, if such person, at any time during the previous year, *inter alia*, holds any asset located outside India or has a signing authority in any account located outside India.

In this case, Mrs. Shivani is a resident and ordinarily resident in India for A.Y. 2022-23 since she has been staying in India since the year 2015. Total income of Mrs. Shivani without giving effect to, *inter alia*, section 54EC is ₹ 2 lakhs, which is below the basic exemption limit. However, since she has a bank account in US, she has to furnish her return of income for A.Y. 2022-23 on or before 31.07.2022.

Yes, she can furnish a belated return under section 139(4), if she has not furnished her return on or before 31.7.2022, at any time before the –

(i) three months prior to the end of the relevant assessment year i.e., 31.12.2022; or

(ii) completion of the assessment

whichever is earlier.

## SECTION B: INDIRECT TAXES

## QUESTIONS

**(1) All questions should be answered on the basis of the provisions of GST law as amended by the Finance Act, 2021, which have become effective till 31.10.2021, and significant notifications and circulars issued upto 31.10.2021.**

**(2) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.**

I. Vidhula Impex Ltd. is engaged in supplying sports goods. The company did not opt for registration under GST. The proper officer under GST, based on enquiry, finds that the concern is liable for registration and he registers the firm on temporary basis on 15th June, 2020.

After being granted the registration certificate, the company availed the following services for the purpose of its business-

i. Renting of motor vehicles from Blue Taxi Pvt. Ltd. where GST was charged @ 12%.

ii. Appointed Mr. Rajesh as Technical Director for advisory role in business and the payment was made based on the contract entered. However, he was not employee of the company.

During the course of its business, the company issued an invoice to a customer and erroneously charged higher value by ₹ 34,000. Such invoice was issued on 28th February, 2021.

Further, in the month of February 2021, the company also generated an e-way bill for inter-State transport of goods. However, immediately on generation of the e-way bill, the buyer cancelled the order before it is dispatched from the factory for delivery.

In the month of March 2021, since the company was incurring heavy losses, it applied for cancellation of GST registration on 15th March, 2021. The order for cancellation was made on 30th March, 2021 effecting cancelling the registration with effect from 15th March, 2021.

From the information provided above, choose the most appropriate answer for the following questions (1-5):

1. After the grant of temporary registration, Vidhula Impex Ltd. needs to apply for registration within __________ from the date of grant of temporary registration, if no extension of period is to be granted for such temporary registration.

   (a) 30 days

(b) 90 days

(c) 7 days

(d) 15 days

2. In case of which of the following services, the company is liable to pay tax under reverse charge?

(a) Renting of Motor Vehicles

(b) Directorship services

(c) Both (a) and (b)

(d) Neither (a) nor (b)

3. Which document is required to be issued by the company in respect of the invoice issued on 28th February, 2021?

(a) Debit note

(b) Credit note

(c) Bill of supply

(d) Revised Tax invoice

4. The Company needs to file its Final return by __________

(a) 30th April, 2021

(b) 30th August, 2021

(c) 15th June, 2021

(d) 30th June, 2021

5. Which of the following statements is correct in respect of e-way bill generated for goods in the month of February for which order was cancelled?

(a) Once generated, e-way bill cannot be cancelled.

(b) E-way bill can be cancelled within 24 hours of generation

(c) E-way bill can be cancelled within 48 hours of generation

(d) E-way bill can be cancelled within 72 hours of generation

6. Mr. Shambhu, a trader registered under GST in Delhi is engaged in wholesale business of toys for kids. Mr. Nandi registered under GST in Patiala, a regular return filer supplies toys in bulk to Mr. Shambhu for selling to end consumers.

Mr. Shambhu paying tax in regular scheme in Delhi, has not filed GSTR-3B for last 2 months. Mr. Nandi wants to generate e-way bill for toys amounting to ₹ 5,00,000 to be supplied to Mr. Shambhu. Also Mr. Narayan from Jammu approached Mr. Shambhu for purchasing toys amounting to ₹ 75,000 for the purpose of return gift on his son's first birthday party. Shambhu wants to generate an e-way bill in respect of an outward supply of goods to Mr. Narayan.

Examine with reference to the provisions under GST law, whether Mr. Nandi and Mr. Shambhu can generate e-way bill?

7. (a) Mr. Ayushman, a registered person having intra-State aggregate turnover of ₹ 1.2 crores in the preceding financial year did not file GSTR-3B for the month of September, 2021 by $10^{th}$ November, 2021. The amount of tax payable for the month of September, 2021 is ₹ 8 lakh. All his supplies are intra-State supplies. Is there any late fee payable for the same? If yes, what is the amount of late fee payable?

   (b) Will your answer be different in (a), if Mr. Ayushman has intra-State aggregate turnover of ₹ 5 crores in the preceding financial year?

   (c) Will your answer be different in (a), if total amount of tax payable in the GSTR-3B for the month of September is Nil?

8. Mr. X of Haryana intends to start business of supply of building material to various construction sites in Haryana. He has taken voluntary registration under GST in the month of April. However, he has not commenced the business till December due to lack of working capital. The proper officer *suo-motu* cancelled the registration of Mr. X. You are required to examine whether the action taken by proper officer is valid in law?

   Mr. X has applied for revocation of cancellation of registration after 40 days from the date of service of the order of cancellation of registration. Department contends that application for revocation of cancellation of registration can only be made within 30 days from the date of service of the order of cancellation of registration. However, Mr. X contends that the period of submission of application may be extended on sufficient grounds being shown. You are required to comment upon the validity of contentions raised by Department and Mr. X.

9. Gita Services Limited, registered under GST, is engaged in providing various services to Government. The company provides the following information in respect of services provided during the month of April:

| S. No. | Description of Services provided |
|---|---|
| (i) | Supply of manpower for cleanliness of roads not involving any supply of goods. |
| (ii) | Service provided by Fair Price Shops owned by Gita Services Limited by way of sale of sugar under Public Distribution System against |

| | |
|---|---|
| | consideration in the form of commission. |
| (iii) | Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares alongwith maintenance. Generally replacement of defunct lights and other spares constitutes 35% of the supply of service. |
| (iv) | Service of brochure distribution provided under a training programme for which 70% of the total expenditure is borne by the Government. |

Comment on the taxability or otherwise of the above transactions under GST law. Also state the correct legal provisions for the same.

10. Restrictions have been imposed on the use of amount available in the electronic credit ledger vide rule 86B of the CGST Rules, 2017. Is there any exceptions to rule 86B? If yes, state the exceptions.

## SUGGESTED ANSWERS

**1. (b)**

**2. (b)**

**3. (b)**

**4. (d)**

**5. (b)**

**6.** Rule 138E of the CGST Rules, 2017 contains provisions pertaining to blocking of e-way bill generation facility, i.e. disabling the generation of e-way bill.

A user will not be able to generate e-way bill for a GSTIN if the said GSTIN is not eligible for e-way bill generation as per rule 138E.

Rule 138E as amended vide *Notification No. 15/2021 CT dated 18.05.2021* provides that blocking of GSTIN for e-way bill generation would only be for the defaulting supplier GSTIN and not for the defaulting Recipient or Transporter GSTIN.

In terms of rule 138E, a person paying tax under regular scheme who has not furnished the returns for a consecutive period of 2 tax periods is considered as a defaulting person.

Suspended GSTIN cannot generate e-way bill as supplier. However, the suspended GSTIN can get the e-way bill generated as recipient or as transporter.

In other words, e-way bill generation facility is blocked only in respect of any outward movement of goods of the registered person who is not eligible for e-way bill generation as per rule 138E. E-way bills can be generated in respect of inward supplies of said registered person.

Thus, applying the above provisions, there will be no restriction in generating e-way Bill by Mr. Nandi as Mr. Nandi who is making outward movement of goods is a regular return filer.

E-way bill generation is blocked in case of movement of goods made by Mr. Shambhu to Mr. Narayan as it's an outward movement of goods of Mr. Shambhu who has not filed GSTR-3B for past 2 months.

**7.** (i) As per section 47 of the CGST Act, 2017 read with *Notification No 19/2021 CT dated 01.06.2021*, the registered persons whose aggregate turnover is ≤ ₹ 1.5 crores in the preceding FY, and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 2,000 (₹ 1,000 each under CGST & SGST or ₹ 2,000 under IGST).

Thus, late fee is payable in the given case and the amount of late fee payable is ₹ 2,000 (₹ 1,000 each under CGST & SGST).

(ii) As per section 47 of the CGST Act, 2017 read with *Notification No 19/2021 CT dated 01.06.2021,* the registered persons whose aggregate turnover is more than ₹ 1.5 crores but less than equal to ₹ 5 crores in the preceding FY, and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 5,000 (₹ 2,500 each under CGST & SGST or ₹ 5,000 under IGST).

Thus, late fee is payable in the given case and the amount of late fee payable is ₹ 5,000 (₹ 2,500 each under CGST & SGST).

(iii) As per section 47 of the CGST Act, 2017 read with *Notification No 19/2021 CT dated 01.06.2021,* any registered person whose total amount of tax payable in the GSTR-3B is Nil and who fails to furnish the returns required under section 39 by the due date shall pay a late fee of ₹ 500 (₹ 250 each under CGST & SGST or ₹ 500 under IGST).

Thus, late fee is leviable even if total amount of tax payable in the GSTR-3B for the month of September is Nil. The amount of late fee would be ₹ 500 (₹ 250 each under CGST & SGST).

**8.** As per section 29 of the CGST Act, 2017, the proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,-

(a) a registered person has contravened such provisions of the Act or the rules made thereunder as may be prescribed; or

(b) a person paying tax under composition scheme has not furnished returns for three consecutive tax periods; or

(c) any registered person, other than a person specified in clause (b), has not furnished returns for a continuous period of six months; or

(d) any person who has taken voluntary registration under sub-section (3) of section 25 has not commenced business within six months from the date of registration; or

(e) registration has been obtained by means of fraud, wilful misstatement, or suppression of facts:

Thus, in view of the above-mentioned provisions, *suo-motu* cancellation of registration of Mr. X by proper officer is valid in law since Mr. X, a voluntarily registered person, has not commenced his business within 6 months from the date of registration.

Further, where the registration of a person is cancelled *suo-motu* by the proper officer, such registered person may apply for revocation of the cancellation to such proper officer, within 30 days from the date of service of the order of cancellation of registration.

However, the said period of 30 days may, on sufficient cause being shown and for reasons to be recorded in writing, be extended for a period not exceeding 30 days by Additional/Joint Commissioner and by further period not exceeding 30 days by Commissioner.

Thus, considering the above provisions, the contention of Department is not valid in law as extension can be sought in the prescribed time limit for revocation of cancellation of registration. The contention raised by Mr. X is valid in law as extension in time limit is allowed on sufficient cause being shown and for reasons to be recorded in writing.

**9.**

| S. No. | Particulars | Taxability |
|---|---|---|
| (i) | Supply of manpower for cleanliness of roads not involving any supply of goods.<br>[Pure services provided to Government are exempt.] | Exempt |
| (ii) | Service provided by Fair Price Shops by way of sale of sugar under Public Distribution System<br>[Service provided by Fair Price Shops to Government by way of sale of sugar under Public Distribution System against consideration in the form of commission is exempt.] | Exempt |
| (iii) | Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares constituting 35% of the supply of service.<br>[Composite supply of goods and services to Government in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply is exempt. Since, in this case value of supply of goods constitutes 35% of the supply of composite service, same is taxable.] | Taxable |
| (iv) | Service of brochure distribution provided under a training programme. | Taxable |

| | | |
|---|---|---|
| | [Services provided to the Government under any training programme for which 75% or more of the total expenditure is borne by the Government is exempt. Since in the given case, 70% of the total expenditure is borne by the Government, it is taxable.] | |

**10.** Restrictions have been imposed on the use of amount available in electronic credit ledger vide rule 86B of the CGST Rules, 2017. Yes, there are exceptions to rule 86B. The exceptions to rule 86B are as under:-

**(i) Payment of Income Tax more than ₹ 1 lakh**

Rule 86B may not apply in cases whereby person mentioned below have deposited sum of more than ₹ 1 lakh as income tax under the Income-tax Act, 1961 in each of the last 2 financial years for which the time limit to file return of income under section 139(1) of the said Act has expired

- ❖ The registered person or
- ❖ The karta/proprietor/the managing director of the registered person;
- ❖ Any of the two partners, whole-time directors, members of Managing Committee of Associations or Board of Trustees of the registered person, as the case may be.

**(ii) Receipt of refund of input tax credit of more than ₹ 1 lakh**

Rule 86B may not apply whereby registered person has received a refund amount of more than ₹ 1 lakh on account of unutilized input tax credit under the following:

- ❖ zero-rated supplies made without payment of tax
- ❖ Inverted duty structure

It is pertinent to note that refund should have been received in the preceding financial year.

**(iii) Payment of total output tax liability through electronic cash ledger in excess of 1% of total output tax liability**

If the registered person has paid more than 1% of total output tax liability using electronic cash ledger upto the said month in the current financial year, the restrictions as specified in Rule 86B shall not apply.

It is pertinent to note that GST liability paid under reverse charge mechanism should not be taken into account while calculating the total output liability paid through electronic cash ledger.

**(iv) Specified registered person:**

Rule 86B would not be applicable in case of below-mentioned registered person:

- Government Department; or
- a public sector undertaking; or
- a local authority; or
- a statutory body.

However, Commissioner or an officer authorised by him in this behalf may remove the said restriction after such verifications and such safeguards as he may deem fit.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for May, 2022 Examination**

**Intermediate**

## Paper 1: Accounting

List of Applicable Accounting Standards

AS 1 : Disclosure of Accounting Policies

AS 2 : Valuation of Inventories

AS 3 : Cash Flow Statements

AS 10: Property, Plant and Equipment

AS 11: The Effects of Changes in Foreign Exchange Rates

AS 12: Accounting for Government Grants

AS 13: Accounting for Investments

AS 16: Borrowing Costs

**Applicability of the Companies Act, 2013 and other Legislative Amendments for May, 2022 Examination**

The relevant notified Sections of the Companies Act, 2013 and legislative amendments including relevant Notifications / Circulars / Rules / Guidelines issued by Regulating Authorities up to 31$^{st}$ October, 2021 (Refer Note*) will be applicable for May, 2022 Examination.

***NOTE:**

(i) **Applicability of the Amendments to Schedule III to the Companies Act, 2013:** The Central Government made certain amendments in Schedule III to the Companies Act, 2013 (vide Notification dated 24th March, 2021), with effect from 1st day of April, 2021.These amendments to Schedule III are applicable for May, 2022 Examination.

(ii) **Applicability of the Announcement relating to Revision in Criteria for Classification of Non-Company Entities for Applicability of Accounting Standards:** The Council of the ICAI, at its 400th meeting, held on March 18-19, 2021, revised the criteria relating to applicability of Accounting Standards issued by the ICAI, to Non-company entities. This revision in criteria is applicable for May, 2022 Examination.

**Non-Applicability of Ind AS:** The Ministry of Corporate Affairs has notified Companies (Indian Accounting Standards) Rules, 2015 on 16th February, 2015, for compliance by certain class of companies. These Ind AS do not form part of the syllabus and hence are not applicable.

## Paper 2: Corporate and Other Laws

The provisions of Companies Act, 2013 along with significant Rules/ Notifications/ Circulars/ Clarification/ Orders issued by the Ministry of Corporate Affairs and the laws covered under the Other Laws, as amended by concerned authority, including significant notifications and circulars issued up to 31st October, 2021 are applicable for May 2022 examination.

### Inclusions /Exclusions from the syllabus

| (1) | (2) | (3) |
|---|---|---|
| **Chapters/Topics of the syllabus** | **Inclusions (Provisions which are included from the corresponding chapter/topic of the syllabus)** | **Exclusions (Provisions which are excluded from the corresponding chapter/ topic of the syllabus)** |
| | **Part I: Company Law** | |
| Companies Act, 2013 (Sections 1 to 148) | The entire content included in the September 2021 edition of the Study Material is applicable.<br>Also, the Legislative amendments to be hosted on the website for May 2022 examinations, shall also be relevant for the said examinations | **(i)** Sections 24, 30, 33, 38 & 41 [from chapter 3- Prospectus and Allotment of Securities]<br>**(ii)** Sections 44, 45, 60, 65 & 72 [from chapter 4- Share capital and Debentures]<br>**(iii)** Section 75 [from chapter 5- Acceptance of deposits by companies]<br>**(iv)** Section 81 & 85 [from chapter 6- Registration of Charges] |
| | **Part II: Other Laws** | |
| 1. The Indian Contract Act, 1872 (Specific contracts from section 123 onwards) | Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). | -. |
| 2. The Negotiable Instruments Act, 1881 | The entire content included in the September 2021 edition of the Study Material is applicable. | - |
| 3. The General Clauses Act, 1897 | Content of this chapter of the Study Material covers the significant provisions of the said | - |

| | | |
|---|---|---|
| | Act in a broad manner (not in entirety). | |
| **4.** Interpretation of Statutes | Content of this chapter of the Study Material since covers the significant rules and principles of interpretation in a broad manner. Therefore, the content of the chapter as included in the September 2021 edition of the study material shall form the base for May 2022 examination. | - |

**Note**: **September 2021 edition of the Study Material** is relevant for May 2022 examinations. The amendments made after the issuance of this Study Material for the period of 1st May 2021 to 31st October 2021– are also relevant for May 2022 examinations. The Relevant Legislative amendments will be available on the BoS Knowledge Portal.

## Paper 4: Taxation

### Section A: Income-tax Law

The provisions of income-tax law, as amended by **the Finance Act, 2021**, including significant circulars, notifications, press releases issued and legislative amendments made **upto 31st October, 2021**, are applicable for May, 2022 examination. The relevant assessment year for income-tax is **A.Y. 2022-23**.

***Note** – The June, 2021 edition of the Study Material for Intermediate (New) Paper 4A, based on the provisions of income-tax law, as amended by the Finance Act, 2021, is relevant for May, 2022 examination. The said Study Material is available at https://www.icai.org/post.html?post_id=17656. The Study Material has to be read along with the Statutory Update for May, 2022 examination, webhosted at the BoS Knowledge Portal. The initial pages of the Study Material available at https://resource.cdn.icai.org/65958bos53217mod1ip.pdf contains the Study Guidelines which specifies the list of topic-wise exclusions from the scope of syllabus.*

### Section B: Indirect Taxes

**Applicability of the GST law**

The provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance Act, 2021, including significant notifications and circulars issued and other legislative amendments made, up to 31st October, 2021, are applicable for May 2022 examination.

The Study Guidelines given below specify the exclusions from the syllabus for May 2022 examination.

**List of topic-wise exclusions from the syllabus**

| (1) | (2) | (3) |
|---|---|---|
| **S. No. in the syllabus** | **Topics of the syllabus** | **Exclusions**<br>**(Provisions which are excluded from the corresponding topic of the syllabus)** |
| 2(ii)(c) | Charge of tax including reverse charge | **CGST Act, 2017**<br>(i) Rate of tax prescribed for supply of **goods***<br>(ii) Rate of tax prescribed for supply of **services***<br>(iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3)<br>**IGST Act, 2017**<br>(iv) Rate of tax prescribed for supply of **goods**<br>(v) Rate of tax prescribed for supply of **services**<br>(vi) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3)<br>(vii) Determination of nature of supply – Inter-State supply; Intra-State supply; Supplies in territorial waters<br>(viii) Special provision for payment of tax by a supplier of online information and database access or retrieval [OIDAR] services |
| 2(ii)(d) | Exemption from tax | **CGST Act, 2017 & IGST Act, 2017**<br>Exemptions for supply of **goods** |
| 2(iii) | Basic concepts of time and value of supply | **CGST Act, 2017 & CGST Rules, 2017**<br>(i) Provisions relating to change in rate of tax in respect of supply of goods or services<br>(ii) Chapter IV: Determination of Value of Supply [Rules 27-35] of CGST Rules, 2017 |
| 2(iv) | Input tax credit | **CGST Act, 2017 read with CGST Rules, 2017**<br>(i) Manner of determination of input tax credit in respect of inputs or input services and reversal thereof [Rule 42]<br>(ii) Manner of determination of input tax credit in respect of capital goods and reversal thereof in certain cases [Rule 43] |

| | | |
|---|---|---|
| | | (ii) Input tax credit provisions in respect of inputs and capital goods sent for job work<br>(iii) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD]<br>(iv) Manner of recovery of credit distributed in excess<br>(v) Manner of reversal of credit of additional duty of customs in respect of Gold dore bar |
| 2(viii) | Returns | **CGST Act, 2017 read with CGST Rules, 2017**<br>(i) Furnishing of GSTR-2, GSTR-1A, GSTR-3<br>(ii) Matching, reversal & reclaim of input tax credit<br>(iii) Matching, reversal & reclaim of reduction in output tax liability |
| 2(ix) | Payment of tax | **CGST Act, 2017**<br>(i) Tax deduction at source<br>(ii) Collection of tax at source |

***Rates specified for computing the tax payable under composition levy are included in the syllabus.**

**Notes:**

(1) The amendments made by the Annual Union Finance Acts in the CGST Act, 2017 and IGST Act, 2017 are made effective from the date notified subsequently. Thus, only those amendments made by the Finance Act, 2021 which have become effective till 31.10.2021 namely, amendments made in sections 44 and 50 of the CGST Act, 2017 are applicable for May 2022 examinations. Remaining amendments made by the Finance Act, 2021 are not applicable for May 2022 examinations.

(2) The syllabus includes select provisions of the CGST Act, 2017 and IGST Act, 2017 and not the entire CGST Act, 2017 and the IGST Act, 2017. The provisions covered in any topic(s) of the syllabus which are related to or correspond to the topics not covered in the syllabus shall also be excluded.

(3) In the above table, in respect of the topics of the syllabus specified in column (2) the related exclusion is given in column (3). Where an exclusion has been so specified in any topic of the syllabus, the provisions corresponding to such exclusions, covered in other topic(s) forming part of the syllabus, shall also be excluded. For example, since provisions relating to ISD and tax collection at source are excluded from the topics "Input tax credit" and "Payment of tax including reverse charge" respectively, the provisions relating to (i) registration of ISD and person required to collect tax at source and (ii) filing of returns by an ISD and submission of TCS statement by an electronic commerce operator required to collect tax at source are also excluded from the topics "Registration" and "Returns" respectively.

(4) July 2021 edition of the Study Material is relevant for May 2022 and November 2022 examinations. The amendments in the GST law made after the issuance of this Study Material - to the extent covered in the Statutory Update for May 2022 examination alone shall be relevant for the said examination. The Statutory Update shall be hosted on the BoS Knowledge Portal.

Though the Statutory Update for May 2022 examination shall provide the precise scope and coverage of the amendments, for the sake of clarity, it may be noted that the amendments made in the various provisions of the GST law for providing relief to the taxpayers in view of spread of Novel Corona Virus (COVID-19) shall not be applicable for May 2022 examinations.

(5) The entire content included in the July 2021 edition of the Study Material (except the exclusions mentioned herein) and the Statutory Update for May 2022 examination shall be relevant for the said examination.