

REVISION TEST PAPERS

**COMMON FOR
INTERMEDIATE (IPC) COURSE GROUP – I
(UNDER OLD SCHEME)**

&

ACCOUNTING TECHNICIAN COURSE

NOVEMBER, 2020



**BOARD OF STUDIES
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
(Set up by an Act of Parliament)
New Delhi**

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REVISION TEST PAPER, NOVEMBER, 2020 – 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 publications/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, solved the questions given in the Practice Manual and gone through the Suggested Answers of the earlier examinations. It is important to remember that there can be large number of other complex questions which are not covered in the RTP. In fact, questions contained herein are only illustrative in nature.

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.icaai.org under the BOS knowledge portal in students section for downloading.

II. Planning and preparing for examination

Ideally, when you receive the RTP, you should have completed the entire syllabus of all the subjects at least once. RTP is an effective tool to revise and refresh your concepts and knowledge gained through the first round of study of the whole course. When the RTP reaches your hand, your study plan should have been completed as under:

❖ *Study Materials*

You must have finished reading the relevant Study Materials of all the subjects. Make sure you go through the Study Material as they cover the syllabus comprehensively.

❖ *Practice Manuals*

Practice Manuals are an excellent medium of understanding the practical aspects of the various provisions learnt through the Study Materials. Solving the Practice Manual at least once before proceeding to the RTP will ensure that you have a grasp of the application and computational aspect of the syllabus as well.

❖ *Suggested Answers*

Giving an honest attempt to solve the previous attempts suggested answers on your own, will give you a flavour of the pattern of question paper and type of questions which are being asked in the examination.

After completing the above process, you should go through the Updates provided in the RTP and then proceed to solve the questions given in the RTP on your own. RTPs are

provided to you to check your preparation standards and hence it must be solved on your own in a time-bound manner.

The stratagem and the fine points requiring careful consideration in respect of preparation for the CA examinations are explained in comprehensive details in BOS' publication "How to face CA Examinations? A Matrix of Winning Strategies". The publication may be referred to when you start preparing for a subject.

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 answer 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 for November, 2020 examination and Part II – Questions and Answers.

It may be noted that the July, 2015* edition of the Study Material and April, 2016 edition of Practice Manual is relevant for November, 2020 Examination.

Part I of the Revisionary Test Paper consists of the relevant Notifications and information applicable and not applicable for November, 2020 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November, 2020 examination. The brief summary of the same has been given as under:

A. Applicable for November, 2020 examination:

- I. Amendments in Schedule III (Division I) to the Companies Act, 2013
- II. Amendments in Schedule V to the Companies Act, 2013
- III. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act, 2013
- III. Amendment in Higher Education Cess as per Finance Act, 2018
- IV. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)
- V. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

B. Not applicable for November, 2020 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 sixteen questions are based on different topics discussed in the study material. Last 4 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:

* The students are advised to access revised chapters 1,2 and 6 web hosted at the BoS knowledge portal.

Question No.	Topic
1	Financial Statements of Companies
2	Cash Flow Statement
3	Profit or Loss prior to Incorporation
4	Accounting for Bonus Issue
5	Internal Reconstruction of a Company
6	Amalgamation of Companies
7	Average Due Date
8	Account Current
9	Self-Balancing Ledgers
10	Financial Statements of Not-For-Profit Organizations
11	Accounts from Incomplete Records
12	Hire purchase Transactions
13	Investment Accounts
14	Insurance Claim for Loss of Stock
15	Issues in Partnership Accounts
16	Accounting in Computerized Environment
17-20	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: BUSINESS LAW, ETHICS & COMMUNICATION

In the paper of Business Law, Ethics and Communication the objective is to gain knowledge of those branches of law relating to business transactions, certain corporate bodies and related matters and their application to practical commercial situations, students need to prepare on these lines. 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 example, particularly in Ethics and Communication part.

Generally, the RTP is divided into two parts -

Part I: Containing the relevant legislative amendments which are applicable/ non-applicable for November 2020 examinations.

It consists of the relevant Notifications and information applicable for November 2020 examination. The purpose of this information in the RTP is to apprise the students with the latest developments applicable for November 2020 examinations.

Part II: Topic wise questions with detailed answers

It constitutes of two divisions – Division A (Multiple Choice Question- Integrated Case Scenario and Independent MCQs) and Division B (Details Questions). The questions in Division B are in the following sequences:

QUESTION NO.	ABOUT THE QUESTION
1 -3	Deals with the Indian Contract Act, 1872
4	Deals with the Negotiable Instruments Act, 1881
5	Related with the Payment of Bonus Act, 1965
6	Related to the EPF and Miscellaneous Provisions Act, 1952
7	Problem related with the Payment of Gratuity Act, 1972
8-14	Based on the Companies Act, 2013
15-17	Related to Ethics
18-20	Related to Communication

Guidance on the citation of the Case Laws and Section

Students may kindly note that in view of various Acts covered under Business Laws, 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 ACCOUNTING AND FINANCIAL MANAGEMENT

Twenty-three questions – thirteen questions from Cost Accounting part and ten questions from Financial Management part – 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:

Part I: Cost Accounting

Qs No.	Topic	About the Problem
1.	Material Cost	Calculation of Level of Inventory.
2.	Employee cost	Calculation of Employee wages.
3.	Overheads	Computation of Machine hour rate.
4.	Non-Integrated Accounts	Preparation of Memorandum Reconciliation Account.
5.	Batch Costing	Application of Batch Costing.
6.	Job Costing	Calculation of Job cost.
7.	Process Costing	Preparation of process account.
8.	Joint product & By Product	Net realizable method of Joint Cost Allocation
9.	Operating Costing	Application of operating costing.
10.	Standard Costing	Calculation of Material, Labour and overhead variances.
11.	Marginal Costing	Determination of BEP, Number of units, and Profits.
12.	Budget and Budgetary Control	Preparation of product- wise profitability statement on marginal costing and Preparation of Budget.
13(a)	Cost Concepts	Discretionary Cost Centre and Investment Centre
13(b)	Contract Costing	Cost Plus Contract.
13(c)	Budget and Budgetary Control	Zero-based budgeting.
13(d)	Operation costing	Example of industries where operation costing is applied.

Part II: Financial Management

Qs. No.	Topic	About the Problem
1.	Time Value of Money	Selection between cash purchase or on loan.
2.	Ratio Analysis	Preparation of summarised Balance Sheet.
3.	Cost of Capital	Calculation of the weighted average cost of capital.
4.	Capital Structure	Calculation of rate of dividend on preference shares.
5.	Leverage	Preparation of the Income Statement
6.	Capital Budgeting	Evaluation of Project.
7.	Receivable Management of working capital	Analyzing credit policies.
8.	Management of working capital	Preparation of Balance Sheet and Calculation of Working Capital Requirement
9.	Cash Flow Statement	Preparation of Cash Flow Statement
10 (a)	Introduction to Financial Management	Agency problem and agency cost
10 (b)	Type of Financing	Financial Lease and Operating Lease

PAPER 4: TAXATION

Section A : Income-tax (50 Marks)

The provisions of Income-tax law, as amended by the Finance Act, 2019, the Finance (No.2) Act, 2019 and significant notifications, circulars, press releases and other legislative amendments upto 30.4.2020 are relevant for November, 2020 Examination. The relevant assessment year for November, 2020 examination is A.Y.2020-21.

The August 2019 edition of the Study Material for new Intermediate Course Paper 4: Taxation, Section A: Income-tax Law [Modules 1 to 3] is also applicable for IIPCC Paper 4: Taxation Section A: Income-tax with the exception of the following topics discussed under the following headings -

- "8. Tax Collection at Source – Basic Concept [Section 206C]" in pages 9.76 to 9.82 in Chapter 9.

- "18. Self-Assessment" in page 10.34 in Chapter 10.

Consequently, the summary of the above two topics forming part of "Let us recapitulate" at the end of these chapters is also not relevant for IIPCC Paper 4A: Income-tax.

Further, a list of topic-wise exclusions from the syllabus has been specified in the above study material by way of “**Study Guidelines**”.

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 by the Finance Act, 2019, Finance (No.2) Act, 2019 and latest circulars and notifications are given in *italics/bold italics*. Examples and Illustrations given in the Study Material would help you understand the application of concepts. Thereafter, work out the exercise questions at the end of each chapter to hone your problem-solving skills. Compare your answers with the answers given to test your level of understanding.

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.

Before you work out the questions in Part II of the RTP, do read the Statutory Update given in Part I, which is important since it contains the amendments by way of notifications, circulars and other legislative amendments made upto 30.4.2020, but not covered in the August, 2019 edition of the Study Material.

Note – (1) Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are **not** applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is **not** applicable.

(2) Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are **not** applicable for November, 2020 examination.

Section B: Indirect Taxes (50 Marks)

For Section B: Indirect Taxes of Paper 4: Taxation, provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020*, including significant notifications and circulars issued up to 30th April 2020, are applicable for November 2020 examination.

Further, a list of topic-wise exclusions from the syllabus has been specified by way of “**Study Guidelines for November, 2020 Examination**”. The same is given as part of “**Applicability of Standards/Guidance Notes/Legislative Amendments etc. for November, 2020 - Inter (IPC) Examination**” appended at the end of this Revision Test Paper.

* The amendments made by the Finance (No. 2) Act, 2019 in the CGST Act and the IGST Act have become effective from 01.01.2020. However, amendments made by the Finance (No. 2) Act, 2019 - to the extent included in the syllabus read with the Study

Guidelines - in sections 39 and 50 of the CGST Act, 2017 have not become effective as on 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.

The August, 2019 edition of the Study Material** for New Intermediate Course Paper 4: Taxation, Section B: Indirect Taxes is also applicable for IIPCC Paper 4: Taxation Section B: Indirect Taxes. This Study Material for Intermediate Paper 4B is applicable for Intermediate (IPC) Paper 4B also. 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 30.04.2019. The amendments made by the notifications and circulars issued between 01.05.2019 and 30.04.2020 in GST laws are given in the Statutory Update web-hosted at the BoS Knowledge Portal on the ICAI's website www.icai.org.

***It may be noted that in the August 2019 Edition of the Study Material, the erstwhile provisions of the CGST Act have been compared with the provisions as amended vide the Finance (No.2) Act, 2019, at the end of the relevant Chapters. Therefore, the same are not included in the Statutory Update. Students should read the amended provisions given at the end of the relevant Chapters in place of the erstwhile provisions discussed in the main body of the Chapters.*

However, the amendments which have not become effective till 30.04.2020, as mentioned above, should not be referred to as the same are not applicable for November 2020 examinations. For ease of reference, the Chapters of the Study Material which cover the said amendments (which have not become effective till 30.04.2020) are given below:

Chapter 9: Payment of Tax [Amendment in section 50 of the CGST Act]

Chapter 10: Returns

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
ANNOUNCEMENT STATING APPLICABILITY & NON-APPLICABILITY FOR
NOVEMBER 2020 EXAMINATION

A. Applicable for November, 2020 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, the Central Government made the following amendments in Division I of the Schedule III with effect from the date of publication of this notification in the Official Gazette:

- (A) under the heading “II Assets”, under sub-heading “Non-current assets”, for the words “Fixed assets”, the words “Property, Plant and Equipment” shall be substituted;
- (B) in the “Notes”, under the heading “General Instructions for preparation of Balance Sheet”, in paragraph 6,-
 - (I) under the heading “B. Reserves and Surplus”, in item (i), in sub- item (c), the word “Reserve” shall be omitted;
 - (II) in clause W., for the words “fixed assets”, the words “Property, Plant and Equipment” shall be substituted.

II. Amendments in Schedule V to the Companies Act, 2013

In exercise of the powers conferred by sub-sections (1) and (2) of section 467 of the Companies Act, 2013, the Central Government hereby makes the following amendments to amend Schedule V.

In PART II, under heading “REMUNERATION”, in Section II -,

- (a) in the heading, the words “without Central Government approval” shall be omitted;
- (b) in the first para, the words “without Central Government approval” shall be omitted;
- (c) in item (A), in the proviso, for the words “Provided that the above limits shall be doubled” the words “Provided that the remuneration in excess of above limits may be paid” shall be substituted;
- (d) in item (B), for the words “no approval of Central Government is required” the words “remuneration as per item (A) may be paid” shall be substituted;
- (e) in Item (B), in second proviso, for clause (ii), the following shall be substituted, namely:-
 - “(ii) the company has not committed any default in payment of dues to any bank

or public financial institution or non-convertible debenture holders or any other secured creditor, and in case of default, the prior approval of the bank or public financial institution concerned or the non-convertible debenture holders or other secured creditor, as the case may be, shall be obtained by the company before obtaining the approval in the general meeting.";

- (f) in item (B), in second proviso, in clause (iii), the words "the limits laid down in" shall be omitted;

In PART II, under the heading "REMUNERATION", in Section III, –

- (a) in the heading, the words "without Central Government approval" shall be omitted;
- (b) in first para, the words "without the Central Government approval" shall be omitted;
- (c) in clause (b), in the long line, for the words "remuneration up to two times the amount permissible under Section II" the words "any remuneration to its managerial persons", shall be substituted.

III. Notification dated 13th June, 2017 to exempt startup private companies from preparation of Cash Flow Statement as per Section 462 of the Companies Act 2013

As per the Amendment, under Chapter I, clause (40) of section 2, an exemption has been provided to a startup private company besides one person company, small company and dormant company. Accordingly, a startup private company is not required to include the cash flow statement in the financial statements.

Thus the financial statements, with respect to one person company, small company, dormant company and private company (if such a private company is a start-up), may not include the cash flow statement.

IV. Amendment in Higher Education Cess as per Finance Act, 2018

The rate of DDT is 15% excluding surcharge of 12% plus secondary and higher education cess is 4%* (revised as per Finance Act, 2018). This revised effective rate 17.472% (that is, 15% plus surcharge@12% plus health and education cess @4%) will be considered for computation of corporate Dividend Tax in preparation of Financial Statements of companies.

**Earlier this was 3%.*

V. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (reg. Issue of Bonus Shares)

A listed company, while issuing bonus shares to its members, must comply with the following requirements under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018:

Regulation 293 - Conditions for Bonus Issue

Subject to the provisions of the Companies Act, 2013 or any other applicable law, a listed issuer shall be eligible to issue bonus shares to its members if:

- (a) it is authorized by its articles of association for issue of bonus shares, capitalization of reserves, etc.: Provided that if there is no such provision in the articles of association, the issuer shall pass a resolution at its general body meeting making provisions in the articles of associations for capitalization of reserve; b) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (c) it has not defaulted in respect of the payment of statutory dues of the employees such as contribution to provident fund, gratuity and bonus;
- (d) any outstanding partly paid shares on the date of the allotment of the bonus shares, are made fully paid-up;
- (e) any of its promoters or directors is not a fugitive economic offender.

Regulation 294 - Restrictions on a bonus issue

- (1) An issuer shall make a bonus issue of equity shares only if it has made reservation of equity shares of the same class in favour of the holders of outstanding compulsorily convertible debt instruments if any, in proportion to the convertible part thereof.
- (2) The equity shares so reserved for the holders of fully or partly compulsorily convertible debt instruments, shall be issued to the holder of such convertible debt instruments or warrants at the time of conversion of such convertible debt instruments, optionally convertible instruments, warrants, as the case may be, on the same terms or same proportion at which the bonus shares were issued.
- (3) A bonus issue shall be made only out of free reserves, securities premium account or capital redemption reserve account and built out of the genuine profits or securities premium collected in cash and reserves created by revaluation of fixed assets shall not be capitalized for this purpose.
- (4) Without prejudice to the provisions of sub-regulation (3), bonus shares shall not be issued in lieu of dividends.
- (5) If an issuer has issued Superior Voting Right (SR) equity shares to its promoters or founders, any bonus issue on the SR equity shares shall carry the same ratio of voting rights compared to ordinary shares and the SR equity shares issued in a bonus issue shall also be converted to equity shares having voting rights same as that of ordinary equity shares along with existing SR equity shares.]

Regulation 295 - Completion of a bonus issue

- (1) An issuer, announcing a bonus issue after approval by its board of directors and

not requiring shareholders' approval for capitalization of profits or reserves for making the bonus issue, shall implement the bonus issue within fifteen days from the date of approval of the issue by its board of directors: Provided that where the issuer is required to seek shareholders' approval for capitalization of profits or reserves for making the bonus issue, the bonus issue shall be implemented within two months from the date of the meeting of its board of directors wherein the decision to announce the bonus issue was taken subject to shareholders' approval.

Explanation:

For the purpose of a bonus issue to be considered as 'implemented' the date of commencement of trading shall be considered.

(2) A bonus issue, once announced, shall not be withdrawn.

VI. Amendments made by MCA in the Companies (Accounting Standards) Rules, 2006

MCA has issued Companies (Accounting Standards) Amendment Rules, 2016 to amend Companies (Accounting Standards) Rules, 2006 by incorporating the references of the Companies Act, 2013, wherever applicable. Also, the Accounting Standard (AS) 2, AS 4, AS 10, AS 13, AS 14, AS 21 and AS 29 as specified in these Rules will substitute the corresponding Accounting Standards with the same number as specified in Companies (Accounting Standards) Rules, 2006.

Following table summarizes the changes made by the Companies (Accounting Standards) Amendment Rules, 2016 vis a vis the Companies (Accounting Standards) Rules, 2006 in the Accounting Standards relevant for Paper 1:

Name of the standard	Para no.	As per the Companies (Accounting Standards) Rules, 2006	As per the Companies (Accounting Standards) Amendment Rules, 2016	Implication
AS 2	4 (an extract)	Inventories do not include machinery spares which can be used only in connection with an item of fixed asset and whose use is expected to be irregular; such machinery spares	Inventories do not include spare parts, servicing equipment and standby equipment which meet the definition of property, plant and equipment as per AS 10, Property,	Now, inventories also do not include servicing equipment and standby equipment other than spare parts if they meet the definition of property, plant

		are accounted for in accordance with Accounting Standard (AS) 10, Accounting for Fixed Assets.	Plant and Equipment. Such items are accounted for in accordance with Accounting Standard (AS) 10, Property, Plant and Equipment.	and equipment as per AS 10, Property, Plant and Equipment.
	27	Common classifications of inventories are raw materials and components, work in progress, finished goods, stores and spares, and loose tools.	Common classifications of inventories are: (a) Raw materials and components (b) Work-in-progress (c) Finished goods (d) Stock-in-trade (in respect of goods acquired for trading) (e) Stores and spares (f) Loose tools (g) Others (specify nature)".	Para 27 of AS 2 requires disclosure of inventories under different classifications. One residual category has been added to the said paragraph i.e. 'Others'.
AS 10	All	Fixed Assets	Property, Plant and Equipment	Entire standard has been revised with the title AS 10: 'Property, Plant and Equipment' by replacing the existing AS 6 and AS 10. The students are advised to refer the explanation of AS 10 Property,

				<p>Plant and equipment (2016) given in Supplementary Material on AS 10 at the link: https://resource.cdn.icai.org/44440bos34351.PDF. AS 10 Property, Plant and equipment (2016) has also been incorporated in the revised chapter 1 “Accounting Standards” uploaded on the BoS knowledge portal at the link: https://resource.cdn.icai.org/38480bos28154-mod1-cp1.pdf</p>
AS 13	20	<p>The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment property, is added to the carrying amount of the investment property.</p>	<p>An investment property is accounted for in accordance with cost model as prescribed in Accounting Standard (AS) 10, Property, Plant and Equipment. The cost of any shares in a co-operative society or a company, the holding of which is directly related to the right to hold the investment</p>	<p>Accounting of investment property was not stated in this para but now incorporated i.e. at cost model.</p>

			property, is added to the carrying amount of the investment property.	
	30	An enterprise holding investment properties should account for them as long term investments.	An enterprise holding investment properties should account for them in accordance with cost model as prescribed in AS 10, Property, Plant and Equipment.	Accounting of investment property shall now be in accordance with AS 10 i.e. at cost model
AS 14	3(a)	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to companies.	Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.	Definition of Amalgamation has been made broader by specifically including 'merger'.
	18 and 39	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Account') which is disclosed as a part of 'miscellaneous expenditure' or other similar	In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory	Corresponding debit on account of statutory reserve in case of amalgamation in the nature of purchase is termed as 'Amalgamation Adjustment Reserve' and is now to be presented as a separate line item since there is not sub-heading like 'Miscellaneous

		category in the balance sheet. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.	expenditure' in Schedule III to the Companies Act, 2013
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B. Not applicable for November, 2020 examination

Non-Applicability of Ind ASs for November, 2020 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 have not been made applicable for November, 2020 Examination.

PART – II: QUESTIONS AND ANSWERS

QUESTIONS

Preparation of Financial Statements of Companies

- On 31st March, 2020, Om Ltd. provides to you the following ledger balances after preparing its Profit and Loss Account for the year ended 31st March, 2020:

Credit Balances

	₹
Equity shares capital (fully paid shares of ₹ 10 each)	1,05,00,000
General Reserve	21,84,000
Loan from State Finance Corporation (Secured by hypothecation of Plant & Machinery - Repayable within one year ₹ 3,00,000)	15,75,000
Loans: Unsecured (Long term)	12,70,500
Sundry Creditors for goods & expenses (Payable within 6 months)	21,00,000
Profit & Loss Account	10,50,000
Provision for Taxation	12,25,350
	199,04,850

Debit Balances :

	₹
Calls in arrear	10,500
Land	21,00,000
Buildings	30,75,000
Plant and Machinery	55,12,500
Furniture & Fixture	5,25,000
Inventories : Finished goods	21,00,000
Raw Materials	5,25,000
Trade Receivables	21,00,000
Advances: Short-term	4,48,350
Cash in hand	3,15,000
Balances with banks	25,93,500
Patents & Trade marks	6,00,000
	199,04,850

The following additional information is also provided in respect of the above balances:

- (i) 6,30,000 fully paid equity shares were allotted as consideration for land & buildings.
 - (ii) Cost of Building ₹ 42,00,000
Cost of Plant & Machinery ₹ 73,50,000
Cost of Furniture & Fixture ₹ 6,56,250
 - (iii) Trade receivables for ₹ 5,70,000 are due for more than 6 months.
 - (iv) The amount of Balances with Bank includes ₹ 27,000 with a bank which is not a scheduled Bank and the deposits of ₹ 7,50,000 are for a period of 9 months.
 - (v) Unsecured loan includes ₹ 3,00,000 from a Bank and ₹ 1,50,000 from related parties.
- You are required to prepare the Balance Sheet of the Company as on 31st March, 2020 as required under Schedule III of the Companies Act, 2013. Ignore previous year figures.

Cash Flow Statement

- 2 Prepare Cash Flow Statement of Light Ltd. for the year ended 31st March, 2020, in accordance with AS 3 (Revised) from the following Summary Cash Account:

Summary Cash Account

	₹ in '000	₹ in '000
Balance as on 01.04.2019		315
Receipts from Customers		24,894

Sale of Investments (Cost ₹ 1,35,000)		153
Issue of Shares		2,700
Sale of Fixed Assets		<u>1,152</u>
		29,214
Payment to Suppliers	18,306	
Purchase of Investments	117	
Purchase of Fixed Assets	2,070	
Wages & Salaries	621	
Selling & Administration Expenses	1,035	
Payment of Income Tax	2,187	
Payment of Dividends	720	
Repayment of Bank Loan	2,250	
Interest paid on Bank Loan	<u>450</u>	<u>(27,756)</u>
Balance as on 31.03.2020		1,458

Profit/Loss prior to Incorporation

3. Green Ltd. took over a running business with effect from 1st April, 2019. The company was incorporated on 1st August, 2019. The following summarized Profit and Loss Account has been prepared for the year ended 31.3.2020:

	₹		₹
To Salaries	72,000	By Gross profit	4,80,000
To Stationery	7,200		
To Travelling expenses	25,200		
To Advertisement	24,000		
To Miscellaneous trade expenses	56,700		
To Rent (office buildings)	39,600		
To Electricity charges	6,300		
To Director's fee	16,800		
To Bad debts	4,800		
To Commission to selling agents	33,000		
To Debenture interest	4,500		
To Interest paid to vendor	6,300		
To Selling expenses	37,800		

To Depreciation on fixed assets	14,400		
To Net profit	<u>1,31,400</u>		<u> </u>
	4,80,000		4,80,000

Additional information:

- Sales ratio between pre and post incorporation periods was 1:3.
- Rent of office building was paid @ ₹ 3,000 per month up to September, 2019 and thereafter it was increased by ₹ 600 per month.
- Travelling expenses include ₹ 7,200 towards sales promotion. Travelling expenses are to be allocated between pre and post incorporation periods on time basis.
- Depreciation include ₹ 900 for assets acquired in the post incorporation period.
- Purchase consideration was discharged by the company on 30th September, 2019 by issuing equity shares of ₹ 10 each.

You are required to prepare Statement showing calculation of profits and allocation of expenses between pre and post incorporation periods.

Accounting for Bonus Issue

4. Following is the extract of the Balance Sheet of Madhu Ltd.as at 31st March, 2020

	₹
Authorized capital:	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	<u>60,00,000</u>
	<u>64,50,000</u>
Issued and Subscribed capital:	
36,000 12% Preference shares of ₹ 10 each fully paid	3,60,000
4,05,000 Equity shares of ₹ 10 each, ₹ 8 paid up	32,40,000
Reserves and surplus:	
General Reserve	5,40,000
Capital Redemption Reserve	1,80,000
Securities premium (collected in cash)	1,12,500
Profit and Loss Account	9,00,000

On 1st April, 2020, the Company has made final call @ ₹ 2 each on 4,05,000 equity shares. The call money was received by 20th April, 2020. Thereafter, the company decided to capitalize its reserves by way of bonus at the rate of one share for every four shares held by utilizing the balance of profit and loss account to the minimum extent.

You are required to prepare necessary journal entries in the books of the company and prepare the relevant extract of the balance sheet as on 30th April, 2020 after bonus issue.

Internal Reconstruction of a Company

5. Preet Limited gives you the following information as on 31st March, 2020:

	(₹)
Authorized and subscribed capital:	
20,000 Equity shares of ₹ 100 each, fully paid up	20,00,000
Unsecured loans:	
15% Debentures	6,00,000
Accrued interest	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Fixed Assets:	
Machineries	7,00,000
Other Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr. Balance)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

- (i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
- (ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
- (iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
- (iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
- (v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
- (vi) Balance of Profit and Loss account to be written off.
- (vii) The shares surrendered and not re-issued shall be cancelled.

You are required to pass Journal Entries giving effect to the above and the resultant Balance Sheet as on 31st March, 2020 after reconstruction.

Amalgamation of Companies

6. P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The summarized Balance Sheets of the companies as on 31.03.2019 were as under:

P Limited	
	<i>Amount (₹)</i>
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	1,40,000
(b) Reserves & Surplus	
Profit & Loss A/c	30,000
2. Non Current Liabilities	
8 % Secured Debentures	1,10,000
3. Current Liabilities	
Trade Payables	<u>54,000</u>
Total	<u>3,34,000</u>
II. Assets	
1. Non-current Assets	
(a) Property, Plant & Equipment	
(i) Building at cost less Depreciation	1,00,000
(ii) Plant & Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at bank	<u>30,000</u>
Total	<u>3,34,000</u>

Q Limited	
	<i>Amount (₹)</i>
I. Equity and Liabilities	
1. Shareholder's Fund	
(a) Share Capital	2,50,000
(b) Reserves & Surplus	
General Reserve	1,20,000

	Profit & Loss A/c	35,000
2.	Current Liabilities	
	Trade Payables	<u>1,40,000</u>
Total		<u>5,45,000</u>
II.	Assets	
1.	Non-current assets	
(a)	Property, Plant & Equipment	
(i)	Building at cost less depreciation	1,90,000
(ii)	Plant & Machinery at cost less depreciation	80,000
(iii)	Furniture & Fixture at cost less depreciation	25,000
2.	Current Assets	
(a)	Inventories	50,000
(b)	Trade Receivables	1,42,000
(c)	Cash at bank	<u>58,000</u>
Total		<u>5,45,000</u>

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

- (i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.
- (ii) Furniture & Fixture of Q Ltd. was valued at ₹ 35,000.
- (iii) The Trade receivables of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the trade payables are to be paid out of the proceeds thereof.
- (iv) The debentures of P Ltd. are to be discharged by issue of 8% 11,000 debentures of PQ Ltd. at a premium of 10%.

You are required to:

- (i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.
- (ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2019, the date of completion of amalgamation.

Average Due Date

7. Harish has the following bills due on different dates. It was agreed to settle the total amount due by a single cheque payment. Find the date of the cheque.
 - (i) ₹ 5,000 due on 5.3.2019
 - (ii) ₹ 7,500 due on 7.4.2019
 - (iii) ₹ 6,000 due on 17.7.2019

(iv) ₹ 8,000 due on 14.9.2019

Account Current

8. Explain the meaning of Account Current and its significance in brief.

Self – Balancing Ledgers

9. A business concern maintains self-balancing ledgers. On the basis of following information, prepare General Ledger Adjustment Account in Debtors Ledger for the month of April, 2019:

	(₹)
Debit balances in Debtors Ledger on 01-04-2019	1,79,100
Credit balances in Debtors Ledger on 01-04-2019	4,700
Transactions during the month of April, 2019 are:	
Total Sales (including Cash Sales, ₹ 50,000)	10,47,700
Sales Returns	16,550
Cash received from debtors	8,62,850
Bills Receivable received from debtors	47,500
Bills Receivable dishonoured	3,750
Cash paid to debtors for returns	3,000
Transfers to Creditors Ledger	8,000
Credit balances in Debtors Ledger on 30-04-2019	4,900

Financial Statements of Not-For-Profit Organizations

10. The Accountant of 'Retreat & Refresh' Club furnishes you the following Receipts and Payment Account for the year ending 31st March, 2020:

Receipts	₹	Payments	₹
Opening Balance:		Honoraria to Secretary	19,200
Cash & Bank	33,520	Misc. expenses	6,120
Subscription	42,840	Rates & Taxes	5,040
Sale of Old Magazines	9,600	Ground man's wages	3,360
Entertainment Fees	17,080	Printing & Stationary	1,880
Bank Interest	920	Payment for bar purchases	23,080
Bar Receipts	29,800	Repairs	1,280
		Telephone expenses	9,560
		New car (less sale proceeds of old car ₹ 12,000) (Old car was sold on 1.4.2019)	50,400

		Closing Balance:	
		Cash & Bank	13,840
	<u>1,33,760</u>		<u>1,33,760</u>

Additional Information

	1.4.2019 (₹)	31.3.2020 (₹)
Subscription due (not received)	4,800	3,920
Club premises at cost	1,16,000	-
Depreciation on club premises provided so far	75,200	-
Car at cost	48,760	-
Depreciation on car provided so far	41,160	-
Value of Bar stock	2,840	3,480
Amount unpaid for bar purchases	2,360	1,720

Depreciation is to be provided @ 5% p.a. on written down value of the club premises and @ 15% p.a. on car for the whole year.

You are required to prepare an Income & Expenditure Account of Retreat & Refresh Club for the year ending 31st March, 2020 and Balance Sheet as on that date.

Accounts from Incomplete Records

11. The following is the Balance Sheet of Manish and Suresh as on 1st April, 2019:

Liabilities	₹	Assets	₹
Capital Accounts:		Building	1,00,000
Manish	1,50,000	Machinery	65,000
Suresh	75,000	Stock	40,000
Creditors for goods	30,000	Debtors	50,000
Creditors for expenses	25,000	Bank	25,000
	<u>2,80,000</u>		<u>2,80,000</u>

They give you the following additional information:

- Sales and purchases for the year ended 31st March, 2019 were ₹ 3,00,000 and ₹ 2,40,000 respectively.
- Stock level is maintained uniformly in value throughout all over the year.
- Depreciation on machinery is charged @ 10%, Depreciation on building @ 5% in the current year.

- (iv) Sales in the current year will increase by 43.75% in volume.
- (v) Rate of gross profit remains the same.
- (vi) Business Expenditures are ₹ 50,000 for the year and all expenditures are paid in cash.
- (vii) All sales and purchases are on credit basis and there are no cash purchases and sales.

You are required to prepare Trading and Profit and Loss Account for the year ended 31.03.2020.

Hire Purchase Transactions

12. X purchased three cars from Y on hire purchase basis, the cash price of each car being ₹ 2,00,000. The hire purchaser charged depreciation @ 20% on diminishing balance method. Two cars were seized by on hire vendor when second installment was not paid at the end of the second year. The hire vendor valued the two cars at cash price less 30% depreciation charged under diminishing balance method. The hire vendor spent ₹ 10,000 on repairs of the cars and then sold them for a total amount of ₹ 1,70,000.

You are required to compute: (i) Agreed value of two cars taken back by the hire vendor and book value of car left with the hire purchaser and (ii) Profit or loss to hire purchaser on two cars taken back by the hire vendor.

Investment Accounts

13. (a) In 2018, Royal Ltd. issued 12% fully paid debentures of ₹ 100 each, interest being payable half yearly on 30th September and 31st March of every accounting year. On 1st December, 2019, M/s. Kumar purchased 10,000 of these debentures at ₹ 101 (cum-interest) price. On 1st March, 2020 the firm sold all of these debentures at ₹ 106 (cum-interest) price.

You are required to prepare Investment (Debentures) Account in the books of M/s. Kumar for the period 1st December, 2019 to 1st March, 2020.

- (b) Mr. X acquires 200 shares of a company on cum-right basis for ₹ 60,000. He subsequently receives an offer of right to acquire fresh shares in the company in the proportion of 1:1 at ₹ 105 each. He does not subscribe but sells all the rights for ₹ 15,000. The market value of the shares after their becoming ex-rights has also gone down to ₹ 50,000. What should be the accounting treatment in this case?

Insurance Claim for loss of stock

14. Shyam's godown caught fire on 29th August, 2020, and a large part of the stock of goods was destroyed. However, goods costing ₹ 54,000 could be salvaged. The trader provides you the following additional information:

	₹
Cost of stock on 1st April, 2019	3,55,250
Cost of stock on 31st March, 2020	3,95,050
Purchases during the year ended 31st March, 2020	28,39,800
Purchases from 1st April, 2020 to the date of fire	16,55,350
Cost of goods distributed as samples for advertising from 1st April, 2020 to the date of fire	20,500
Cost of goods withdrawn by trader for personal use from 1st April, 2020 to the date of fire	1,000
Sales for the year ended 31st March, 2020	40,00,000
Sales from 1st April, 2020 to the date of fire	22,68,000

Shyam had taken the fire insurance policy for ₹ 2,50,000 with an average clause.

Calculate the amount of the claim that will be admitted by the insurance company. Consider that the rate of gross profit up to date of fire is same as that of previous accounting year.

Issues in Partnership Accounts

15. Laurel and Hardy are partners of the firm LH & Co., from 1.4.2015. Initially both of them contributed ₹ 1,00,000 each as capital. They did not contribute any capital thereafter. They maintain accounts of the firm on mercantile basis. They were sharing profits and losses in the ratio of 5:4. After the accounts for the year ended 31.3.2019 were finalized, the partners decided to share profits and losses equally with effect from 1.4.2015.

It was also discovered that in ascertaining the results in the earlier years certain adjustments, details of which are given below, had not been noted.

Year ended 31 st March	2016	2017	2018	2019
	₹	₹	₹	₹
Profit as per accounts prepared and finalized	1,40,000	2,60,000	3,20,000	3,60,000
Expenses not provided for (as at 31 st March)	30,000	20,000	36,000	24,000
Incomes not taken into account (as at 31 st March)	18,000	15,000	12,000	21,000

The partners decided to admit Chaplin as a partner with effect from 1.4.2019. It was decided that Chaplin would be allotted 20% share in the firm and he must bring 20% of the combined capital of Laurel and Hardy.

Following is the Balance sheet of the firm as on 31.3.2019 before admission of Chaplin and before adjustment of revised profits between Laurel and Hardy.

Balance Sheet of LH & Co. as at 31.3.2019

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital Accounts:		Plant and machinery	60,000
Laurel	2,11,500	Cash on hand	10,000
Hardy	1,51,500	Cash at bank	5,000
Trade Payables	2,27,000	Stock in trade	3,10,000
		Trade Receivables	2,05,000
	5,90,000		5,90,000

You are required to prepare:

- (i) Profit and Loss Adjustment account assuming that expenses and incomes not taken into account in earlier years were fully ignored and these amounts are still outstanding and accrued on 1.4.2019;
- (ii) Capital accounts of the partners; and
- (iii) Balance Sheet of the firm after the admission of Chaplin.

Accounting in Computerized Environment

16. A large size hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

Applicability of Accounting Standards

AS 1 Disclosure of Accounting Policies

- 17 (a) What are the three fundamental accounting assumptions recognized by Accounting Standard (AS) 1? Briefly describe each one of them.

AS 2 Valuation of Inventories

- (b) A Limited is engaged in manufacturing of Chemical Y for which Raw Material X is required. The company provides you following information for the year ended 31st March, 2020.

	₹ Per unit
<u>Raw Material X</u>	
Cost price	400
Freight Inward	40
Replacement cost	320
<u>Chemical Y</u>	
Material consumed	440
Direct Labour	120
Variable Overheads	80

Additional Information:

- (i) Total fixed overhead for the year was ₹ 4,00,000 on normal capacity of 25,000 units.
- (ii) Closing balance of Raw Material X was 1,000 units and Chemical Y was 2,400 units.

You are required to calculate the total value of closing stock of Raw Material X and Chemical Y according to AS 2, when Net realizable value of Chemical Y is ₹ 600 per unit.

AS 3 Cash Flow Statements

18. (a) Intelligent Ltd., a non-financial company has the following entries in its Bank Account. It has sought your advice on the treatment of the same for preparing Cash Flow Statement.
- (i) Investment made in subsidiary Smart Ltd. and dividend received
 - (ii) Dividend paid for the year
 - (iii) TDS on interest income earned on investments made.

Discuss in the context of AS 3 Cash Flow Statement.

Depreciation Accounting as per AS 10 Property, Plant and Equipment

- (b) Omega Co. constructed a machine for its own use. Construction was completed on 1st November 2019 but the company did not begin using the machine until 1st April, 2020. The company did not provide depreciation for the year ended 31st March, 2020 as the company did not use the machine in that year. Comment on this in line with provisions of AS 10.

AS 7 Construction Contracts

19. (a) On 1st December, 2018, "Sampath" Construction Company Limited undertook a contract to construct a building for ₹ 108 lakhs. On 31st March, 2019 the company found that it had already spent ₹ 83.99 lakhs on the construction. A prudent estimate of additional cost for completion was ₹ 36.01 lakhs.

You are required to compute the amount of provision for foreseeable loss, which must be made in the Final Accounts for the year ended 31st March, 2019 based on AS 7 "Construction Contracts."

AS 9 Revenue Recognition

- (b) Raj Ltd. entered into an agreement with Heena Ltd. to dispatch goods valuing ₹ 5,00,000 every month for next 6 months on receipt of entire payment. Heena Ltd. accordingly made the entire payment of ₹ 30,00,000 and Raj Ltd. started dispatching the goods. In fourth month, due to fire in premise of Heena Ltd., Heena Ltd. requested to Raj Ltd. not to dispatch goods worth ₹ 15,00,000 ready for dispatch. Raj Ltd. accounted ₹ 15,00,000 as sales and transferred the balance to Advance received against Sales account. Comment upon the above treatment by Raj Ltd. with reference to the provision of AS 9.

AS 10 Property, Plant and Equipment

20. (a) Omega Ltd. contracted with a supplier to purchase machinery which is to be installed in its one department in three months' time. Special foundations were required for the machinery which were to be prepared within this supply lead time. The cost of the site preparation and laying foundations were ₹ 1,40,000. These activities were supervised by a technician during the entire period, who is employed for this purpose at ₹ 45,000 per month.

The machine was purchased at ₹ 1,58,00,000 and ₹ 50,000 transportation charges were incurred to bring the machine to the factory site. An Architect was appointed at a fee of ₹ 30,000 to supervise machinery installation at the factory site.

You are required to ascertain the amount at which the Machinery should be capitalized under AS 10.

AS 13 Accounting for Investments

- (b) A Ltd. on 1-1-2020 had made an investment of ₹ 600 lakhs in the equity shares of B Ltd. of which 50% is made in the long term category and the rest as temporary investment. The realizable value of all such investment on 31-3-2020 became ₹ 200 lakhs as B Ltd. lost a case of copyright. How will you recognize the reduction in the value of the investment in the financial statements for the year ended on 31-3-2020 as per AS 13 considering this downfall in the value of shares as non-temporary?

SUGGESTED ANSWERS/HINTS

1.

Om Ltd.
Balance Sheet as on 31st March, 2020

Particulars	Notes	Figures at the end of current reporting period (₹)
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	1,04,89,500
b Reserves and Surplus	2	32,34,000
2 Non-current liabilities		
a Long-term borrowings	3	25,45,500
3 Current liabilities		
a Trade Payables		21,00,000
b Other current liabilities	4	3,00,000
c Short-term provisions	5	12,25,350
Total		1,98,94,350
Assets		
1 Non-current assets		
a Property, Plant and Equipment	6	1,12,12,500
b Intangible assets (Patents & Trade Marks)		6,00,000
2 Current assets		
a Inventories	7	26,25,000
b Trade receivables	8	21,00,000
c Cash and cash equivalents	9	29,08,500
d Short-term loans and advances		4,48,350
Total		1,98,94,350

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		

	Issued, subscribed and called up 10,50,000 Equity Shares of ₹ 10 each (Out of the above 6,30,000 shares have been issued for consideration other than cash)	1,05,00,000	
	Less: Calls in arrears	(10,500)	1,04,89,500
	Total		1,04,89,500
2	Reserves and Surplus		
	General Reserve		21,84,000
	Surplus (Profit & Loss A/c)		10,50,000
	Total		32,34,000
3	Long-term borrowings		
	Secured		
	Term Loans		
	Loan from State Finance Corporation (₹ 15,75,000 less ₹ 3,00,000) (Secured by hypothecation of Plant and Machinery)		12,75,000
	Unsecured		
	Bank Loan	3,00,000	
	Loan from related parties	1,50,000	
	Others	8,20,500	12,70,500
	Total		25,45,500
4	Other current liabilities		
	Loan Instalment repayable within one year		3,00,000
5	Short-term provisions		
	Provision for taxation		12,25,350
6	Property, Plant and Equipment		
	Land		21,00,000
	Buildings	42,00,000	
	Less: Depreciation	(11,25,000)	30,75,000
	Plant & Machinery	73,50,000	
	Less: Depreciation	(18,37,500)	55,12,500

	Furniture & Fittings	6,56,250	
	Less: Depreciation	(1,31,250)	5,25,000
	Total		1,12,12,500
7	Inventories		
	Raw Material		5,25,000
	Finished goods		21,00,000
			<u>26,25,000</u>
8	Trade receivables		
	Debts outstanding for a period exceeding six months		5,70,000
	Other Debts		15,30,000
	Total		21,00,000
9	Cash and cash equivalents		
	Cash at bank with Scheduled Banks including Bank deposits for period of 9 months amounting ₹ 7,50,000	25,66,500	
	with others	<u>27,000</u>	25,93,500
	Cash in hand		3,15,000
	Total		29,08,500

2. Light Ltd.

Cash Flow Statement for the year ended 31st March, 2020

	(₹ '000)	(₹ '000)
Cash flows from operating activities		
Cash receipts from customers	24,894	
Cash payments to suppliers	(18,306)	
Cash paid to employees	(621)	
Other cash payments (for Selling & Administrative expenses)	<u>(1,035)</u>	
Cash generated from operations	4,932	
Income taxes paid	<u>(2,187)</u>	
Net cash from operating activities		2,745
Cash flows from investing activities		
Payments for purchase of fixed asset	(2,070)	
Proceeds from sale of fixed assets	1,152	
Purchase of investments	(117)	

Sale of investments	<u>153</u>	
Net cash used in investing activities		(882)
Cash flows from financing activities		
Proceeds from issuance of share capital	2,700	
Bank loan repaid	(2,250)	
Interest paid on bank loan	(450)	
Dividend paid	<u>(720)</u>	
Net cash used in financing activities		<u>(720)</u>
Net increase in cash and cash equivalents		1,143
Cash and cash equivalents at beginning of period		<u>315</u>
Cash and cash equivalents at end of period		<u>1,458</u>

**3. Statement showing calculation of profits for pre and post incorporation periods
for the year ended 31.3.2020**

Particulars	Pre-incorporation period ₹	Post- incorporation period ₹
A. Gross profit (1:3)	1,20,000	3,60,000
Less: Salaries (1:2)	24,000	48,000
Stationery (1:2)	2,400	4,800
Advertisement (1:3)	6,000	18,000
Travelling expenses (W.N.3)	6,000	12,000
Sales promotion expenses (W.N.3)	1,800	5,400
Misc. trade expenses (1:2)	18,900	37,800
Rent (office building) (W.N.2)	12,000	27,600
Electricity charges (1:2)	2,100	4,200
Director's fee		16,800
Bad debts (1:3)	1,200	3,600
Selling agents commission (1:3)	8,250	24,750
Debenture interest		4,500
Interest paid to vendor (2:1) (W.N.4)	4,200	2,100
Selling expenses (1:3)	9,450	28,350
Depreciation on fixed assets (W.N.5)	<u>4,500</u>	<u>9,900</u>

B.	<u>1,00,800</u>	<u>2,47,800</u>
Pre-incorporation profit (A less B)	19,200	
Post-incorporation profit (A less B)		1,12,200

Working Notes:**1. Time Ratio**

Pre incorporation period = 1st April, 2019 to 31st July, 2019

i.e. 4 months

Post incorporation period is 8 months

Time ratio is 1: 2.

2. Rent

		₹
Rent for pre-incorporation period (₹ 3,000 x 4)		12,000 (pre)
Rent for post incorporation period August, 2019 & September, 2019 (₹ 3,000 x 2)	6,000	
October, 2019 to March, 2020 (₹ 3,600 x 6)	<u>21,600</u>	27,600 (post)

3. Travelling expenses and sales promotion expenses

	Pre ₹	Post ₹
Traveling expenses ₹ 18,000 (i.e. ₹ 25200 - ₹ 7200) distributed in 1:2 ratio	6,000	12,000
Sales promotion expenses ₹ 7,200 distributed in 1:3 ratio	1,800	5,400

4. Interest paid to vendor till 30th September, 2019

	Pre ₹	Post ₹
Interest for pre-incorporation period ₹ 6,300x 4/6	4,200	
Interest for post incorporation period i.e. for August, 2019 & September, 2019 = ₹ 6,300x 2/6		2,100

5. Depreciation

	Pre ₹	Post ₹
Total depreciation	14,400	
Less: Depreciation exclusively for post incorporation period	<u>900</u>	900
	<u>13,500</u>	

Depreciation for pre-incorporation period (13,500x4/12)	4,500	
Depreciation for post incorporation period (13,500x8/12)	<u> </u>	<u>9,000</u>
	4,500	9,900

4

Journal Entries in the books of Madhu Ltd.

		₹	₹
1-4-2020	Equity share final call A/c Dr. To Equity share capital A/c (For final calls of ₹ 2 per share on 4,05,000 equity shares due as per Board's Resolution dated....)	8,10,000	8,10,000
20-4-2020	Bank A/c Dr. To Equity share final call A/c (For final call money on 4,05,000 equity shares received)	8,10,000	8,10,000
	Securities Premium A/c Dr. Capital redemption reserve A/c Dr. General Reserve A/c Dr. Profit and Loss A/c (b.f.) Dr. To Bonus to shareholders A/c (For making provision for bonus issue of one share for every four shares held)	1,12,500 1,80,000 5,40,000 1,80,000	10,12,500
	Bonus to shareholders A/c Dr. To Equity share capital A/c (For issue of bonus shares)	10,12,500	10,12,500

Extract of Balance Sheet as at 30th April, 2020 (after bonus issue)

	₹
Authorized Capital	
45,000 12% Preference shares of ₹ 10 each	4,50,000
6,00,000 Equity shares of ₹ 10 each	<u>60,00,000</u>
Issued and subscribed capital	
36,000 12% Preference shares of ₹ 10 each, fully paid	3,60,000
5,06,250 Equity shares of ₹ 10 each, fully paid	50,62,500

(Out of the above, 1,01,250 equity shares @ ₹ 10 each were issued by way of bonus shares)	
Reserves and surplus	
Profit and Loss Account	7,20,000

5.

In the books of Preet Limited**Journal Entries**

			₹	₹
(i)	Equity Share Capital (₹ 100) A/c Dr.	20,00,000		
	To Share Surrender A/c			10,00,000
	To Equity Share Capital (₹ 10) A/c			10,00,000
	(Sub-division of 20,000 equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each and surrender of 1,00,000 of such sub-divided shares as per capital reduction scheme)			
(ii)	15% Debentures A/c Dr.	3,00,000		
	Accrued Interest A/c (proportionate 50%) Dr.	45,000		
	To Reconstruction A/c			3,45,000
	(Transferred 50% of the claims of the debenture holders to Reconstruction A/c in consideration of which 10% Preference shares are being issued, out of share surrender A/c as per capital reduction scheme)			
(iii)	Trade payables A/c Dr.	1,04,000		
	To Reconstruction A/c			1,04,000
	(Transferred claims of the trade payables to Reconstruction A/c, 25% of which is reduction and equity shares are issued in consideration of the balance amount)			
(iv)	Share Surrender A/c Dr.	10,00,000		
	To 10% Preference Share Capital A/c			2,00,000
	To Equity Share Capital A/c			78,000
	To Reconstruction A/c			7,22,000

(v)	(Issued preference and equity shares to discharge the claims of the debenture holders and the trade payables respectively as per scheme and the balance in share surrender account is transferred to reconstruction account)		
	Reconstruction A/c Dr. 11,71,000 To Profit & Loss A/c 11,60,000 To Capital Reserve A/c 11,000 (Adjusted debit balance of profit and loss account against reconstruction account and the balance is transferred to Capital Reserve account)		

Preet Limited (and reduced)**Balance Sheet as on 31st March, 2020**

<i>Particulars</i>	<i>Notes No.</i>	<i>₹</i>
Equity and Liabilities		
1 Shareholders' funds		
a) Share capital	1	12,78,000
b) Reserves and Surplus	2	11,000
2 Non-current liabilities		
Long-term borrowings	3	3,00,000
3 Current liabilities		
a) Other current liabilities	4	45,000
b) Short-term provisions	5	72,000
Total		<u>17,06,000</u>
Assets		
1 Non-current assets		
a) Property, Plant & Equipment	6	7,00,000
2 Current assets		
a) Inventories		5,06,000
b) Trade receivables		4,60,000
c) Cash and cash equivalents	7	40,000
Total		<u>17,06,000</u>

Notes to Accounts

		₹
1.	Share Capital	
	1,07,800, Equity shares of ₹ 10 each	10,78,000
	20,000, 10% Preference shares of ₹ 10 each	<u>2,00,000</u>
		<u>12,78,000</u>
	(all the above shares are allotted as fully paid up pursuant to capital reduction scheme by conversion of equity shares)	
2.	Reserves and Surplus	
	Capital Reserves	11,000
3.	Long-term borrowings	
	Unsecured	
	15% Debentures	3,00,000
4.	Other current liabilities	
	Accrued Interest on 15% Debentures	45,000
5.	Short-term provisions	
	Provision for income tax	72,000
6.	Property, Plant and Equipment	
	Machineries	7,00,000
7.	Cash and cash equivalents	
	Balances with banks	40,000

6. Calculation of Purchase Consideration

	P Ltd. (₹)	Q Ltd. (₹)
Assets taken over:		
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant & Machinery	25,000	80,000
Furniture & Fixtures	-	35,000
Inventories	1,35,000	50,000
Trade Receivables	-	1,42,000
Cash at Bank	-	58,000
	3,10,000	7,05,000

Less :Liabilities taken over		
8% Debentures	(1,21,000)	-
Trade Payables	-	(1,40,000)
Net Assets taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. of ₹ 10 each at par	18,900	56,500

PQ Limited**Balance Sheet as at 1st April, 2019**

Particulars	Note No.	Amount (₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	7,54,000
(b) Reserve & Surplus	2	11,000
(2) Non-current Liabilities		
(a) Long term borrowings	3	1,10,000
(3) Current Liabilities		
(a) Trade Payables		1,40,000
Total		10,15,000
II. Assets		
(1) Non-current assets		
Property, Plant & Equipment	4	4,30,000
Intangible assets	5	2,00,000
(2) Current Assets		
a) Inventories		1,85,000
b) Trade Receivables		1,42,000
c) Cash at Bank		58,000
Total		10,15,000

Notes to Accounts:

		₹
1	Share Capital	
	Authorized	
	1,00,000 shares of ₹ 10 each	10,00,000
	Issued, Subscribed and Paid up	
	75,400 shares of ₹ 10 each	7,54,000

	(All the above shares are allotted as fully paid up pursuant to scheme of amalgamation without payments being received in cash)		
2	Reserve & Surplus		
	Securities Premium Account		11,000
3	Long term borrowings		
	8 % Debentures		1,10,000
4	Property, Plant & Equipment		
	Building		
	P Ltd.	1,00,000	
	Q Ltd.	<u>1,90,000</u>	2,90,000
	Plant & Machinery		
	P Ltd.	25,000	
	Q Ltd.	<u>80,000</u>	1,05,000
	Furniture & Fixture		
	Q Ltd.		35,000
			<u>4,30,000</u>
5	Intangible Assets		
	Goodwill		
	P Ltd.	50,000	
	Q. Ltd.	<u>1,50,000</u>	2,00,000

Working Note:**Computation of Securities Premium**

Debentures issued by PQ Ltd. to the existing debenture holders of P Ltd. at 10% premium.

Securities Premium = ₹ 1,10,000 x 10% = ₹ 11,000.

7. Calculation of number of days from the base date

Due date	Amount (₹)	No. of days from 5.3.19	Product
5.3.2019	5,000	0	0
7.4.2019	7,500	33	2,47,500
17.7.2019	6,000	134	8,04,000
14.9.2019	<u>8,000</u>	193	<u>15,44,000</u>
	<u>26,500</u>		<u>25,95,500</u>

$$\text{Average due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= 5.3.2019 + \frac{25,95,500}{26,500} = 98 \text{ days (round off)}$$

The date of the cheque will be 98 days from the base date i.e. 11.6.2019. So on 11th June, 2019, all bills will be settled by a single cheque payment.

8. An Account Current is a running statement of transactions between parties for a given period of time and includes interest allowed or charged on various items. It takes the form of a ledger account. Some of the situations when account current is prepared are:
- It is prepared when frequent transactions regularly take place between two parties. An example is of a manufacturer who sells goods frequently to a merchant on credit and receives payments from him in instalments at different intervals and charges interest on the amount which remains outstanding.
 - A consignee of goods can also prepare an Account Current, if the latter is to settle the account at the end of the consignment & interest is chargeable on outstanding balance.
 - An Account Current also is frequently prepared to set out the transactions taking place between a banker and his customer.
 - It is prepared when two or more persons are in joint venture and each co-venture is entitled to interest on their investment. Also, no separate set of book is maintained for it.

9. General Ledger Adjustment Account in Debtors Ledger

Date	Particulars	₹	Date	Particulars	₹
01.04.2019	To Balance b/d	4,700	1.4.2019	By Balance b/d	1,79,100
01.04.2019	To Debtors ledger		01.04.2019	By Debtors ledger	
to	adjustment A/c:		to	adjustment A/c:	
30.4.2019	Cash received	8,62,850	30.4.2019	Credit sales	9,97,700
	Sales Returns	16,550		Cash paid for returns	3,000
	Bills receivable received	47,500		Bills receivable dishonoured	3,750
	Transfer to creditors ledger	8,000	30.04.2019	By Balance c/d	4,900
30.04.2019	To Balance c/d (bal.fig)	<u>2,48,850</u>			
		<u>11,88,450</u>			<u>11,88,450</u>

10. **Income and Expenditure Account of Retreat & Refresh Club for the year ended 31st March, 2020**

<i>Expenditure</i>		<i>Amount</i>	<i>Income</i>	<i>Amount</i>
		₹		₹
To Honoraria to secretary		19,200	By Subscriptions (W.N.3)	41,960
To Misc. expenses		6,120	By Sale of old magazines	9,600
To Rates and taxes		5,040	By Entertainment fees	17,080
To Groundman's wages		3,360	By Bank interest	920
To Printing and stationary		1,880	By Bar receipts	29,800
To Telephone expenses		9,560	By Profit on sale of car (W.N.5)	4,400
To Bar expenses:				
Opening bar stock	2,840			
Add: Purchases (W.N.2)	<u>22,440</u>			
	25,280			
Less: Closing bar stock	<u>(3,480)</u>	21,800		
To Repairs		1,280		
To Depreciation				
Club premises (W.N.4)	2,040			
Car (W.N. 6)	<u>9,360</u>	11,400		
To Excess of income over expenditure transferred to capital fund		<u>24,120</u>		
		<u>1,03,760</u>		<u>1,03,760</u>

Balance Sheet of Retreat & Refresh Club as on 31st March, 2020

<i>Liabilities</i>		<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
		₹		₹
Capital fund (W.N. 1)	87,200		Club Premises	38,760
Add: Excess of income over expenditure	<u>24,120</u>	1,11,320	Car	53,040
Outstanding liabilities for bar purchases		<u>1,720</u>	Bar stock	3,480
		<u>1,13,040</u>	Subscription Receivable	3,920
			Cash and bank	<u>13,840</u>
				<u>1,13,040</u>

Working Notes:**1. Balance Sheet of Retreat & Refresh Club as on 1st April, 2019**

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>		<i>Amount</i>
	₹			₹
Amount due for bar purchases	2,360	Club premises	1,16,000	
Capital fund on 1.4.2019	87,200	Less: Depreciation	<u>(75,200)</u>	40,800
(balancing figure)		Car	48,760	
		Less: Depreciation	<u>(41,160)</u>	7,600
		Bar stock		2,840
		Subscription		4,800
		Receivable		
		Cash at bank		<u>33,520</u>
	<u>89,560</u>			<u>89,560</u>

2. Calculation of bar purchases for the year

	₹
Bar payments as per receipts and payments account	23,080
Add: Amount due on 31 st March, 2020	<u>1,720</u>
	24,800
Less: Amount due on 1 st April, 2019	<u>(2,360)</u>
	<u>22,440</u>

3. Calculation of subscriptions earned during the year

	₹
Subscriptions received as per receipts and payments account	42,840
Add: Outstanding on 31 st March, 2020	<u>3,920</u>
	46,760
Less: Outstanding on 1 st April, 2019	<u>(4,800)</u>
	<u>41,960</u>

4. Depreciation on club premises and its written down value on 31st March, 2020

	₹
Written down value on 1 st April, 2019 (1,16,000- 75,200)	40,800
Less: Depreciation for the year @ 5% p.a.	<u>(2,040)</u>
	<u>38,760</u>

5. Calculation of profit on sale of car

		₹
Sale proceeds of old car		12,000
Less: Written down value of old car:		
Cost of car on 1 st April, 2019	48,760	
Less: Depreciation upto 1 st April, 2019	<u>(41,160)</u>	<u>(7,600)</u>
		<u>4,400</u>

6. Depreciation on car and its written down value on 31st March, 2020

	₹
Cost of new car purchased (50,400 + 12,000)	62,400
Less: Depreciation for the year @ 15% p.a.	<u>(9,360)</u>
Written down value on 31 st March, 2020	<u>53,040</u>

11. Trading and Profit and Loss account for the year ending 31st March, 2020

Particulars	₹	Particulars	₹
To Opening Stock	40,000	By Sales	4,31,250
To Purchases	3,45,000	By Closing Stock	40,000
To Gross Profit c/d (20% on sales)	<u>86,250</u>		
	<u>4,71,250</u>		<u>4,71,250</u>
To Business Expenses	50,000	By Gross Profit b/d	86,250
To Depreciation on:			
Machinery 6,500			
Building <u>5,000</u>	11,500		
To Net profit	<u>24,750</u>		
	<u>86,250</u>		<u>86,250</u>

Working Note:

		₹
(i)	Calculation of Rate of Gross Profit earned during previous year	
A	Sales during previous year	3,00,000
B	Purchases	2,40,000
C	Cost of Goods Sold (₹ 40,000 + ₹ 2,40,000 – ₹ 40,000)	2,40,000

D	Gross Profit (A-C)	60,000
E	Rate of Gross Profit $\frac{₹ 60,000}{₹ 3,00,000} \times 100$	20%
(ii)	Calculation of sales during current year	₹
A	Cost of goods sold during previous year	2,40,000
B	Add: Increases in volume @ 43.75 %	<u>1,05,000</u>
C	Cost of goods sold during Current Year	3,45,000
D	Add: Gross profit @ 25% on cost (20% on sales)	<u>86,250</u>
E	Sales for current year [C+D]	<u>4,31,250</u>

12.

		₹
(i)	Price of two cars = ₹ 2,00,000 x 2	4,00,000
	Less: Depreciation for the first year @ 30%	<u>1,20,000</u>
		2,80,000
	Less: Depreciation for the second year = ₹ 2, 80,000 x $\frac{30}{100}$	<u>84,000</u>
	Agreed value of two cars taken back by the hire vendor	<u>1,96,000</u>
	Cash purchase price of one car	2,00,000
	Less: Depreciation on ₹ 2,00,000 @ 20% for the first year	<u>40,000</u>
	Written down value at the end of first year	1,60,000
	Less: Depreciation on ₹ 1,60,000 @ 20% for the second year	<u>32,000</u>
	Book value of car left with the hire purchaser	<u>1,28,000</u>
(ii)	Book value of one car as calculated above	1,28,000
	Book value of Two cars = ₹ 1,28,000 x 2	2,56,000
	Value at which the two cars were taken back, calculated in (i) above	1,96,000
	Hence, loss to hire purchaser on cars taken back by hire vendor = ₹ 2,56,000 – ₹ 1,96,000 =	₹ 60,000

13. (a) **Investment Account in the books of M/s Kumar**
for the period from 1st December 2019 to 1st March, 2020
(Scrip: 12% Debentures of Royal Ltd.)

Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)	Date	Particulars	Nominal Value (₹)	Interest	Cost (₹)
1.12.2019	To Bank A/c (W.N.1)	10,00,000	20,000	9,90,000	1.03.2020	By Bank A/c (W.N.2)	10,00,000	50,000	10,10,000
1.3.2020	To Profit & loss A/c		30,000	20,000					
		10,00,000	50,000	10,10,000			10,00,000	50,000	10,10,000

Working Notes:

- (i) Cost of 12% debentures purchased on 1.12.2019 ₹
- | | | |
|--|---|-----------------|
| Cost Value (10,000 × ₹101) | = | 10,10,000 |
| Less: Interest (10,000 × 100 × 12% × 2/12) | = | (20,000) |
| Total | = | <u>9,90,000</u> |
- (ii) Sale proceeds of 12% debentures sold on 1st March, 2020 ₹
- | | | |
|--|---|------------------|
| Sales Price (10,000 × ₹106) | = | 10,60,000 |
| Less: Interest (10,000 × 100 × 12% × 5/12) | = | (50,000) |
| Total | = | <u>10,10,000</u> |

- (b) As per AS 13, where the investments are acquired on cum-right basis and the market value of investments immediately after their becoming ex-right is lower than the cost for which they were acquired, it may be appropriate to apply the sale proceeds of rights to reduce the carrying amount of such investments to the market value. In this case, the amount of the ex-right market value of 200 shares bought by X immediately after the declaration of rights falls to ₹50,000. In this case, out of sale proceeds of ₹15,000, ₹10,000 may be applied to reduce the carrying amount to bring it to the market value ₹50,000 and ₹5,000 would be credited to the profit and loss account.

14. **Memorandum Trading Account for the period 1st April, 2020 to 29th August 2020**

		₹		₹
To Opening Stock		3,95,050	By Sales	22,68,000
To Purchases	16,55,350		By Closing stock (Bal. fig.)	4,41,300
Less: Advertisement	(20,500)			

Drawings	(1,000)	16,33,850	
To Gross Profit [30% of Sales] [W N]		<u>6,80,400</u>	
		<u>27,09,300</u>	<u>27,09,300</u>

Statement of Insurance Claim

	₹
Value of stock on date of fire	4,41,300
Less: Salvaged Stock	<u>(54,000)</u>
stock destroyed	<u>3,87,300</u>

Application of Average Clause

Amount of Insurance claim = ₹ 3,87,300 / 4,41,300 × 2,50,000 = ₹ 2,19,409 (rounded off)

Working Note:**Trading Account for the year ended 31st March, 2020**

	₹		₹
To Opening Stock	3,55,250	By Sales	40,00,000
To Purchases	28,39,800	By Closing stock	3,95,050
To Gross Profit	<u>12,00,000</u>		
	<u>43,95,050</u>		<u>43,95,050</u>

Rate of Gross Profit in 2019-2020

$$\frac{\text{Gross Profit}}{\text{Sales}} \times 100 = 12,00,000 / 40,00,000 \times 100 = 30\%$$

15. (i)

Profit and Loss Adjustment Account

	₹		₹
To Expenses not provided for (years 2016-2019)	1,10,000	By Income not considered (for years 2016-2019)	66,000
		By Partners' capital accounts (loss)	
		Laurel	22,000
		Hardy	<u>22,000</u>
	<u>1,10,000</u>		<u>1,10,000</u>

(ii)

Partners' Capital Accounts

	<i>Laurel</i> ₹	<i>Hardy</i> ₹	<i>Chaplin</i> ₹		<i>Laurel</i> ₹	<i>Hardy</i> ₹	<i>Chaplin</i> ₹
To P & L Adjustment A/c	22,000	22,000	-	By Balance b/d	2,11,500	1,51,500	-
To Hardy	60,000			By Laurel	-	60,000	-
To Balance c/d	<u>1,29,500</u>	<u>1,89,500</u>	<u>63,800</u>	By Cash	-	-	63,800
	<u>2,11,500</u>	<u>2,11,500</u>	<u>63,800</u>		<u>2,11,500</u>	<u>2,11,500</u>	<u>63,800</u>
				By Balance b/d	1,29,500	1,89,500	63,800

(iii)

Balance Sheet of LH & Co.**as on 1.4.2019****(After admission of Chaplin)**

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital accounts:		Plant and machinery	60,000
Laurel	1,29,500	Trade receivables	2,05,000
Hardy	1,89,500	Stock in trade	3,10,000
Chaplin	63,800	Accrued income	66,000
Trade payables	2,27,000	Cash on hand (10,000 + 63,800)	73,800
Outstanding expenses	<u>1,10,000</u>	Cash at bank	<u>5,000</u>
	<u>7,19,800</u>		<u>7,19,800</u>

Working Notes:**1. Computation of Profit and Loss distributed among partners**

	₹
Profit for the year ended 31.3.2016	1,40,000
31.3.2017	2,60,000
31.3.2018	3,20,000
31.3.2019	<u>3,60,000</u>
Total Profit	<u>10,80,000</u>

	<i>Laurel</i>	<i>Hardy</i>	<i>Total</i>
	₹	₹	₹
Profit shared in old ratio i.e 5:4	6,00,000	4,80,000	10,80,000
Profit to be shared as per new ratio i.e. 1:1	<u>5,40,000</u>	<u>5,40,000</u>	<u>10,80,000</u>
Excess share	<u>60,000</u>		
Deficit share		<u>(60,000)</u>	

Laurel to be debited by ₹ 60,000 and Hardy to be credited by ₹ 60,000.

2. Capital brought in by Chaplin

	₹
Capital to be brought in by Chaplin must be equal to 20% of the combined capital of Laurel and Hardy	
Capital of Laurel (2,11,500 – 22,000 – 60,000)	1,29,500
Capital of Hardy (1,51,500 – 22,000 + 60,000)	<u>1,89,500</u>
Combined Capital	<u>3,19,000</u>
20% of the combined capital brought in by Chaplin (20% of ₹ 3,19,000)	<u>63,800</u>

16. The proposals will be evaluated and vendor will be selected considering the following criteria:
1. Quantum of services provided and whether the same matches with the requirements of the hospital.
 2. Reputation and background of the vendor.
 3. Comparative costs of the various propositions.
 4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
 5. Assurance of quality, confidentiality and secrecy.
 6. Data storage and processing facilities.
17. (a) Accounting Standard (AS) 1 recognizes three fundamental accounting assumptions. These are as follows:
- (i) Going Concern: The financial statements are normally prepared on the assumption that an enterprise will continue its operations in the foreseeable future and neither there is intention, nor there is need to materially curtail the scale of operations.
 - (ii) Consistency: The principle of consistency refers to the practice of using same accounting policies for similar transactions in all accounting periods unless the

change is required (i) by a statute, (ii) by an accounting standard or (iii) for more appropriate presentation of financial statements.

- (iii) Accrual basis of accounting: Under this basis of accounting, transactions are recognised as soon as they occur, whether or not cash or cash equivalent is actually received or paid.
- (b) Net Realizable Value of the Chemical Y (Finished Goods) is ₹ 600 per unit which is less than its cost ₹ 656 per unit. Hence, Raw Material is to be valued at replacement cost and Finished Goods are to be valued at NRV since NRV is less than the cost.

Value of Closing Stock:

	Qty.	Rate (₹)	Amount (₹)
Raw Material X	1,000	320	3,20,000
Finished Goods Y	2,400	600	<u>14,40,000</u>
Total Value of Closing Stock			<u>17,60,000</u>

Working Note:

Statement showing cost calculation of Raw material X and Chemical Y

Raw Material X	₹
Cost Price	400
Add: Freight Inward	<u>40</u>
Cost	<u>440</u>
Chemical Y	₹
Materials consumed	440
Direct Labour	120
Variable overheads	80
Fixed overheads (₹4,00,000/25,000 units)	<u>16</u>
Cost	<u>656</u>

18. (a) (i) **Investment made in subsidiary company and dividend received**
Investing Cash flow
- (ii) **Dividend paid for the year**
Financing Cash Outflow
- (iii) **TDS on interest income earned on investments made**
Investing Cash Outflow

- (b) The entity should begin charging depreciation from the date the machine is ready for use – that is, 1st November 2019. The fact that the machine was not used for a period after it was ready to be used is not relevant in considering when to begin charging depreciation. Thus the company is not correct.

19. (a) **Calculation of foreseeable loss for the year ended 31st March, 2019**

(as per AS 7 “Construction Contracts”)

(₹ in lakhs)	
Cost incurred till 31 st March, 2019	83.99
Prudent estimate of additional cost for completion	<u>36.01</u>
Total cost of construction	120.00
Less: Contract price	<u>(108.00)</u>
Foreseeable loss	<u>12.00</u>

According to para 35 of AS 7 (Revised 2002) “Construction Contracts”, when it is probable that total contract costs will exceed total contract revenue; the expected loss should be recognized as an expense immediately. Therefore, amount of ₹12 lakhs is required to be provided for in the books of Sampath Construction Company for the year ended 31st March, 2019.

- (b) As per AS 9 “Revenue Recognition”, in a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions are fulfilled:
- the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership; and
 - no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

In the given case, transfer of property in goods results in or coincides with the transfer of significant risks and rewards of ownership to the buyer. Also, the sale price has been recovered by the seller. Hence, the sale is complete but delivery has been postponed at buyer's request. Raj Ltd. should recognize the entire sale of ₹ 30,00,000 (₹ 5,00,000 x 6) and no part of the same is to be treated as Advance Received against Sales.

20. (a) **Calculation of Cost of Machinery**

Particulars		₹
Purchase Price	Given	1,58,00,000

Add: Site Preparation Cost	Given	1,40,000
Technician's Salary	Specific/Attributable overheads for 3 months (45,000 x3)	1,35,000
Initial Delivery Cost	Transportation	50,000
Professional Fees for Installation	Architect's Fees	30,000
Total Cost of Asset		1,61,55,000

- (b) A limited invested ₹ 600 lakhs in the equity shares of B Ltd. Out of the same, the company intends to hold 50% shares for long term period i.e. ₹ 300 lakhs and remaining as temporary (current) investment i.e. ₹ 300 lakhs. Irrespective of the fact that investment has been held by A Limited only for 3 months (from 1.1.2020 to 31.3.2020), AS 13 lays emphasis on intention of the investor to classify the investment as current or long term even though the long-term investment may be readily marketable.

In the given situation, the realizable value of all such investments on 31.3.2020 became ₹ 200 lakhs i.e. ₹ 100 lakhs in respect of current investment and ₹ 100 lakhs in respect of long-term investment.

As per AS 13, 'Accounting for Investment', the carrying amount for current investments is the lower of cost and fair value. In respect of current investments for which an active market exists, market value generally provides the best evidence of fair value.

Accordingly, the carrying value of investment held as temporary investment should be shown at realizable value i.e. at ₹ 100 lakhs. The reduction of ₹ 200 lakhs in the carrying value of current investment will be charged in the profit and loss account.

Standard further states that long-term investments are usually carried at cost. However, when there is a decline, other than temporary, in the value of long-term investment, the carrying amount is reduced to recognize the decline.

Here, B Limited has lost a case of copyright which drastically reduced the realizable value of its shares to one third which is quite a substantial figure. Losing the case of copyright may affect the business and the performance of the company in long run. Accordingly, it will be appropriate to reduce the carrying amount of long-term investment by ₹ 200 lakhs and show the investments at ₹ 100 lakhs as the downfall in the value of shares is not temporary. The reduction of ₹ 200 lakhs in the carrying value of long-term investment will be charged to the profit and loss account.

PAPER – 2: BUSINESS LAW, ETHICS & COMMUNICATION

PART – I: ANNOUNCEMENTS STATING APPLICABILITY FOR NOVEMBER, 2020 EXAMINATIONS

Applicability for November, 2020 examinations

The Study Material (July 2015 edition), along with the “Supplementary Study Paper for May 2019 examination and onwards” is relevant for November 2020 examinations.

Supplementary Study Paper contains the relevant amendments in the subject pertaining to business law for the period 1st May 2015 to 30th April, 2018. Further, Chapter 6 – The Companies Act, 2013, has been fully revised as per amendments upto 30th April, 2018. Hence, the students are advised that Module-2 (which is comprised of Chapter 6) of this paper is now to be read from this supplementary study paper.

Further, all relevant amendments/ circulars/ notifications etc. in the Business Law and Company law part for the period 1st May 2018 to 30th April, 2020 are mentioned below:

Relevant Legislative amendments from 1 st May 2018 to 30 th April, 2020		
The Companies Act, 2013		
Sl. No.	Relevant Amendments	Page no. #
I.	<u>Amendments related to- Companies (Amendment) Act, 2017</u> Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Act, 2017 via Notifications: S.O. 1833 (E) dated 7 th May, 2018; S.O. 2422(E) dated 13 th June, 2018; SO. 3299(E) dated 5 th July, 2018; S.O. 3300(E) dated 5 th July, 2018; S.O. 3684(E) dated 27 th July, 2018; S.O. 3838(E) dated 31 st July, 2018; S.O. 3921(E) dated 7 th August, 2018 and S.O. 4907(E) dated 19 th September, 2018.	
	1. In section 2 of the Companies Act, 2013 (hereinafter referred to as the principal Act)-	
	(i) in clause (6) , for the Explanation, the following Explanation shall be substituted, namely:— 'Explanation.—For the purpose of this clause,— (a) the expression "significant influence" means control of at least twenty per cent. of total voting power, or control of or participation in business decisions under an agreement; (b) the expression "joint venture" means a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement;' Enforcement Date: 7th May, 2018	12

	(ii) in clause (87) , in sub-clause (ii), for the words "total share capital", the words "total voting power" shall be substituted; Enforcement Date: 7th May, 2018	28
	2. In section 7 of the principal Act, in sub-section (1), in item (c), for the words "an affidavit", the words "a declaration" shall be substituted. Enforcement Date: 27th July, 2018	61
	3. In section 12 of the principal Act,— (i) in sub-section (1), for the words "on and from the fifteenth day of its incorporation", the words "within thirty days of its incorporation" shall be substituted; (ii) in sub-section (4), for the words "within fifteen days", the words "within thirty days" shall be substituted. Enforcement Date: 27th July, 2018	65
	4. In section 26 of the principal Act, in sub-section (1),— (i) after the words "signed and shall", the following shall be inserted, namely:— "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."; Enforcement Date: 7th May, 2018	84
	5. In section 26 , in sub-section (1),— (ii) clauses (a), (b) and (d) shall be omitted. Enforcement Date: 7th May, 2018	84, 85 & 86
	6. For section 42¹ of the principal Act, the following section shall be substituted, namely:— '42. (1) A company may, subject to the provisions of this section, make a private placement of securities. (2) A private placement shall be made only to a select group of persons who have been identified by the Board (herein referred to as "identified persons"), whose number shall not exceed fifty or such higher number as	107, 108, 109, 110 & 111

¹ Read section 42 of the Companies Act, 2013 along with Rule 14 (Private Placement) of the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2018 dated 7th August, 2018.

<p>may be prescribed [excluding the qualified institutional buyers and employees of the company being offered securities under a scheme of employees stock option in terms of provisions of clause (b) of sub-section (1) of section 62], in a financial year subject to such conditions as may be prescribed.</p> <p>(3) A company making private placement shall issue private placement offer and application in such form and manner as may be prescribed to identified persons, whose names and addresses are recorded by the company in such manner as may be prescribed:</p> <p>Provided that the private placement offer and application shall not carry any right of renunciation.</p> <p><i>Explanation I.</i>—"private placement" means any offer or invitation to subscribe or issue of securities to a select group of persons by a company (other than by way of public offer) through private placement offer-cum-application, which satisfies the conditions specified in this section.</p> <p><i>Explanation II.</i>—"qualified institutional buyer" means the qualified institutional buyer as defined in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended from time to time, made under the Securities and Exchange Board of India Act, 1992.</p> <p><i>Explanation III.</i>—If a company, listed or unlisted, makes an offer to allot or invites subscription, or allots, or enters into an agreement to allot, securities to more than the prescribed number of persons, whether the payment for the securities has been received or not or whether the company intends to list its securities or not on any recognised stock exchange in or outside India, the same shall be deemed to be an offer to the public and shall accordingly be governed by the provisions of Part I of this Chapter.</p> <p>(4) Every identified person willing to subscribe to the private placement issue shall apply in the private placement and application issued to such person alongwith subscription money paid either by cheque or demand draft or other banking channel and not by cash:</p> <p>Provided that a company shall not utilise monies raised through private placement unless allotment is made and the return of allotment is filed with the Registrar in accordance with sub-section (8).</p> <p>(5) No fresh offer or invitation under this section shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company:</p> <p>Provided that, subject to the maximum number of identified persons under sub-section (2), a company may, at any time, make more than one issue of securities to such class of identified persons as may be prescribed.</p>	
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	<p>(6) A company making an offer or invitation under this section shall allot its securities within sixty days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within fifteen days from the expiry of sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent. per annum from the expiry of the sixtieth day:</p> <p>Provided that monies received on application under this section shall be kept in a separate bank account in a scheduled bank and shall not be utilised for any purpose other than—</p> <p>(a) for adjustment against allotment of securities; or</p> <p>(b) for the repayment of monies where the company is unable to allot securities.</p> <p>(7) No company issuing securities under this section shall release any public advertisements or utilise any media, marketing or distribution channels or agents to inform the public at large about such an issue.</p> <p>(8) A company making any allotment of securities under this section, shall file with the Registrar a return of allotment within fifteen days from the date of the allotment in such manner as may be prescribed, including a complete list of all allottees, with their full names, addresses, number of securities allotted and such other relevant information as may be prescribed.</p> <p>(9) If a company defaults in filing the return of allotment within the period prescribed under sub-section (8), the company, its promoters and directors shall be liable to a penalty for each default of one thousand rupees for each day during which such default continues but not exceeding twenty-five lakh rupees.</p> <p>(10) Subject to sub-section (11), if a company makes an offer or accepts monies in contravention of this section, the company, its promoters and directors shall be liable for a penalty which may extend to the amount raised through the private placement or two crore rupees, whichever is lower, and the company shall also refund all monies with interest as specified in sub-section (6) to subscribers within a period of thirty days of the order imposing the penalty.</p> <p>(11) Notwithstanding anything contained in sub-section (9) and sub-section (10), any private placement issue not made in compliance of the provisions of sub-section (2) shall be deemed to be a public offer and all the provisions of this Act and the Securities Contracts (Regulation) Act, 1956 and the Securities and Exchange Board of India Act, 1992 shall be applicable.’.</p> <p>Enforcement Date: 7th August, 2018</p>	
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7. In section 54 , in sub-section (1), clause (c) shall be omitted. Enforcement Date: 7th May, 2018	123
8. In section 73 of the principal Act, in sub-section (2),— (i) for clause (c), the following clause shall be substituted, namely:— "(c) depositing, on or before the thirtieth day of April each year, such sum which shall not be less than twenty per cent. of the amount of its deposits maturing during the following financial year and kept in a scheduled bank in a separate bank account to be called deposit repayment reserve account;"; (ii) clause (d) shall be omitted; (iii) in clause (e), for the words "such deposits;", the following shall be substituted, namely:— "such deposits and where a default had occurred, the company made good the default and a period of five years had lapsed since the date of making good the default;". Enforcement Date: 15th August, 2018	153
9. In section 74 , in sub-section (1), for clause (b), the following clause shall be substituted, namely:— "(b) repay within three years from such commencement or on or before expiry of the period for which the deposits were accepted, whichever is earlier: Provided that renewal of any such deposits shall be done in accordance with the provisions of Chapter V and the rules made thereunder." Enforcement Date: 15th August, 2018	160
10. In section 77 of the principal Act, in sub-section (1), after the third proviso, the following proviso shall be inserted, namely:— "Provided also that this section shall not apply to such charges as may be prescribed in consultation with the Reserve Bank of India." Enforcement Date: 7th May, 2018	165
11. In section 78 of the principal Act, for the words and figures "register the charge within the period specified in section 77", the words, brackets and figures "register the charge within the period of thirty days referred to in sub-section (1) of section 77" shall be substituted. Enforcement Date: 7th May, 2018	166
12. In section 82 of the principal Act, in sub-section (1),— (i) the words, brackets and figures "and the provisions of sub-section (1) of section 77 shall, as far as may be, apply to an intimation given under this section" shall be omitted; Enforcement Date: 5th July, 2018	169

	<p>13. In section 82 of the principal Act, in sub-section (1),— (ii) the following proviso shall be inserted, namely:— "Provided that the Registrar may, on an application by the company or the charge holder, allow such intimation of payment or satisfaction to be made within a period of three hundred days of such payment or satisfaction on payment of such additional fees as may be prescribed." Enforcement Date: 5th July, 2018</p>	169
	<p>14. In section 89 of the principal Act,— (i) in sub-section (6), the words and figures, "within the time specified under section 403" shall be omitted; (ii) in sub-section (7), for the words and figures, "under the first proviso to sub-section (1) of section 403", the word "therein", shall be substituted; (iii) after sub-section (9), the following sub-section shall be inserted, namely:— "(10) For the purposes of this section and section 90, beneficial interest in a share includes, directly or indirectly, through any contract, arrangement or otherwise, the right or entitlement of a person alone or together with any other person to— (i) exercise or cause to be exercised any or all of the rights attached to such share; or (ii) receive or participate in any dividend or other distribution in respect of such share." Enforcement Date: 7th May, 2018 [for (i) and (ii)] 13th June, 2018 [for (iii)]</p>	182
	<p>14. For section 90 of the principal Act, the following section shall be substituted, namely:— '(1) Every individual, who acting alone or together, or through one or more persons or trust, including a trust and persons resident outside India, holds beneficial interests, of not less than twenty-five per cent. or such other percentage as may be prescribed, in shares of a company or the right to exercise, or the actual exercising of significant influence or control as defined in clause (27) of section 2, over the company (herein referred to as "significant beneficial owner"), shall make a declaration to the company, specifying the nature of his interest and other particulars, in such manner and within such period of acquisition of the beneficial interest or rights and any change thereof, as may be prescribed:</p>	183

<p>Provided that the Central Government may prescribe a class or classes of persons who shall not be required to make declaration under this sub-section.</p> <p>(2) Every company shall maintain a register of the interest declared by individuals under sub-section (1) and changes therein which shall include the name of individual, his date of birth, address, details of ownership in the company and such other details as may be prescribed.</p> <p>(3) The register maintained under sub-section (2) shall be open to inspection by any member of the company on payment of such fees as may be prescribed.</p> <p>(4) Every company shall file a return of significant beneficial owners of the company and changes therein with the Registrar containing names, addresses and other details as may be prescribed within such time, in such form and manner as may be prescribed.</p> <p>(5) A company shall give notice, in the prescribed manner, to any person (whether or not a member of the company) whom the company knows or has reasonable cause to believe—</p> <p>(a) to be a significant beneficial owner of the company;</p> <p>(b) to be having knowledge of the identity of a significant beneficial owner or another person likely to have such knowledge; or</p> <p>(c) to have been a significant beneficial owner of the company at any time during the three years immediately preceding the date on which the notice is issued,</p> <p>and who is not registered as a significant beneficial owner with the company as required under this section.</p> <p>(6) The information required by the notice under sub-section (5) shall be given by the concerned person within a period not exceeding thirty days of the date of the notice.</p> <p>(7) The company shall,—</p> <p>(a) where that person fails to give the company the information required by the notice within the time specified therein; or</p> <p>(b) where the information given is not satisfactory,</p> <p>apply to the Tribunal within a period of fifteen days of the expiry of the period specified in the notice, for an order directing that the shares in question be subject to restrictions with regard to transfer of interest, suspension of all rights attached to the shares and such other matters as may be prescribed.</p> <p>(8) On any application made under sub-section (7), the Tribunal may, after giving an opportunity of being heard to the parties concerned, make such order restricting the rights attached with the shares within a period of sixty days of receipt of application or such other period as may be prescribed.</p>	
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	<p>(9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8).</p> <p>(10) If any person fails to make a declaration as required under sub-section (1), he shall be punishable with fine which shall not be less than one lakh rupees but which may extend to ten lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues.</p> <p>(11) If a company, required to maintain register under sub-section (2) and file the information under sub-section (4), fails to do so or denies inspection as provided therein, the company and every officer of the company who is in default shall be punishable with fine which shall not be less than ten lakh rupees but which may extend to fifty lakh rupees and where the failure is a continuing one, with a further fine which may extend to one thousand rupees for every day after the first during which the failure continues.</p> <p>(12) If any person wilfully furnishes any false or incorrect information or suppresses any material information of which he is aware in the declaration made under this section, he shall be liable to action under section 447.'</p> <p>Enforcement Date: 13th June, 2018</p>	
	<p>15. In section 92 of the principal Act,—</p> <p>(i) in sub-section (4), the words and figures, "within the time as specified, under section 403" shall be omitted;</p> <p>²(ii) in sub-section (5), for the words and figures, "under section 403 with additional fees" the word "therein" shall be substituted.</p> <p>Enforcement Date: 7th May, 2018</p>	186
	<p>16. Section 93 of the principal Act shall be omitted.</p> <p>Enforcement Date: 13th June, 2018</p>	187
	<p>17. In section 94 of the principal Act,—</p> <p>(i) in sub-section (1), in the first proviso, the words "and the Registrar has been given a copy of the proposed special resolution in advance" shall be omitted;</p> <p>(ii) in sub-section (3), the following proviso shall be inserted, namely:— "Provided that such particulars of the register or index or return as may be prescribed shall not be available for inspection under sub-section (2) or for taking extracts or copies under this sub-section."</p> <p>Enforcement Date: 13th June, 2018</p>	188

² Sub-section 5 of section 92, has been fully substituted by the Companies (Amendment) Second Ordinance, 2019, with retrospective effect from 2.11.2018.

	<p>18. In section 96 of the principal Act, in sub-section (2), in the proviso, for the words "Provided that", the following shall be substituted, namely:— "Provided that annual general meeting of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance: Provided further that". Enforcement Date: 13th June, 2018</p>	227
	<p>19. In section 117 of the principal Act,— (i) in sub-section (1), the words and figures "within the time specified under section 403" shall be omitted; (ii) in sub-section (2),— (a) for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted; (b) for the words "not be less than five lakh rupees", the words "not be less than one lakh rupees" shall be substituted; (c) for the words "one lakh rupees", the words "fifty thousand rupees" shall be substituted; (iii) in sub-section (3),— (a) clause (e) shall be omitted; (b) in clause (g), in the proviso, the word "and" shall be omitted and the following proviso shall be inserted, namely:— "Provided further that nothing contained in this clause shall apply to a banking company in respect of a resolution passed to grant loans, or give guarantee or provide security in respect of loans under clause (f) of sub-section (3) of section 179 in the ordinary course of its business; and." Enforcement Date: 7th May, 2018</p>	220/ 221
	<p>20. In section 121 of the principal Act,— (i) in sub-section (2), the words and figures "within the time as specified, under section 403" shall be omitted; ³(ii) in sub-section (3), for the words and figures "under section 403 with additional fees", the word "therein" shall be substituted. Enforcement Date: 7th May, 2018</p>	229
	<p>21. In section 447 of the principal Act,-</p>	

³ Sub-section 3 of section 121, has been fully substituted by the Companies (Amendment) Second Ordinance, 2019, with retrospective effect from 2.11.2018.

	(a) after the words "guilty of fraud", the words "involving an amount of at least ten lakh rupees or one per cent. of the turnover of the company, whichever is lower" shall be inserted. Enforcement Date: 9th February, 2018	
	22. In section 447 of the principal Act,- (b) after the proviso, the following proviso shall be inserted, namely:— "Provided further that where the fraud involves an amount less than ten lakh rupees or one per cent. of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to ⁴ twenty lakh rupees or with both." Enforcement Date: 9th February, 2018	104
II.	<u>Amendments related to</u> - Notification G.S.R. 433(E) dated 7 th May, 2018 The Central Government has amended the Companies (Specification of Definitions Details) Rules, 2014, by the Companies (Specification of Definitions Details) Amendment Rules, 2018. It shall come into force on 7 th May, 2018. In the Companies (Specification of Definitions Details) Rules, 2014, in rule 2, in sub-rule (1), clause (r) shall be omitted. Please note: The said clause (r) deals with 'Total Share Capital'	12 & 28
III.	<u>Amendments related to</u> - Notification G.S.R. 434(E) dated 7 th May, 2018 The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Second Amendment Rules, 2018. It shall come into force on 7 th May, 2018. In the Companies (Share Capital and Debentures) Rules, 2014, in the principal rules, in rule 8, in sub-rule (1), in the Explanation, in clause (i) in sub-clause (a), the words "for at least last one year" shall be omitted.	124
IV.	<u>Amendments related to</u> - Notification G.S.R. 560(E) dated 13 th June, 2018 The Ministry of Corporate Affairs vide G.S.R. 560 (E) dated 13 th June, 2018, has amended the Companies (Management and Administration) Rules, 2014 through the Companies (Management and Administration) Second Amendment Rules, 2018. Accordingly, in the Companies (Management and Administration) Rules, 2014, 1. rule 13 shall be omitted	1. 188 2. 188 3. 189 4. 226 5. 213

⁴ The amount of "twenty lakh rupees" has been replaced with "fifty lakh rupees" as per the Companies (Amendment) Second Ordinance, 2019.

	<p>2. the "Form No.MGT-10" shall be omitted.</p> <p>3. in rule 15, the sub-rule (6), shall be omitted</p> <p>4. in rule 18, in sub-rule (3), Explanation after clause (ix), shall be omitted</p> <p>5. in rule 22, in sub-rule (16) for the proviso, the following shall be substituted, namely:-</p> <p>"Provided that any aforesaid items of business under this sub-rule, required to be transacted by means of postal ballot, may be transacted at a general meeting by a company which is required to provide the facility to members to vote by electronic means under section 108, in the manner provided in that section:</p> <p>Provided further that One Person Companies and other companies having members upto two hundred are not required to transact any business through postal ballot"</p>	
V.	<p>Amendments related to - Notification G.S.R. 612 (E) dated 5th July, 2018</p> <p>The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Amendment Rules, 2018. It shall come into force on 15th August, 2018.</p> <p>In the Companies (Acceptance of Deposits) Rules, 2014 in rule 14, in sub-rule (1), clause (k) shall be omitted;</p>	158
VI.	<p>Amendments related to - Notification G.S.R. 708(E) dated 27th July, 2018</p> <p>The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Third Amendment Rules, 2018. It shall come into force on 27th July, 2018.</p> <p>In the Companies (Incorporation) Rules, 2014:</p> <p>In rule 3, for Explanation to sub-rule (1), the following shall be substituted, namely:-</p> <p>"Explanation I. - For the purposes of this rule, the term "resident in India" means a person who has stayed in India for a period of not less than one hundred and eighty two days during the immediately preceding financial year.</p> <p>Explanation II.- For the purposes of this rule, while counting the number of days of stay of a director in India for the financial year 2018-2019, any period of stay between 01.01.2018 till the date of notification of this rule shall also be counted"</p>	47
VII.	<p>Amendments related to - Companies (Amendment) Act, 2019</p> <p>Following sections of the Companies Act, 2013 (hereinafter referred to as the principal Act) have been amended by the Companies (Amendment) Second Ordinance, 2019 dated 21st February, 2019. [Deemed to have come into force on 2nd November, 2018.] and by the S.O. 2947(E) dated</p>	18

	<p>14th August, 2019 [the sections contained therein shall deemed to have come into force on 15th August, 2019]</p> <p>1. In clause (41) of section 2,</p> <p>(a) for the first proviso, the following provisos shall be substituted namely: “Provided that where a company or body corporate, which is a holding company or a subsidiary or associate company of a company incorporated outside India and is required to follow a different financial year for consolidation of its accounts outside India, the Central Government may, on an application made by that company or body corporate in such form and manner as may be prescribed, allow any period as its financial year, whether or not that period is a year: Provided further that any application pending before the Tribunal as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement.”</p> <p>[Enforcement Date: 2nd November, 2018]</p>	
	<p>1. In clause (41) of section 2,</p> <p>(b) for the second proviso, the for the words “Provided further that”, the words “Provided also that” shall be substituted.</p> <p>[Enforcement Date: 2nd November, 2018]</p>	18
	<p>2. After section 10, the following section shall be inserted, namely: “10A. Commencement of business etc.</p> <p>(1) A company incorporated after the commencement of the Companies (Amendment) Ordinance, 2019 and having a share capital shall not commence any business or exercise any borrowing powers unless—</p> <p>(a) a declaration is filed by a director within a period of one hundred and eighty days of the date of incorporation of the company in such form and verified in such manner as may be prescribed, with the Registrar that every subscriber to the memorandum has paid the value of the shares agreed to be taken by him on the date of making of such declaration; and</p> <p>(b) The company has filed with the Registrar a verification of its registered office as provided in sub-section (2) of section 12.</p> <p>(2) If any default is made in complying with the requirements of this section, the company shall be liable to a penalty of fifty thousand rupees and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues but not exceeding an amount of one lakh rupees.</p> <p>(3) Where no declaration has been filed with the Registrar under clause (a) of sub-section (1) within a period of one hundred and eighty days of the date of incorporation of the company and the Registrar has reasonable cause to believe that the company is not carrying on any business or</p>	64

	operations, he may, without prejudice to the provisions of sub-section (2), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII.” [Enforcement Date: 2nd November, 2018]	
	3. In section 12 , after sub- section (8), the following sub- section shall be inserted, namely: “(9) If the Registrar has reasonable cause to believe that the company is not carrying on any business or operations, he may cause a physical verification of the registered office of the company in such manner as may be prescribed and if any default is found to be made in complying with the requirements of sub-section (1), he may without prejudice to the provisions of sub-section (8), initiate action for the removal of the name of the company from the register of companies under Chapter XVIII.” [Enforcement Date: 2 nd November, 2018]	65
	4. In section 14 , (i) in Sub- section (1), for the second proviso, the following provisos shall be substituted namely: “Provided further that any alteration having the effect of conversion of a public company into a private company shall not be valid unless it is approved by an order of the Central Government on an application made in such form and manner as may be prescribed: Provided also that any application pending before the Tribunal, as on the date of commencement of the Companies (Amendment) Ordinance, 2019, shall be disposed of by the Tribunal in accordance with the provisions applicable to it before such commencement.” (ii) in sub- section (2), for the word “Tribunal”, the words “Central Government” shall be substituted. [Enforcement Date: 2 nd November, 2018]	72
	5. In section 26 - (i) in sub-sections (4), (5) and (6), for the word “registration”, the word “filing” shall be substituted; (ii) sub-section (7) shall be omitted [Enforcement Date: 15 th August, 2019]	87
	6. In section 29 - (i) in sub-section (1), in clause (b), the word “public” shall be omitted; (ii) after sub-section (1), the following sub-section shall be inserted, namely:- “(1A) In case of such class or classes of unlisted companies as may be prescribed, the securities shall be held or transferred only in dematerialised	89

	form in the manner laid down in the Depositories Act, 1996 and the regulations made thereunder.”. [Enforcement Date: 15th August, 2019]	
	7. In section 35 , in sub-section (2), in clause (c), for the words “delivery of a copy of the prospectus for registration”, the words “filing of a copy of the prospectus with the Registrar” shall be substituted. [Enforcement Date: 15th August, 2019]	101
	8. In section 53 , for sub – section (3), the following sub- section shall be substituted, namely: “(3) Where any company fails to comply with the provisions of this section, such company and every officer who is in default shall be liable to a penalty which may extend to an amount equal to the amount raised through the issue of shares at a discount or five lakh rupees, whichever is less, and the company shall also be liable to refund all monies received with interest at the rate of twelve per cent. per annum from the date of issue of such shares to the persons to whom such shares have been issued.” [Enforcement Date: 2nd November, 2018]	123
	9. In section 64 , for sub- section (2), the following sub- section shall be substituted, namely: “(2) Where any company fails to comply with the provisions of sub-section (1), such company and every officer who is in default shall be liable to a penalty of one thousand rupees for each day during which such default continues, or five lakh rupees whichever is less.” [Enforcement Date: 2nd November, 2018]	137
	10. In section 77 , in sub- section (1), for the first and second provisos, the following provisos shall be substituted, namely: “Provided that the Registrar may, on an application by the company, allow such registration to be made- (a) in case of charges created before the commencement of the Companies (Amendment) Ordinance, 2019, within a period of three hundred days of such creation; or (b) in case of charges created on or after the commencement of the Companies (Amendment) Ordinance, 2019, within a period of sixty days of such creation, on payment of such additional fees as may be prescribed: Provided further that if the registration is not made within the period specified- (a) in clause (a) to the first proviso, the registration of the charge shall be made within six months from the date of commencement of the Companies (Amendment) Ordinance, 2019, on payment of such additional fees as may	165

	<p>be prescribed and different fees may be prescribed for different classes of companies;</p> <p>(b) in clause (b) to the first proviso, the Registrar may, on an application, allow such registration to be made within a further period of sixty days after payment of such <i>advalorem</i> fees as may be prescribed.”</p> <p>[Enforcement Date: 2nd November, 2018]</p>	
	<p>11. Section 86 of the Companies Act, 2013, shall be numbered as sub-section (1) thereof and after sub-section (1) as so numbered, the following sub-section shall be inserted, namely:</p> <p>“(2) If any person wilfully furnishes any false or incorrect information or knowingly suppresses any material information, required to be registered in accordance with the provisions of section 77, he shall be liable for action under section 447.”</p> <p>[Enforcement Date: 2nd November, 2018]</p>	171
	<p>12. For section 87, the following sections shall be substituted, namely:</p> <p>“87. The Central Government on being satisfied that —</p> <p>(a) the omission to give intimation to the Registrar of the payment or satisfaction of a charge, within the time required under this Chapter; or</p> <p>(b) the omission or misstatement of any particulars, in any filing previously made to the Registrar with respect to any such charge or modification thereof or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83,</p> <p>was accidental or due to inadvertence or some other sufficient cause or it is not of a nature to prejudice the position of creditors or shareholders of the company, it may, on the application of the company or any person interested and on such terms and conditions as it deems just and expedient, direct that the time for the giving of intimation of payment or satisfaction shall be extended or, as the case may require, that the omission or misstatement shall be rectified.”</p> <p>[Enforcement Date: 2nd November, 2018]</p>	171
	<p>13. In section 90,</p> <p>(i) after sub-section (4), the following sub-section shall be inserted, namely:-</p>	⁵ 183

⁵ Section 90 (Investigation of Beneficial Ownership of Shares in Certain cases) has been replaced with section 90 (Register of Significant Beneficial Owners in a Company) via Companies (Amendment) Act, 2017 [w.e.f. 13th June, 2018].

	<p>“(4A) Every company shall take necessary steps to identify an individual who is a significant beneficial owner in relation to the company and require him to comply with the provisions of this section.”;</p> <p>[Enforcement Date: 15th August, 2019]</p> <p>(ii) for sub- section (9), the following sub- section shall be substituted, namely:</p> <p>“(9) The company or the person aggrieved by the order of the Tribunal may make an application to the Tribunal for relaxation or lifting of the restrictions placed under sub-section (8), within a period of one year from the date of such order:</p> <p>Provided that if no such application has been filed within a period of one year from the date of the order under sub-section (8), such shares shall be transferred, without any restrictions, to the authority constituted under sub-section (5) of section 125, in such manner as may be prescribed.”</p> <p>[Enforcement Date: 2nd November, 2018]</p> <p>(iii) after sub-section (9), as so substituted, the following sub-section shall be inserted, namely:-</p> <p>“(9A) The Central Government may make rules for the purposes of this section.”;</p> <p>[Enforcement Date: 15th August, 2019]</p> <p>(iv) in sub- section (10),-</p> <p>(a) after the word “punishable”, the words “with imprisonment for a term which may extend to one year or” shall be inserted;</p> <p>(b) after the words “ten lakh rupees”, the words “or with both” shall be inserted.</p> <p>[Enforcement Date: 2nd November, 2018]</p> <p>(v) in sub-section (11), after the word, brackets and figure “sub-section (4)”, the words, brackets, figure and letter “or required to take necessary steps under sub-section (4A)” shall be inserted.</p> <p>[Enforcement Date: 15th August, 2019]</p>	
	<p>14. In section 92, for sub- section (5), the following sub- section shall be substituted, namely:</p> <p>“(5) If any company fails to file its annual return under sub-section (4), before the expiry of the period specified therein, such company and its every officer who is in default shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of one hundred rupees for each day during which such failure continues, subject to a maximum of five lakh rupees.”</p> <p>[Enforcement Date: 2nd November, 2018]</p>	187

15. In section 102 , for sub- section (5), the following sub- section shall be substituted, namely: “(5) Without prejudice to the provisions of sub-section (4), if any default is made in complying with the provisions of this section, every promoter, director, manager or other key managerial personnel of the company who is in default shall be liable to a penalty of fifty thousand rupees or five times the amount of benefit accruing to the promoter, director, manager or other key managerial personnel or any of his relatives, whichever is higher.” [Enforcement Date: 2nd November, 2018]	195
16. In section 105 , in sub- section (3), for the words “punishable with fine which may extend to five thousand rupees”, the words “liable to a penalty of five thousand rupees” shall be substituted. [Enforcement Date: 2nd November, 2018]	199
17. In section 117 , for sub- section (2), the following sub- section shall be substituted, namely: “(2) If any company fails to file the resolution or the agreement under sub-section (1) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of twenty-five lakh rupees and every officer of the company who is in default including liquidator of the company, if any, shall be liable to a penalty of fifty thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees.” [Enforcement Date: 2nd November, 2018]	221
18. In section 121 , for sub- section (3), the following sub- section shall be substituted, namely: “(3) If the company fails to file the report under sub-section (2) before the expiry of the period specified therein, such company shall be liable to a penalty of one lakh rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of five lakh rupees and every officer of the company who is in default shall be liable to a penalty which shall not be less than twenty-five thousand rupees and in case of continuing failure, with further penalty of five hundred rupees for each day after the first during which such failure continues, subject to a maximum of one lakh rupees.” [Enforcement Date: 2nd November, 2018]	229

	<p>19. In section 447, in the second proviso, for the words “twenty lakh rupees”, the words “fifty lakh rupees” shall be substituted.</p> <p>[Enforcement Date: 2nd November, 2018]</p>	104
VIII.	<p>Amendments related to - Notification dated 7th August, 2018</p> <p>The Central Government has amended the Companies (Prospectus and Allotment of Securities) Rules, 2014, by the Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2018. It shall come into force on 7th August, 2018.</p> <p>In the Companies (Prospectus and Allotment of Securities) Rules, 2014, for Rule 14, the following rule shall be substituted, namely:-</p> <p>(1) For the purposes of sub-section (2) and sub-section (3) of section 42, a company shall not make an offer or invitation. to subscribe to securities through private placement unless the proposal has been previously approved by the shareholders of the company, by a special resolution. for each of the offers or invitations:</p> <p>Provided that in the explanatory statement annexed to the notice for shareholders' approval, the following disclosure shall be made:-</p> <p>(a) particulars of the offer including date of passing of Board resolution;</p> <p>(b) kinds of securities offered and the price at which security is being offered;</p> <p>(c) basis or justification for the price (including premium, if any) at which the offer or invitation is being made;</p> <p>(d) name and address of valuer who performed valuation;</p> <p>(e) amount which the company intends to raise by way of such securities;</p> <p>(f) material terms of raising such securities, proposed time schedule, purposes or objects of offer, contribution being made by the promoters or directors either as part of the offer or separately in furtherance of objects; principle terms of assets charged as securities:</p> <p>Provided further that this sub-rule shall not apply in case of offer or invitation for. non-convertible debentures, where the proposed amount to be raised through such offer or invitation does not exceed the limit as specified in clause (c) of sub section (1) of section 180 and in such cases relevant Board resolution under clause (c) of subsection (3) of section 179 would be adequate:</p> <p>Provided also that in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation exceeds the limit as specified in clause (c) of sub-section (1) of section 180, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year.</p>	

<p>(2) For the purpose of sub-section (2) of section 42, an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred in the aggregate in a financial year: Provided that any offer or invitation made to qualified institutional buyers, or to employees of the company under a scheme of employees stock option as per provisions of clause (b) of sub-section (1) of section 62 shall not be considered while calculating the limit of two hundred persons. Explanation.- For the purposes of this sub-rule it is hereby clarified that the restrictions aforesaid would be reckoned individually for each kind of security that is equity share, preference share or debenture.</p> <p>(3) A private placement offer cum application letter shall be in the form of an application in Form PAS-4 serially numbered and addressed specifically to the person to whom the offer is made and shall be sent to him, either in writing or in electronic mode, within thirty days of recording the name of such person pursuant to sub-section (3) of section 42: Provided that no person other than the person so addressed i. the private placement offer cum application letter shall be allowed to apply through such application form and any application not conforming to this condition shall be treated as invalid</p> <p>(4) The company shall maintain a complete record of private placement offers in Form PAS-5.</p> <p>(5) The payment to be made for subscription to bank account of the person subscribing to such keep the record of the bank account from where been received: Provided that monies payable on subscription to securities to be held by joint holders shall be paid from the bank account of the person whose name appears first in the application: Provided further that the provisions of this sub-rule shall not apply in case of issue of shares for consideration other than cash.</p> <p>(6) A return of allotment of securities under section 42 shall be filed with the Registrar within fifteen days of allotment in Form PAS-3 and with the fee as provided in the Companies (Registration offices and Fees) Rules, 2014 along with a complete list of all the allottees containing-</p> <ul style="list-style-type: none"> (i) the full name, address, permanent Account Number and E-mail ID of such security holder; (ii) the class of security held; (iii) the date of allotment of security; (iv) the number of securities held, nominal value and amount paid on such securities; and particulars of consideration received if tire securities were issued for consideration other than cash. <p>(7) The provisions of sub-rule (2) shall not be applicable to -</p>	
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	<p>(a) non-banking financial companies which are registered with the Reserve Bank of India under the Reserve Bank of India Act, 1934 and</p> <p>(b) housing finance companies which are registered with the National Housing Bank under the National Housing Bank Act, 1987, if they are complying with regulations made by the Reserve Bank of India or the National Housing Bank in respect of offer or invitation to be issued on private placement basis:</p> <p>Provided that such companies shall comply with sub-rule (2) in case the Reserve Bank of India or the National Housing Bank have not specified similar regulations.</p> <p>(8) A company shall issue private placement offer cum application letter only after the relevant special resolution or Board resolution has been filed in the Registry:</p> <p>Provided that private companies shall file with the Registry copy of the Board resolution or special resolution with respect to approval under clause (c) of subsection (3) of section 179</p>	
IX.	<p>Amendments related to - Notification G.S.R. 1219(E) dated 18th December, 2018</p> <p>The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fourth Amendment Rules, 2018. It shall come into force on 18th December, 2018.</p> <p>In the Companies (Incorporation) Rules, 2014 (hereinafter referred to as the said rules), after rule 23, the following rule shall be inserted, namely:-</p> <p>“23A. Declaration at the time of commencement of business.- The declaration under section 10A by a director shall be in Form No.INC-20A and shall be filed as provided in the Companies (Registration Offices and Fees) Rules, 2014 and the contents of the said form shall be verified by a Company Secretary or a Chartered Accountant or a Cost Accountant, in practice:</p> <p>Provided that in the case of a company pursuing objects requiring registration or approval from any sectoral regulators such as the Reserve Bank of India, Securities and Exchange Board of India, etc., the registration or approval, as the case may be from such regulator shall also be obtained and attached with the declaration.”</p>	64
X.	<p>Amendments related to - Notification G.S.R. 42(E) dated 22nd January, 2019</p> <p>The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Amendment Rules, 2019. It shall come into force on 22nd January, 2019.</p> <p>In the Companies (Acceptance of Deposits) Rules, 2014 (hereinafter referred to as the said rules):</p>	<p>1. 151</p> <p>2. 158</p> <p>3. 158 / 159</p>

	<p>1. In rule 2, in sub-rule (1), in clause (c), in sub-clause (xviii), after the words "Infrastructure Investment Trusts," the words "Real Estate Investment Trusts" shall be inserted.</p> <p>2. In the said rules, in rule 16, the following Explanation shall be inserted, namely:- "Explanation.- It is hereby clarified that Form DPT-3 shall be used for filing return of deposit or particulars of transaction not considered as deposit or both by every company other than Government company."</p> <p>3. In rule 16(A), after sub-rule (2), the following sub-rule shall be inserted, namely:- "(3) Every company other than Government company shall file a onetime return of outstanding receipt of money or loan by a company but not considered as deposits, in terms of clause (c) of sub-rule 1 of rule 2 from the 01st April, 2014 to *[the date of publication of this notification in the Official Gazette], as specified in Form DPT-3 within **[ninety days from the date of said publication of this notification] along with fee as provided in the Companies (Registration Offices and Fees) Rules, 2014."</p>	
XI.	<p>Amendments related to - Notification G.S.R. 341(E) dated 30th April, 2019</p> <p>The Central Government has amended the Companies (Acceptance of Deposits) Rules, 2014, by the Companies (Acceptance of Deposits) Second Amendment Rules, 2019.</p> <p>In the Companies (Acceptance of Deposits) Rules, 2014, in rule 16A, in sub-rule (3), -</p> <p>*(a) for the words "the date of publication of this notification in the Official Gazette", the figures, letters and word "31st March, 2019" shall be substituted;</p> <p>** (b) for the words "ninety days from the date of said publication of this notification", the words, figures and letters "ninety days from 31st March, 2019" shall be substituted.</p>	159
XII.	<p>Amendments related to - Notification dated 30th April, 2019</p> <p>The Central Government has amended the Companies (Registration of Charges) Rules, 2014, by the Companies (Registration of Charges) Amendment Rules, 2019.</p> <p>In the Companies (Registration of Charges) Rules, 2014:</p> <p>1. In Rule 4, the following rules shall be substituted, namely:</p> <p>"4. Application to Registrar</p> <p>(1) For the purposes of the first proviso and clause (b) of the second proviso to sub-section (1) of section 77, the Registrar may, on being</p>	<p>1. 165</p> <p>2. 172</p>

	<p>satisfied that the company had sufficient cause for not filing the particulars and instrument of charge, if any, within a period of thirty days of the date of creation of the charge including modification thereto, allow the registration of the same after thirty days but within the period as specified in the said provisos, on payment of fee, additional fee or <i>advalorem</i> fee, as may be applicable, as prescribed in the Companies (Registration Offices and Fees) Rules, 2014.</p> <p>(2) The application under sub-rule (1) shall be made in Form No. CHG-I and Form No. CHG-9 supported by a declaration from the company signed by its company secretary or a director that such belated filing shall not adversely affect the rights of any other intervening creditors of the company."</p> <p>2. For Rule 12, the following rule shall be substituted, namely:</p> <p>"12. Rectification in register of charges on account of omission or misstatement of particulars in charge previously recorded and extension of time in filing of satisfaction of charge.-</p> <p>The Central Government may on an application filed in Form No. CHG-8 in accordance with section 87-</p> <p>(a) direct rectification of the omission or misstatement of any particulars, in any filing, previously recorded with the Registrar with respect to any charge or modification thereof, or with respect to any memorandum of satisfaction or other entry made in pursuance of section 82 or section 83,</p> <p>(b) direct extension of time for satisfaction of charge, if such filing is not made within a period of three hundred days from the date of such payment or satisfaction."</p>	
XIII.	<p>Amendments related to - Notification G.S.R. 357(E) dated 10th May, 2019</p> <p>The Central Government has amended the Companies (Incorporation) Rules, 2014, by the Companies (Incorporation) Fifth Amendment Rules, 2019.</p> <p>In the Companies (Incorporation) Rules, 2014, Rule 8 has been fully substituted by Rule 8, Rule 8A and Rule 8B.</p>	55
XIV.	<p>Amendments related to - Notification G.S.R. 574(E) dated 16th August, 2019</p> <p>The Central Government has amended the Companies (Share Capital and Debentures) Rules, 2014, by the Companies (Share Capital and Debentures) Amendment Rules, 2019.</p> <p>In the Companies (Share Capital and Debentures) Rules, 2014:</p> <p>1. In Rule 4, in sub-rule (1),</p> <p>(i) for clause (c), the following clause shall be substituted, namely:-</p>	<p>1. 115</p> <p>2. 144</p>

<p>“(c) the voting power in respect of shares with differential rights of the company shall not exceed seventy four per cent. of total voting power including voting power in respect of equity shares with differential rights issued at any point of time;”;</p> <p>(ii) clause (d) shall be omitted.</p> <p>2. In the principal rules, in rule 18, for sub-rule (7), the following sub-rule shall be substituted, namely:-</p> <p>“(7) The company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year, in accordance with the conditions given below:-</p> <p>(a) Debenture Redemption Reserve shall be created out of profits of the company available for payment of dividend;</p> <p>(b) the limits with respect to adequacy of Debenture Redemption Reserve and investment or deposits, as the case may be, shall be as under:-</p> <p>(i) Debenture Redemption Reserve is not required for debentures issued by All India Financial Institutions regulated by Reserve Bank of India and Banking Companies for both public as well as privately placed debentures;</p> <p>(ii) For other Financial Institutions within the meaning of clause (72) of section 2 of the Companies Act, 2013, Debenture Redemption Reserve shall be as applicable to Non –Banking Finance Companies registered with Reserve Bank of India.</p> <p>(iii) For listed companies (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)), Debenture Redemption Reserve is not required in the following cases-</p> <p>(A) in case of public issue of debentures –</p> <p>A. for NBFCs registered with Reserve Bank of India under section 45-IA of the RBI Act, 1934 and for Housing Finance Companies registered with National Housing Bank;</p> <p>B. for other listed companies;</p> <p>(B) in case of privately placed debentures, for companies specified in sub-items A and B.</p> <p>(iv) for unlisted companies, (other than All India Financial Institutions and Banking Companies as specified in sub-clause (i)) –</p> <p>(A) for NBFCs registered with RBI under section 45-IA of the Reserve Bank of India Act, 1934 and for Housing Finance Companies registered with National Housing Bank, Debenture Redemption Reserve is not required in case of privately placed debentures.</p> <p>(B) for other unlisted companies, the adequacy of Debenture Redemption Reserve shall be ten percent. of the value of the outstanding debentures;</p>	
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	<p>(v) In case a company is covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), it shall on or before the 30th day of April in each year, in respect of debentures issued by a company covered in item (A) or item (B) of sub-clause (iii) of clause (b) or item (B) of sub-clause (iv) of clause (b), invest or deposit, as the case may be, a sum which shall not be less than fifteen per cent., of the amount of its debentures maturing during the year, ending on the 31st day of March of the next year in any one or more methods of investments or deposits as provided in sub-clause (vi):</p> <p>Provided that the amount remaining invested or deposited, as the case may be, shall not at any time fall below fifteen percent. of the amount of the debentures maturing during the year ending on 31st day of March of that year.</p> <p>(vi) for the purpose of sub-clause (v), the methods of deposits or investments, as the case may be, are as follows:—</p> <p>(A) in deposits with any scheduled bank, free from any charge or lien;</p> <p>(B) in unencumbered securities of the Central Government or any State Government;</p> <p>(C) in unencumbered securities mentioned in sub-clause (a) to (d) and (ee) of section 20 of the Indian Trusts Act, 1882;</p> <p>(D) in unencumbered bonds issued by any other company which is notified under sub-clause (f) of section 20 of the Indian Trusts Act, 1882:</p> <p>Provided that the amount invested or deposited as above shall not be used for any purpose other than for redemption of debentures maturing during the year referred above.</p> <p>(c) in case of partly convertible debentures, Debenture Redemption Reserve shall be created in respect of non-convertible portion of debenture issue in accordance with this sub-rule.</p> <p>(d) the amount credited to Debenture Redemption Reserve shall not be utilized by the company except for the purpose of redemption of debentures.”</p>	
The Indian Contract Act, 1872		
	<p>Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.</p> <p>As per the Jammu and Kashmir Reorganisation Act, 2019, in the Indian Contract Act, 1872, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted.</p> <p>Now, Section 1 will be read as under,</p>	-

	<p>‘Short title- This Act may be called the Indian Contract Act, 1872. Extent, Commencement- It extends to the whole of India and it shall come into force on the first day of September, 1872.</p> <p>Saving- Nothing herein contained shall affect the provisions of any Statute, Act or Regulation not hereby expressly repealed, nor any usage or custom of trade, nor any incident of any contract, not inconsistent with the provisions of this Act.’</p>	
The Negotiable Instruments Act, 1881		
	<p><u>Amendments related to - The Negotiable Instruments (Amendment) Act, 2018</u></p> <p>The Ministry of Law and Justice has made amendments to the Negotiable Instruments Act, 1881 through the Negotiable Instruments (Amendment) Act, 2018. This Amendment Act received the assent of the President and published in the Official Gazette on 2nd August, 2018.</p>	
	<p>In the Negotiable Instruments Act, 1881 (hereinafter referred to as the principal Act), after section 143, the following section shall be inserted, namely:—</p> <p>“143A. Power to direct interim compensation.</p> <p>(1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, the Court trying an offence under section 138 may order the drawer of the cheque to pay interim compensation to the complainant—</p> <p>(a) in a summary trial or a summons case, where he pleads not guilty to the accusation made in the complaint; and</p> <p>(b) in any other case, upon framing of charge.</p> <p>(2) The interim compensation under sub-section (1) shall not exceed twenty per cent. of the amount of the cheque.</p> <p>(3) The interim compensation shall be paid within sixty days from the date of the order under sub-section (1), or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the drawer of the cheque.</p> <p>(4) If the drawer of the cheque is acquitted, the Court shall direct the complainant to repay to the drawer the amount of interim compensation, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant.</p> <p>(5) The interim compensation payable under this section may be recovered as if it were a fine under section 421 of the Code of Criminal Procedure, 1973.</p>	- The section is newly inserted

	(6) The amount of fine imposed under section 138 or the amount of compensation awarded under section 357 of the Code of Criminal Procedure, 1973, shall be reduced by the amount paid or recovered as interim compensation under this section.”.	
	<p>(2) In the principal Act, after section 147, the following section shall be inserted, namely:—</p> <p>“148. Power of Appellate Court to order payment pending appeal against conviction.</p> <p>(1) Notwithstanding anything contained in the Code of Criminal Procedure, 1973, in an appeal by the drawer against conviction under section 138, the Appellate Court may order the appellant to deposit such sum which shall be a minimum of twenty per cent. of the fine or compensation awarded by the trial Court:</p> <p>Provided that the amount payable under this sub-section shall be in addition to any interim compensation paid by the appellant under section 143A.</p> <p>(2) The amount referred to in sub-section (1) shall be deposited within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the appellant.</p> <p>(3) The Appellate Court may direct the release of the amount deposited by the appellant to the complainant at any time during the pendency of the appeal: Provided that if the appellant is acquitted, the Court shall direct the complainant to repay to the appellant the amount so released, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court on sufficient cause being shown by the complainant.”</p>	- The section is newly inserted
The Employees' Provident Funds and Miscellaneous Provisions Act, 1952		
	<p>Amendment via the Jammu and Kashmir Reorganisation Act, 2019, dated 9th August, 2019. The amendment is effective with effect from 31st October, 2019.</p> <p>As per the Jammu and Kashmir Reorganisation Act, 2019, in the Employees Provident Funds and Miscellaneous Provisions Act, 1952, in sub-section (2) of section 1, words, "except the State of Jammu and Kashmir" shall be omitted.</p> <p>Now, Section 1(2) will be read as under,</p> <p>(2) 'It extends to the whole of India.'</p>	

Here, SM means Study Material and SSP means Supplementary study paper (i.e. Page number of the Study material/ Supplementary study paper in reference to relevant provisions)

PART II: QUESTIONS AND ANSWERS**Questions****Division A: Case scenario/ Multiple choice questions**

1. Mr. Purshottam Prasad, a business graduate from leading B-School, running the chain of restaurants; as sole proprietor concern; based in Chennai. Mr. Prasad being dynamic businessman, in order to develop the business; decided to give corporate form to his business; but concerned with dilution of the control over business decisions.

Mr. Prasad, during some journey met Mr. Chinmay Dass; who is school days friend of Mr. Prasad and presently working in one of leading corporate advisory firm. Mr. Prasad seeks advice from Mr. Dass, regarding conversion of sole proprietorship concern to company and also explain his intention to keep the entire control in his hand. Mr. Dass told, about new type of company; which can be formed under Companies Act 2013; One Person Company (OPC). Mr. Dass quoted section 2 (62), which define 'one person company' means a company which has only one person as a member.

Mr. Prasad, felt OPC is correct form of business for him, hence promotes an OPC 'Casa Hangout Private Limited' (One Person Company) on 14th September 2019, to which he sold his sole proprietor business and himself became sole member. Mr. Prasad, appointed his younger son Mr. Vijay, who was 21 year old then; as Nominee to OPC. Mr. Anand who is famous food blogger and old friend of Mr. Prasad was appointed as director of OPC, Mr. Prasad himself also become director of company.

Mr. Vijay is professional photographer, and for some certification course went to abroad on 23rd October 2019. He came back on 1st of March 2020. He established photo-studio in form of OPC 'Best Click (OPC) Private Limited' on 20th March 2020, in which Mr. Prasad is nominee and he became sole member. In mean time Mr. Vijay also gave his consent as nominee to another OPC in which his elder brother Mr. Shankar is sole member.

Mr. Prasad met an accident on 25th March, 2020, in which he lost his life. Nomination clause invoked, resultantly Mr. Vijay has to take charge over 'Casa Hangout (OPC) Private Limited' (One Person Company) as member with immediate effect. On 30th March, 2020 Mr. Shankar was appointed as new nominee to 'Casa Hangout (OPC) Private Limited', who gave written consent on 31st March 2020. Mr. Shankar who is investment banker by profession, is of opinion that 'Casa Hangout (OPC) Private Limited' need amend its object clause and add 'carry out investment in securities of body corporate' as one of object.

Financial Period closed on 31st March 2020. Financial statements of 'Casa Hangout (OPC) Private Limited', which is not containing cash flow statement; signed by Mr. Anand (who left as only director after death of Mr. Prasad).

- A. With reference to appointment of Mr. Vijay and Mr. Shankar as nominee to 'Casa Hangout (OPC) Private Limited', out of followings, who is eligible to be nominee of OPC?

- (i) Any natural person excluding minor
 - (ii) Any legal person excluding minor
 - (iii) Any natural person, who is resident of India; but excluding minor
 - (iv) Any natural person, who is resident as well as citizen of India; but excluding minor
- B.** Mr. Shankar if wish to withdraw his consent as nominee, can do so; by giving written notice to
- (i) Director of OPC and to sole member of company
 - (ii) Director of OPC and to Registrar of companies
 - (iii) Sole member of company and to OPC
 - (iv) Sole member of company and to Registrar of companies
- C.** With reference to legal position of Mr. Vijay as member/s and nominee/s to various OPCs, which of the following statement is correct in reference to ceiling limit in relation to membership and being nominee to OPC? A person, other than minor; at specific point of time;
- (i) Can be member in any number of OPCs but nominee in one OPC
 - (ii) Can be member in one OPC and nominee in any number of OPCs
 - (iii) Can be member in one OPC and nominee in another one OPCs
 - (iv) Can be member and nominee both in any number of OPCs
- D.** Which of following statement is correct, in reference to requirement for financial Statements of 'Casa Hangout (OPC) Private Limited'
- (i) Must be signed by one director
 - (ii) Must be signed by at-least by two directors
 - (iii) Must contain cash flow statement as part of financial statements
 - (iv) None of the above
- E.** With reference to opinion of Mr. Shankar to add 'carry out investment in securities of body corporate' object, 'Casa Hangout (OPC) Private Limited'
- (i) Can't carry out non-banking financial investment activities & investment in securities of body corporate
 - (ii) Can't carry out non-banking financial investment, but can invest in securities of body corporate'
 - (iii) Can carry-out non-banking financial investment & invest in securities of body corporate'

(iv) None of the above

2. Mr. Arun Rahi is sole proprietor at Delight Business Solution (DBS), who is supplier of office stationary with presence across pan India. Mr. Arun sends one of his purchase agents Mr. Pradeep Nagra to procure certain item from Aishi Enterprise on credit for him. For same, Mr. Arun made the payment. After few months again, Mr. Arun sends Mr. Pradeep to purchase another set of goods from Aishi Enterprise but this time he pays sufficient cash to Mr. Pradeep. Mr. Pradeep purchased good from Aishi Enterprise on 4th Nov 2019, but on credit. On next day while coming to office, Mr. Pradeep met an accident and dies.

Against one of internal transfer of stock, the Dehradun office of DBS draws a bill on Jalandhar office. Mr. Rajeev is old enemy of Mr. Arun Rahi; rivalry is at all-time high. Mr. Arun asks Mr. Sukhdev to threaten Mr. Rajeev and promises to indemnify Mr. Sukhdev against the consequences. Mr. Sukhdev in heat, while threatening, beat Mr. Rajeev. Fine of ₹ 50,000 imposed on Mr. Sukhdev for beating and ₹ 5000 for public nuisance.

Mr. Arun took his friend to restaurant, and orally quote to restaurant manager that, if his friend didn't pay the bill or fails to pay the bill, then he will pay the bill.

- A.** Aishi Enterprise filed a suit against Mr. Arun for payment, but Mr. Arun deny to any liability. Decide whether Aishi Enterprise will get relief?
- (i) No, Mr. Arun is not liable because, he was not aware about fact of credit purchase.
 - (ii) Yes, Mr. Arun is liable to Aishi Enterprise.
 - (iii) Yes, but not against Mr. Arun, because Mr. Pradeep's legal heir is liable to Aishi Enterprise for making payment
 - (iv) No, Mr. Arun didn't instructed Mr. Pradeep to make purchase on credit.
- B.** In regard to bill drawn by Dehradun office on Jalandhar office, what is nature of instrument and can holder treat this bill as a promissory note?
- (i) Since it is ambiguous instrument, hence can be considered as promissory note only
 - (ii) Since it is ambiguous instrument, hence can be considered as bill of exchange only
 - (iii) Since it is ambiguous instrument, hence can be construed either as a promissory note or bill of exchange at the discretion of holder.
 - (iv) It is Null instrument, and neither can be considered bill nor note
- C.** Can Mr. Sukhdev as indemnity holder is able to claim the amount of fine from Mr. Arun?
- (i) Yes, entire amount of fine can be recovered from Mr. Arun
 - (ii) Yes, but only ₹ 10,000 can be recovered

- (iii) No, because Mr. Arun didn't ask Mr. Sukhdev to beat
 - (iv) No, because object is unlawful
- D. Mr. Arun orally quote to restaurant manager that, if his friend didn't pay the bill or fails to pay the bill, then he will pay the bill; this can be categorised as;
- (i) Contract of Guarantee
 - (ii) Contract of Indemnity
 - (iii) Wagering agreement
 - (iv) Quasi-contract
3. A is residing in Delhi and has a house in Mumbai. A appoints B by a power of attorney to take care of his house. State the nature of agency created between A and B:
- (a) Implied agency
 - (b) Agency by ratification
 - (c) Agency by necessity
 - (d) Express agency
4. Red Flag Ltd., which has its registered office at Delhi and having 12500 members is holding its Annual General Meeting in Ashoka Hotel. Despite swanky arrangements most of the members did not turn up and quorum was not present within half an hour of the schedule time of the meeting, as a result meeting was adjourned. However, due to heavy booking schedule, hotel authorities could not make available, for adjourned meeting, sufficient space in the same hall where meeting was originally called but allowed conduct of meeting in a different hall on a different floor next week at same time. Please advise the option available to board:
- (a) The meeting stands adjourned automatically to the same place and time next week as per provisions of law. There is no alternate but to hold meeting in the same hall,
 - (b) As same banquet hall is not available, meeting can be held at different place as may be decided appropriate by the Board,
 - (c) As the same hall is not available to conduct meeting after one week, a fresh notice of 21 days is needed for a different location,
 - (d) As the same hall is not available to conduct the meeting, the company needs to conduct meeting electronically through internet and give sufficient notice to shareholder.
5. As per the Payment of Bonus Act, 1965, the amount payable to an employee by way of bonus shall be paid within a period of 8 months from the closing of accounting year. However, this period may be extended up to maximum of by appropriate Government.

- (a) 1 year
 - (b) 15 months
 - (c) 18 months
 - (d) 2 years
6. A guarantee which extend to a series of transactions is called
- (a) Special Guarantee
 - (b) Continuing Guarantee
 - (c) Specific Guarantee
 - (d) None of the above
7. Who is not treated as family as per the Payment of Gratuity Act, 1872, in case of a male employee
- (a) himself
 - (b) his wife
 - (c) dependent parents of his wife
 - (d) adult children of his son
8. Roma along with her six friends has got incorporated Roma Trading Ltd. in May 2019. She kept the paid-up share capital at ₹ 30 lacs. Further, in April 2020, she noticed that in the last financial year, the turnover of the company was well below ₹ 2 crores. Advise whether the company can be treated as a 'small company'.
- (a) Roma Trading Ltd. is definitely a 'small company' since its paid-up capital is much below ₹ 50 lacs and also its turnover has not exceeded the threshold limit of ₹ 2 crores.
 - (b) The concept of 'small company' is applicable only in case of a private limited company/OPC and therefore, despite meeting the criteria of 'small company' it being a public limited company cannot enjoy benefits of 'small company'.
 - (c) Unlike a private limited company/OPC which automatically becomes a 'small company' as soon as it meets the criteria of 'small company', Roma Trading Ltd. being a public limited company has to maintain the norms applicable to a 'small company' continuously for two years so that, thereafter, it is treated as a 'small company'.
 - (d) If all the shareholders of Roma Trading Ltd. give an undertaking to the ROC stating that they will not let the paid share capital and also turnover exceed the limits applicable to a 'small company' in the next two years, then it can be treated as a 'small company'.

9. Shree Lakshmi Jewellery Store Private Limited was incorporated on 27th July, 2019 with 30 persons as subscribers to the Memorandum of Association and having Authorised share capital of ₹ 1.00 crore divided into equal number of shares of Re. 1 each. Each subscriber subscribed for ₹ 1.00 lac shares. Advise the company about the latest date by which the share certificates are required to be delivered to the subscribers.
- (a) Latest by 17th August, 2019.
 - (b) Latest by 31st August, 2019.
 - (c) Latest by 27th September, 2019.
 - (d) Latest by 27th October, 2019.

Division B: Descriptive Questions

Part A: Business Laws

The Indian Contract Act, 1872

1. Mr. Rich aspired to get a self-portrait made by an artist. He went to the workshop of Mr. C, an artist and asked whether he could sketch the former's portrait on oil painting canvass. Mr. C agreed to the offer and asked for ₹ 50,000 as full advance payment for the above creative work. Mr. C clarified that the painting shall be completed in 10 sittings and shall take 3 months.

On reaching to the workshop for the 6th sitting, Mr. Rich was informed that Mr. C became paralyzed and would not be able to paint for near future. Mr. C had a son Mr. K who was still pursuing his studies and had not taken up his father's profession yet?

Discuss in light of the Indian Contract Act, 1872?

- (i) Can Mr. Rich ask Mr. K to complete the artistic work in lieu of his father?
 - (ii) Could Mr. Rich ask Mr. K for refund of money paid in advance to his father?
2. Sandeep guarantees for Gaurav, a retail textile merchant, for an amount of ₹ 1,00,000, for which Sharma, the supplier may from time to time supply goods on credit basis to Gaurav during the next 3 months.
- After 1 month, Sandeep revokes the guarantee, when Sharma had supplied goods on credit for ₹ 40,000. Referring to the provisions of the Indian Contract Act, 1872, decide whether Sandeep is discharged from all the liabilities to Sharma for any subsequent credit supply. What would be your answer in case Gaurav makes default in paying back Sharma for the goods already supplied on credit i.e. ₹ 40,000?
3. Manish borrowed a sum of ₹ 4 lacs from Samyak. Manish appointed Samyak as his agent to sell his land and authorized him to appropriate the amount of loan out of the sale proceeds. Afterward, Manish revoked the agency.

Decide under the provisions of the Indian Contract Act, 1872 whether the revocation of the said agency by Manish is lawful.

The Negotiable Instruments Act, 1881

4. Rahul drew a cheque in favour of Aman. After having issued the cheque; Rahul requested Aman not to present the cheque for payment and gave a stop payment request to the bank in respect of the cheque issued to Aman. Decide, under the provisions of the Negotiable Instruments Act, 1881 whether the said acts of Rahul constitute an offence?

The Payment of Bonus Act, 1965

5. Manish is working as a salesman in a company on salary basis. The following payments were made to him by the company during the previous financial year –
- (i) overtime allowance,
 - (ii) dearness allowance
 - (iii) commission on sales
 - (iv) employer's contribution towards pension fund
 - (v) value of food.

Examine as to which of the above payments form part of "salary" of Manish under the provisions of the Payment of Bonus Act, 1965.

The Provident Fund and Miscellaneous Provisions Act, 1952

6. What constitutes cognizable offences under Provident Fund and Miscellaneous Provisions Act, 1952?

The Payment of Gratuity Act, 1972

7. X is due to retire as a factory manager from a Paint Manufacturing Company and his present salary is ₹ 40,000. He has worked in the factory for about 22 years and was on leave for 6 months in the 15th year due to an injury suffered at the factory. After recovery he resumed his duty as a Chief Supervisor and worked for 7 years. Please calculate the amount of gratuity payable to him.

The Companies Act, 2013

8. Vijay, a member of Mayur Electricals Ltd. gave in writing to the company that the notice for any general meeting be sent to him only by registered post at his residential address at Kanpur for which he deposited sufficient money. The company sent notice to him by ordinary mail under certificate of posting. Vijay did not receive this notice and could not attend the meeting and contended that the notice was improper.

Decide:

- (i) Whether the contention of Vijay is valid.
- (ii) Will your answer be the same if Vijay remains in London for two months during the notice of the meeting and the meeting held?

9. Examine the validity of the following statement with reference to the provisions of the Companies Act, 2013.

"The Articles of Association of Y Limited contains a provision that the underwriting commission may be paid upto 4% of the issue price of the shares. However the Board of Directors have decided to pay the underwriting commission of 5% to Mind & Co., the underwriters."

10. The Board of Directors of Ramesh Ltd. proposes to issue the prospectus inviting offers from the public for subscribing the 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.

11. Surya Ltd. is engaged in the manufacture of consumer goods and has got a good brand value. Over the years, it has built a good reputation and its Balance Sheet as at March 31, 2019 shows the following position:

Authorized Share Capital (25,00,000 equity shares of face value of ₹ 10/- each)
₹ 2,50,00,000

Issued, subscribed and paid-up capital (10,00,000 equity shares of face value of ₹10/- each, fully paid-up) ₹ 1,00,00,000

Free Reserves ₹ 3,00,00,000

The Board of Directors are proposing to declare a bonus issue of 1 share for every 2 shares held by the existing shareholders. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013. Discuss.

12. State, with reasons, whether the following statements are true or false?
- (i) XYZ Private Limited may accept the deposits from its members to the extent of ₹ 60.00 Lakh, if the aggregate of its paid-up capital, free reserves and security premium account is ₹ 60.00 Lakh.
 - (ii) A Government Company, which is eligible to accept deposits under Section 76 of the Companies Act, 2013 cannot accept deposits from public exceeding 25% of the aggregate of its paid- up capital, free reserves and security premium account.
13. What are the powers of Registrar to make entries of satisfaction and release of charges in the absence of any intimation from the company. Discuss this matter in the light of provisions of the Companies Act, 2013.
14. Chetan Ltd. issued a notice for holding its Annual general meeting on 7th November 2019. The notice was posted to the members on 16th October 2019. Some members of the company allege that the company had not complied with the provisions of the Companies Act, 2013 with regard to the period of notice and as such the meeting was valid. Referring to the provisions of the Act, decide:
- (i) Whether the meeting has been validly called?

- (ii) If there is a shortfall, state and explain by how many days does the notice fall short of the statutory requirement?
- (iii) Can the delay in giving notice be condoned?

Part B: Ethics

- 15. Discuss reasons forcing marketing executives to adopt ethical behavior in marketing.
- 16. "Ethical programs help to manage values associated with quality management, strategic planning and diversity management". Explain.
- 17. State with reasons whether the following statements are correct or not.
 - (i) Ethics helps to promote a strong public image.
 - (ii) Economic growth has to be environmentally sustainable.

Part C: Communication

- 18. State the importance of 'Active Listening' in the business communication skills.
- 19. (i) Discuss the types of grapevine chains which facilitates the communication.
(ii) What are the demerits of grapevine phenomenon?
- 20. "Innovation" is the key to success and survival. What are the elements which are required by a company to be more innovative?

SUGGESTED ANSWERS/HINTS

Answers to Multiple choice questions

- 1. A. (iv)
B. (iii)
C. (iii)
D. (i)
E. (i)
- 2. A. (ii)
B. (iii)
C. (iv)
D. (i)
- 3. (d)
- 4. (b)
- 5. (d)

- 6. (b)
- 7. (d)
- 8. (b)
- 9. (c)

Answers to Descriptive type questions

1. A contract which involves the use of personal skill or is founded on personal consideration comes to an end on the death of the promisor. As regards any other contract, the legal representatives of the deceased promisor are bound to perform it unless a contrary intention appears from the contract (Section 37 of the Indian Contract Act, 1872). But their liability under a contract is limited to the value of the property they inherit from the deceased.
 - (i) In the instant case, since painting involves the use of personal skill and on becoming Mr. C paralyzed, Mr. Rich cannot ask Mr. K to complete the artistic work in lieu of his father Mr. C.
 - (ii) According to section 65 of the Indian Contract Act, 1872, when an agreement is discovered to be void or when a contract becomes void, any person who has received any advantage under such agreement or contract is bound to restore it, or to make compensation for it to the person from whom he received it.

Hence, in the instant case, the agreement between Mr. Rich and Mr. C has become void because of paralysis to Mr. C. So, Mr. Rich can ask Mr. K for refund of money paid in advance to his father, Mr. C.
2. **Discharge of Surety by Revocation:** As per section 130 of the Indian Contract Act, 1872 a specific guarantee cannot be revoked by the surety if the liability has already accrued. A continuing guarantee may, at any time, be revoked by the surety, as to future transactions, by notice to the creditor, but the surety remains liable for transactions already entered into.

As per the above provisions, liability of Sandeep is discharged with relation to all subsequent credit supplies made by Sharma after revocation of guarantee, because it is a case of continuing guarantee.

However, liability of Sandeep for previous transactions (before revocation) i.e. for ₹ 40,000 remains. He is liable for payment of ₹ 40,000 to Sharma because the transaction was already entered into before revocation of guarantee.
3. According to Section 202 of the Indian Contract Act, 1872 an agency becomes irrevocable where the agent has himself an interest in the property which forms the subject-matter of the agency, and such an agency cannot, in the absence of an express provision in the contract, be terminated to the prejudice of such interest.

In the instant case, the rule of agency coupled with interest applies and does not come to an end even on death, insanity or the insolvency of the principal.

Thus, when Manish appointed Samyak as his agent to sell his land and authorized him to appropriate the amount of loan out of the sale proceeds, interest was created in favour of Samyak and the said agency is not revocable. The revocation of agency by Manish is not lawful.

4. As per the facts stated in the question, Rahul (drawer) after having issued the cheque, informs Aman (drawee) not to present the cheque for payment and as well as gave a stop payment request to the bank in respect of the cheque issued to Aman.

Section 138 of the Negotiable Instruments Act, 1881, is a penal provision in the sense that once a cheque is drawn on an account maintained by the drawer with his banker for payment of any amount of money to another person out of that account for the discharge in whole or in part of any debt or liability, is informed by the bank unpaid either because of insufficiency of funds to honour the cheques or the amount exceeding the arrangement made with the bank, such a person shall be deemed to have committed an offence.

Once a cheque is issued by the drawer, a presumption under Section 139 of the Negotiable Instruments Act, 1881 follows and merely because the drawer issues a notice thereafter to the drawee or to the bank for stoppage of payment, it will not preclude an action under Section 138.

Also, Section 140 of the Negotiable Instruments Act, 1881, specifies absolute liability of the drawer of the cheque for commission of an offence under the section 138 of the Act. Section 140 states that it shall not be a defence in a prosecution for an offence under section 138 that the drawer had no reason to believe when he issued the cheque that the cheque may be dishonoured on presentment for the reasons stated in that section.

Accordingly, the act of Rahul, i.e., his request of stop payment constitutes an offence under the provisions of the Negotiable Instruments Act, 1881.

5. **Computation of Salary / Wages:** According to Section 2(21) of the Payment of Bonus Act, 1965 salary and wages means all remuneration other than remuneration in respect of overtime work, capable of being expressed in terms of money, which would if the terms of employment, express or implied, were fulfilled, be payable to an employee in respect of his employment, or of work done in such employment and includes dearness allowance, i.e. all cash payment by whatever name called, paid to an employee on account of a rise in the cost of living. But the term excludes:

- (i) Any other allowance which the employee is for the time being entitled to;
- (ii) The value of any house accommodation or of supply of light, water, medical attendance or other amenities of any service or of any concessional supply of food grains or other articles;
- (iii) Any traveling concession;
- (iv) Any bonus including incentive, production or attendance bonus;

- (v) Any contribution paid or payable by the employer to any pension fund or for benefit of the employee under any law for the time being in force.
- (vi) Any retrenchment compensation or any gratuity or other retirement benefit payable to the employee or any ex-gratia payment made to him; and
- (vii) Any commission payable to the employee.

It has been clarified in the explanation to the section that where an employee is given, in lieu of the whole or part of the salary or wage payable to him, free food allowance or free food by his employer, such food allowance or the value of such food shall be deemed to form part of the salary or wage for such employee.

In view of the provisions of Section 2(21) explained above, the payment of dearness allowance and value of free food by the employer forms part of salary of Manish while remaining three payments i.e. payment for overtime, commission on sales and employer's contribution towards pension funds shall not form part of his salary.

6. **Certain offences to be cognizable (Section 14AB of Provident Fund and Miscellaneous Provisions Act, 1952):** This Section renders the offences relating to default in payment of contribution by the employer a cognizable offence. A cognizable offence is one where the police can arrest a person without warrant.

Cognizance and trial of offence (Section 14AC of Provident Fund and Miscellaneous Provisions Act, 1952): This section deals with the complaints in regard to offences under the Act, the scheme or the Pension Scheme or Insurance Scheme and their cognizance.

The essential conditions of cognizance of offences are:

- (a) There must be a report in writing of the facts constituting such offence,
- (b) This report must be made with the previous sanction of the:
 - (i) Central Provident Fund Commissioner; or
 - (ii) Such officer as may be authorised by the Central Government;
- (c) The report must be made by an Inspector appointed under Section 13.

These conditions being co-existent, no Court inferior to that of a Presidency Magistrate or a Magistrate of the first class shall try any offence under this Act, or the Scheme or the Pension Scheme or the Insurance Scheme.

7. **Calculation of Gratuity amount: [Section 4(2) of the Payment of Gratuity Act, 1972]**

For every completed year of service or part thereof in excess of six months, the employer shall pay gratuity to an employee at the rate of fifteen days wages based on the rate of wages last drawn by the employee concerned.

In the case of a monthly rated employee, the fifteen days wages shall be calculated by dividing the monthly rate of wages last drawn by him by twenty-six and multiplying the quotient by fifteen.

Mr. X is entitled to get the gratuity for the full period of 22 years which he worked in the factory. The layoff is due to an injury suffered by him at the factory only and is considered as an injury during employment. Therefore, he is eligible for full gratuity as per the provisions of the Gratuity Act, 1972. Accordingly, gratuity shall be calculated as follows:

Facts given states that X, retired from his 22 years of service with present salary ₹ 40, 000 (wages last drawn). Accordingly, gratuity shall be calculated as -

a) Present salary	₹ 40,000
b) No. of years of eligible service	22 years
c) Eligible amount of gratuity as per Sec. 4(2) ₹ 40,000/- x 22 years x 15/26	₹ 5,07,692.31

8. According to section 20(2) of the Companies Act, 2013, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed.

Provided that a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

Thus, if a member wants the notice to be served on him only by registered post at his residential address at Kanpur for which he has deposited sufficient money, the notice must be served accordingly, otherwise service will not be deemed to have been effected.

Accordingly, the questions as asked may be answered as under:

- (i) The contention of Vijay shall be tenable, for the reason that the notice was not properly served.
 - (ii) In the given circumstances, the company is bound to serve a valid notice to Vijay by registered post at his residential address at Kanpur and not outside India.
9. Section 40 (6) of the Companies Act 2013, provides that a company may pay commission to any person in connection with the subscription to its securities, subject to the number of conditions which are prescribed under the Companies (Prospectus and Allotment of Securities) Rules, 2014. Under the Companies (Prospectus and Allotment of Securities) Rules, 2014 the rate of commission paid or agreed to be paid shall not exceed, in case of shares, five percent (5%) of the price at which the shares are issued or a rate authorised by the articles, whichever is less.

In the given problem, the articles of Y Ltd. have prescribed 4% underwriting commission but the directors decided to pay 5% underwriting commission.

Therefore, the decision of the Board of Directors to pay 5% commission to the underwriters (Mind & Co.) is invalid.

10. 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.

Prospectus issued make a declaration about the compliance of the provisions of this Act 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 Directors of Ramesh Ltd. who 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 in compliance with the above stated provision and make a declaration about the compliance of the above stated provisions.

11. According to Section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of -
- (i) its free reserves;
 - (ii) the securities premium account; or
 - (iii) the capital redemption reserve account.

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Conditions for issue of Bonus Shares: No company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless—

- (i) it is authorised by its Articles;
- (ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
- (iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (iv) it has not defaulted in respect of payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- (v) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up;

(vi) it complies with such conditions as may be prescribed.

But the company has to ensure that the bonus shares shall not be issued in lieu of dividend.

To issue bonus shares, company will need reserves of ₹ 50,00,000 (half of ₹1,00,00,000), which is available with the company. Hence, after following the above compliances on issuing bonus shares under the Companies Act, 2013, Surya Ltd. may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

12. (i) As per the provisions of Section 73(2) of the Companies Act, 2013 read with Rule 3 of the Companies (Acceptance of Deposits) Rules, 2014, as amended by the Companies (Acceptance of Deposits) Amendment Rules, 2016, a company shall accept any deposit from its members, together with the amount of other deposits outstanding as on the date of acceptance of such deposits not exceeding thirty five per cent of the aggregate of the Paid-up share capital, free Reserves and securities premium account of the company. Provided that a private company may accept from its members monies not exceeding one hundred per cent of aggregate of the paid up share capital, free reserves and securities premium account and such company shall file the details of monies so accepted to the Registrar in such manner as may be specified.

Therefore, the given statement of eligibility of XYZ Private Ltd. to accept deposits from its members to the extent of ₹ 60.00 lakh is true.

- (ii) A Government company is not eligible to accept or renew deposits under section 76, if the amount of such deposits together with the amount of other deposits outstanding as on the date of acceptance or renewal exceeds thirty five per cent of the aggregate of its Paid-up share capital, free Reserves and securities premium account of the company.

Therefore, the given statement prescribing the limit of 25% to accept deposits is False.

13. Section 83 of the Companies Act, 2013 empowers the Registrar to make entries with respect to the satisfaction and release of charges even if no intimation has been received by him from the company.

Accordingly, with respect to any registered charge if an evidence is shown to the satisfaction of Registrar that the debt secured by charge has been paid or satisfied in whole or in part or that the part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking, then he may enter in the register of charges a memorandum of satisfaction that:

- ◆ the debt has been satisfied in whole or in part; or
- ◆ the part of the property or undertaking has been released from the charge or has ceased to form part of the company's property or undertaking.

This power can be exercised by the Registrar despite the fact that no intimation has been received by him from the company.

Information to affected parties: The Registrar shall inform the affected parties within 30 days of making the entry in the register of charges.

Issue of Certificate: As per Rule 8 (2), in case the Registrar enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge in Form No. CHG-5.

14. According to section 101(1) of the Companies Act, 2013, a general meeting of a company may be called by giving not less than clear twenty-one days' notice either in writing or through electronic mode in such manner as may be prescribed.

Also, it is to be noted that 21 clear days mean that the date on which notice is served and the date of meeting are excluded for sending the notice.

Further, Rule 35(6) of the Companies (Incorporation) Rules, 2014, provides that in case of delivery by post, such service shall be deemed to have been effected in the case of a notice of a meeting, at the expiration of forty eight hours after the letter containing the same is posted.

Hence, in the given question:

- (i) A 21 days' clear notice must be given. In the given question, only 19 clear days' notice is served (after excluding 48 hours from the time of its posting and the day of sending and date of meeting). Therefore, the meeting was not validly called.
 - (ii) As explained in (i) above, notice falls short by 2 days.
 - (iii) The Companies Act, 2013 does not provide anything specific regarding the condonation of delay in giving of notice. Hence, the delay in giving the notice calling the meeting cannot be condoned.
15. **Reasons for adopting ethical behaviour in marketing:** Marketing executives should practice ethical behaviour because it is morally correct. To maintain ethical behaviour in marketing, the following positive reasons may be useful to the marketing executives:
1. **To reverse declining public confidence in marketing:** Sometime misleading package labels, false claim in advertisement, phony list prices, infringement of trademarks pervert the market trends and such behaviour damages the marketers' reputation. To reverse this situation, business leaders must demonstrate convincingly that they are aware of their ethical responsibility and will fulfil it. Companies must set high ethical standards and enforce them. Moreover, it is in management's interest to be concerned with the well being of consumers, since they are the lifeblood of a business.
 2. **To avoid increase in government regulation:** Business apathy, resistance, or token responses to unethical behaviour increase the probability of more governmental

regulation. The governmental limitations may also result from management's failure to live up to its ethical responsibilities. Moreover, once the government control is introduced, it is rarely removed.

3. **To retain power granted by society:** Marketing executives wield a great deal of social power as they influence markets and speak out on economic issues. However, there is a responsibility tied to that power. If marketers do not use their power in a socially acceptable manner, that power will be lost in the long run.
4. **To protect the image of the organisation:** Buyers often form an impression of an entire organisation based on their contact with one person. That person represents the marketing function. Some times, a single sales clerk may pervert the market opinion in relation to that company which he represents.

Therefore, the ethical behaviour in marketing may be strengthened only through the behaviour of the marketing executives.

16. Ethics programs help to manage values associated with quality management, strategic planning and diversity management.

Ethics programs help identifying preferred values and ensuring that organizational behaviors are aligned with those values. This includes recording the values, developing policies and procedures to align behaviours with preferred values, and then training all personnel about the policies and procedures. This overall effort is very useful for several other programs in the workplace that require behaviors to be aligned with values, including quality management, strategic planning and diversity management. For example, Total Quality Management initiatives include high priority on certain operating values, e.g., trust among stakeholders, performance, reliability, measurement, and feedback.

17. (i) **Ethics helps to promote a strong public image**

This statement is correct. An organization that pays attention to its ethics can portray a strong and positive image to the public. People see such organizations as valuing people more than profit and striving to operate with integrity and honour.

- (ii) **Economic growth has to be environmentally sustainable**

This statement is Correct. Economic growth has to be environmentally sustainable. There is no economic growth without ecological costs. Industrialization and rapid development have affected the environment. Everybody should realize that such development is related to environmental damage and resource depletion.

18. **Importance of Active listening:** It is important for several reasons:

- (i) It aids the organization in carrying out its missions.
- (ii) It helps individuals to advance in their careers.
- (iii) It provides information that helps them to learn about important happenings in the organization, as well as assisting them in doing their own jobs well.

- (iv) It also helps in building strong personal relationships.
19. (i) The types of grapevine chains which facilitates the communication are:
- (a) **Single Strand Chain:** In this type of chain, 'A' tells something to 'B' who tells it to 'C' and so on. This type of chain is the least accurate in passing on the information or message.
 - (b) **Gossip Chain:** In it, a person seeks out and tells everyone the information he has obtained. This chain is often used when information or a message regarding a 'not-on-job' nature is being conveyed.
 - (c) **Probability Chain:** In it, individuals are indifferent to the persons to whom they are passing some information. This chain is found when the information is somewhat interesting but not really significant.
 - (d) **Cluster Chain:** In this type of chain, 'A' tells something to a few selected individuals and then some of these individuals inform a few other selected individuals.
- (ii) **Demerits of the grapevine phenomenon:**
- (a) It is less credible. It cannot always be taken seriously.
 - (b) It does not always carry the complete information.
 - (c) It often distorts the picture or often misinforms.
20. There are specific elements that help a company to be more innovative. It is a blend of culture, methodologies, infrastructure, and work practices. A sustainable innovation organization should have:
- Vision and strategy for innovation
 - Culture supporting innovation
 - Processes, practices and systems supporting innovation
 - Top management team leading innovation
 - Effective Cross-functional teams
 - Empowered employees driving innovation.
 - Finding the Right Balance Between Bureaucracy and Chaos
- Successful organizations must balance bureaucratic processes at one extreme with the fluid creative chaos of relationships, interests and transactions, which enable it to be innovative and alive, at the other.

PAPER – 3: COST ACCOUNTING AND FINANCIAL MANAGEMENT

PART-I COST ACCOUNTING

QUESTIONS

Material

1. A company uses four raw materials A, B, C and D for a particular product for which the following data apply :–

Raw Material	Usage per unit of product (Kg.)	Re-order Quantity (Kg.)	Price per Kg. (₹)	Delivery period (in weeks)			Re-order level (Kg.)	Minimum level (Kg.)
				Minimum	Average	Maximum		
A	12	12,000	12	2	3	4	60,000	?
B	8	8,000	22	5	6	7	70,000	?
C	6	10,000	18	3	5	7	?	25,500
D	5	9,000	20	1	2	3	?	?

Weekly production varies from 550 to 1,250 units, averaging 900 units of the said product. What would be the following quantities:–

- (i) Minimum Stock of A?
- (ii) Maximum Stock of B?
- (iii) Re-order level of C?
- (iv) Average stock level of A?
- (v) Re-order level of D?
- (vi) Minimum Stock level of D?

Labour

2. GZ Ld. pays the following to a skilled worker engaged in production works. The following are the employee benefits paid to the employee:

(a)	Basic salary per day	₹1,000
(b)	Dearness allowance (DA)	20% of basic salary
(c)	House rent allowance	16% of basic salary
(d)	Transport allowance	₹50 per day of actual work
(e)	Overtime	Twice the hourly rate (considers basic and DA), only if works more than 9 hours a day otherwise no overtime allowance. If works for more than 9 hours

		a day then overtime is considered after 8 th hours.
(f)	Work of holiday and Sunday	Double of per day basic rate provided works atleast 4 hours. The holiday and Sunday basic is eligible for all allowances and statutory deductions.
(h)	Earned leave & Casual leave	These are paid leave.
(h)	Employer's contribution to Provident fund	12% of basic and DA
(i)	Employer's contribution to Pension fund	7% of basic and DA

The company normally works 8-hour a day and 26-day in a month. The company provides 30 minutes lunch break in between.

During the month of August 2020, Mr.Z works for 23 days including 15th August and a Sunday and applied for 3 days of casual leave. On 15th August and Sunday he worked for 5 and 6 hours respectively without lunch break.

On 5th and 13th August he worked for 10 and 9 hours respectively.

During the month Mr. Z worked for 100 hours on Job no.HT200.

You are required to CALCULATE:

- (i) Earnings per day
- (ii) Effective wages rate per hour of Mr.Z.
- (iii) Wages to be charged to Job no.HT200.

Overheads

3. You are given the following information of the three machines of a manufacturing department of X Ltd.:

	Preliminary estimates of expenses (per annum)			
	Total (₹)	Machines		
		A (₹)	B (₹)	C (₹)
Depreciation	2,00,000	75,000	75,000	50,000
Spare parts	1,00,000	40,000	40,000	20,000
Power	4,00,000			
Consumable stores	80,000	30,000	25,000	25,000
Insurance of machinery	80,000			
Indirect labour	2,00,000			
Building maintenance expenses	2,00,000			

Annual interest on capital outlay	1,00,000	40,000	40,000	20,000
Monthly charge for rent and rates	20,000			
Salary of foreman (per month)	42,000			
Salary of Attendant (per month)	12,000			

(The foreman and the attendant control all the three machines and spend equal time on them.)

The following additional information is also available:

	Machines		
	A	B	C
Estimated Direct Labour Hours	1,00,000	1,50,000	1,50,000
Ratio of K.W. Rating	3	2	3
Floor space (sq. ft.)	40,000	40,000	20,000

There are 12 holidays besides Sundays in the year, of which two were on Saturdays. The manufacturing department works 8 hours in a day but Saturdays are half days. All machines work at 90% capacity throughout the year and 2% is reasonable for breakdown.

You are required to :

CALCULATE predetermined machine hour rates for the above machines after taking into consideration the following factors:

- An increase of 15% in the price of spare parts.
- An increase of 25% in the consumption of spare parts for machine 'B' & 'C' only.
- 20% general increase in wages rates.

Non-Integrated Accounts

4. A manufacturing company disclosed a net loss of ₹6,94,000 as per their cost accounts for the year ended March 31, 2020. The financial accounts however disclosed a net loss of ₹10,20,000 for the same period. The following information was revealed as a result of scrutiny of the figures of both the sets of accounts.

	(₹)
(i) Factory Overheads under-absorbed	80,000
(ii) Administration Overheads over-absorbed	1,20,000
(iii) Depreciation charged in Financial Accounts	6,50,000
(iv) Depreciation charged in Cost Accounts	5,50,000
(v) Interest on investments not included in Cost Accounts	1,92,000

(vi) Income-tax provided	1,08,000
(vii) Interest on loan funds in Financial Accounts	4,90,000
(viii) Transfer fees (credit in financial books)	48,000
(ix) Stores adjustment (credit in financial books)	28,000
(x) Dividend received	64,000

PREPARE a memorandum Reconciliation Account.

Batch Costing

5. A Ltd. manufactures mother boards used in smart phones. A smart phone requires one mother board. As per the study conducted by the Indian Cellular Association, there will be a demand of 180 million smart phones in the coming year. A Ltd. is expected to have a market share of 5.5% of the total market demand of the mother boards in the coming year. It is estimated that it costs ₹6.25 as inventory holding cost per board per month and that the set-up cost per run of board manufacture is ₹33,500.

- COMPUTE the optimum run size for board manufacturing?
- Assuming that the company has a policy of manufacturing 80,000 boards per run, CALCULATE how much extra costs the company would be incurring as compared to the optimum run suggested in (i) above?

Job Costing

6. AP Ltd. received a job order for supply and fitting of plumbing materials. Following are the details related with the job work:

Direct Materials

AP Ltd. uses a weighted average method for the pricing of materials issues.

Opening stock of materials as on 12th August 2020:

- 15mm GI Pipe, 12 units of (15 feet size) @ ₹600 each
- 20mm GI Pipe, 10 units of (15 feet size) @ ₹ 660 each
- Other fitting materials, 60 units @ ₹ 26 each
- Stainless Steel Faucet, 6 units @ ₹ 204 each
- Valve, 8 units @ ₹ 404 each

Purchases:

On 16th August 2020:

- 20mm GI Pipe, 30 units of (15 feet size) @ ₹ 610 each
- 10 units of Valve @ ₹ 402 each

On 18th August 2020:

- Other fitting materials, 150 units @ ₹ 28 each
- Stainless Steel Faucet, 15 units @ ₹ 209 each

On 27th August 2020:

- 15mm GI Pipe, 35 units of (15 feet size) @ ₹ 628 each
- 20mm GI Pipe, 20 units of (15 feet size) @ ₹ 660 each
- Valve, 14 units @ ₹ 424 each

Issues for the hostel job:

On 12th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- Other fitting materials, 18 units

On 17th August 2020:

- 15mm GI Pipe, 8 units of (15 feet size)
- Other fitting materials, 30 units

On 28th August 2020:

- 20mm GI Pipe, 2 units of (15 feet size)
- 15mm GI Pipe, 10 units of (15 feet size)
- Other fitting materials, 34 units
- Valve, 6 units

On 30th August 2020:

- Other fitting materials, 60 units
- Stainless Steel Faucet, 15 units

Direct Labour:

Plumber: 180 hours @ ₹100 per hour (includes 12 hours overtime)

Helper: 192 hours @ ₹70 per hour (includes 24 hours overtime)

Overtimes are paid at 1.5 times of the normal wage rate.

Overheads:

Overheads are applied @ ₹26 per labour hour.

Pricing policy:

It is company's policy to price all orders based on achieving a profit margin of 25% on sales price.

You are required to

- (a) CALCULATE the total cost of the job.
- (b) CALCULATE the price to be charged from the customer.

Process Costing

7. M Ltd. produces a product-X, which passes through three processes, I, II and III. In Process-III a by-product arises, which after further processing at a cost of ₹85 per unit, product Z is produced. The information related for the month of August 2020 is as follows:

	Process-I	Process-II	Process-III
Normal loss	5%	10%	5%
Materials introduced (7,000 units)	1,40,000	-	-
Other materials added	62,000	1,36,000	84,200
Direct wages	42,000	54,000	48,000
Direct expenses	14,000	16,000	14,000

Production overhead for the month is ₹ 2,88,000, which is absorbed as a percentage of direct wages.

The scrapes are sold at ₹10 per unit

Product-Z can be sold at ₹135 per unit with a selling cost of ₹15 per unit

No. of units produced:

Process-I- 6,600; Process-II- 5,200, Process-III- 4,800 and Product-Z- 600

There is not stock at the beginning and end of the month.

You are required to PREPARE accounts for:

- (i) Process-I, II and III
- (ii) By-product process.

Joint Products & By Products

8. ABC Ltd. operates a simple chemical process to convert a single material into three separate items, referred to here as X, Y and Z. All three end products are separated simultaneously at a single split-off point.

Product X and Y are ready for sale immediately upon split off without further processing or any other additional costs. Product Z, however, is processed further before being sold. There is no available market price for Z at the split-off point.

The selling prices quoted here are expected to remain the same in the coming year. During 2019-20, the selling prices of the items and the total amounts sold were:

X – 186 tons sold for ₹3,000 per ton

Y – 527 tons sold for ₹2,250 per ton

Z – 736 tons sold for ₹1,500 per ton

The total joint manufacturing costs for the year were ₹12,50,000. An additional ₹6,20,000 was spent to finish product Z.

There were no opening inventories of X, Y or Z at the end of the year. The following inventories of complete units were on hand:

X 180 tons

Y 60 Tons

Z 25 tons

There was no opening or closing work-in-progress.

Required:

COMPUTE the cost of inventories of X, Y and Z and cost of goods sold for year ended March 31, 2020, using Net realizable value (NRV) method of joint cost allocation.

Operating Costing

9. A transport company has 20 vehicles, the capacities are as follows:

No. of Vehicles	Capacity per vehicle
5	9 MT
6	12 MT
7	15 MT
2	20 MT

The company provides the goods transport service between stations 'A' to station 'B'. Distance between these stations is 100 kilometers. Each vehicle makes one round trip per day on an average. Vehicles are loaded with an average of 90 per cent of capacity at the time of departure from station 'A' to station 'B' and at the time of return back loaded with 70 per cent of capacity. 10 per cent of vehicles are laid up for repairs every day. The following information is related to the month of August, 2020:

Salary of Transport Manager	₹ 60,000
Salary of 30 drivers	₹ 20,000 each driver
Wages of 25 Helpers	₹ 12,000 each helper
Loading and unloading charges	₹ 850 each trip
Consumable stores (depends on running of vehicles)	₹ 1,35,000
Insurance (Annual)	₹ 8,40,000
Road Licence (Annual)	₹ 6,00,000
Cost of Diesel per litre	₹ 78
Kilometres run per litre each vehicle	5 Km.
Lubricant, Oil etc.	₹ 1,15,000
Cost of replacement of Tyres, Tubes, other parts etc. (on running basis)	₹ 4,25,000
Garage rent (Annual)	₹ 9,00,000
Routine mechanical services	₹ 3,00,000
Electricity charges (for office, garage and washing station)	₹ 55,000
Depreciation of vehicles (on time basis)	₹ 6,00,000

There is a workshop attached to transport department which repairs these vehicles and other vehicles also. 40 per cent of transport manager's salary is debited to the workshop. The transport department has been apportioned ₹88,000 by the workshop during the month. During the month operation was for 25 days.

You are required:

- CALCULATE per ton-km operating cost.
- DETERMINE the freight to be charged per ton-km, if the company earned a profit of 25 per cent on freight.

Standard Costing

10. Following are the standard cost for a product-X:

	(₹)
Direct materials 10 kg @ ₹ 90 per kg	900
Direct labour 8 hours @ ₹100 per hour	800
Variable Overhead 8 hours @ ₹15 per hour	120
Fixed Overhead	<u>400</u>
	<u>2,220</u>

Budgeted output for the year was 2,000 units. Actual output is 1,800 units.

Actual cost for year is as follows:

	(₹)
Direct Materials 17,800 Kg @ ₹ 92 per Kg.	16,37,600
Direct Labour 14,000 hours @ ₹ 104 per hour	14,56,000
Variable Overhead incurred	2,17,500
Fixed Overhead incurred	7,68,000

You are required to CALCULATE:

- (i) Material Usage Variance
- (ii) Material Price Variance
- (iii) Material Cost Variance
- (iv) Labour Efficiency Variance
- (v) Labour Rate Variance
- (vi) Labour Cost Variance
- (vii) Variable Overhead Cost Variance
- (viii) Fixed Overhead Cost Variance.

Marginal Costing

11. J Ltd. manufactures a Product-Y. Analysis of income statement indicated a profit of ₹ 250 lakhs on a sales volume of 5,00,000 units. Fixed costs are ₹1,000 lakhs which appears to be high. Existing selling price is ₹680 per unit. The company is considering revising the profit target to ₹ 700 lakhs. You are required to COMPUTE –

- (i) Break- even point at existing levels in units and in rupees.
- (ii) The number of units required to be sold to earn the target profit.
- (iii) Profit with 10% increase in selling price and drop in sales volume by 10%.
- (iv) Volume to be achieved to earn target profit at the revised selling price as calculated in (ii) above, if a reduction of 10% in the variable costs and ₹ 170 lakhs in the fixed cost is envisaged.

Budget and Budgetary Control

12. The information of Z Ltd. for the year ended 31st March 2020 is as below:

	Amount (₹)
Direct materials	17,50,000
Direct wages	12,50,000

Variable factory overhead	9,50,000
Fixed factory overhead	12,00,000
Other variable costs	6,00,000
Other fixed costs	4,00,000
Profit	8,50,000
Sales	70,00,000

During the year, the company manufactured two products, X and Y, and the output and cost were:

	X	Y
Output (units)	8,000	4,000
Selling price per unit (₹)	600	550
Direct material per unit (₹)	140	157.50
Direct wages per unit (₹)	90	132.50

Variable factory overheads are absorbed as a percentage of direct wages and other variable costs are computed as:

Product X – ₹40 per unit and Product Y- ₹70 per unit.

For the FY 2020-21, due to a pandemic, it is expected that demand for product X and Y will fall by 20% & 10% respectively. It is also expected that direct wages cost will raise by 20% and other fixed costs by 10%. Products will be required to be sold at a discount of 20%.

You are required to:

- PREPARE product- wise profitability statement on marginal costing method for the FY 2019-20 and
- PREPARE a budget for the FY 2020-21.

Miscellaneous

- DISCUSS short notes on (i) Discretionary Cost Centre and (ii) Investment Centre
 - DESCRIBE the three advantages of Cost-plus contract.
 - STATE the advantages of Zero-based budgeting.
 - DESCRIBE Operation costing with two examples of industries where operation costing is applied.

SUGGESTED HINTS/ANSWERS**1. (i) Minimum stock of A**

Re-order level – (Average consumption × Average time required to obtain delivery)
= 60,000 kg. – (900 units × 12 kg. × 3 weeks) = 27,600 kg.

(ii) Maximum stock of B

Re-order level + Re-order quantity – (Min. Consumption × Min. Re-order period)
= 70,000 kg. + 8,000 kg. – (550 units × 8 kg. × 5 weeks).
= 78,000 – 22,000 = 56,000 kg.

(iii) Re-order level of C

Maximum re-order period × Maximum Usage
= 7 weeks × (1,250 units × 6 kg.) = 52,500 kg.

OR

= Minimum stock of C + (Average consumption × Average delivery time)
= 25,500 kg. + [(900 units × 6 kg.) × 5 weeks] = 52,500 kg.

(iv) Average stock level of A

= $\frac{\text{Minimum stock} + \text{Maximum stock}}{2}$ (Refer to Working Note)
= $\frac{27,600 + 58,800}{2}$ = 43,200 kg.

Working note

Maximum stock of A = ROL + ROQ – (Minimum consumption × Minimum re-order period)
= 60,000 kg. + 12,000 kg. – [(550 units × 12 kg.) × 2 weeks] = 58,800 kg.

(v) Re-order level of D

Maximum re-order period × Maximum Usage
= 3 weeks × (1,250 units × 5 kg.) = 18,750 kg

(vi) Minimum stock of D

Re-order level – (Average consumption × Average time required to obtain delivery)
= 18,750 kg. – (900 units × 5 kg. × 2 weeks) = 9,750 kg.

2. Workings:

1. Normal working hours in a month = (Daily working hours – lunch break) × no. of days
 $= (8 \text{ hours} - 0.5 \text{ hours}) \times 26 \text{ days} = 195 \text{ hours}$
2. Hours worked by Mr.Z = No. of normal days worked + Overtime + holiday/ Sunday worked
 $= (21 \text{ days} \times 7.5 \text{ hours}) + (9.5 \text{ hours} + 8.5 \text{ hours}) + (5 \text{ hours} + 6 \text{ hours})$
 $= 157.5 \text{ hours} + 18 \text{ hours} + 11 \text{ hours} = 186.50 \text{ hours}.$

(i) Calculation of earnings per day

Particulars	Amount (₹)
Basic salary ($₹1,000 \times 26 \text{ days}$)	26,000
Dearness allowance (20% of basic salary)	5,200
	31,200
House rent allowance (16% of basic salary)	4,160
Employer's contribution to Provident fund ($12\% \times ₹31,200$)	3,744
Employer's contribution to Pension fund ($7\% \times ₹31,200$)	2,184
	41,288
No. of working days in a month (days)	26
Rate per day	1,588
Transport allowance per day	50
Earnings per day	1,638

(ii) Calculation of effective wage rate per hour of Mr. Z:

Particulars	Amount (₹)
Basic salary ($₹1,000 \times 26 \text{ days}$)	26,000
Additional basic salary for Sunday & holiday ($₹1,000 \times 2 \text{ days}$)	2,000
Dearness allowance (20% of basic salary)	5,600
	33,600
House rent allowance (16% of basic salary)	4,480
Transport allowance ($₹50 \times 23 \text{ days}$)	1,150
Overtime allowance ($₹160 \times 2 \times 2 \text{ hours}$)*	640
Employer's contribution to Provident fund ($12\% \times ₹33,600$)	4,032

Employer's contribution to Pension fund (7% × ₹33,600)	2,352
Total monthly wages	46,254
Hours worked by Mr. Z (hours)	186.5
Effective wage rate per hour	248

*(Daily Basic + DA) ÷ 7.5 hours

= (1,000+200) ÷ 7.5 = ₹ 160 per hour

(iii) **Calculation of wages to be charged to Job no. HT200**

= ₹248 × 100 hours = ₹ 24,800

3. (a) **Computation of Machine Hour Rate**

	Basis of apportionment	Total (₹)	Machines		
			A (₹)	B (₹)	C (₹)
(A) Standing Charges					
Insurance	Depreciation Basis (3:3:2)	80,000	30,000	30,000	20,000
Indirect Labour	Direct Labour (2:3:3)	2,40,000	60,000	90,000	90,000
Building maintenance expenses	Floor Space (2:2:1)	2,00,000	80,000	80,000	40,000
Rent and Rates	Floor Space (2:2:1)	2,40,000	96,000	96,000	48,000
Salary of foreman	of Equal	5,04,000	1,68,000	1,68,000	1,68,000
Salary of attendant	of Equal	1,44,000	48,000	48,000	48,000
Total standing charges		14,08,000	4,82,000	5,12,000	4,14,000
Hourly rate for standing charges			247.43	262.83	212.53
(B) Machine Expenses:					
Depreciation	Direct	2,00,000	75,000	75,000	50,000
Spare parts	Final estimates	1,32,250	46,000	57,500	28,750
Power	K.W. rating (3:2:3)	4,00,000	1,50,000	1,00,000	1,50,000
Consumable	Direct	80,000	30,000	25,000	25,000

Stores				
Total Machine expenses	8,12,250	3,01,000	2,57,500	2,53,750
Hourly Rate for Machine expenses		154.52	132.19	130.26
Total (A + B)	22,20,250	7,83,000	7,69,500	6,67,750
Machine Hour rate		401.95	395.02	342.79

Working Notes:**(i) Calculation of effective working hours:**

No. of full off-days = No. of Sunday + No. of holidays

= 52 + 12 = 64 days

No. of half working days = 52 days – 2 holidays = 50 days

No. of full working days = 365 days – 64 days – 50 days = 251 days

Total working Hours = {(251 days × 8 hours) + (50 days × 4 hours)}

= 2,008 hours + 200 = 2,208 hours.

Total effective hours = Total working hours × 90% - 2% for break-down

= 2,208 hours × 90% - 2% (2,208 hours × 90%)

= 1,987.2 hours – 39.74 hours

= 1947.46 or Rounded up to 1948 hours.

(ii) Amount of spare parts is calculated as under:

	A (₹)	B (₹)	C (₹)
Preliminary estimates	40,000	40,000	20,000
Add: Increase in price @ 15%	6,000	6,000	3,000
	46,000	46,000	23,000
Add: Increase in consumption @ 25%	–	11,500	5,750
Estimated cost	46,000	57,500	28,750

(iii) Amount of Indirect Labour is calculated as under:

	(₹)
Preliminary estimates	2,00,000
Add: Increase in wages @ 20%	40,000
	2,40,000

- (iv) Interest on capital outlay is a finance cost, therefore it has been excluded from the cost accounts.

4. Memorandum Reconciliation Accounts

Dr.	(₹)		Cr.
	(₹)		(₹)
To Net Loss as per Costing books	6,94,000	By Administration overheads over recovered in cost accounts	1,20,000
To Factory overheads under absorbed in Cost Accounts	80,000	By Interest on investment not included in Cost Accounts	1,92,000
To Depreciation under charged in Cost Accounts	1,00,000	By Transfer fees in Financial books	48,000
To Income-Tax not provided in Cost Accounts	1,08,000	By Stores adjustment (Credit in financial books)	28,000
To Interest on Loan Funds in Financial Accounts	4,90,000	By Dividend received in financial books	64,000
		By Net loss as per Financial books	10,20,000
	14,72,000		14,72,000

5. (i) Computation of optimum run size

$$\text{Optimum run size or Economic Batch Quantity (EBQ)} = \sqrt{\frac{2 \times D \times S}{C}}$$

Where, D = Annual demand i.e. 5.5% of 18,00,00,000 = 99,00,000 units

S = Set-up cost per run = ₹33,500

C = Inventory holding cost per unit per annum
= ₹6.25 × 12 months = ₹75

$$\text{EBQ} = \sqrt{\frac{2 \times 99,00,000 \text{ units} \times ₹33,500}{₹75}} = 94,042.5 \text{ units or } 94,043 \text{ units}$$

(ii) Calculation of Total Cost of set-up and inventory holding

	Batch size	No. of set-ups	Set-up Cost (₹)	Inventory holding cost (₹)	Total Cost (₹)
A	80,000 units	124 $\left(\frac{99,00,000}{80,000} \right)$	41,54,000 (124 × ₹33,500)	30,00,000 $\left(\frac{80,000 \times ₹75}{2} \right)$	71,54,000
B	94,043 units	106 $\left(\frac{99,00,000}{94,043} \right)$	35,51,000 (106 × ₹33,500)	35,26,612.5 $\left(\frac{94,043 \times ₹75}{2} \right)$	70,77,612.50
	Extra Cost (A – B)				76,387.50

6. (a) Calculation of Total Cost for the Job:

Particulars	Amount (₹)	Amount (₹)
Direct Material Cost:		
- 15mm GI Pipe (Working Note- 1)	11,051.28	
- 20mm GI Pipe (Working Note- 2)	2,588.28	
- Other fitting materials (Working Note- 3)	3,866.07	
- Stainless steel faucet 15 units × $\left(\frac{6 \times ₹204 + 15 \times ₹209}{21 \text{ units}} \right)$	3,113.57	
- Valve 6 units × $\left(\frac{8 \times ₹404 + 10 \times ₹402 + 14 \times ₹424}{32 \text{ units}} \right)$	2,472.75	23,091.95
Direct Labour:		
- Plumber [(180 hours × ₹100) + (12 hours × ₹50)]	18,600.00	
- Helper [(192 hours × ₹70) + (24 hours × ₹35)]	14,280.00	32,880.00
- Overheads [₹26 × (180 + 192) hours]		9,672.00
Total Cost		65,643.95

(b) Price to be charged for the job work:

	Amount (₹)
Total Cost incurred on the job	65,643.95

Add: 25% Profit on Job Price $\left(\frac{65,643.95}{75\%} \times 25\% \right)$	21,881.32
	87,525.27

Working Note:**1. Cost of 15mm GI Pipe**

Date		Amount (₹)
17-08-2020	8 units × ₹ 600	4,800.00
28-08-2020	10 units × $\left(\frac{4 \times ₹ 600 + 35 \times ₹ 628}{39 \text{ units}} \right)$	6,251.28
		11,051.28

2. Cost of 20mm GI Pipe

Date		Amount (₹)
12-08-2020	2 units × ₹ 660	1,320.00
28-08-2020	2 units × $\left(\frac{8 \times ₹ 660 + 30 \times ₹ 610 + 20 \times ₹ 660}{58 \text{ units}} \right)$	1,268.28
		2,588.28

3. Cost of Other fitting materials

Date		Amount (₹)
12-08-2020	18 units × ₹ 26	468.00
17-08-2020	30 units × ₹ 26	780.00
28-08-2020	34 units × $\left(\frac{12 \times ₹ 26 + 150 \times ₹ 28}{162 \text{ units}} \right)$	946.96
30-08-2020	60 units × $\left(\frac{12 \times ₹ 26 + 150 \times ₹ 28}{162 \text{ units}} \right)$	1,671.11
		3,866.07

7. (i)

Process-I A/c

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Materials	7,000	1,40,000	By Normal loss (5% of 7,000)	350	3,500

To Other materials	-	62,000	By Process-II*	6,600	3,35,955
To Direct wages	-	42,000	By Abnormal loss*	50	2,545
To Direct expenses	-	14,000			
To Production OH (200% of ₹42,000)	-	84,000			
	7,000	3,42,000		7,000	3,42,000

$$* \frac{₹(3,42,000 - 3,500)}{(7,000 - 350) \text{ units}} = ₹50.9022$$

Process-II A/c

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-I A/c	6,600	3,35,955	By Normal loss (10% of 6,600)	660	6,600
To Other materials	-	1,36,000	By Process-III**	5,200	5,63,206
To Direct wages	-	54,000	By Abnormal loss**	740	80,149
To Direct expenses	-	16,000			
To Production OH (200% of ₹54,000)	-	1,08,000			
	6,600	6,49,955		6,600	6,49,955

$$** \frac{₹(6,49,955 - 6,600)}{(6,600 - 660) \text{ units}} = ₹108.3089$$

Process-III A/c

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-I A/c	5,200	5,63,206	By Normal loss (5% of 5,200)	260	2,600
To Other materials	-	84,200	By Product-X***	4,800	8,64,670

To Direct wages	-	48,000			
To Direct expenses	-	14,000	By Product-Z# (₹35×600)	600	21,000
To Production OH (200% of ₹48,000)	-	96,000			
To Abnormal gain***	460	82,864			
	5,660	8,88,270		5,660	8,88,270

$$*** \frac{₹(8,05,406 - 2,600 - 21,000)}{(5,200 - 260 - 600) \text{ units}} = ₹180.1396$$

$$\# \text{ Realisable value} = ₹135 - (85 + 15) = ₹35$$

(ii) **By-Product Process A/c**

Particulars	Units	Amt.(₹)	Particulars	Units	Amt.(₹)
To Process-III A/c	600	21,000	By Product-Z	600	81,000
To Processing cost	-	51,000			
To Selling expenses	-	9,000			
	600	81,000		600	81,000

8. (i) (a) **Statement of Joint Cost allocation of inventories of X, Y and Z**

(By using Net Realisable Value Method)

	Products			Total
	X	Y	Z	
	(₹)	(₹)	(₹)	
Final sales value of total production (Working Note 1)	10,98,000 (366 × ₹3,000)	13,20,750 (587 × ₹2,250)	11,41,500 (761 × ₹1,500)	35,60,250
Less: Additional cost	--	--	(6,20,000)	(6,20,000)
Net realisable value (at split-off point)	10,98,000	13,20,750	5,21,500	29,40,250
Joint cost allocated (Working Note 2)	4,66,797	5,61,496	2,21,707	12,50,000

Cost of goods sold as on March 31, 2020
(By using Net Realisable Value Method)

	Products			Total
	X	Y	Z	
	(₹)	(₹)	(₹)	
Allocated joint cost	4,66,797	5,61,496	2,21,707	12,50,000
Additional costs	--	--	6,20,000	6,20,000
Cost of goods available for sale (CGAS)	4,66,797	5,61,496	8,41,707	18,70,000
Less: Cost of ending inventory (Working Note 1)	2,29,571 (CGAS × 49.18%)	57,385 (CGAS × 10.22%)	27,692 (CGAS × 3.29%)	3,14,648
Cost of goods sold	2,37,226	5,04,111	8,14,015	15,55,352

Working Notes

1. Total production of three products for the year 2019-2020

Products	Quantity sold in tones	Quantity of ending inventory in tons	Total production	Ending inventory percentage (%)
(1)	(2)	(3)	(4) = [(2) + (3)]	(5) = (3)/ (4)
X	186	180	366	49.18
Y	527	60	587	10.22
Z	736	25	761	3.29

2. Joint cost apportioned to each product:

$$\frac{\text{Total Joint cost}}{\text{Total Net Realisable Value}} \times \text{Net Realisable Value of each product}$$

$$\text{Total cost of Product X} = \frac{₹ 12,50,000}{₹ 29,40,250} \times ₹ 10,98,000 = ₹ 4,66,797$$

$$\text{Total cost of Product Y} = \frac{₹ 12,50,000}{₹ 29,40,250} \times ₹ 13,20,750 = ₹ 5,61,496$$

$$\text{Total cost of Product Z} = \frac{₹ 12,50,000}{₹ 29,40,250} \times ₹ 5,21,500 = ₹ 2,21,707$$

9. (i) Operating Cost Sheet for the month of August, 2020

Particulars	Amount (₹)
A. Fixed Charges:	
Manager's salary (₹60,000 × 60%)	36,000
Drivers' Salary (₹20,000 × 30 drivers)	6,00,000
Helpers' wages (₹12,000 × 25 helpers)	3,00,000
Insurance (₹8,40,000 ÷ 12 months)	70,000
Road licence (₹6,00,000 ÷ 12 months)	50,000
Garage rent (₹9,00,000 ÷ 12 months)	75,000
Routine mechanical services	3,00,000
Electricity charges (for office, garage and washing station)	55,000
Depreciation of vehicles	6,00,000
Apportioned workshop expenses	88,000
Total (A)	21,74,000
B. Variable Charges:	
Loading and unloading charges (Working Note 1)	7,65,000
Consumable Stores	1,35,000
Cost of diesel (Working Note 2)	14,04,000
Lubricant, Oil etc.	1,15,000
Replacement of Tyres, Tubes & other parts	4,25,000
Total (B)	28,44,000
C. Total Cost (A + B)	50,18,000
D. Total Ton-Kms. (Working Note 3)	9,43,200
E. Cost per ton-km. (C ÷ D)	5.32

(ii) Calculation of Chargeable Freight

Cost per ton-km.	₹ 5.32
Add: Profit @ 25% on freight or 33⅓% on cost	₹ 1.77
Chargeable freight per ton-km.	₹ 7.09

Working Notes:

1. Wages paid to loading and unloading labours

Numbers of vehicles available per day × No. of days × trips × wages per trip

$(20 \text{ vehicles} \times 90\%) \times 25 \text{ days} \times 2 \text{ trips} \times ₹850$

$18 \times 25 \times 2 \times 850 = ₹7,65,000$

2. Cost of Diesel:

Distance covered by each vehicle during August, 2020

$= 100 \text{ k.m.} \times 2 \times 25 \text{ days} \times 90\% = 4,500 \text{ km.}$

Consumption of diesel = $\frac{4,500 \text{ k.m.} \times 20 \text{ vehicles}}{5 \text{ k.m.}} = 18,000 \text{ litres.}$

Cost of diesel = $18,000 \text{ litres} \times ₹ 78 = ₹14,04,000.$

3. Calculation of total ton-km:

Total Ton-Km. = Total Capacity \times Distance covered by each vehicle \times Average Capacity Utilisation ratio.

$= [(5 \times 9 \text{ MT}) + (6 \times 12 \text{ MT}) + (7 \times 15 \text{ MT}) + (2 \times 20 \text{ MT})] \times 4,500 \text{ k.m.} \times \frac{(90\% + 70\%)}{2}$

$= (45 + 72 + 105 + 40) \times 4,500 \text{ k.m.} \times 80\%$

$= 262 \times 4,500 \times 80\%.$

$= 9,43,200 \text{ ton-km.}$

10. (i) Material Usage Variance = Std. Price (Std. Quantity – Actual Quantity)

$= ₹ 90 (18,000 \text{ kg.} - 17,800 \text{ kg.})$

$= ₹ 18,000 \text{ (Favourable)}$

(ii) Material Price Variance = Actual Quantity (Std. Price – Actual Price)

$= 17,800 \text{ kg.} (\₹ 90 - ₹ 92) = ₹ 35,600 \text{ (Adverse)}$

(iii) Material Cost Variance = Std. Material Cost – Actual Material Cost

$= (\text{SQ} \times \text{SP}) - (\text{AQ} \times \text{AP})$

$= (18,000 \text{ kg.} \times ₹ 90) - (17,800 \text{ kg.} \times ₹ 92)$

$= ₹ 16,20,000 - ₹ 16,37,600$

$= ₹ 17,600 \text{ (Adverse)}$

(iv) Labour Efficiency Variance = Std. Rate (Std. Hours – Actual Hours)

$= ₹ 100 (1,800 \text{ units} \times 8 - 14,000 \text{ hrs.})$

$= ₹ 100 (14,400 \text{ hrs.} - 14,000 \text{ hrs.})$

= ₹ 40,000 (Favourable)

(v) Labour Rate Variance = Actual Hours (Std. Rate – Actual Rate)

= 14,000 hrs. (₹ 100 – ₹104)

= ₹ 56,000 (Adverse)

(vi) Labour Cost Variance = Std. Labour Cost – Actual Labour Cost

= (SH × SR) – (AH × AR)

= (14,400 hrs. × ₹ 100) – (14,000 hrs. × ₹ 104)

= ₹ 14,40,000 – ₹ 14,56,000

= ₹16,000 (Adverse)

(vii) Variable Cost Variance = Std. Variable Cost – Actual Variable Cost

= (14,400 hrs. × ₹ 15) – ₹2,17,500

= ₹ 1,500 (Adverse)

(viii) Fixed Overhead Cost Variance = Absorbed Fixed Overhead – Actual Fixed Overhead

= (1,800 units × ₹400) - ₹ 7,68,000

= ₹ 7,20,000 – ₹ 7,68,000 = ₹ 48,000 (Adverse)

11. Sales Volume 5,00,000 Units

Computation of existing contribution

Particulars	Per unit (₹)	Total (₹ In lakhs)
Sales	680	3,400
Fixed Cost	200	1,000
Profit	50	250
Contribution	250	1,250
Variable Cost (Sales – Contribution)	430	2,150

(i) Break even sales in units = $\frac{\text{Fixed Cost}}{\text{Contribution per unit}} = \frac{\text{₹}10,00,00,000}{\text{₹}250} = 4,00,000 \text{ units}$

Break even sales in rupees = 4,00,000 units × ₹ 680 = ₹ 2,720 lakhs

OR

$$P/V \text{ Ratio} = \frac{250}{680} \times 100 = 36.76\%$$

$$B.EP \text{ (Rupees)} = \frac{\text{Fixed Cost}}{P/V \text{ Ratio}} = \frac{10,00,00,000}{36.76\%} = ₹ 2,720 \text{ lakhs (approx.)}$$

- (ii) Number of units sold to achieve a target profit of ₹700 lakhs:

$$\begin{aligned} \text{Desired Contribution} &= \text{Fixed Cost} + \text{Target Profit} \\ &= 1,000 \text{ L} + 700 \text{ L} = 1,700 \text{ L} \end{aligned}$$

$$\text{Number of units to be sold} = \frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{17,00,00,000}{250} = 6,80,000 \text{ units}$$

- (iii) Profit if selling price is increased by 10% and sales volume drops by 10%:

$$\text{Existing Selling Price per unit} = ₹ 680$$

$$\text{Revised selling price per unit} = ₹ 680 \times 110\% = ₹ 748$$

$$\text{Existing Sales Volume} = 5,00,000 \text{ units}$$

$$\text{Revised sales volume} = 5,00,000 \text{ units} - 10\% \text{ of } 5,00,000 = 4,50,000 \text{ units.}$$

Statement of profit at sales volume of 4,50,000 units @ ₹ 748 per unit

Particulars	Per unit (₹)	Total (₹ In lakhs)
Sales	748	3,366
Less: Variable Costs	430	1,935
Contribution	318	1,431
Less: Fixed Cost		1,000
Profit		431

- (iv) Volume to be achieved to earn target profit of ₹700 lakhs with revised selling price and reduction of 10% in variable costs and ₹170 lakhs in fixed cost:

$$\text{Revised selling price per unit} = ₹ 748$$

$$\text{Variable costs per unit existing} = ₹ 430$$

Revised Variable Costs

$$\text{Reduction of 10\% in variable costs} = ₹ 430 - 10\% \text{ of } 430$$

$$= ₹ 430 - ₹ 43$$

$$= ₹ 387$$

$$\text{Total Fixed Cost (existing)} = ₹ 1,000 \text{ lakhs}$$

$$\text{Reduction in fixed cost} = ₹ 170 \text{ lakhs}$$

Revised fixed cost	= ₹ 1,000 lakhs – ₹ 170 lakhs = ₹830 lakhs
Revised Contribution (unit)	= Revised selling price per unit – Revised Variable Costs per units
Revised Contribution per unit	= ₹748 – ₹387 = ₹361
Desired Contribution	= Revised Fixed Cost + Target Profit
	= ₹ 830 lakhs + ₹700 lakhs = ₹1,530 lakhs
No. of units to be sold	= $\frac{\text{Desired Contribution}}{\text{Contribution per unit}} = \frac{₹15,30,00,000}{₹361}$
	= 4,23,823 units

12. (i) **Product-wise Profitability Statement for the FY 2019-20:**

Particulars	Product-X (₹)	Product-Y (₹)	Total (₹)
Output (units)	8,000	4,000	
Selling price per unit	600	550	
Sales value	48,00,000	22,00,000	70,00,000
Direct material	11,20,000 (₹140×8,000)	6,30,000 (₹157.50×4,000)	17,50,000
Direct wages	7,20,000 (₹90×8,000)	5,30,000 (₹132.5×4,000)	12,50,000
Variable factory overheads	5,47,200 (76% of 7,20,000)	4,02,800 (76% of 5,30,000)	9,50,000
Other variable costs	3,20,000 (₹40×8,000)	2,80,000 (₹70×4,000)	6,00,000
Contribution	20,92,800	3,57,200	24,50,000
Fixed factory overheads	-	-	12,00,000
Other fixed costs	-	-	4,00,000
Profit			8,50,000

(ii) **Preparation of Budget for the FY 2020-21:**

Particulars	Product-X (₹)	Product-Y (₹)	Total (₹)
Output (units)	6,400 (8,000×80%)	3,600 (4,000×90%)	
Selling price per unit	480 (600×80%)	440 (550×80%)	

Sales value	30,72,000	15,84,000	46,56,000
Direct material	8,96,000 (₹140×6,400)	5,67,000 (₹157.50×3,600)	14,63,000
Direct wages per unit	6,91,200 (₹108×6,400)	5,72,400 (₹159×3,600)	12,63,600
Variable factory overheads	5,25,312 (76% of 6,91,200)	4,35,024 (76% of 5,72,400)	9,60,336
Other variable costs	2,56,000 (₹40×6,400)	2,52,000 (₹70×3,600)	5,08,000
Contribution	7,03,488	(2,42,424)	4,61,064
Fixed factory overheads	-	-	12,00,000
Other fixed costs (110% of ₹4,00,000)	-	-	4,40,000
Profit/ (Loss)			(11,78,936)

13. (a) (i) **Discretionary Cost Centre:** The cost centre whose output cannot be measured in financial terms, thus input-output ratio cannot be defined. The cost of input is compared with allocated budget for the activity. Example of discretionary cost centres are Research & Development department, Advertisement department where output of these department cannot be measured with certainty and co-related with cost incurred on inputs.
- (ii) **Investment Centres:** These are the responsibility centres which are not only responsible for profitability but also has the authority to make capital investment decisions. The performance of these responsibility centres are measured on the basis of Return on Investment (ROI) besides profit. Examples of investment centres are Maharatna, Navratna and Miniratna companies of Public Sector Undertakings of Central Government.
- (b) **Advantages of Cost plus contracts are as follows:**
- The Contractor is assured of a fixed percentage of profit. There is no risk of incurring any loss on the contract.
 - It is useful specially when the work to be done is not definitely fixed at the time of making the estimate.
 - Contractee can ensure himself about 'the cost of the contract', as he is empowered to examine the books and documents of the contractor to ascertain the veracity of the cost of the contract.

- (c) The advantages of zero-based budgeting are as follows:
- It provides a systematic approach for the evaluation of different activities and ranks them in order of preference for the allocation of scarce resources.
 - It ensures that the various functions undertaken by the organization are critical for the achievement of its objectives and are being performed in the best possible way.
 - It provides an opportunity to the management to allocate resources for various activities only after having a thorough cost-benefit-analysis. The chances of arbitrary cuts and enhancement are thus avoided.
 - The areas of wasteful expenditure can be easily identified and eliminated.
 - Departmental budgets are closely linked with corporation objectives.
 - The technique can also be used for the introduction and implementation of the system of 'management by objective.' Thus, it cannot only be used for fulfillment of the objectives of traditional budgeting but it can also be used for a variety of other purposes.
- (d) This product costing system is used when an entity produces more than one variant of final product using different materials but with similar conversion activities. This means conversion activities are similar for all the product variants but materials differ significantly. Operation Costing method is also known as Hybrid product costing system as materials costs are accumulated by job order or batch wise but conversion costs i.e. labour and overheads costs are accumulated by department, and process costing methods are used to assign these costs to products. Moreover, under operation costing, conversion costs are applied to products using a predetermined application rate. This predetermined rate is based on budgeted conversion costs.

The two examples of industries are Ready made garments and Jewellery making.

PART II: FINANCIAL MANAGEMENT**QUESTIONS****Time Value of Money**

1. A doctor is planning to buy an X-Ray machine for his hospital. He has two options- either purchase it by making a cash payment of ₹ 5 lakhs or six equal annual installments of ₹ 1,02,500 totalling to ₹ 6,15,000. Which option do you suggest to the doctor assuming the rate of return is 12 %? Present value of annuity of Re. 1 at 12 percent rate of discount for six years is 4.111.

Ratio Analysis

2. Following information has been provided from the books of M/s Laxmi & Co. for the year ending on 31st March, 2020:

Net Working Capital	₹ 4,80,000
Bank overdraft	₹ 80,000
Fixed Assets to Proprietary ratio	0.75
Reserves and Surplus	₹ 3,20,000
Current ratio	2.5
Liquid ratio (Quick Ratio)	1.5

You are required to prepare a summarised Balance Sheet as at 31st March, 2020.

Cost of Capital

3. Calculate the WACC using the following data by using:
 - (a) Book value weights
 - (b) Market value weights

The capital structure of the company is as under:

Particulars	(₹)
Debentures (₹ 100 per debenture)	5,00,000
Preference shares (₹ 100 per share)	5,00,000
Equity shares (₹ 10 per share)	10,00,000
	20,00,000

The market prices of these securities are:

Debentures	₹ 105 per debenture
Preference shares	₹ 110 per preference share
Equity shares	₹ 24 each.

Additional information:

- (i) ₹ 100 per debenture redeemable at par, 10% coupon rate, 4% floatation costs, 10-year maturity.
- (ii) ₹ 100 per preference share redeemable at par, 5% coupon rate, 2% floatation cost and 10-year maturity.
- (iii) Equity shares has ₹ 4 floatation cost and market price ₹ 24 per share.

The next year expected dividend is ₹ 1 with annual growth of 5%. The firm has practice of paying all earnings in the form of dividend.

Corporate tax rate is 30%. Use YTM method to calculate cost of debentures and preference shares.

Capital Structure

4. Xylo Ltd. is considering two alternative financing plans as follows:

Particulars	Plan – A (₹)	Plan – B (₹)
Equity shares of ₹ 10 each	8,00,000	8,00,000
Preference Shares of ₹ 100 each	-	4,00,000
12% Debentures	4,00,000	-
	12,00,000	12,00,000

The indifference point between the plans is ₹ 4,80,000. Corporate tax rate is 30%. Calculate the rate of dividend on preference shares.

Leverage

5. From the following details of M/s X & Co., prepare the Income Statement for the year ended 31st March, 2020:
- | | |
|--|---------|
| Financial Leverage | 2 |
| Interest | ₹ 4,000 |
| Operating Leverage | 3 |
| Variable cost as a percentage of sales | 75% |
| Income tax rate | 30% |

Capital Budgeting

6. A large profit making company is considering the installation of a machine to process the waste produced by one of its existing manufacturing process to be converted into a marketable product. At present, the waste is removed by a contractor for disposal on payment by the company of ₹ 150 lakh per annum for the next four years. The contract can be terminated upon installation of the aforesaid machine on payment of a compensation of ₹ 90 lakh before the processing operation starts. This compensation is not allowed as deduction for tax purposes.

The machine required for carrying out the processing will cost ₹ 600 lakh to be financed by a loan repayable in 4 equal instalments commencing from end of the year 1. The interest rate is 14% per annum. At the end of the 4th year, the machine can be sold for ₹ 60 lakh and the cost of dismantling and removal will be ₹ 45 lakh.

Sales and direct costs of the product emerging from waste processing for 4 years are estimated as under:

(₹ In lakh)

Year	1	2	3	4
Sales	966	966	1,254	1,254
Material consumption	90	120	255	255
Wages	225	225	255	300
Other expenses	120	135	162	210
Factory overheads	165	180	330	435
Depreciation (as per income tax rules)	150	114	84	63

Initial stock of materials required before commencement of the processing operations is ₹ 60 lakh at the start of year 1. The stock levels of materials to be maintained at the end of year 1, 2 and 3 will be ₹ 165 lakh and the stocks at the end of year 4 will be nil. The storage of materials will utilise space which would otherwise have been rented out for ₹ 30 lakh per annum. Labour costs include wages of 40 workers, whose transfer to this process will reduce idle time payments of ₹ 45 lakh in the year - 1 and ₹ 30 lakh in the year - 2. Factory overheads include apportionment of general factory overheads except to the extent of insurance charges of ₹ 90 lakh per annum payable on this venture. The company's tax rate is 30%.

Present value factors for four years are as under:

Year	1	2	3	4
PV factors @14%	0.877	0.769	0.674	0.592

Advise the management on the desirability of installing the machine for processing the waste. All calculations should form part of the answer.

Management of Receivables (Debtors)

7. A company wants to follow a more prudent policy to improve its sales for the region which is ₹ 9 lakhs per annum at present, having an average collection period of 45 days. After certain researches, the management consultant of the company reveals the following information:

Credit Policy	Increase in collection period	Increase in sales	Present default anticipated
W	15 days	₹ 60,000	1.5%
X	30 days	₹ 90,000	2%
Y	45 days	₹ 1,50,000	3%
Z	70 days	₹ 2,10,000	4%

The selling price per unit is ₹ 3. Average cost per unit is ₹ 2.25 and variable costs per unit are ₹ 2. The current bad debt loss is 1%. Required return on additional investment is 20%. (Assume 360 days year)

Analyse which of the above policies would you recommend for adoption?

Management of working Capital

8. The following figures and ratios are related to a company:

(i) Sales for the year (all credit)	₹ 90,00,000
(ii) Gross Profit ratio	35 percent
(iii) Fixed assets turnover (based on cost of goods sold)	1.5
(iv) Stock turnover (based on cost of goods sold)	6
(v) Liquid ratio	1.5:1
(vi) Current ratio	2.5:1
(vii) Receivables (Debtors) collection period	1 month
(viii) Reserves and surplus to Share capital	1:1.5
(ix) Capital gearing ratio	0.7875
(x) Fixed assets to net worth	1.3 : 1

You are required to prepare:

- Balance Sheet of the company on the basis of above details.
- The statement showing working capital requirement, if the company wants to make a provision for contingencies @ 15 percent of net working capital.

Cash Flow Statement

9. Balance Sheet of X Pvt. Ltd. as on 31st March, 2019 and 31st March, 2020 are furnished below:

(₹ in crore)				
	Particulars	Note No.	31 st March, 2020	31 st March, 2019
I	Equity and Liabilities:			
(1)	Shareholders' funds			
	(a) Share Capital		140	140
	(b) Reserves and surplus		110	92
(2)	Non-current liabilities			
	(a) Long-term borrowings		135	40
(3)	Current liabilities			
	(a) Trade Payables		380	460
	(b) Other current liabilities		220	210
	(c) Provision for Current Tax		15	8
	Total		1,000	950
II	Assets:			
(1)	Non-current assets			
	(a) Fixed Assets (tangible)			
	(i) Plant and equipment		430	309
	Less: Accumulated Depreciation		(218)	(194)
			212	115
	(b) Investment Property		60	75
(2)	Current Assets			
	(a) Inventories		305	260
	(b) Trade receivable		280	370
	(c) Cash and cash equivalents		26	10
	(d) Other Current Assets		117	120
	Total		1,000	950

Income Statement (extract) for the year ending 31st March, 2020 (₹ in crore)

Sales	1,000
Less : Cost of goods sold	(530)
Gross margin	470
Less : Operating expenses	(352)
Net operating income	118
Non-operating items:	
Loss on sale of equipment	(4)
Profit before taxes	114
Less : Provision for income-taxes	(48)
Net Profit	66

Additional information:

- (i) Dividends of ₹ 48 crores were paid in February, 2020.
- (ii) The loss on sale of equipment of ₹ 4 crore reflects a transaction in which equipment with an original cost of ₹ 12 crore and accumulated depreciation of ₹ 5 crore were sold for ₹ 3 crore in cash.

You are required to prepare a Cash Flow Statement for the year ended 31st March, 2020.

Miscellaneous

10. (a) Explain agency problem and agency cost. How to address the issues of the same.
- (b) Compare between Financial Lease and Operating Lease.

SUGGESTED HINTS/ANSWERS

1. Option I: Cash Down Payment

Cash down payment = ₹ 5,00,000

Option II: Annual Installment Basis

Annual Installment = ₹ 1,02,500

Present Value of 1 to 6 installments @12%

$$= ₹ 1,02,500 \times 4.111$$

$$= ₹ 4,21,378$$

Advise: The doctor should buy X-Ray machine on installment basis because the present value of cash outflows is lower than cash down payment. This means Option II is better than Option I.

2. Working notes:

(i) Current Assets and Current Liabilities computation:

$$\frac{\text{Current assets}}{\text{Current liabilities}} = \frac{2.5}{1}$$

Or Current assets = 2.5 Current liabilities

Now, Working capital = Current assets – Current liabilities

Or ₹ 4,80,000 = 2.5 Current liability – Current liability

Or 1.5 Current liability = ₹ 4,80,000

∴ Current Liabilities = ₹ 3,20,000

So, Current Assets = ₹ 3,20,000 × 2.5 = ₹ 8,00,000

(ii) Computation of stock

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

Or 1.5 = $\frac{\text{Current assets} - \text{Inventories}}{\text{₹ 3,20,000}}$

Or $1.5 \times \text{₹ 3,20,000}$ = ₹ 8,00,000 – Inventories

Or Inventories = ₹ 8,00,000 – ₹ 4,80,000

Or Stock = ₹ 3,20,000

(iii) Computation of Proprietary fund; Fixed assets; Capital and Sundry creditors

$$\text{Fixed Asset to Proprietary ratio} = \frac{\text{Fixed assets}}{\text{Proprietary fund}} = 0.75$$

∴ Fixed Assets = 0.75 Proprietary fund (PF) [FA+NWC = PF]

or NWC = PF - FA [(i.e. .75 PF)]

and Net Working Capital (NWC) = 0.25 Proprietary fund

Or ₹ 4,80,000/0.25 = Proprietary fund

Or Proprietary fund = ₹ 19,20,000

and Fixed Assets = 0.75 proprietary fund

	=	$0.75 \times ₹ 19,20,000 = ₹ 14,40,000$
Capital	=	Proprietary fund – Reserves & Surplus
	=	$₹ 19,20,000 - ₹ 3,20,000 = ₹ 16,00,000$
Sundry Creditors	=	(Current liabilities – Bank overdraft)
	=	$(₹ 3,20,000 - ₹ 80,000) = ₹ 2,40,000$

Balance Sheet as at 31st March, 2020

Liabilities	₹	Assets	₹
Capital	16,00,000	Fixed Assets	14,40,000
Reserves & Surplus	3,20,000	Stock	3,20,000
Bank overdraft	80,000	Other Current Assets	4,80,000
Sundry creditors	<u>2,40,000</u>		<u> </u>
	<u>22,40,000</u>		<u>22,40,000</u>

3. (i) Cost of Equity (K_e)

$$= \frac{D_1}{P_0 - F} + g = \frac{₹ 1}{₹ 24 - ₹ 4} + 0.05 = 0.1 \text{ or } 10\%$$

(ii) Cost of Debt (K_d)

Current market price (P_0) – floatation cost = $I(1-t) \times PVAF(r, 10) + RV \times PVIF(r, 10)$

$$₹ 105 - 4\% \text{ of } ₹ 105 = ₹ 10 (1-0.3) \times PVAF(r, 10) + ₹ 100 \times PVIF(r, 10)$$

Calculation of NPV at discount rate of 5% and 7%

Year	Cash flows (₹)	Discount factor @ 5%	Present Value	Discount factor @ 7%	Present Value (₹)
0	100.8	1.000	(100.8)	1.000	(100.8)
1 to 10	7	7.722	54.05	7.024	49.17
10	100	0.614	61.40	0.508	50.80
NPV			+14.65		-0.83

Calculation of IRR

$$IRR = 5\% + \frac{14.65}{14.65 - (-0.83)}(7\% - 5\%) = 5\% + \frac{14.65}{15.48}(7\% - 5\%) = 6.89\%$$

...

Cost of Debt (K_d) = 6.89%

(iii) **Cost of Preference shares (K_p)**

Current market price (P_0) – flotation cost = PD \times PVAF($r, 10$) + RV \times PVIF($r, 10$)

₹ 110 – 2% of ₹ 110 = ₹ 5 \times PVAF ($r, 10$) + ₹ 100 \times PVIF ($r, 10$)

Calculation of NPV at discount rate of 3% and 5%

Year	Cash flows (₹)	Discount factor @ 3%	Present Value	Discount factor @ 5%	Present Value (₹)
0	107.8	1.000	(107.8)	1.000	(107.8)
1 to 10	5	8.530	42.65	7.722	38.61
10	100	0.744	74.40	0.614	61.40
NPV			+9.25		-7.79

Calculation of IRR

$$\text{IRR} = 3\% + \frac{9.25}{9.25 - (-7.79)} (5\% - 3\%) = 3\% + \frac{9.25}{17.04} (5\% - 3\%) = 4.08\%$$

Cost of Preference Shares (K_p) = 4.08%

(a) Calculation of WACC using book value weights

Source of capital	Book Value	Weights	After tax cost of capital	WACC (K_o)
	(₹)	(a)	(b)	(c) = (a) \times (b)
10% Debentures	5,00,000	0.25	0.0689	0.01723
5% Preference shares	5,00,000	0.25	0.0408	0.0102
Equity shares	10,00,000	0.50	0.10	0.05000
	20,00,000	1.00		0.07743

WACC (K_o) = 0.07743 or 7.74%

(b) Calculation of WACC using market value weights

Source of capital	Market Value	Weights	After tax cost of capital	WACC (K_o)
	(₹)	(a)	(b)	(c) = (a) \times (b)
10% Debentures (₹ 105 \times 5,000)	5,25,000	0.151	0.0689	0.0104

5% Preference shares (₹ 110 × 5,000)	5,50,000	0.158	0.0408	0.0064
Equity shares (₹ 24 × 1,00,000)	24,00,000	0.691	0.10	0.0691
	34,75,000	1.000		0.0859

WACC (K_o) = 0.0859 or 8.59%

4. Computation of Rate of Preference Dividend

$$\begin{aligned}
 \frac{(\text{EBIT} - \text{Interest}) (1-t)}{\text{No. of Equity Shares } (N_1)} &= \frac{\text{EBIT } (1-t) - \text{Preference Dividend}}{\text{No. of Equity Shares } (N_2)} \\
 \frac{(\text{₹ } 4,80,000 - \text{₹ } 48,000) \times (1 - 0.30)}{80,00,000 \text{ shares}} &= \frac{\text{₹ } 4,80,000 (1 - 0.30) - \text{Preference Dividend}}{80,00,000 \text{ shares}} \\
 \frac{\text{₹ } 3,02,400}{80,00,000 \text{ shares}} &= \frac{\text{₹ } 3,36,000 - \text{Preference Dividend}}{80,00,000 \text{ shares}} \\
 \text{₹ } 3,02,400 &= \text{₹ } 3,36,000 - \text{Preference Dividend} \\
 \text{Preference Dividend} &= \text{₹ } 3,36,000 - \text{₹ } 3,02,400 = \text{₹ } 33,600 \\
 \text{Rate of Dividend} &= \frac{\text{Preference Dividend}}{\text{Preference share capital}} \times 100 \\
 &= \frac{\text{₹ } 33,600}{4,00,000} \times 100 = 8.4\%
 \end{aligned}$$

5. Workings:

$$\begin{aligned}
 \text{(i) Financial Leverage} &= \frac{\text{EBIT}}{\text{EBIT} - \text{Interest}} \\
 \text{Or, } 2 &= \frac{\text{EBIT}}{\text{EBIT} - \text{₹ } 4,000} \\
 \text{Or, EBIT} &= \text{₹ } 8,000 \\
 \text{(ii) Operating Leverage} &= \frac{\text{Contribution}}{\text{EBIT}} \\
 \text{Or, } 3 &= \frac{\text{Contribution}}{\text{₹ } 8,000} \\
 \text{Or, Contribution} &= \text{₹ } 24,000 \\
 \text{(iii) Sales} &= \frac{\text{Contribution}}{\text{P / V Ratio}} = \frac{\text{₹ } 24,000}{25\%} = \text{₹ } 96,000
 \end{aligned}$$

(iv) Fixed Cost:

Contribution – Fixed cost = EBIT

₹ 24,000 – Fixed cost = ₹ 8,000

Or, Fixed cost = ₹ 16,000

Income Statement for the year ended 31st March, 2020

Particulars	Amount (₹)
Sales	96,000
Less: Variable Cost (75% of ₹ 96,000)	(72,000)
Contribution	24,000
Less: Fixed Cost (Contribution - EBIT)	(16,000)
Earnings Before Interest and Tax (EBIT)	8,000
Less: Interest	(4,000)
Earnings Before Tax (EBT)	4,000
Less: Income Tax @ 30%	(1,200)
Earnings After Tax (EAT or PAT)	2,800

6. Statement of Operating Profit from processing of waste

(₹ in lakh)

Year	1	2	3	4
Sales :(A)	966	966	1,254	1,254
Material consumption	90	120	255	255
Wages	180	195	255	300
Other expenses	120	135	162	210
Factory overheads (insurance only)	90	90	90	90
Loss of rent on storage space (opportunity cost)	30	30	30	30
Interest @14%	84	63	42	21
Depreciation (as per income tax rules)	150	114	84	63
Total cost: (B)	744	747	918	969
Profit (C)=(A)-(B)	222	219	336	285
Tax (30%)	66.6	65.7	100.8	85.5
Profit after Tax (PAT)	155.4	153.3	235.2	199.5

Statement of Incremental Cash Flows

(₹ in lakh)

Year	0	1	2	3	4
Material stock	(60)	(105)	-	-	165
Compensation for contract	(90)	-	-	-	-
Contract payment saved	-	150	150	150	150
Tax on contract payment	-	(45)	(45)	(45)	(45)
Incremental profit	-	222	219	336	285
Depreciation added back	-	150	114	84	63
Tax on profits	-	(66.6)	(65.7)	(100.8)	(85.5)
Loan repayment	-	(150)	(150)	(150)	(150)
Profit on sale of machinery (net)	-	-	-	-	15
Total incremental cash flows	(150)	155.4	222.3	274.2	397.5
Present value factor	1.00	0.877	0.769	0.674	0.592
Present value of cash flows	(150)	136.28	170.95	184.81	235.32
Net present value	577.36				

Advice: Since the net present value of cash flows is ₹ 577.36 lakh which is positive the management should install the machine for processing the waste.

Notes:

- (i) Material stock increases are taken in cash flows.
- (ii) Idle time wages have also been considered.
- (iii) Apportioned factory overheads are not relevant only insurance charges of this project are relevant.
- (iv) Interest calculated at 14% based on 4 equal instalments of loan repayment.
- (v) Sale of machinery- Net income after deducting removal expenses taken. Tax on Capital gains ignored.
- (vi) Saving in contract payment and income tax thereon considered in the cash flows.

7. A. Statement showing the Evaluation of Debtors Policies (Total Approach)

(Amount in ₹)

Particulars	Present Policy 45 days	Proposed Policy W 60 days	Proposed Policy X 75 days	Proposed Policy Y 90 days	Proposed Policy Z 115 days
I. Expected Profit:					
(a) Credit Sales	9,00,000	9,60,000	9,90,000	10,50,000	11,10,000

	(b) Total Cost other than Bad Debts					
	(i) Variable Costs [Sales × 2/3]	6,00,000	6,40,000	6,60,000	7,00,000	7,40,000
	(ii) Fixed Costs	75,000	75,000	75,000	75,000	75,000
		6,75,000	7,15,000	7,35,000	7,75,000	8,15,000
	(c) Bad Debts	9,000	14,400	19,800	31,500	44,400
	(d) Expected Profit [(a) – (b) – (c)]	2,16,000	2,30,600	2,35,200	2,43,500	2,50,600
II.	Opportunity Cost of Investments Receivables	16,875	23,833	30,625	38,750	52,069
III.	Net Benefits (I – II)	1,99,125	2,06,767	2,04,575	2,04,750	1,98,531

Recommendation: The Proposed Policy W (i.e. increase in collection period by 15 days or total 60 days) should be adopted since the net benefits under this policy are higher as compared to other policies.

Working Notes:

- (i) **Calculation of Fixed Cost** = [Average Cost per unit – Variable Cost per unit] × No. of Units sold

$$= [₹ 2.25 - ₹ 2.00] \times (₹ 9,00,000/3)$$

$$= ₹ 0.25 \times 3,00,000 = ₹ 75,000$$

- (ii) **Calculation of Opportunity Cost of Average Investments**

$$\text{Opportunity Cost} = \text{Total Cost} \times \frac{\text{Collection period}}{360} \times \frac{\text{Rate of Return}}{100}$$

$$\text{Present Policy} = 6,75,000 \times \frac{45}{360} \times \frac{20}{100} = 16,875$$

$$\text{Policy W} = 7,15,000 \times \frac{60}{360} \times \frac{20}{100} = 23,833$$

$$\text{Policy X} = 7,35,000 \times \frac{75}{360} \times \frac{20}{100} = 30,625$$

$$\text{Policy Y} = 7,75,000 \times \frac{90}{360} \times \frac{20}{100} = 38,750$$

$$\text{Policy Z} = 8,15,000 \times \frac{115}{360} \times \frac{20}{100} = 52,069$$

- B. Another method of solving the problem is **Incremental Approach**. Here we assume that sales are all credit sales. **(Amount in ₹)**

Particulars		Present Policy 45 days	Proposed Policy W 60 days	Proposed Policy X 75 days	Proposed Policy Y 90 days	Proposed Policy Z 115 days
I. Incremental Expected Profit:						
(a) Incremental Credit Sales		0	60,000	90,000	1,50,000	2,10,000
(b) Incremental Costs						
(i) Variable Costs		6,00,000	40,000	60,000	1,00,000	1,40,000
(ii) Fixed Costs		75,000	-	-	-	-
(c) Incremental Bad Debt Losses		9,000	5,400	10,800	22,500	35,400
(d) Incremental Expected Profit (a – b – c)]			14,600	19,200	27,500	34,600
II. Required Return on Incremental Investments:						
(a) Cost of Credit Sales		6,75,000	7,15,000	7,35,000	7,75,000	8,15,000
(b) Collection period		45	60	75	90	115
(c) Investment in Receivable (a × b/360)		84,375	1,19,167	1,53,125	1,93,750	2,60,347
(d) Incremental Investment in Receivables		-	34,792	68,750	1,09,375	1,75,972
(e) Required Rate of Return (in %)			20	20	20	20
(f) Required Return on Incremental Investments (d × e)		-	6,958	13,750	21,875	35,194
III. Net Benefits (I – II)		-	7,642	5,450	5,625	(594)

Recommendation: The Proposed Policy W should be adopted since the net benefits under this policy are higher than those under other policies.

C. Another method of solving the problem is by computing the **Expected Rate of Return**.

$$\text{Expected Rate of Return} = \frac{\text{Incremental Expected Profit}}{\text{Incremental Investment in Receivables}} \times 100$$

$$\text{For Policy W} = \frac{\text{₹ 14,600}}{\text{₹ 34,792}} \times 100 = 41.96\%$$

$$\text{For Policy X} = \frac{\text{₹ 19,200}}{\text{₹ 68,750}} \times 100 = 27.93\%$$

$$\text{For Policy Y} = \frac{\text{₹ 27,500}}{\text{₹ 1,09,375}} \times 100 = 25.14\%$$

$$\text{For Policy Z} = \frac{\text{₹ 34,600}}{\text{₹ 1,75,972}} \times 100 = 19.66\%$$

Recommendation: The Proposed Policy W should be adopted since the Expected Rate of Return (41.96%) is more than the Required Rate of Return (20%) and is highest among the given policies compared.

8. Working Notes:

$$\begin{aligned} \text{(i) Cost of Goods Sold} &= \text{Sales} - \text{Gross Profit (35\% of Sales)} \\ &= \text{₹ 90,00,000} - \text{₹ 31,50,000} \\ &= \text{₹ 58,50,000} \end{aligned}$$

$$\begin{aligned} \text{(ii) Closing Stock} &= \text{Cost of Goods Sold} / \text{Stock Turnover} \\ &= \text{₹ 58,50,000} / 6 = \text{₹ 9,75,000} \end{aligned}$$

$$\begin{aligned} \text{(iii) Fixed Assets} &= \text{Cost of Goods Sold} / \text{Fixed Assets Turnover} \\ &= \text{₹ 58,50,000} / 1.5 \\ &= \text{₹ 39,00,000} \end{aligned}$$

(iv) Current Assets:

$$\text{Current Ratio} = 2.5 \text{ and Liquid Ratio} = 1.5$$

$$\text{Inventories (Stock)} = 2.5 - 1.5 = 1$$

$$\begin{aligned} \text{Current Assets} &= \text{Amount of Inventories (Stock)} \times 2.5/1 \\ &= \text{₹ 9,75,000} \times 2.5/1 = \text{₹ 24,37,500} \end{aligned}$$

(v) Liquid Assets (Receivables and Cash)

$$= \text{Current Assets} - \text{Inventories (Stock)}$$

- $$= ₹ 24,37,500 - ₹ 9,75,000$$
- $$= ₹ 14,62,500$$
- (vi) Receivables (Debtors) = Sales × Debtors Collection period / 12
- $$= ₹ 90,00,000 \times 1/12$$
- $$= ₹ 7,50,000$$
- (vii) Cash = Liquid Assets – Receivables (Debtors)
- $$= ₹ 14,62,500 - ₹ 7,50,000 = ₹ 7,12,500$$
- (viii) Net worth = Fixed Assets / 1.3
- $$= ₹ 39,00,000 / 1.3 = ₹ 30,00,000$$
- (ix) Reserves and Surplus
- Reserves and Share Capital = Net worth
- Net worth = 1 + 1.5 = 2.5
- Reserves and Surplus = ₹ 30,00,000 × 1/2.5
- $$= ₹ 12,00,000$$
- (x) Share Capital = Net worth – Reserves and Surplus
- $$= ₹ 30,00,000 - ₹ 12,00,000$$
- $$= ₹ 18,00,000$$
- (xi) Current Liabilities = Current Assets / Current Ratio
- $$= ₹ 24,37,500 / 2.5 = ₹ 9,75,000$$
- (xii) Long-term Debts
- Capital Gearing Ratio = Long-term Debts / Equity Shareholders' Fund
- Long-term Debts = ₹ 30,00,000 × 0.7875 = ₹ 23,62,500

(a) Balance Sheet of the Company

Particulars	Figures as at 31-03-2020 (₹)	Figures as at 31-03-2019 (₹)
I. EQUITY AND LIABILITIES		
Shareholders' funds		
(a) Share capital	18,00,000	-
(b) Reserves and surplus	12,00,000	-

Non-current liabilities		
(a) Long-term borrowings	23,62,500	-
Current liabilities	9,75,000	-
TOTAL	63,37,500	-
II. ASSETS		
Non-current assets		
Fixed assets	39,00,000	-
Current assets		
Inventories	9,75,000	-
Trade receivables	7,50,000	-
Cash and cash equivalents	7,12,500	-
TOTAL	63,37,500	-

(b) **Statement Showing Working Capital Requirement**

Particulars	(₹)	(₹)
A. Current Assets		
(i) Inventories (Stocks)		9,75,000
(ii) Receivables (Debtors)		7,50,000
(iii) Cash in hand & at bank		7,12,500
Total Current Assets		24,37,500
B. Current Liabilities:		
Total Current Liabilities		9,75,000
Net Working Capital (A – B)		14,62,500
Add: Provision for contingencies (15% of Net Working Capital)		2,19,375
Working capital requirement		16,81,875

9. **Statement of Cash Flows for the year ended 31st March, 2020**

Particulars	(₹ in crore)
Cash flow from Operating Activities	
Profit before taxation	114
Adjustments:	
Add: Loss on sale of equipment	4
Add: Depreciation (₹ 218 + ₹ 5 – ₹ 194)	29
Operating profit before working capital changes	147

Decrease in trade receivable (₹ 370 – ₹ 280)	90
Increase in inventory (₹ 305 – ₹ 260)	(45)
Decrease in other current assets (₹ 120 – ₹ 117)	3
Decrease in trade payable (₹ 460 – ₹ 380)	(80)
Increase in other current liabilities (₹ 220 – ₹ 210)	10
<i>Cash generated from operations</i>	125
Less: Income tax paid (₹ 8 + ₹ 48 - ₹ 15)	(41)
<i>Net Cash from Operating activities (A)</i>	84
Cash flow from Investing Activities	
Purchase of plant and equipment (₹ 430 + ₹ 12 – ₹ 309)	(133)
Sale of investments (₹ 75 – ₹ 60)	15
Sale of plant and equipment	3
<i>Net cash from Investing activities (B)</i>	(115)
Cash Flow from Financing Activities	
Payment of dividend	(48)
Long term borrowings (₹ 135 – ₹ 40)	95
<i>Net cash from Financing activities (C)</i>	47
Net Increase/(Decrease) in cash and cash equivalents (A+B+C)	16
Cash and cash equivalent at the beginning of the year	10
Cash and cash equivalent at the end of the year	26

10. (a) Though in a sole proprietorship firm, partnership etc., owners participate in management but in corporates, owners are not active in management so, there is a separation between owner/ shareholders and managers. In theory managers should act in the best interest of shareholders, however, in reality, managers may try to maximise their individual goal like salary, perks etc., so there is a **principal agent relationship between managers and owners, which is known as Agency Problem**. In a nutshell, Agency Problem is the chances that managers may place personal goals ahead of the goal of owners. Agency Problem leads to Agency Cost. Agency cost is the additional cost borne by the shareholders to monitor the manager and control their behaviour so as to maximise shareholders wealth. Generally, Agency Costs are of four types (i) monitoring (ii) bonding (iii) opportunity (iv) structuring.

Addressing the agency problem

The agency problem arises if manager's interests are not aligned to the interests of the debt lender and equity investors. The agency problem of debt lender would be addressed by imposing negative covenants i.e. the managers cannot borrow beyond a point. This is one of the most important concepts of modern day finance and the

application of this would be applied in the Credit Risk Management of Bank, Fund Raising, Valuing distressed companies.

Agency problem between the managers and shareholders can be addressed if the interests of the managers are aligned to the interests of the shareholders. It is easier said than done.

However, following efforts have been made to address these issues:

- ◆ Managerial compensation is linked to profit of the company to some extent and also with the long term objectives of the company.
- ◆ Employee is also designed to address the issue with the underlying assumption that maximisation of the stock price is the objective of the investors.
- ◆ Effecting monitoring can be done.

(b)

	Finance Lease	Operating Lease
1.	The risk and reward incident to ownership are passed on to the lessee. The lessor only remains the legal owner of the asset.	The lessee is only provided the use of the asset for a certain time. Risk incident to ownership belong wholly to the lessor.
2.	The lessee bears the risk of obsolescence.	The lessor bears the risk of obsolescence.
3.	The lessor is interested in his rentals and not in the asset. He must get his principal back along with interest. Therefore, the lease is non-cancellable by either party.	As the lessor does not have difficulty in leasing the same asset to other willing lessor, the lease is kept cancelable by the lessor.
4.	The lessor enters into the transaction only as financier. He does not bear the cost of repairs, maintenance or operations.	Usually, the lessor bears cost of repairs, maintenance or operations.
5.	The lease is usually full payout, that is, the single lease repays the cost of the asset together with the interest.	The lease is usually non-payout, since the lessor expects to lease the same asset over and over again to several users.

PAPER 4: TAXATION

SECTION A: INCOME TAX

PART I: STATUTORY UPDATE

The Income-tax law, as amended by the Finance Act, 2019 and the Finance (No. 2) Act, 2019, including significant notifications/circulars and legislative amendments made upto 30th April, 2020, are applicable for November, 2020 examination. The relevant assessment year for November, 2020 examination is A.Y.2020-21. The August 2019 edition of the Study Material is based on the provisions of Income-tax law as amended by the Finance Act, 2019 and Finance (No. 2) Act, 2019 and hence, the same is relevant for November 2020 examination.

The significant notifications/circulars and legislative amendments made upto 30.04.2020 which are relevant for November, 2020 examination but not covered in the August 2019 edition of the Study Material, are given hereunder:

Chapter 1: Basic Concepts

The August, 2019 edition of the Study Material contains the CBDT Press Release dated 24.8.2019, at Pg.4.362 of Module 2. According to this Press Release, the enhanced surcharge of 25% and 37% on Income-tax, as the case may be, applicable where the total income of Individuals/HUFs/AOPs/Bols/Artificial Juridical Persons exceeds ₹ 2 crore and ₹ 5 crore, respectively, has been withdrawn on income-tax payable at special rates on short-term capital gain under section 111A and long-term capital gains under section 112A arising from the transfer of equity share in a company or unit of an equity-oriented fund/ business trust, which has been subject to securities transaction tax.

Consequently, the manner of computation of surcharge on income-tax, in case of Individuals/HUFs/AOPs/Bols/Artificial Juridical Persons for A.Y.2020-21 would be as follows:

	Particulars	Rate of surcharge on income-tax	Example	
			Components of total income	Applicable rate of surcharge
(i)	Where the total income (including income under section 111A and 112A) > ₹ 50 lakhs but ≤ ₹ 1 crore	10%	<ul style="list-style-type: none">STCG u/s 111A ₹ 30 lakhs;LTSG u/s 112A ₹ 25 lakhs; andOther income ₹ 40 lakhs	Surcharge would be levied @ 10% on income-tax computed on total income of ₹ 95 lakhs.

(ii)	Where total income (including income under section 111A and 112A) exceeds ₹ 1 crore but does not exceed ₹ 2 crore	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 50 lakhs 	Surcharge would be levied @15% on income-tax computed on total income of ₹ 1.75 crores.
(iii)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 2 crore but does not exceed ₹ 5 crore The rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	25% Not exceeding 15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 54 lakh; • LTCG u/s 112A ₹ 55 lakh; and • Other income ₹ 3 crores 	<p>Surcharge would be levied @15% on income-tax on:</p> <ul style="list-style-type: none"> • STCG of ₹ 54 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 55 lakhs chargeable to tax u/s 112A. <p>Surcharge@25% would be leviable on income-tax computed on other income of ₹ 3 crores included in total income</p>
(iv)	Where total income (excluding income under section 111A and 112A) exceeds ₹ 5 crore Rate of surcharge on the income-tax payable on the portion of income chargeable to tax under section 111A and 112A	37% Not exceeding 15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 50 lakhs; • LTCG u/s 112A ₹ 65 lakhs; and • Other income ₹ 6 crore 	<p>Surcharge@15% would be levied on income-tax on:</p> <ul style="list-style-type: none"> • STCG of ₹ 50 lakhs chargeable to tax u/s 111A; and • LTCG of ₹ 65 lakhs chargeable to tax u/s 112A. <p>Surcharge@37% would be leviable on the income-tax computed on other income of ₹ 6 crores included in total income.</p>

(v)	Where total income (including income under section 111A and 112A) exceeds ₹ 2 crore in cases not covered under (iii) and (iv) above	15%	<ul style="list-style-type: none"> • STCG u/s 111A ₹ 60 lakhs; • LTCG u/s 112A ₹ 55 lakhs; and • Other income ₹ 1.10 crore 	Surcharge would be levied @ 15% on income-tax computed on total income of ₹ 2.25 crore.
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Chapter 4 Unit 3: Profits and gains from Business and Profession

Increased rate of depreciation in respect of motor vehicles acquired and put to use during the period from 23.8.2019 to 31.3.2020 [Notification 69/2019 dated 20.9.2019]

	Particulars	Depreciation allowable as a % of WDV
(i)	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 Note – For motor buses, motor lorries and motor taxis used in a business of running them on hire, except those covered in (i) above, the rate of depreciation would continue to be 30%.	45%
(ii)	Motor cars other than those used in a business of running them on hire, acquired during the period from 23.8.2019 to 31.3.2020 and put to use on or before 31.3.2020 Note – For motor cars, other than those used in a business of running them on hire, acquired or put to use on or after 1.4.1990, except those covered in (ii) above, the rate of depreciation would continue to be 15%	30%

Chapter 4 Unit 4 : Capital Gains

Notification of Cost Inflation Index for Financial Year 2019-20 [Notification No. 63/2019, dated 12.9.2019]

Clause (v) of Explanation to section 48 defines "Cost Inflation Index", in relation to a previous year, to mean such Index as the Central Government may, by notification in the Official Gazette,

specify in this behalf, having regard to 75% of average rise in the Consumer Price Index (Urban) for the immediately preceding previous year to such previous year.

Accordingly, the Central Government has, in exercise of the powers conferred by clause (v) of Explanation to section 48, specified the Cost Inflation Index for the financial year 2019-20 as 289.

S.No.	Financial Year	Cost Inflation Index	S.No.	Financial Year	Cost Inflation Index
1	2001-02	100	11	2011-12	184
2	2002-03	105	12	2012-13	200
3	2003-04	109	13	2013-14	220
4	2004-05	113	14	2014-15	240
5	2005-06	117	15	2015-16	254
6	2006-07	122	16	2016-17	264
7	2007-08	129	17	2017-18	272
8	2008-09	137	18	2018-19	280
9	2009-10	148	19.	2019-20	289
10	2010-11	167			

Chapter 4 Unit 5 : Income from Other Sources

Notification of class of persons, receipt of immovable property from whom would not attract the provisions of section 56(2)(x) [Notification No. 96/2019 dated 11.11.2019]

Section 56(2)(x) brings to tax under the head "Income from Other Sources", any sum of money received without consideration, if the aggregate value exceeds ₹ 50,000 or value of immovable property being land or building or both, received without consideration, if the stamp duty value exceeds ₹ 50,000. It also brings to tax, in a case where immovable property is received for inadequate consideration, the difference between the stamp duty value and actual sale consideration, if the stamp duty value exceeds such consideration and such excess amount is more than higher of ₹ 50,000 and 5% of sale consideration.

The proviso to section 56(2)(x), however, lists out the circumstances under which any sum of money or value of property would not be chargeable to tax under the head "Income from other sources". The Finance (No.2) Act, 2019 has inserted clause (XI) to the proviso to provide that any sum of money or value of property would not be chargeable to tax in the hands of the recipient if it is received from such class of persons and subject to such conditions, as may be prescribed.

Accordingly, the Central Government has, vide this notification, inserted Rule 11UAC to provide that the provisions of section 56(2)(x) shall not apply to any immovable property, being land or building or both, received by a resident of an unauthorised colony in the National Capital Territory of Delhi,

where the Central Government by notification in the Official Gazette, regularised the transactions of such immovable property based on the latest Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration for conferring or recognising right of ownership or transfer or mortgage in regard to such immovable property in favour of such resident.

Meaning of the terms “Resident” and “Unauthorised colony”:

Term	Meaning
Resident	A person having physical possession of property on the basis of a registered sale deed or latest set of Power of Attorney, Agreement to Sale, Will, possession letter and other documents including documents evidencing payment of consideration in respect of a property in unauthorised colonies and includes their legal heirs but does not include tenant, licensee or permissive user;
Unauthorised colony	A colony or development comprising of a contiguous area, where no permission has been obtained for approval of layout plan or building plans and has been identified for regularisation of such colony in pursuance to the notification number S.O. 683(E), dated the 24 th March, 2008, of the Delhi Development Authority.

Permissible “Other electronic modes” prescribed for the purpose of certain sections [Notification No. 8/2020, dated 29.01.2020]

The following sections have been amended by the Finance (No.2) Act, 2019 to permit payment/receipt referred to therein by other electronic modes to be prescribed, in addition to account payee cheque/bank draft and Electronic Clearing System (ECS) through bank account.

Section	Description of payment/receipt	Study Material Page no.
35AD(8)	Mode of payment of an amount exceeding ₹ 10,000 in a day for capital expenditure in respect of specified business	4.231
40A(3)/(3A)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day towards any expenditure (exceeding ₹ 35,000 in a day, in case of payment to transport operator)	4.277
43(1)	Mode of payment or aggregate of payments exceeding ₹ 10,000 in a day to a person for acquisition of asset (for inclusion in actual cost for computing depreciation)	4.201

44AD(1)	Receipts, included in "turnover/gross receipts", qualifying for computation of presumptive income @ concessional rate of 6%	4.299
43CA	Mode of payment of part or whole of consideration for transfer of stock-in trade, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing profits and gains from business or profession	4.290
50C	Mode of payment of part or whole of consideration for transfer of capital asset, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of determining full value of consideration for computing capital gains	4.420
56(2)(x)	Mode of receipt of part or whole of consideration for transfer of immovable property, being land or building or both, on or before the date of agreement for considering stamp duty value on the date of agreement for the purpose of computing income under the head "Income from other sources".	4.490
80JJAA	Mode of payment of emoluments to additional employees employed during the previous year to qualify for deduction	7.56

Accordingly, the CBDT has, vide this notification, inserted Rule 6ABBA to prescribe the following electronic modes through which payment can be made or money can be received, for the purposes of above sections cited in the above table -

- (a) Credit Card;
- (b) Debit Card;
- (c) Net Banking;
- (d) IMPS (Immediate Payment Service);
- (e) UPI (Unified Payment Interface);
- (f) RTGS (Real Time Gross Settlement);
- (g) NEFT (National Electronic Funds Transfer), and
- (h) BHIM (Bharat Interface for Money) Aadhar Pay.

Note – Consequent to insertion of Rule 6ABBA, Rule 6DD which specifies the cases and circumstances where disallowance under section 40A(3) would not be attracted, has been amended w.e.f. 29.1.2020 to omit clause (j) thereof providing for exclusion of payment required to be made on a day on which the banks were closed either on account of holiday or strike from the purview of section 40A(3). Accordingly, w.e.f. 29.1.2020, payment in excess of the prescribed limit made otherwise than by prescribed modes on a day on which the banks are closed on account of holiday or strike would attract disallowance under section 40A(3).

Chapter 9: Advance Tax and Tax Deduction at Source
Tax deducted at source on cash withdrawals [Section 194N]

The Finance (No. 2) Act, 2019 has inserted section 194N, with effect from 1.9.2019 to require every person, being a banking company, a co-operative society engaged in carrying on the business of banking or a post office who is responsible for paying, in cash, any sum or aggregate of sums exceeding ₹ 1 crore during the previous year to any person from one or more accounts maintained by such recipient-person with it, to deduct tax at source @2% of sum exceeding ₹ 1 crore. The deduction is to be made at the time of payment of such sum.

- **Clarification as to the applicability of section 194N and manner of computing the threshold limit of ₹ 1 crore thereunder, where cash withdrawals have taken place prior to 1.9.2019 [Press Release dated 30.8.2019]**

The CBDT has, vide Press Release dated 30.8.2019, clarified that section 194N is to come into effect from 1st September, 2019. Hence, any cash withdrawal prior to 1st September, 2019 will not be subjected to the TDS under section 194N. However, since the threshold of ₹ 1 crore is with respect to the previous year 2019-20, calculation of amount of cash withdrawal for triggering deduction under section 194N shall be counted from 1st April, 2019. Hence, if a person has already withdrawn ₹ 1 crore or more in cash upto 31st August, 2019 from one or more accounts maintained with a banking company or a cooperative bank or a post office, TDS@2% shall apply on all subsequent cash withdrawals.

- **No tax is required to be deducted at source under section 194N on cash withdrawals by persons or class of persons as notified by the Central Government [Notification No. 68/2019 dated 18.9.2019, Notification No. 70/2019 dated 20.09.2019 & Notification No. 80/2019, dated 15.10.2019]**

The proviso to section 194N provides that no tax is, however, required to be deducted at source on payments made to *inter alia* such other person or class of persons as notified, in consultation with the RBI, by the Central Government.

Accordingly, the Central Government has, vide these notifications, after consultation with the Reserve Bank of India (RBI), specified –

- I. **Cash Replenishment Agencies (CRA's) and franchise agents of White Label Automated Teller Machine Operators (WLATMO's)** maintaining a separate bank account from which withdrawal is made only for the purposes of replenishing cash in the Automated Teller Machines (ATM's) operated by such WLATMO's and the WLATMO have furnished a certificate every month to the bank certifying that the bank account of the CRA's and the franchise agents of the WLATMO's have been examined and the amounts being withdrawn from their bank accounts has been reconciled with the amount of cash deposited in the ATM's of the WLATMO's.
- II. **Commission agent or trader, operating under Agriculture Produce Market Committee (APMC), and registered under any Law relating to Agriculture Produce Market** of the concerned State, who has intimated to the banking company or co-operative society or post office his account number through which he wishes to withdraw cash in excess of ₹ 1 crore in the previous year along with his Permanent Account Number (PAN) and the details of the previous year and has certified to the banking company or co-operative society or post office that the withdrawal of cash from the account in excess of ₹ 1 crore during the previous year is for the purpose of making payments to the farmers on account of purchase of agriculture produce and the banking company or co-operative society or post office has ensured that the PAN quoted is correct and the commission agent or trader is registered with the APMC, and for this purpose necessary evidences have been collected and placed on record.
- III. (a) the authorised dealer and its franchise agent and sub-agent; and
(b) **Full-Fledged Money Changer (FFMC)** licensed by the RBI and its franchise agent;

Such persons should maintain a separate bank account from which withdrawal is made only for the purposes of -

- (i) purchase of foreign currency from foreign tourists or non-residents visiting India or from resident Indians on their return to India, in cash as per the directions or guidelines issued by RBI; or
- (ii) disbursement of inward remittances to the recipient beneficiaries in India in cash under Money Transfer Service Scheme (MTSS) of the RBI;

The exemption from the requirement to deduct tax u/s 194N would be available only if a certificate is furnished by the authorised dealers and their franchise agent and sub-agent, and the Full-Fledged Money Changers (FFMC) and their franchise agent to the bank that withdrawal is only for the purposes specified above and the directions or guidelines issued by the RBI have been adhered to.

“Authorised dealer” means any person who is authorised by the RBI as an authorised dealer to deal in foreign exchange [Section 10(1) of the Foreign Exchange Management Act, 1999].

- **Information to be furnished where tax is not deductible or deductible at lower rate under section 194N [Notification No. 98/2019, dated 18.11.2019]**

The proviso to section 194N provides that no tax is, however, required to be deducted at source on any payment made to -

- (i) the Government
- (ii) any banking company or co-operative society engaged in carrying on the business of banking or a post-office
- (iii) any business correspondent of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the RBI guidelines.
- (iv) any white label ATM operator of a banking company or co-operative society engaged in carrying on the business of banking, in accordance with the authorisation issued by the RBI under the Payment and Settlement Systems Act, 2007.
- (v) such other person or class of persons notified by the Central Government in consultation with the RBI.

Accordingly, the CBDT has, vide this notification, inserted clause (ix) in Rule 31A(4) to provide that the deductor, at the time of preparing statement of tax deducted at source, shall furnish the particulars of amount paid or credited on which tax was not deducted in view of the exemption provided in point no. (iii) or (iv) above or in view of the Notification No. 80/2019, dated 15.10.2019 issued under point (v) above.

- **Person to whom credit to be given for tax deduction at source and payment thereof under section 194N [Notification No. 74/2019, dated 27.9.19]**

Rule 37BA provides the manner of giving credit for tax deducted and remitted to the Central Government i.e., it specifies the person to whom credit for tax deducted is to be given and also the assessment year for which the credit may be given.

Accordingly, the CBDT has, vide this notification, inserted sub-rule (3A) in Rule 37BA, to provide that, for the purposes of section 194N, credit for tax deducted at source shall be given to the person from whose account tax is deducted and paid to the Central Government account for the assessment year relevant to the previous year in which such tax deduction is made.

Time limit, form and manner of depositing tax deducted at source under section 194M prescribed [Notification No. 98/2019, dated 18.11.2019]

Section 194M, inserted with effect from 1.9.2019, provides for deduction of tax at source @5% by an individual or a HUF responsible for paying any sum during the financial year to any resident –

- (i) for carrying out any work (including supply of labour for carrying out any work) in pursuance of a contract; or
- (ii) by way of commission (not being insurance commission referred to in section 194D) or brokerage; or
- (iii) by way of fees for professional services.

Only individuals and HUFs (other than those who are required to deduct income-tax as per the provisions of section 194C or 194H or 194J) are required to deduct tax in respect of the above sums payable during the financial year to a resident, if the aggregate of such sums, credited or paid, exceed ₹ 50 lakhs.

Consequent to insertion of section 194M, the CBDT has, vide this notification, amended Rule 30, 31 and 31A in the following manner to specify the time limit for depositing the tax deducted at source, challan-cum- statement, certificate for deduction of tax at source:

Rule No.	Provision
Rule 30(2C)	<p><u>Time limit and prescribed form for remittance of TDS</u></p> <p>Any sum deducted under section 194M shall be paid to the credit of the Central Government <u>within a period of thirty days</u> from the end of the month in which the deduction is made and shall be accompanied by a challan-cum statement in Form No. 26QD.</p>
Rule 30(6C)	<p><u>Manner of remittance of TDS</u></p> <p>Where tax deducted is to be deposited accompanied by a challan-cum-statement in Form No.26QD, the amount of tax so deducted shall be deposited to the credit of the Central Government by <u>remitting it electronically within thirty days</u> from the end of the month in which the deduction is made into the Reserve Bank of India or the State Bank of India or any authorised bank.</p>
Rule 31(3C)	<p><u>Certificate for deduction of tax at source and time limit for furnishing such certificate to the payee</u></p> <p>Every person responsible for deduction of tax under section 194M shall furnish the certificate of deduction of tax at source <u>in Form No.16D</u> to the payee <u>within fifteen days</u> from the due date for furnishing the challan-cum-statement in Form No.26QD under rule 31A after generating and downloading the same from the web portal specified by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) or the person authorised by him.</p>

Rule 31A(4C)	<p><u>Time limit and manner of submission of Challan-cum Statement</u></p> <p>Every person responsible for deduction of tax at source under section 194M shall furnish to the Principal Director General of Income-tax (Systems) or Director General of Income-tax (System) or the person authorised by the Principal Director General of Income-tax (Systems) or the Director General of Income-tax (Systems) a challan-cum statement in Form No.26QD electronically in accordance with the procedures, formats and standards specified under Rule 31A(5) <u>within thirty days</u> from the end of the month in which the deduction is made.</p>
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Chapter 10: Provisions for filing return of income

Manner for allotment of PAN to a person who has not been allotted a PAN but possesses Aadhaar number [Notification No. 59/2019, dated 30.8.2019]

The Finance (No.2) Act, 2019, has inserted sub-section (5E) to section 139A, w.e.f. 1.9.2019, to provide *inter alia* that every person who is required to furnish or intimate or quote his PAN and who has not been allotted a PAN but possesses the Aadhaar number, may furnish or intimate or quote his Aadhaar Number in lieu of the PAN and such person would be allotted a PAN in such manner as may be prescribed.

Rule 114(4) requires submission of application for allotment of PAN by the applicant in the prescribed form accompanied by the prescribed documents as proof of identity, address and date of birth of such applicant.

The CBDT has, vide this notification, inserted sub-rule (1A) to Rule 114 w.e.f. 1.9.2019 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number and has furnished or intimated or quoted his Aadhaar number in lieu of the PAN in accordance with section 139A(5E), shall be deemed to have applied for allotment of PAN and he shall not be required to apply or submit any documents under Rule 114.

Further, sub-rule (1B) has also been inserted in Rule 114 to provide that any person, who has not been allotted a PAN but possesses the Aadhaar number may apply for allotment of the PAN under section 139A(1)/(1A)/(3) by intimating his Aadhaar number and he shall not be required to apply or submit any documents under Rule 114.

Date for intimation of Aadhaar number to the prescribed authority extended [Notification No. 107/2019, dated 30.12.2019]

As per section 139AA(2), every person who has been allotted Permanent Account Number (PAN) as on 1st July, 2017, and who is eligible to obtain Aadhaar Number, shall intimate his Aadhaar Number to prescribed authority on or before a date as may be notified by the Central Government.

Accordingly, the Central Government has, vide Notification No. 31/2019, dated 31.03.2019, notified that every person who has been allotted PAN as on 1st July, 2017, and who is eligible to obtain

Aadhaar number, shall intimate his Aadhaar number to the Principal DGIT (Systems) or Principal Director of Income-tax (Systems) on or before 30th September, 2019.

The Central Government has, vide Notification No. 75/2019, dated 28.9.2019 further extended the date from 30th September 2019 to 31st December 2019.

This date has further been extended by the Central Government, vide this notification, from 31st December 2019 to 31st March 2020.

Note – Subsequently, this date has been further extended to **31st March, 2021**.

Notwithstanding the last date of intimating/linking of Aadhaar Number with PAN being 31.03.2021, it is clarified that w.e.f. 01.04.2019, it is mandatory to quote and link Aadhaar number while filing the return of income, either manually or electronically, unless specifically exempted.

Note – (1) Extension of dates/due dates and other relaxations vide PIB Press Release dated 24.3.2020/Notification No. 35/2020 dated 24.6.2020 on account of COVID 19 pandemic are not applicable for November, 2020 examinations. Further, CBDT Circular No.11/2020 dated 8.5.2020 providing relaxation of residency conditions for P.Y.2019-20 for individuals stranded in India due to COVID-19 lockdown is not applicable.

(2) Direct Tax Vivad se Vishwas Act, 2020 and Rules, 2020 are not applicable for November, 2020 examination.

PART II: QUESTIONS AND ANSWERS

OBJECTIVE TYPE QUESTIONS

1. Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During the previous year 2019-20, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares amounting to ₹ 1,06,500. He earned interest of ₹ 4,82,778 on saving account.

Further, he has provided the following other information for filing his return of income:

He does not receive house rent allowance from his employer. Mr. A took a loan from State Bank of India on 27th October 2017 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹ 1,50,000 towards principal amount during the previous year 2019-20.

Mr. A has made the following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: ₹ 13,500 (by cheque)

Medical premium for his parents: ₹ 17,670 (by cheque)

Medical premium for self and his wife: ₹ 21,000 (by cheque).

He also incurred ₹ 6,400 towards preventive health check-up of his wife in cash. He deposited ₹ 1,00,000 towards PPF. He also deposited ₹ 50,000 and 2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion the balance amount of tax, if any he will pay on 27 July 2020 (i.e. before the due date for filing of return of income).

From the details given above, choose the most appropriate option to the questions given below:

- (i) Compute the amount of deduction available to Mr. A under Chapter VI-A for the assessment year 2020-21:
 - (a) ₹ 2,04,070
 - (b) ₹ 2,42,670
 - (c) ₹ 2,52,670
 - (d) ₹ 2,02,670
- (ii) Assuming Mr. A pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate and amount of TDS?
 - (a) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 3,250 every month i.e., at the time of payment of such rent
 - (b) Yes, Mr. A is liable to deduct TDS @10% amounting to ₹ 6,500 every month i.e., at the time of payment of such rent
 - (c) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 39,000 in the month of March 2020
 - (d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of accounts audited under section 44AB
- (iii) What would be the amount of net tax payable for the assessment year 2020-21 in the hands of Mr. A?
 - (a) Tax payable of ₹ 78,230
 - (b) Tax payable of ₹ 60,290
 - (c) Tax payable of ₹ 49,530
 - (d) Tax payable of ₹ 67,470

- (iv) Compute the amount of interest chargeable under section 234B on account of short payment of advance tax:
- ₹ 1,980
 - Nil
 - ₹ 3,130
 - ₹ 2,410
2. Ms. Chanchal, aged 45, provides the following data of her gross receipts for the financial year 2018-19 and 2019-20. She is engaged in agency business along with providing services as tarot card reader.

F.Y.	Receipts from business (₹)	Receipts from profession (₹)	Total Gross Receipts (₹)
2018-19	78,00,000	43,00,000	1,21,00,000
2019-20	85,00,000	47,00,000	1,32,00,000

During the F.Y. 2019-20, she paid an amount of ₹ 1,20,000 to a contractor for polishing her old furniture. She has taken services from renowned interior designers for her self-occupied residential house property for which she paid ₹ 2,50,000.

Further, on 28.05.2019 she sold one commercial property for ₹ 50,00,000. The value adopted for stamp duty was ₹ 52,00,000. It was purchased for ₹ 40,00,000 on 28.04.2017. (Cost Inflation Index for F.Y. 2019-20: 289, F.Y. 2017-18: 272).

The brought forward long-term capital loss from unlisted shares of F.Y. 2018-19 is ₹ 7,80,000.

During the year, Ms. Chanchal incurred a loss of ₹ 70,00,000 while trading in the agricultural commodity derivatives (no CTT paid).

From the details given above, choose the most appropriate option to the questions given below:

- Is Ms. Chanchal liable to tax audit under the Income-tax Act, 1961 for the P.Y. 2019-20?
 - Yes, as the total gross receipts exceeds ₹ 1,00,00,000
 - No, as the gross receipts from business or profession are below the specified threshold limits.
 - Yes, as the gross receipts from business exceed ₹ 50,00,000
 - Yes, as the gross receipts from profession exceed ₹ 25,00,000

- (ii) What is the total amount of tax to be deducted by Ms. Chanchal for P.Y. 2019-20?
- (a) ₹ 1,200
 - (b) ₹ 26,200
 - (c) Nil
 - (d) ₹ 27,400
- (iii) What is the amount and nature of Capital gain chargeable to tax in the hands of Ms. Chanchal?
- (a) ₹ 10,00,000 and Short-term capital gain.
 - (b) ₹ 12,00,000 and Short-term capital gain.
 - (c) ₹ 7,50,000 and Long-term capital gain.
 - (d) ₹ 9,50,000 and Long-term capital gain.
- (iv) What is the amount of losses which can be carried forward to A.Y. 2021-22, assuming that business income is ₹ 45,00,000 and income from profession is ₹ 25,00,000 for the P.Y. 2019-20?
- (a) ₹ 7,80,000 under section 74
 - (b) ₹ 70,00,000 under section 73
 - (c) ₹ 30,000 under section 74
 - (d) ₹ 30,000 under section 74 and ₹ 70,00,000 under section 73
3. Mr. A, aged 45 years sold an agricultural land for ₹ 52 lakhs on 04.10.2019 acquired at a cost of ₹ 49.25 lakhs on 13.09.2018 situated at 7 kms from the jurisdiction of municipality having population of 4,00,000 and also sold another agricultural land for ₹ 53 lakhs on 12.12.2019 acquired at a cost of ₹ 46 lakhs on 15.02.2018 situated at 1.5 kms from the jurisdiction of municipality having population of 12,000. What would be the amount of capital gain chargeable to tax in the hands of Mr. A for the assessment year 2020-21? Cost inflation index for F.Y. 2017-18: 272; 2018-19: 280; 2019-20:289.
- (a) Short-term capital gain of ₹ 9.75 lakhs
 - (b) Short-term capital gain of ₹ 7 lakhs
 - (c) Long-term capital gain of ₹ 4,12,500
 - (d) Long-term capital gain of ₹ 5,29,196
4. Mr. Arjun holding 1000 shares of X Ltd acquired on 01.07.2018 for ₹ 600 per share, sold 500 shares to Mr. Shaurya, on 01.05.2019 for ₹ 550 per share. X Ltd. declared dividend @ ₹ 65 per share on 20.07.2019, being the record date for declaration of dividend. Mr. Shaurya sold 300 equity shares at ₹ 475 per share on 28.09.2019 and the balance 200

equity shares at ₹ 450 per share on 28.10.2019. Apart from above mentioned information, Mr. Shaurya was having only long-term capital gains from sale of unlisted shares of ₹ 50,000. Assuming that Mr. Shaurya has no other income, his total income for A.Y. 2020-21 is –

- (a) ₹ 7,500
 - (b) ₹ 27,000
 - (c) ₹ 50,000
 - (d) ₹ 30,000
5. An amount of ₹ 40,000 was paid to Mr. X on 1.7.2019 towards fees for professional services without deduction of tax at source. Subsequently, another payment of ₹ 50,000 was due to Mr. X on 28.2.2020, from which tax@10% (amounting to ₹ 9,000) on the entire amount of ₹ 90,000 was deducted. However, this tax of ₹ 9,000 was deposited only on 22.6.2020. The interest chargeable under section 201(1A) would be:
- (a) ₹ 1,080
 - (b) ₹ 860
 - (c) ₹ 1,620
 - (d) ₹ 840
6. Mr. Nishant, a resident but not ordinarily resident for the previous year 2018-19 and resident and ordinarily resident for the previous year 2019-20 has received rent from property in Canada amounting to ₹ 1,00,000 during the P.Y.2018-19. He has deposited the same in a bank in Canada. During the financial year 2019-20, he remitted this amount to India through approved banking channels. Is such rent taxable in India, and if so, how much and in which year?
- (a) Yes; ₹ 70,000 was taxable in India during the previous year 2018-19.
 - (b) Yes; ₹ 1,00,000 was taxable in India during the previous year 2018-19.
 - (c) Yes; ₹ 70,000 was taxable in India during the previous year 2019-20.
 - (d) No; such rent is not taxable in India either during the previous year 2018-19 or during the previous year 2019-20.
7. Mr. Dinesh, a resident in India, has gross total income of ₹ 2,30,000 comprising of interest on saving A/c and rental income during the previous year 2019-20. He incurred expenditure of ₹ 2,00,000 for his son for a study tour to Europe. Whether he is required to file return of income for the assessment year 2020-21? If yes, what is the due date?
- (a) Yes, 31st July of A.Y

- (b) Yes, 30th September of A.Y
- (c) Yes, 31st October of A.Y
- (d) No, he is not required to file return of income
8. Mr. Nihar maintains a Savings A/c and a Current A/c in Mera Bank Ltd. The details of withdrawals on various dates during the previous year 2019-20 are as follows:

Date of Cash withdrawal	Saving Account	Current account
05.04.2019	15,00,000	-
10.05.2019	-	22,00,000
25.06.2019	20,00,000	-
17.07.2019	-	5,00,000
28.10.2019	35,00,000	-
10.11.2019	-	38,00,000
12.12.2019	25,00,000	-

Is Mera Bank Limited required to deduct tax at source on the withdrawals made by Mr. Nihar during the previous year 2019-20? If yes, what would the amount of tax deducted at source?

- (a) No, TDS is not required to be deducted as the aggregate cash withdrawal on or after 1.9.2019 does not exceed ₹ 1 crore
- (b) No, TDS is not required to be deducted as the cash withdrawal does not exceed ₹ 1 crore neither in saving account nor in current account
- (c) TDS of ₹ 60,000 is required to be deducted.
- (d) TDS of ₹ 1,20,000 is required to be deducted.

DESCRIPTIVE QUESTIONS

9. You are required to determine the residential status of Mr. Dinesh, a citizen of India, for the previous year 2019-20.

Mr. Dinesh is a member of crew of a Singapore bound Indian ship, carrying passengers in the international waters, which left Kochi port in Kerala, on 16th August, 2019.

Following details are made available to you for the previous year 2019-20:

Particulars	Date
Date entered into the Continuous Discharge Certificate in respect of joining the ship by Mr. Dinesh	16 th August, 2019

Date entered into the Continuous Discharge Certificate in respect of signing off the ship by Mr. Dinesh	21 st January, 2020
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In June, 2019, he had gone out of India to Dubai on a private tour for a continuous period of 27 days.

During the last four years preceding the previous year 2019-20, he was present in India for 425 days. During the last seven previous years preceding the previous year 2019-20, he was present in India for 830 days.

10. Explain with brief reasons, whether the following income can be regarded as agricultural income, as per the provisions of the Income-tax Act, 1961:
 - (i) Rent received for letting out agricultural land for a movie shooting.
 - (ii) Income from sale of seedlings in a nursery adjacent to the agricultural lands owned by an assessee.
11. Mr. Neeraj, a salaried employee, furnishes the following details for the financial year 2019-20:

Particulars	₹
Basic salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	21,000
Profession tax (of this, 50% paid by employer)	4,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	12,000
Life insurance premium of Neeraj paid by employer	34,000
Laptop provided for use at home. Actual cost of Laptop to employer Children of the assessee are also using the Laptop at home]	30,000
Employer company owns a Maruti Suzuki Swift car (Engine cubic capacity more than 1.6 litres), which was provided to the assessee, both for official and personal use. No driver was provided. All expenses are met by the employer	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes; details of usage are not available]	5,000

You are required to compute the income chargeable under the head Salaries for the assessment year 2020-21.

12. Ms. Pihu has three houses, all of which are self-occupied. The particulars of these houses are given below:

Particulars	(Value in ₹)		
	House – I	House – II	House-III
Municipal Valuation per annum	1,30,000	1,20,000	1,20,000
Fair Rent per annum	1,10,000	1,85,000	1,45,000
Standard rent per annum	1,00,000	1,90,000	1,30,000
Date of completion	30-01-2005	31-07-2008	31.5.2011
Municipal taxes payable during the year (paid for House II & III only)	12%	9%	10%
Interest on money borrowed for repair of property during current year	-	75,000	-

You are required to compute Pihu's income from house property for the Assessment Year 2020-21 and suggest which houses should be opted by Pihu to be assessed as self-occupied so that her tax liability is minimum.

13. Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1-5-2019. On the same date, his brother gifted debentures worth ₹ 10 lakhs to Mrs. Karan. Son of Mr. Karan's brother invested the amount in fixed deposit with Canara Bank @ 9% p.a. interest and Mrs. Karan received interest of ₹ 81,000 on these debentures during the previous year 2019-20. Discuss the tax implications under the provisions of the Income-tax Act, 1961.
14. Mr. Krishan, residing in Indore, provides the following information for the financial year 2019-20:

Particulars	₹
Income from textile business	4,60,000
Income from speculation business	25,000
Loss from gambling	12,000
Loss on maintenance of race horse	15,000
Current year depreciation of textile business not adjusted in the income given above.	5,000
Unabsorbed depreciation of assessment year 2018-19	10,000
Speculation business loss of assessment year 2019-20	30,000

Compute the Gross Total Income of Mr. Krishan for the Assessment year 2020-21 and also state the losses eligible for carry forward and period upto which such losses can be carried forward.

15. Mr. Suraj aged 50 years, a resident individual, engaged in a wholesale business of health products. He is also a partner in XYZ & Co., a partnership firm. The following details are made available for the year ended 31.3.2020:

Sl. No.	Particulars	₹	₹
(i)	Interest on capital received from XYZ & Co., at 15% [in accordance with the partnership deed]		1,50,000
(ii)	Share of profit from the firm		35,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		40,500
(v)	Interest on saving bank account		12,300
(vi)	Income-tax refund received relating to assessment year 2019-20 including interest of ₹ 2,300		34,500
(vii)	Net profit from wholesale business		5,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	
	(For two half years; payment for one half year made on 12.7.2020 and for the other on 31.12.2020)		
	Salary to manager by way of a single cash payment	21,000	
(viii)	The WDV of the assets (as on 1.4.2019) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2019 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2015. He received arrears of rent in respect of the said property in October, 2019.		1,15,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid towards a policy covering her mother aged 75 by way of cheque. She is not dependant on him.	35,000	

(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	
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You are required to compute the total income of the Mr. Suraj for the assessment year 2020-21 and the closing WDV of each block of assets.

SUGGESTED ANSWERS

OBJECTIVE TYPE QUESTIONS

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(d)	3.	(b)
	(ii)	(c)	4.	(b)
	(iii)	(c)	5.	(b)
	(iv)	(b)	6.	(d)
2.	(i)	(b)	7.	(d)
	(ii)	(c)	8.	(d)
	(iii)	(c)		
	(iv)	(c)		

DESCRIPTIVE QUESTIONS

9. Determination of residential status of Mr. Dinesh for the P.Y. 2019-20

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

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

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

In this case, voyage is undertaken by a foreign bound Indian ship engaged in the carriage of passengers in international traffic, originating from a port in India (i.e., the Kochi port)

¹ read with Rule 126 of Income-tax Rules, 1962

and having its destination at a port outside India (i.e., the Singapore port). Hence, the voyage is an eligible voyage.

Therefore, the period from 16th August, 2019 and ending on 21st January, 2020 has to be excluded for computing the period of stay of Mr. Dinesh in India. Accordingly, the period of 159 days [16+30+31+30+31+21] has to be excluded for computing the period of his stay in India during the P.Y.2019-20.

Further, since Mr. Dinesh had also gone out of India to Dubai on a private tour for a continuous period of 27 days in June, 2019, such period has also to be excluded for computing his period of stay in India during the P.Y.2019-20.

Consequently, the period of stay in India during the P.Y. 2019-20 would be 180 days [i.e., 366 days – 159 days – 27 days], which is less than 182 days.

Thus, Mr. Dinesh would be a **non-resident** for A.Y. 2020-21.

Since the residential status of Mr. Dinesh is “non-resident” for A.Y. 2020-21 consequent to his number of days of stay in India in P.Y. 2019-20, being less than 182 days, his period of stay in India in the earlier previous years become irrelevant.

10. (1) Rent received for letting out agricultural land for a movie shooting:

As per section 2(1A), “agricultural income” means, *inter alia*,

- any rent or revenue derived from land
- which is situated in India and is used for agricultural purposes.

In the present case, rent is being derived from letting out of agricultural land for a movie shoot, which is not an agricultural purpose and hence, it does **not** constitute agricultural income.

(2) Income from sale of seedlings in a nursery:

As per *Explanation 3* to section 2(1A), income derived from saplings or seedlings grown in a nursery is deemed to be agricultural income, whether or not the basic operations were carried out on land.

Therefore, the amount received from sale of seedlings in a nursery adjacent to the agricultural lands owned by the assessee constitutes agricultural income.

11. Computation of income chargeable under the head “Salaries” of Mr. Neeraj for A.Y.2020-21

Particulars	₹
Basic Salary	5,40,000
Dearness allowance	3,60,000
Commission	50,000

Entertainment allowance	7,500
Medical expenses reimbursed by the employer is fully taxable	21,000
Professional tax paid by the employer is a taxable perquisite as per section 17(2)(iv), since it is an obligation of the employee which is paid by the employer	2,000
Health insurance premium of ₹ 9,000 paid by the employer is an exempt perquisite [Clause (iii) of proviso to section 17(2)]	Nil
Gift voucher given by employer on Mr. Neeraj birthday [entire amount is taxable since the perquisite value exceeds ₹ 5,000, as per Rule 3(7)(iv)]	12,000
Life insurance premium of Mr. Neeraj paid by employer is a taxable perquisite as per section 17(2)(v)	34,000
Laptop provided for use at home is an exempt perquisite as per Rule 3(7)(vii)	Nil
Provision of motor car (engine cubic capacity more than 1.6 litres) owned by employer provided to employee, the perquisite value would be ₹ 28,800 [₹ 2,400 × 12] as per Rule 3(2)	28,800
Annual credit card fees paid by employer is a taxable perquisite as per Rule 3(7)(v) since the credit card is not exclusively used for official purposes and details of usage are not available	5,000
Gross Salary	10,60,300
Less: Deductions under section 16	
- Standard Deduction as per section 16(ia), lower of gross salary and ₹ 50,000	50,000
- Entertainment allowance (deduction not allowable since Mr. Neeraj is not a Government employee)	Nil
- Professional tax paid allowable as deduction as per section 16(iii)	4,000
Income chargeable under the head "Salaries"	10,06,300

Note: As per Rule 3(7)(iv), the value of any gift or voucher received by the employee or by member of his household on ceremonial occasions or otherwise from the employer shall be determined as the sum equal to the amount of such gift. However, the value of any gift or voucher received by the employee or by member of his household below ₹ 5,000 in aggregate during the previous year would be exempt as per the proviso to Rule 3(7)(iv). In this case, the gift voucher of ₹ 12,000 was received by Mr. Neeraj from his employer on the occasion of his birthday. Since the value of the gift voucher exceeds the limit of ₹ 5,000, the entire amount of ₹ 12,000 is liable to tax as perquisite. The above solution has been worked out accordingly.

An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable in view of the language of Circular No.15/2001 dated 12.12.2001, which states that such gifts upto ₹ 5,000 in the aggregate per annum would be exempt, beyond which it would be taxed as a perquisite. As per this view, the value of perquisite would be ₹ 7,000. Accordingly, the gross salary and net salary would be 10,55,300 and 10,01,300, respectively.

12. In this case, Pihu has more than two house properties for self-occupation. As per section 23(4), Pihu can avail the benefit of self-occupation (i.e., benefit of "Nil" Annual Value) only in respect of any two of the house properties, at her option. The other house property would be treated as "deemed let-out" property, in respect of which the Expected rent would be the gross annual value. Pihu should, therefore, consider the most beneficial option while deciding which house properties should be treated by her as self-occupied.

OPTION 1 [House I & II – Self-occupied and House III- Deemed to be let out]

If House I and II are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Deemed to be let-out) [See Working Note below]	82,600
Income from house property	52,600

OPTION 2 [House I & III – Self-occupied and House II- Deemed to be let out]

If House I and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Self-occupied) [Annual value is Nil]	Nil
House II (Deemed to be let-out) [See Working Note below]	46,940
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	46,940

OPTION 3 [House I – Deemed to be let out and House II & III – Self-occupied]

If House II and III are opted to be self-occupied, Pihu's income from house property for A.Y.2020-21 would be –

Particulars	Amount in ₹
House I (Deemed to be let-out) [See Working Note below]	70,000
House II (Self-occupied) [Annual value is Nil, but interest deduction would be available, subject to a maximum of ₹ 30,000. In case of money borrowed for repair of self-occupied property , the interest deduction would be restricted to ₹30,000, irrespective of the date of borrowal].	(30,000)
House III (Self-occupied) [Annual value is Nil]	Nil
Income from house property	40,000

Since Option 3 is more beneficial, Pihu should opt to treat House – II & III as Self-occupied and House I as Deemed to be let out, in which case, her income from house property would be ₹ 40,000 for the A.Y. 2020-21.

Working Note:

Computation of income from House I, II and House III assuming that all are deemed to be let out

Particulars	Amount in Rupees		
	House I	House II	House III
Gross Annual Value (GAV)			
Expected rent is the GAV of house property			
Expected rent= Higher of Municipal Value and Fair Rent but restricted to Standard Rent	1,00,000	1,85,000	1,30,000
Less: Municipal taxes (paid by the owner during the previous year)	Nil	10,800	12,000
Net Annual Value (NAV)	1,00,000	1,74,200	1,18,000
Less: Deductions under section 24			
(a) 30% of NAV	30,000	52,260	35,400
(b) Interest on borrowed capital (allowed in full in case of deemed let out property)	-	75,000	-
Income from deemed to be let-out house property	70,000	46,940	82,600

13. In the given case, Mr. Karan gifted a sum of ₹ 9 lakhs to his brother's minor son on 1.5.2019 and simultaneously, his brother gifted debentures worth ₹ 10 lakhs to Mr. Karan's wife on the same date. Mr. Karan's brother's minor son invested the gifted amount of ₹ 9 lakhs in fixed deposit with Canara Bank.

These transfers are in the nature of cross transfers. Accordingly, the income from the assets transferred would be assessed in the hands of the deemed transferor because the transfers are so intimately connected to form part of a single transaction and each transfer constitutes consideration for the other by being mutual or otherwise.

If two transactions are inter-connected and are part of the same transaction in such a way that it can be said that the circuitous method was adopted as a device to evade tax, the implication of clubbing provisions would be attracted².

As per section 64(1A), all income of a minor child is includible in the hands of the parent, whose total income, before including minor's income is higher. Accordingly, the interest income arising to Mr. Karan's brother's son from fixed deposits would be included in the total income of Mr. Karan's brother, assuming that Mr. Karan's brother's total income is higher than his wife's total income, before including minor's income. Mr. Karan's brother can claim exemption of ₹ 1,500 under section 10(32).

Interest on debentures arising in the hands of Mrs. Karan would be taxable in the hands of Mr. Karan as per section 64(1)(iv).

This is because both Mr. Karan and his brother are the indirect transferors of the income to their spouse and minor son, respectively, with an intention to reduce their burden of taxation.

In the hands of Mr. Karan, interest received by his spouse on debentures of ₹ 9 lakhs alone would be included and not the entire interest income on the debentures of ₹10 lakhs, since the cross transfer is only to the extent of ₹ 9 lakhs.

Hence, only proportional interest (i.e., 9/10th of interest on debentures received) ₹ 72,900 would be includible in the hands of Mr. Karan.

The provisions of section 56(2)(x) are not attracted in respect of sum of money transferred or value of debentures transferred, since in both the cases, the transfer is from a relative.

14. Computation of Gross Total Income of Mr. Krishan for A.Y. 2020-21

Particulars	₹	₹
Profits and gains of business or profession		
Income from Textile business	4,60,000	
Less: Current year depreciation allowable under section 32(1)	<u>5,000</u>	
	4,55,000	
Less: Unabsorbed depreciation brought forward from A.Y.2018-19 as per section 32(2)	<u>10,000</u>	
		4,45,000

² It was so held by the Apex Court in *CIT vs. Keshavji Morarji* (1967) 66 ITR 142.

Income from speculation business		
Current year income from speculation business	25,000	
Less: Speculation business loss for A.Y. 2019-20 set-off as per the provisions of section 73(2)	<u>30,000</u>	
Speculation business loss to be carried forward	<u>(5,000)</u>	
Gross Total Income		<u>Nil</u> 4,45,000

Losses eligible for carry forward to A.Y.2021-22

	Particulars	₹
(1)	Loss from speculation business to be carried forward as per section 73 Loss from speculation business can be set off only against income from another speculation business. The remaining loss from speculation business can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y.2023-24	5,000
(2)	Loss on maintenance of race horses to be carried forward as per section 74A(3) Loss on maintenance of race horses can be set-off only against income from the activity of owning and maintaining race horses. Such loss can be carried forward for a maximum of four assessment years immediately succeeding the assessment year for which the loss was first computed. Thus, such loss can be carried forward upto A.Y. 2024-25	15,000
(3)	Loss from gambling can neither be set-off nor be carried forward.	

15. Computation of total income of Mr. Suraj for the A.Y.2020-21

Particulars	₹	₹
Income from house property		
Arrears of rent (taxable under section 25A even if Mr. Suraj is not the owner of the house property in the P.Y.2019-20)	1,15,000	
Less: Deduction@30%	<u>34,500</u>	
Income chargeable under this head		80,500
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	5,60,000	

<i>Add:</i> Amount debited to P & L A/c, not allowable as deduction			
- Depreciation as per books		34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return (₹ 7,000/2)		3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000		21,000	
- 20% of car expenses for personal use		<u>8,000</u>	
		6,26,500	
<i>Less:</i> Depreciation allowable (Note 1)		<u>2,37,600</u>	
		3,88,900	
Income from firm			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm (Note 2)	1,20,000		
Salary as working partner fully taxable	<u>1,00,000</u>	<u>2,20,000</u>	6,08,900
Income from other sources			
Interest on bank fixed deposit (Gross)		45,000	
Interest on saving bank account		12,300	
Interest on income-tax refund		<u>2,300</u>	<u>59,600</u>
Gross total income			7,49,000
<i>Less:</i> Deduction under Chapter VIA (Note 3)			<u>2,25,000</u>
Total Income			<u>5,24,000</u>

Notes:**(1) Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV	Rate		Depreciation	Closing WDV
Block 1	Computers	2,40,000	40%		96,000	1,44,000
	Computer printer	1,50,000	40%		60,000	90,000
Block 2	Motor Car [since acquired during the period 23.8.2019 to 31.3.2020, it is	6,80,000	30%	1,02,000 [50% of 30% is allowable, since it is	81,600	5,98,400

eligible for higher depreciation of 30%]		put to use for less than 180 days]		
Less: 20% disallowance for personal use		<u>20,400</u>		
			<u>2,37,600</u>	<u>8,32,400</u>

- (2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Suraj.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	<u>70,000</u>	
	1,30,000	
Since the maximum deduction under section 80C and 80CCE is ₹ 1,50,000, the entire sum of ₹ 1,30,000 would be allowed as deduction		1,30,000
Under section 80D		
Health insurance premium taken for mother is fully allowable as deduction, even though she is not dependant on him. Since she is senior citizen whole of amount is allowable as deduction as it is within overall limit of ₹ 50,000		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTA		
Interest on saving bank account, restricted to		<u>10,000</u>
Total deduction		<u>2,25,000</u>

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 (No. 2) Act, 2019, which have become effective till 30.04.2020, and significant notifications and circulars issued upto 30.04.2020.
- (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.

1. PTL Pvt. Ltd. is a retail store of merchandise located in 25 States and/or UTs in the country. For the purpose of clearance of stock of merchandise and to attract consumers, PTL Pvt. Ltd. launched scheme of "Buy One Get One Free" for the same type of merchandise, for instance, one shirt to be given free with purchase of one shirt. For saving cost, PTL Pvt. Ltd. directly purchases merchandise from the manufacturers.

In the month of May, in order to save employee cost, PTL Pvt. Ltd. purchased a tempo traveller worth ₹ 12,00,000 with seating capacity of 25 persons (including driver) for transportation of its employees. Further, for ensuring the well-being of its employees, PTL Pvt. Ltd. voluntarily obtained the health insurance cover of ₹ 2,00,000 for each employee in the same month. The premium of ₹ 1,500 per employee has been paid by the company for 100 employees.

In the month of July, Mr. Raghav, a customer of the company, filed a law suit in the Court, against the company for not supplying goods of the value of ₹ 1,00,000. PTL Pvt. Ltd. engaged Mr. Ram, an advocate, to represent it in Court for an agreed consideration of ₹ 25,000. As per the terms of the contract, Mr. Ram issued an invoice on 5th July. However, consideration was not paid till February next year.

Note - All the amounts given above are excluding taxes and all transactions are intra-State transactions. Rates of tax are CGST - 9% and SGST – 9%. However, for tempo traveller, the rates of taxes are CGST - 14% and SGST – 14%.

In relation to the above, answer the following questions:

- (i) With respect to "Buy One, Get One free" offer, which of the following statements is true:
- (a) It will not be considered as supply at all since no consideration is involved in one of the items.

- (b) Supply of item for which consideration is charged is a supply under section 7 of the CGST Act, 2017 while supply of the other item supplied free of cost is not a supply.
 - (c) These are two individual supplies where a single price is charged for the entire supply. Since a single price is charged, the same will always be taxed as a mixed supply.
 - (d) These are two individual supplies where a single price is charged for the entire supply. Their taxability will depend upon as to whether the supply is a composite supply or a mixed supply.
- (ii) Eligible input tax credit for the month of May (i) on the purchase of tempo traveller and (ii) on health insurance premium paid (assuming that all other conditions, for availing input tax credit have been complied with) is:
- (a) (i) CGST - Nil, SGST - Nil and (ii) CGST - Nil, SGST - Nil
 - (b) (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - Nil, SGST - Nil
 - (c) (i) CGST - Nil, SGST - Nil and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000
 - (d) (i) CGST - ₹ 1,68,000, SGST - ₹ 1,68,000 and (ii) CGST - ₹ 18,000, SGST - ₹ 18,000
- (iii) Which of the following statements is true in respect of the services of advocate availed by the company?
- (a) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt Ltd. ITC availed thereon is to be added to its output tax liability with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.
 - (b) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. ITC availed thereon is to be added to output tax liability of PTL Pvt Ltd. with interest as consideration along with tax is not paid within 180 days of the issuance of invoice.
 - (c) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by PTL Pvt. Ltd. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.
 - (d) CGST-₹ 2,250 and SGST- ₹ 2,250 on advocate services are payable by Mr. Ram. The condition of payment of consideration along with tax within 180 days of the issuance of invoice does not apply in the given case.

2. Mr. Kumar started interior designing practice from the month of January. His turnover up to the month of March was ₹ 12,50,000. On 30th June, his turnover exceeded ₹ 20,00,000 & reached to ₹ 20,05,000. Mr. Kumar applied for GST registration (as regular taxpayer) on 15th July and registration was granted to him on 25th July.

On 16th July, he entered into a contract for designing the flat of Mr. Shyam. The service was completed on 22nd July and Mr. Kumar issued invoice on the same day for ₹ 6,00,000. On 5th July, Mr. Kumar purchased capital goods amounting to ₹ 4,50,000 and from 25th July to 31st July, he availed services amounting to ₹ 1,75,000 for the purpose of completing the service.

On 1st August, Mr. Kumar got another contract for interior designing from Mr. Ram, which he accepted on 2nd August. The service was completed on 6th August and invoice was issued on 7th August for ₹ 5,00,000. Payment was received on 29th August.

Note: All values are excluding taxes, unless specifically mentioned. Mr. Kumar makes only intra-State outward supplies and all purchases are also intra-State. Rates of tax are CGST - 9% and SGST – 9%.

In relation to the above, answer the following questions:

- (i) The effective date of registration for Mr. Kumar is-
- (a) 30th June
 - (b) 15th July
 - (c) 25th July
 - (d) 16th July
- (ii) Mr. Shyam can issue a revised tax invoice till-
- (a) 23rd October
 - (b) 8th September
 - (c) 25th September
 - (d) 25th August
- (iii) Eligible input tax credit available with Mr. Kumar for the month of July is-
- (a) CGST ₹ 40,500 & SGST ₹ 40,500
 - (b) CGST ₹ 15,750 & SGST ₹ 15,750
 - (c) CGST ₹ 56,250 & SGST ₹ 56,250
 - (d) CGST ₹ 36,000 & SGST ₹ 36,000

- (iv) The time of supply of services provided by Mr. Kumar to Mr. Ram is-
- (a) 7th August
 - (b) 1st August
 - (c) 29th August
 - (d) 06th August
- (v) If instead of opting for regular scheme, Mr. Kumar opts to pay tax under section 10(2A) of the CGST Act, 2017, the tax liability for the month of July will be -
- (a) CGST Nil and SGST Nil
 - (b) CGST ₹ 54,000 & SGST ₹ 54,000
 - (c) CGST ₹ 18,000 & SGST ₹ 18,000
 - (d) CGST ₹ 78,150 & SGST ₹ 78,150
3. During the month of May, Z Ltd. sold goods to Y Ltd. for ₹ 2,55,000 and charged GST @ 18%. However, owing to some defect in the goods, Y Ltd. returned the goods by issuing debit note of ₹ 40,000 in the same month. Z Ltd. records the return of goods by issuing a credit note of ₹ 40,000 plus GST in the same month. In this situation, GST liability of Z Ltd. for the month of May will be-
- (a) ₹ 45,900
 - (b) ₹ 38,700
 - (c) ₹ 53,100
 - (d) ₹ 40,000
4. C & Co., a registered supplier in Delhi, opted for composition levy under sub-sections (1) and (2) of section 10 of the CGST Act, 2017. It sold goods in the fourth quarter of a financial year for ₹ 15,00,000 (exclusive of GST). The applicable GST rate on these goods is 12%. C & Co. purchased goods from Ramesh & Co., registered in Delhi, for ₹ 9,55,000 on which Ramesh & Co. had charged CGST of ₹ 57,300 and SGST of ₹ 57,300. C & Co. had also purchased goods from E & Co., registered in Haryana, for ₹ 2,46,000 on which E & Co. had charged IGST of ₹ 29,520. GST liability of C & Co. for the fourth quarter of the financial year is-
- (a) CGST ₹ 7,500 & SGST ₹ 7,500
 - (b) CGST ₹ 3,180 & SGST ₹ 32,700
 - (c) CGST ₹ 32,700 & SGST ₹ 3,180
 - (d) CGST Nil and SGST Nil

5. Mr. Raghu avails services of Mr. Raja, a Chartered Accountant, as under-

(i) Audit of financial accounts	₹ 55,000
(ii) Tax audit and annual filing	₹ 10,000
(iii) Income-tax return filing of Mr. Raghu 's wife	₹ 5,000

All the above amounts are exclusive of taxes and the applicable rate of GST on these services is 18%.

The accountant of Mr. Raghu has booked the entire expenses of ₹ 70,000 plus GST in the books of account. Mr. Raghu is eligible to take input tax credit of -

- (a) ₹ 13,500
(b) ₹ 11,700
(c) ₹ 9,900
(d) ₹ 1,800
6. TT Pvt. Ltd., registered in Rajasthan, furnished following information for the month of June:
- (i) Inter-State sale of goods for ₹ 1,25,000 to JJ Enterprises registered in Haryana
(ii) Inter-State purchases of goods from XYZ company, registered in Punjab, for ₹ 40,000
(iii) Intra-State purchases of goods from RR Traders, registered in Rajasthan, for ₹ 65,000
- The applicable rate of GST is 18%. All the above amounts are exclusive of taxes. GST liability payable in cash is-
- (a) CGST ₹ 1,800 & SGST ₹ 1,800
(b) SGST ₹ 3,600
(c) IGST ₹ 3,600
(d) CGST ₹ 3,600
7. Pradeep Traders, registered in Haryana, sold goods for ₹ 2,05,000 to Balram Pvt. Ltd. registered in Uttar Pradesh (GST is leviable @ 5% on said goods). As per the terms of sales contract, Pradeep Traders has to deliver the goods at the factory of Balram Pvt. Ltd. For this purpose, Pradeep Traders has charged freight of ₹ 2,400 from Balram Pvt. Ltd. GST is leviable @ 12% on freight. What would be the net GST liability to be paid in cash in this case assuming that the amounts given herein are exclusive of GST?

- (a) IGST-₹ 37,332
 - (b) IGST-₹ 10,370
 - (c) CGST-₹ 18,666 and SGST-₹ 18,666
 - (d) CGST-₹ 5,185 and SGST-₹ 5,185
8. Prem & Sons had taken GST registration on 1st January, but failed to furnish GST returns for the next 6 months. Owing to this, the proper officer cancelled its registration on 25th July and served the order for cancellation of registration on 31st July. Now, Prem & Sons wants to revoke the cancellation of registration. Prem & Sons can file an application for revocation of cancellation of registration on or before.
- (a) 30th August
 - (b) 29th August
 - (c) 29th September
 - (d) 29th October
9. XX, registered in Delhi, purchased books from PC Traders, registered in Uttar Pradesh. Books are exempt from GST. XX arranged the transport of these books from a goods transport agency (GTA) which charged a freight of ₹ 9,000 for the same. GST is payable @ 5% on such GTA services. Which of the following statement is correct in the given context:
- (a) GST of ₹ 450 is payable by XX on reverse charge basis.
 - (b) Supply of goods and supply of GTA service is a composite supply wherein supply of goods is the principal supply and since principal supply is an exempt supply, no tax is payable on freight.
 - (c) Since exempt goods are being transported, service provided by GTA for transporting the same is also exempt.
 - (d) GST of ₹ 450 is payable by the GTA.
10. Kalim & Associates made an application for cancellation of GST registration in the month of March due to closure of its business. Its application for cancellation of GST registration was approved on 14th September. In the given case, Kalim & Associates is:
- (a) required to file Final Return on or before 13th December
 - (b) not required to file Final Return
 - (c) required to file Final Return on or before 30th September
 - (d) required to file Final Return on or before 14th December

11. (a) Babla & Bros. is exclusively engaged in making exempt supply of goods and is thus, not registered under GST. On 1st October, the exemption available on its goods gets withdrawn. On that day, the turnover of Babla & Bros. was ₹ 50 lakh. Examine the eligibility of Babla & Bros. for availing ITC, if any.
- (b) Mamta Sales trades in exempt goods and provides taxable services. It is registered under GST. On 1st October, the exemption available on its goods gets withdrawn. Analyze the scenario and determine the eligibility of Mamta Sales for availing ITC, if any, on inputs and/or capital goods used in the supply of exempt goods.
12. Suhasini is a registered software consultant. On account of her ill health, she could not provide any services during the month of October. However, she had to incur all the expenses relating to her office. She paid ₹ 75,000 to various vendors. Total GST involved on the goods and services procured by her is ₹ 13,500. Out of the total bills paid by her, one bill for ₹ 15,000 relates to security services availed for security of her office, tax on which is payable under reverse charge. GST involved in such bill is ₹ 2,700.

Suhasini is of the opinion that for the month of October, no GST is payable from electronic cash ledger as she has sufficient balance of ITC for payment of GST under reverse charge on security services.

Do you think Suhasini is right? Explain with reasons.

13. 'XY' of Kolkata is engaged in supply of various goods and services. It pays GST under regular scheme. The following information is provided by it for the month of July:

Payments	Amount (₹)	Receipts	Amount (₹)
Inter-State purchases of office stationery	1,40,000	Inter-State supply of office stationery	2,00,000
Repairing of lorry used to transport goods from warehouse to clients' location [Intra-State supply]	1,00,000	Intra-State supply of 500 combi packs containing one calculator and one diary	4,00,000
		Intra-State supply of services of business correspondent to Shubhvidhi Bank with respect to accounts in its urban area branch	1,00,000

The following additional information is provided by 'XY' in relation to the above receipts and payments:

- (i) 10% of the inter-State supply of office stationery are made to unregistered persons.

- (ii) Each combi pack (containing a calculator and a diary) is priced at ₹ 800. The calculator and the diary are individually priced at ₹ 700 and ₹ 200 respectively.
- (iii) An invoice of ₹ 40,000 towards purchase of office stationery is missing and no other tax paying document is available in respect of such goods.
- (iv) All the figures mentioned above are exclusive of taxes, wherever applicable.
- (v) Rates of CGST, SGST and IGST for all services, office stationery and calculator are 9%, 9% and 18% respectively. Rates of CGST, SGST and IGST for diary are 14%, 14% and 28% respectively.
- (vi) Subject to the information given above, all the necessary conditions for availing input tax credit have been fulfilled.

Details of opening balances of input tax credit as on 1st July is given hereunder:

Tax	Amount (₹)
CGST	5,000
SGST	5,000
IGST	80,000

Compute the minimum net GST [CGST, SGST or IGST, as the case may be] payable in cash by 'XY' for the month of July.

14. Mutiservices Private Ltd., registered in Punjab, is engaged in supplying a variety of services. Its turnover was ₹ 35 lakh in the preceding financial year. It has provided the following information for the month of April:

Particulars	Amount (₹)
Fee for the coaching provided to students for competitive exams. The coaching centre is run by Mutiservices Private Ltd. in Punjab (Intra-State transaction)	6,24,000
Receipts for services provided in relation to conduct of examination in Pureit University, Delhi (providing education recognized by Indian law), being an inter-State transaction	19,200
Amount received for transportation of students and faculty from their residence to Lotus Public School - a higher secondary school – and back (Intra-State transaction)	24,000
Amount received for providing the security and housekeeping services in Dhaani Public School – a pre-school (Intra-State transaction)	36,000

Note: Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively. All the amounts given above are exclusive of taxes.

Compute the total GST liability of Multiservices Private Ltd. for the month of April.

15. The due date for payment of tax by a person paying tax under section 10 of the CGST Act, 2017, i.e. a composition supplier is aligned with the due date of return to be filed by the said person. Discuss the correctness or otherwise of the statement.

SUGGESTED ANSWERS

1. (i) (d)
(ii) (b)
(iii) (c)
2. (i) (a)
(ii) (d)
(iii) (c)
(iv) (a)
(v) (c)
3. (b)
4. (a)
5. (b)
6. (c)
7. (b)
8. (a)
9. (a)
10. (d)
11. (a) Since the exemption available on goods being supplied by Babla & Bros. is withdrawn, it becomes liable to registration as its turnover has crossed the threshold limit (for registration) on the day when the exemption is withdrawn.

Assuming that Babla & Bros. applies for registration within 30 days of 1st October and it obtains such registration, it will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date from which it becomes liable to pay tax, i.e. 30th September [Section 18(1)(a) of the CGST Act, 2017]. Input tax paid on capital goods will not be available as input tax credit in this case.

- (b) If the exempt supply made by a registered person becomes a taxable supply, provisions of section 18(1)(d) of the CGST Act, 2017 become applicable. In the given case, since Mamta Sales is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d), Mamta Sales will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relating to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable, i.e. 30th September. Input tax credit on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

12. The amount available in the electronic credit ledger, i.e. input tax credit may be used for making any payment towards output tax. Output tax, in relation to a taxable person, means the tax chargeable on taxable supply of goods or services or both made by him or by his agent but excludes tax payable by him on reverse charge basis.

Therefore, input tax credit cannot be used to pay the tax liability under reverse charge. The same is always required to be paid through electronic cash ledger and not electronic credit ledger. Thus, Suhasini is wrong and she should pay GST of ₹ 2,700 on security service through electronic cash ledger.

13. **Computation of minimum net GST payable in cash by 'XY' for the month of July**

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
Total tax liability				
Inter-State supply of stationery [Note 1]	2,00,000			36,000 (2,00,000 x 18%)
Intra-State supply of 500 combi packs of calculators and diaries [Note-2]	4,00,000 (500 x 800)	56,000 (4,00,000 x 14%)	56,000 (4,00,000 x 14%)	
Intra-State supply of services of business correspondent to a Shubhvidhi Bank with respect to accounts in its urban area branch [Note-3]	1,00,000	9,000 (1,00,000 x 9%)	9,000 (1,00,000 x 9%)	
Total tax liability		65,000	65,000	36,000
Input tax credit (ITC)				
Brought forward ITC		5,000	5,000	80,000
Inter-State purchase of office stationery [Note-4]	1,00,000			18,000
Intra-State repairing of lorry used for transportation of goods [Note-5]	1,00,000	9,000	9,000	

Total ITC		14,000	14,000	98,000
Minimum net GST payable in cash				
Total tax liability		65,000	65,000	36,000
IGST credit being set off against IGST liability				(36,000)
IGST credit being used to pay CGST and SGST liability in any order and in any proportion		(11,000)	(51,000)	
CGST and SGST credit being used to pay CGST and SGST liability respectively		(14,000) CGST	(14,000) SGST	
Minimum net GST payable in cash		40,000	Nil	Nil

Notes:-

1. Taxable supplies made by a registered person are liable to tax irrespective of whether they are made to a registered person or to an unregistered person.
2. Supply of calculator and diary as a combi pack with a single price of ₹ 800 is a mixed supply. Being a mixed supply comprising of two supplies, it shall be treated as supply of that particular supply which attracts highest rate of tax.
3. Services provided by a business facilitator/ business correspondent to a banking company only with respect to accounts in its rural area branch are exempt and not with respect to accounts in its urban area branch .
4. ITC can be taken only on the basis of a valid tax paying document. Thus, ITC will not be available on goods for which the invoice is missing.
5. ITC on motor vehicles used for transportation of goods is allowed. Further, ITC is allowed on repair and maintenance services relating to motor vehicles, ITC on which is allowed.

Note: IGST credit, after being set off against IGST liability, can be utilised against CGST and SGST liability in any order and in any proportion. Thus, there cannot be one answer for the minimum net CGST and SGST payable in cash as the amount of CGST and SGST liabilities are the same as also the amount of ITC for CGST and SGST is also the same.

14. Computation of net GST liability of Multiservices Private Ltd. for the month of April:

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Fee for the coaching provided to	6,24,000	56,160	56,160	

students for competitive exams [Note-1]				
Services towards conduct of examination in Pureit University, Delhi [Note-2]	19,200			-
Services of transportation of students and faculty from their residence to Lotus Public School and back [Note-3]	24,000			-
Security and housekeeping services in Dhaani Public School [Note-4]	36,000	-	-	
Total GST liability		56,160	56,160	

Notes:-

- Coaching centre run by Mutiservices Private Ltd. is not an educational institution since competitive exam coaching does not lead to grant of a qualification recognized by law. Therefore, fee received for coaching provided at such coaching centre is taxable.
 - Since Pureit University provides qualification recognized by law, it is an educational institution and services provided to an educational institution, in relation to conduct of examination by such institution are exempt from GST.
 - Since Lotus Public School provides education up to higher secondary school, it is an educational institution and services of transportation of students, faculty and staff provided to an educational institution are exempt.
 - Since Dhaani Public School provides pre-school education, it is an educational institution. Security and housekeeping services provided within the premises of an educational institution are exempt.
- 15.** The statement is not correct. Every registered person paying tax under section 10, i.e. a composition supplier, is required to file a return annually in Form GSTR-4. Form GSTR-4 for a financial year should be furnished by 30th April of the succeeding financial year. However, a composition supplier is required to pay his tax on a quarterly basis. A quarterly statement for payment of self-assessed tax in GST CMP-08 is required to be furnished by 18th day of the month succeeding such quarter.

Therefore, while the return is to be furnished annually, payment of tax needs to be made on a quarterly basis, by a composition supplier.

**Applicability of Standards/Guidance Notes/Legislative Amendments etc.
for November, 2020 – Intermediate (IPC) Examination**

Paper 1: Accounting

Accounting Standards

- AS 1: Disclosure of Accounting Policies
- AS 2: Valuation of Inventories
- AS 3: Cash Flow Statements
- AS 7: Construction Contracts
- AS 9: Revenue Recognition
- AS 10: Property, Plant and Equipment
- AS 13: Accounting for Investments
- AS 14: Accounting for Amalgamations

NOTE:

I. Applicability of the Companies Act, 2013 and other Legislative Amendments for November, 2020 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 30th April, 2020 will be applicable for November, 2020 Examination.

II. Applicability of Amendments made by the MCA in the Companies (Accounting Standards) Rules, 2006

Amendments made by MCA on 30.3.2016 in the Companies (Accounting Standards) Rules, 2006 are applicable for November, 2020 examination.

III. Non-Applicability of Ind AS for November, 2020 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 November, 2020 Examination.

Paper 2: Business Laws, Ethics and Communication

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 business laws, as amended by concerned authority, including significant notifications and circulars issued up to 30th April, 2020, are applicable for November, 2020 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: Business Law		
Chapter 1: The Indian Contract Act, 1872	The entire content included in Module 1 of Study Material read with RTP for November 2020, shall only be relevant for the said examinations.	-
Chapter 2: The Negotiable Instruments Act, 1881	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (December 2018) and RTP for November 2020, shall only be relevant for the said examinations.	-
Chapter 3: The Payment of Bonus Act, 1965	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (December 2018) and RTP for November 2020, shall only be relevant for the said examinations.	-
Chapter 4: The Employees' Provident Fund and Miscellaneous Provisions Act, 1952	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (December 2018) and RTP for	EPF Scheme, EPS Scheme and EDLI Scheme, shall be applicable for the students only to the extent as covered in the *Relevant Publications.

	November 2020, shall only be relevant for the said examinations.	
Chapter 5: The Payment of Gratuity Act, 1972	Content of this chapter of the Study Material covers the significant provisions of the said Act in a broad manner (not in entirety). The entire content included in Module 1 of Study Material read with the Supplementary Study Paper (December 2018) and RTP for November 2020, shall only be relevant for the said examinations.	-
Chapter 6: Companies Act, 2013 (Sections 1 to 122)	The entire content included in the Supplementary Study Paper (December 2018) read with amendments given in RTP for November 2020, shall only be relevant for the said examinations.	<ul style="list-style-type: none"> (i) Sections 24, 30, 33, 38 & 41 [from chapter 3- Prospectus and Allotment of Securities] (ii) Sections 44, 45, 60, 65 & 72 [from chapter 4- Share capital and Debentures] (iii) Section 75 [from chapter 5- Acceptance of deposits by companies] (iv) Section 81 & 85 [from chapter 6- Registration of Charges] <p>Also, except the Relevant rules covered in the *Relevant Publications (including RTP for November 2020), all other Rules of the Companies Act, 2013 are excluded.</p>

Note: *Relevant publications for the examinations

Publication	Edition
Study Material (Module 1 & 3)	July 2015
"Supplementary Study Paper for May 2019 examination and onwards" for Paper 2: Business Law, Ethics and Communication (Please Note: Module 2 of Study Material- July 2015 edition, has been completely replaced with the 'Chapter 6- The Companies Act, 2013', as contained in the said Supplementary)	(December 2018)

The amendments made after the issuance of the Study material/ Supplementary Study Paper, to the extent covered in the RTP for November 2020, shall also be relevant for the said examinations.

Paper 4: Taxation

Section A: Income-tax**Applicability of the Finance Act, Assessment Year etc. for November, 2020 Examination**

The provisions of income-tax law, as amended by the Finance Act, 2019 and the Finance (No.2) Act, 2019 including significant circulars, notifications, press releases issued and legislative amendments made upto 30th April, 2020, are applicable for November, 2020 examination. The relevant assessment year for income-tax is A.Y. 2020-21.

Note – The August, 2019 edition of the Study Material for Intermediate (New) Paper 4A, based on the provisions of income-tax law, as amended by the Finance Act, 2019 and Finance (No.2) Act, 2019, is also relevant for IIPCE (Old) Paper 4A: Income-tax, November, 2020 examination, **with the exception of the topic “Tax Collection at Source – Basic Concepts” in Chapter 9 and the topic “Self-assessment” in Chapter 10.** The remaining topics in chapters 9 and 10 and the entire content of chapters 1 to 8 of the said Study Material are relevant and applicable for IIPCE (Old) Paper 4A: Income-tax for November, 2020 examination.

The said Study Material is available at https://www.icai.org/post.html?post_id=15923. The initial pages of the Study Material available at <https://resource.cdn.icai.org/56458bos45796mod1initpages.pdf> contains the Study Guidelines which specifies the list of topic-wise exclusions from the scope of syllabus.

The significant notifications, circulars, press releases issued and legislative amendments made upto 30th April, 2020, but not covered in the August, 2019 edition of the Study Material would be webhosted as Statutory Update for November, 2020 examination at the BoS Knowledge Portal. This update is relevant and important for November, 2020 examination.

Section B: Indirect Taxes**Applicability of the GST law**

The provisions of CGST Act, 2017 and IGST Act, 2017 as amended by the Finance (No. 2) Act, 2019, which have become effective up to 30th April, 2020, including significant circulars and notifications issued up to 30th April 2020, are applicable for November 2020 examination.

List of topic-wise exclusions from the syllabus
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(1)	(2)	(3)
S. No. in the syllabus	Topics of the syllabus	Exclusions (Provisions which are excluded from the corresponding topic of the syllabus)
2(ii)(c)	Charge of tax including reverse charge	CGST Act, 2017 (i) Rate of tax prescribed for supply of goods * (ii) Rate of tax prescribed for supply of services *

		(iii) Categories of supply of goods, tax on which is payable on reverse charge basis under section 9(3) IGST Act, 2017 (iv) Rate of tax prescribed for supply of goods (v) Rate of tax prescribed for supply of services (vi) Categories of supply of goods, tax on which is payable on reverse charge basis under section 5(3) (vii) Determination of nature of supply – Inter-State supply; Intra-State supply; Supplies in territorial waters (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 Exemptions for supply of goods
2(iii)	Basic concepts of time and value of supply	CGST Act, 2017 & CGST Rules, 2017 (i) Provisions relating to change in rate of tax in respect of supply of goods or services (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 (i) Input tax credit provisions in respect of inputs and capital goods sent for job work (ii) Input tax credit provisions relating to distribution of credit by Input Service Distributor [ISD] (iii) Manner of recovery of credit distributed in excess (iv) Manner of determination of input tax credit in respect of inputs, input services and capital goods and reversal thereof in respect of real estate projects (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 (i) Furnishing of GSTR-2, GSTR-1A, GSTR-3

		(ii) Matching, reversal & reclaim of input tax credit (iii) Matching, reversal & reclaim of reduction in output tax liability
2(ix)	Payment of tax	CGST Act, 2017 (i) Tax deduction at source (ii) Collection of tax at source

***Rates specified for computing the tax payable under composition levy are included in the syllabus.**

Notes:

(1) Applicability of the Finance (No. 2) Act, 2019

- (i) The amendments made by the Finance (No. 2) Act, 2019 in the Central Goods and Services Tax Act, 2017 [hereinafter referred to as CGST Act, 2017] and the Integrated Goods and Services Tax, 2017 [hereinafter referred to as IGST Act, 2017] have become effective from 01.01.2020. Therefore, the amendments made vide the Finance (No. 2) Act, 2019, to the extent included in the syllabus read with the Study Guidelines, are applicable for November 2020 examinations.

However, amendments made by the Finance (No. 2) Act, 2019 - to the extent included in the syllabus read with the Study Guidelines - in sections 39 and 50 of the CGST Act, 2017 have not become effective as on 30.04.2020. Therefore, the same are not applicable for November 2020 examinations.

- (ii) Sabka Vishwas (Legacy Dispute Resolution) Scheme, 2019 introduced vide Chapter V of the Finance (No. 2) Act, 2019 is not applicable for November 2020 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) August 2019 edition of the Study Material is relevant for May 2020 and November 2020 examinations. The amendments in the GST law - made after the issuance of this Study Material - to the extent covered in the Statutory Update for November 2020 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 November 2020 examination shall provide the precise scope and coverage of the amendments, for the sake of clarity, it may be noted that the following amendments shall not be applicable for November 2020 examinations:

- (i) The amendments made in the various provisions of the GST law namely, composition scheme, input tax credit, returns, interest on delayed payment of tax, e-way bill etc., for providing relief to the taxpayers in view of spread of Novel Corona Virus (COVID-19)
 - (ii) The amendments relating to transition plan with respect to Jammu and Kashmir reorganization w.e.f. 31.10.2019
 - (iii) The amendments providing the special procedure for taxpayers in Dadra and Nagar Haveli and Daman and Diu consequent to merger of the two UTs
 - (iv) The amendment specifying due dates for filing of GSTR-3B in a staggered manner for taxpayers having annual turnover below ₹ 5 crore in previous financial year
- (5) The provisions of CGST Act, 2017 and the rules issued thereunder and IGST Act, 2017 and the rules issued thereunder, to the extent included in the August 2019 edition of the Study Material (**except** the exclusions mentioned herein) and the Statutory Update for November 2020 examination shall alone be relevant for the said examination.