

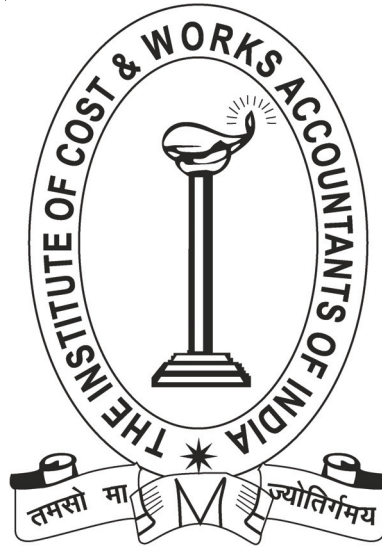
REVISED SYLLABUS 2008

TEST PAPERS

Intermediate

Group I

QUESTION PAPERS FOR POSTAL STUDENTS ONLY
(FOR JUNE/DECEMBER 2013)



**THE INSTITUTE OF COST AND WORKS
ACCOUNTANTS OF INDIA**

DIRECTORATE OF STUDIES

© Copyright Reserved by the Institute of Cost and Works Accountants of India

PAPER 5

FINANCIAL ACCOUNTING
TEST PAPER – I/5/FAC/2008/T-1

Time Allowed : 3 hours

Full Marks : 100

(Answer Question No. 1 and any four questions from the rest)

1. (a) Indicate the correct answer : (5×2 = 10)
- A. The output of financial accounting is
- i. The measurement of accounting income
 - ii. The measurement of taxable income
 - iii. The preparation of financial statements
 - iv. The preparation of financial Position
- B. The basic objective of financial accounting is to:
- i. Provide quantitative information to users of financial statements
 - ii. Satisfy the legal requirements
 - iii. Report income to the shareholders
 - iv. Satisfy listing requirements of stock exchanges
- C. Information about performance is disclosed by:
- i. Balance sheet
 - ii. Statement of cash flows
 - iii. Profit and loss account
 - iv. Both (i) and (ii)

D. The lessee's right to recover the short working is related to:

- i. First five years
- ii. Last three years
- iii. Terms of the agreement
- iv. None of the above.

E. In the books of lessee, short workings recoverable in future years are:

- i. A revenue expense
- ii. A normal loss
- iii. An asset
- iv. A liability.

(b) Define in one sentence each : (5×2 = 10)

- (i) Expenses, (ii) Equity, (iii) Liability, (iv) Asset and (v) Income.

2. (a) Write short notes on :

- (i) Materiality
- (ii) Principles of Government Accounting
- (iii) Consolidated Fund
- (iv) Proprietary ratio

(b) Indicate any three areas in respect of which different accounting policies may adopted by different enterprises. Also indicate the requirements with regard to disclosure of accounting policies. (3×4+8 = 20)

3. On 31st March, 2009 P. Ltd., a trading organisation owned inventory costing ₹ 3 lakhs of which inventory valued ₹ 1 lakh was with consignees. It also has in its possession inventory valued at ₹ 10 lakhs belonging to its own principals.

During the year ended 31st March, 2010 P. Ltd. :

- (a) Purchased inventory worth ₹ 50 lakhs of which 80% was dispatched to its consignees, the transportation cost being 5% of the value of goods sent;
- (b) Received from its principals inventory of ₹ 150 lakhs;
- (c) Sold 90% of own goods received and lying with itself at 20% margin on sales;

4 ♦ Test Papers — Intermediate Group I

- (d) Sold on behalf of principals 95% of goods available at 120% of the value thereof. P. Ltd is entitled to commission at 10% of such sales.

The consignees sold at 125% of their per unit landed cost (consignees spending nil) 95% of goods available with them and were entitled to commission at 10% of sales.

You are asked to work out the various figures for recording in the revenue statement of P. Ltd. for the year ended 31st March, 2010. Prepare the revenue statement. (20)

4. The following was the Balance Sheet of 'X' and 'Y', who were sharing profits and losses in the ratio of 2:1 on 31.3.2010 :

| Liabilities | ₹ | Assets | ₹ |
|--------------------|------------------|---------------------|------------------|
| Capital Accounts | | Plant and machinery | 12,00,000 |
| X | 10,00,000 | Building | 9,00,000 |
| Y | 5,00,000 | Sundry debtors | 3,00,000 |
| Reserve fund | 9,00,000 | Stock | 4,00,000 |
| Sundry creditors | 4,00,000 | Cash | 1,00,000 |
| Bills payable | 1,00,000 | | — |
| | <u>29,00,000</u> | | <u>29,00,000</u> |

They agreed to admit 'Z' into the partnership on the following terms :

- (i) The goodwill of the firm was fixed at ₹1,05,000.
- (ii) That the value of stock and plant and machinery were to be reduced by 10%.
- (iii) That a provision of 5% was to be created for doubtful debts.
- (iv) That the building account was to be appreciated by 15%.
- (v) There was an unrecorded liability of ₹10,000.
- (vi) Investments worth ₹20,000 (unrecorded in the Balance Sheet) were taken into account.
- (vii) That the value of reserve fund, the values of liabilities and the values of assets other than cash are not to be altered.
- (viii) 'Z' was to be given one-fourth share in the profit and was to bring capital equal to his share of profit after all adjustments.

Prepare necessary ledger accounts and the Balance Sheet of the newly reconstituted firm. (20)

5. Department X sells goods to Department Y at a profit of 25% on cost and to Department Z at 10% profit on cost. Department Y sells goods to X and Z at a profit of 15% and 20% on sales, respectively. Department Z charges 20% and 25% profit on cost to Department X and Y, respectively.

Department Managers are entitled to 10% commission on net profit subject to unrealised profit on departmental sales being eliminated. Departmental profits after charging Managers' commission, but before adjustment of unrealised profit are as under :

| | ₹ |
|--------------|--------|
| Department X | 36,000 |
| Department Y | 27,000 |
| Department Z | 18,000 |

Stock lying at different departments at the end of the year are as under :

| | Dept. X ₹ | Dept. Y ₹ | Dept. Z ₹ |
|----------------------------|--------------|--------------|--------------|
| Transfer from Department X | — | 15,000 | 11,000 |
| Transfer from Department Y | 14,000 | — | 12,000 |
| Transfer from Department Z | 6,000 | 5,000 | — |

Find out the correct departmental Profits after charging Managers' commission. (20)

6. Head Office passes adjustment entry at the end of each month to adjust the position arising out of inter-branch transactions during the month. From the following inter-branch transactions in January, 2009, make the entry in the books of Head Office :

(a) Bombay Branch

- i) Received Goods : ₹ 6,000 from Calcutta Branch, ₹, 4,000 from Patna Branch.
- ii) Sent Goods to ₹ 10,000 to Patna, ₹ 8,000 to Calcutta.
- iii) Received B/R: ₹ 6,000 from Patna.
- iv) Sent Acceptance: ₹ 4,000 to Calcutta, ₹ 2,000 to Patna.

6 ♦ Test Papers — Intermediate Group I

(b) Madras Branch (Apart from the above)

i) Received Goods: ₹ 10,000 from Calcutta, ₹ 4,000 from Bombay.

ii) Cash Sent: ₹ 2,000 to Calcutta, ₹ 6,000 to Bombay.

(c) Calcutta Branch (Apart from the above)

i) Sent Goods to Patna: ₹ 6,000.

ii) Paid B/P: ₹ 4,000 to Patna, ₹ 4,000 cash to Patna. (20)

7. A Company invited the public to subscribe for 10,000,000 Equity Shares of ₹100 each at a premium of ₹ 10 per share payable on allotment. Payments were to be made as follows :

On application ₹ 20; on allotment ₹ 40; on first call ₹ 30 and on final call ₹20.

Applications were received for 13,000,000 shares; applications for 2,000,000 shares were rejected and allotment was made proportionately to the remaining applicants.

Both the calls were made and all the moneys were received except the final call on 300,000 shares which are forfeited after due notice. Later 200,000 of the forfeited shares were issued as fully paid at ₹ 85 per share. Pass Journal entries. (20)

PAPER 5

FINANCIAL ACCOUNTING
TEST PAPER – I/5/FAC/2008/T-2

Time Allowed : 3 hours

Full Marks : 100

(Answer Question No. 1 and any four questions from the rest)

1. (a) Fill in the blanks : (14)
- i) Under stock and debtors system branch profit is ascertained by opening _____ account.
 - ii) Under debtors systems branch account is a _____ account.
 - iii) In case of amalgamation of partnership firms, any profit and loss on revaluation is transferred to _____ accounts in the _____ ratio.
 - iv) The liabilities taken over by the new firm in amalgamation are _____ to the new firm account.
 - v) When the firm sells the business as a going concern cash balance is transferred to _____ account.
 - vi) The purchasing company records the assets and liabilities taken over at _____ value.
 - vii) The excess of net worth acquired by the company from a firm over the purchase price is _____ to _____ account.
 - viii) Under stock and debtors system branch profit is ascertained by opening _____ account.
 - ix) When an asset account of the branch is maintained in the head office, the entry for depreciation is made by debiting _____ account and crediting _____ account.
 - x) When goods are sent from P branch to Q branch, Q branch debits _____ account and credits _____ account.

- (b) Basis of allocation of common expenditure among different departments. (2)
- (c) Elucidate “accounting convention of conservatism.” (2)
- (d) Under what circumstances can an enterprise change its accounting policy? (2)

2. X, Y Ltd. and Z Ltd. are partners of X & Co. The partnership deed provided that :
- (a) The working partner Mr. X is to be remunerated at 15% of the net profits after charging his remuneration, but before charging interest on capital and provision for taxation ;
 - (b) Interest is to be provided on capital at 15% per annum ;
 - (c) Balance profits after making provision for taxation, is to be shared in the ratio of 1 : 2 : 2 by the three partners.

During the year ended 31st March, 2010 :

- (i) the net profit before tax and before making any payment to partners amounted to ₹ 6,90,000;
- (ii) interest on capitals at 15% per annum amounted to :
₹ 60,000 for X; ₹ 1,50,000 for Y Ltd. and ₹ 1,80,000 for Z Ltd. The capitals have remained unchanged during the year;
- (iii) provision for tax is to be at 40% of “total income” of the firm. The total income has been computed at ₹ 1,95,000.

You are asked by :

- (a) the firm to pass closing entries in relation to the above;
- (b) Y Ltd. to pass journal entries in its books pertaining to its income from the firm and show the investment in partnership account as it would appear in its ledger ;
- (c) Z Ltd. to show, how the above information will appear in its financial statements for the year ;
- (d) Shri X to show the working, if any, in relation to the above. (20)

3. The following is the Balance Sheet of Happy Ltd. as at 31.3.2009 :

| Liabilities | ₹ | Assets | ₹ |
|--|-----------------------------|---------------------------------|-----------------|
| Share Capital | | Fixed Assets | |
| Authorised | | Gross Block | 3,00,000 |
| 10,000 10% Redeemable Preference | | Less : Depreciation | 1,00,000 |
| Shares of ₹ 10 each | 1,00,000 | | 2,00,000 |
| 90,000 Equity Shares of ₹ 10 each | 9,00,000 | Investments | 1,00,000 |
| | <u>10,00,000</u> | Current Assets and | |
| | | Loan and Advances | |
| Issued, Subscribed and Paid-up Capital | | | |
| 10,000 10% Redeemable Preference | | Inventory | 25,000 |
| Shares of ₹ 10 each | 1,00,000 | Debtors | 25,000 |
| 10,000 Equity Shares of ₹ 10 each | 1,00,000 | Cash and Bank Balances | 50,000 |
| | (A) <u>2,00,000</u> | Misc. Expenditure to the extent | |
| Reserves and Surplus | | not written of | 20,000 |
| General Reserve | 1,20,000 | | |
| Securities Premium | 70,000 | | |
| Profit and Loss A/c | 18,500 | | |
| | (B) <u>2,08,500</u> | | |
| Current Liabilities and Provisions | (C) 11,500 | | |
| Total | (A + B + C) <u>4,20,000</u> | Total | <u>4,20,000</u> |

For the year ended 31.3.2010, the company made a net profit of ₹ 15,000 after providing ₹ 20,000 depreciation and writing off the miscellaneous expenditure of ₹ 20,000.

The following additional information is available with regard to company's operation:

- a) The preference dividend for the year ended 31.3. 2010 was paid before 31.3. 2010.
- b) Except cash and bank balances other current assets and current liabilities as on 31.3. 2010, was the same as on 31.3. 2009.
- c) The company redeemed the preference shares at a premium of 10%.

10 ♦ Test Papers — Intermediate Group I

- d) The company issued bonus shares in the ratio of one share for every equity share held as on 31.3. 2010.
- e) To meet the cash requirements of redemption, the company sold a portion of the investments, so as to leave a minimum balance of ₹ 30,000 after such redemption.
- f) Investments were sold at 90% of cost on 31.3. 2010.

You are required to :

- i) Prepare necessary journal entries to record redemption and issue of bonus shares.
 - ii) Prepare the cash and bank account.
 - iii) Prepare the Balance Sheet as at 31st March, 2010 incorporating the above transactions. (20)
4. (a) Events occurring after the Balance Sheet Date and their disclosure requirements. (5)
- (b) Prior-Period items (2)
 - (c) Pre-incorporation expenses (3)
 - (d) Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets. (10)
5. (a) ABC Ltd. could not recover ₹ 10 lakhs from a debtor. The company is aware that the debtor is in great financial difficulty. The accounts of the company were finalized for the year ended 31.3.2010 by making a provision @ 20% of the amount due from the said debtor.
- The debtor became bankrupt in April, 2010 and nothing is recoverable from him. Do you advise the company to provide for the entire loss of ₹ 10 lakhs in the books of account for the year ended 31st March, 2010?

- (b) Ram Co. (P) Ltd. furnishes you the following information for the year ended 31.3.2010 :

| | |
|--|-------------|
| Depreciation for the year ended 31.3.2010 (under straight line method) | ₹ 100 lakhs |
| Depreciation for the year ended 31.3.2010 (under written down value method) | ₹ 200 lakhs |
| Excess of depreciation for the earlier years calculated under written down value method over straight line method | ₹ 500 lakhs |

The Company wants to change its method of claiming depreciation from straight line method to written down value method.

Decide, how the depreciation should be disclosed in the Financial Statement for the year ended 31.3.2010.

- (c) How refund of revenue grant received from the Government is disclosed in the Financial Statements?
- (d) A major fire has damaged the assets in a factory of a limited company on 2nd April-two days after the year end closure of account. The loss is estimated at ₹ 20 crores out of which ₹ 12 crores will be recoverable from the insurers. Explain briefly how the loss should be treated in the final accounts for the previous year.
(5×4 =20)
6. (a) On 31st March, 2009, Uncertain Bank Ltd. had a balance of ₹ 9 crores in “rebate on bills discounted” account. During the year ended 31st March, 2010, Uncertain Bank Ltd. discounted bills of exchange of ₹ 4,000 crores charging interest at 18% per annum the average period of discount being for 73 days. Of these, bills of exchange of ₹ 600 crores were due for realisation from the acceptors/customers after 31st March, 2010, the average period outstanding after 31st March, 2010 being 36.5 days.
- Uncertain Bank Ltd. asks you to pass journal entries and show the ledger accounts pertaining to :
- (i) Discounting of Bills of exchange and
(ii) Rebate on Bills discounted. (10)
- (b) Prepare the Fire Insurance Revenue A/c as per IRDA regulations for the year ended 31st March, 2010 from the following details :

| | ₹ |
|---|-----------|
| Claims paid | 9,80,000 |
| Legal expenses regarding claims | 20,000 |
| Premiums received | 26,00,000 |
| Re-insurance premium paid | 2,00,000 |
| Commission | 6,00,000 |
| Expenses of management | 4,00,000 |
| Provision against unexpired risk on 1st April, 2009 | 11,00,000 |
| Claims unpaid on 1st April, 2009 | 1,00,000 |
| Claims unpaid on 31st March, 2010 | 1,60,000 |
| | (10) |

7. S Ltd has a hire purchase department. Goods are sold on hire purchase at cost plus 50%. The following information is provided for the year ending on 31st March 2010.

| | 01.04.2008 | 31.03.2009 |
|---|------------|------------|
| Stock out with Hire Purchase Customers (₹) | 18,000 | ? |
| Stock at shop (₹) | 36,000 | 40,000 |
| Instalment Due (Customers still Paying) (₹) | 10,000 | 18,000 |

Required : Prepare Hire Purchase Trading Account in each of the following alternative cases:

- Case (a) If Cash received from hire purchasers amounted to ₹ 1,20,000 and Goods purchased during the year amounted to ₹ 1,20,000.
- Case (b) If Cash received from hire purchasers amounted to ₹ 1,20,000 and Goods purchased during the year amounted to ₹ 1,20,000. Goods repossessed (Instalments due ₹ 4000) valued at ₹ 1,000 which have not been included in the Stock at shop at the end.
- Case (c) If Cash received from hire purchasers amounted to ₹ 1,20,000 and Goods purchased during the year amounted to ₹ 1,20,000. Goods repossessed (Instalments unpaid ₹ 4,000 of which ₹ 2,800 were overdue) valued at ₹ 500 which have not been included in the Stock at shop at the end. (20)

PAPER 5

FINANCIAL ACCOUNTING
TEST PAPER – I/5/FAC/2008/T-3

Time Allowed : 3 hours

Full Marks : 100

(Answer Question No. 1 and any four questions from the rest)

1. A) Indicate the correct answer : (10×2 = 20)
- The output of financial accounting is
- i) The measurement of accounting income
 - ii) The measurement of taxable income
 - iii) The preparation of financial statements
 - iv) The preparation of financial Position
- B. The basic objective of financial accounting is to :
- i) Provide quantitative information to users of financial statements
 - ii) Satisfy the legal requirements
 - iii) Report income to the shareholders
 - iv) Satisfy listing requirements of stock exchanges
- C. Information about performance is disclosed by :
- i) Balance sheet
 - ii) Statement of cash flows
 - iii) Profit and loss account
 - iv) Both (i) and (ii)
- D. The lessee's right to recover the short working is related to :
- i) First five years
 - ii) Last three years
 - iii) Terms of the agreement
 - iv) None of the above.

- E. Profit or loss for the period includes
 - i) Ordinary activities
 - ii) Extraordinary activities
 - iii) Prior period items
 - iv) All the above

- F. The perception of extraordinary events must be made with reference to
 - i) Business ordinarily carried on by an enterprise
 - ii) The frequency with which such events are expected to occur
 - iii) Both (i) and (ii)
 - iv) The size of the transaction

- G. Prior period items must be shown
 - i) In the current profit and loss account along with the ordinary activities
 - ii) In the current profit and loss account in a manner that their impact on the current
 - iii) profit or loss can be perceived as adjustments to reserves
 - iv) As a separate item in the balance sheet

- H. A change in the estimated life of the asset, which necessitates adjustment in the depreciation, is an example of
 - i) Prior period item
 - ii) Ordinary item
 - iii) Extraordinary item
 - iv) Change in the accounting estimate

- I. A change in the accounting policy should be made
 - i) When states so direct
 - ii) For compliance with an accounting standard
 - iii) For better presentation of financial statements
 - iv) All the above.

J. Selling and distribution costs are not included in cost of inventories because they

- i) are negligible
- ii) do not relate to bringing the inventories in their present location and condition
- iii) are period costs
- iv) are in relation to specific customers

2. The firm of Vansen & Co. has four partners and as of 31st March, 2010, its Balance Sheet stood as follows :

| Liabilities | ₹ | Assets | ₹ |
|---------------------|-----------|----------------------|-----------|
| Capital A/cs : | | Land | 1,00,000 |
| F | 4,00,000 | Building | 5,00,000 |
| S | 4,00,000 | Office equipment | 2,50,000 |
| R | 2,00,000 | Computers | 1,40,000 |
| Current A/cs | | Debtors | 8,00,000 |
| F | 1,00,000 | Stocks | 6,00,000 |
| S | 3,00,000 | Cash at Bank | 1,50,000 |
| R | 2,20,000 | Other Current Assets | 45,200 |
| Loan from HSBC | 10,00,000 | Current A/c : | |
| Current Liabilities | 1,40,000 | B | 1,74,800 |
| | 27,60,000 | | 27,60,000 |

The partners have been sharing profits and losses in the ratio of 4:4:1:1. It has been agreed to dissolve the firm on 1.4.2010 on the basis of the following understanding :

(a) The following assets are to be adjusted to the extent indicated with respect to the book values :

| | |
|-----------|------|
| Land | 200% |
| Building | 120% |
| Computers | 75% |
| Debtors | 95% |
| Stocks | 80% |

16 ♦ Test Papers — Intermediate Group I

- (b) In the case of the loan, the lender's are to be paid at their insistence a prepayment premium of 1%.
- (c) B is insolvent and no amount is recoverable from him. His father, R, however, agrees to bear 50% of his deficiency. The balance of the deficiency is agreed to be apportioned according to law.

Assuming that the realisation of the assets and discharge of liabilities is carried out immediately, Prepare necessary ledger accounts. (20)

3. (a) Conditions to be fulfilled by a Joint Stock Company to buy-back its equity shares. (4)

(b) The Balance Sheet of Anita Industries Ltd. as at 31.3.2010 is as follows :

| Liabilities | ₹ | Assets | ₹ |
|--|--|---------------|-----------|
| Authorised Share Capital 1,50,000 Equity Shares of ₹ 10 each Issued, Subscribed and Paid-up 80,000 Equity Shares of ₹ 7.50 each called-up and paid-up | 15,00,000 6,00,000 | Sundry Assets | 17,00,000 |
| Reserves and surplus Capital Redemption Reserve Plant Revaluation Reserve Securities Premium Account Development Rebate Reserve Investment Allowance Reserve General Reserve | 1,50,000 20,000 1,50,000 2,30,000 2,50,000 3,00,000 | | |
| | 17,00,000 | | 17,00,000 |

The company wanted to issue bonus shares to its share holders at the rate of one share for every two shares held. Necessary resolutions were passed; requisite legal requirements were complied with :

- (i) You are required to give effect to the proposal by passing journal entries in the books of Anita Industries Ltd.
- (ii) Show the amended Balance Sheet. (16)

4. (a) From the following particulars of Nivedita Limited, you are required to calculate the managerial remuneration in the following situation:
- (i) There is only one whole time director.
 - (ii) There are two whole time directors.
 - (iii) There are two whole time directors, a part time director and a Manager.

₹

| | |
|--|-----------|
| Net profit before provision for income-tax and managerial remuneration, but after depreciation and provision for repairs | 17,40,820 |
| Depreciation provided in the books | 6,20,000 |
| Provision for repairs of machinery during the year | 50,000 |
| Depreciation allowable under Schedule XIV | 5,20,000 |
| Actual expenditure incurred on repairs during the year | 30,000 |

12

(b) Write short notes on :

- i) Unexpired Risks Reserve (4)
 - ii) Re-insurance. (4)
5. On 01.04.10, P Ltd. issued 1,000, 15% Debentures of ₹ 100 each at a discount of 10% redeemable at par.

Required : Show the Discount on Issue of Debentures A/c if (a) such debentures are redeemable after 4 years, and (b) such debentures are redeemable by equal annual drawings in 4 years. A Ltd. follows financial year as its accounting year. (20)

6. A summary of Receipts and Payments of Bakers Club for the year ended 31st March, 2010.

| Receipts | ₹ | Payments | ₹ |
|-------------------------|---------------|--------------------------|---------------|
| To Opening Balance | 3,000 | By Salaries & Rent | 1,500 |
| “ Subscription | 20,000 | “ Electric Charges | 300 |
| “ Donations | 5,000 | “ Sports Expenses | 1,000 |
| “ Entrance Fees | 1,000 | “ Sports goods purchase | 9,000 |
| “ Interest | 100 | “ Books purchase | 5,000 |
| “ Charity show Receipts | 2,400 | “ Miscellaneous Expenses | 700 |
| | | “ Charity show Expenses | 2,000 |
| | | “ Investment | 8,000 |
| | | “ Closing balance | 4,000 |
| | 31,500 | | 31,500 |

Following information are available at the end of the year :

- (i) Of the total subscriptions received ₹ 500 for 2007-08 and ₹ 600 for 2009-10 but ₹ 100 is due for 2008-09.
- (ii) The total sum received on Entrance fees is to be transferred to Capital Fund.
- (iii) Salary is remaining due to be paid ₹ 300.
- (iv) Interest is receivable ₹ 500.

The club had the following assets on the opening day of the year Sports goods ₹ 3,000; Books ₹ 2,000; Investment ₹ 6,000.

As on 31.3.10 : sports goods valued at ₹ 10,000.

From the above information prepare an Income and Expenditure Account for the year ended 31.3.10 and Balance sheet as on that date. (20)

7. A colliery is leased to National Coal Syndicate on a royalty of ₹ 1 per tonne on the output.

A minimum rent of ₹ 16,000 a year and allowances for shortworking are provided in the lease. The coal actually raised in a series of years is as follows:

| | Tonnes |
|----------|---------------|
| 1st year | 8,000 |
| 2nd year | 10,000 |
| 3rd year | 18,000 |
| 4th year | 28,000 |
| 5th year | 14,000 |

Draw up Royalty account, Landlord's account, Shortworking Account and Minimum Rent Account in the books of the National Coal Syndicate. (20)

PAPER 5

FINANCIAL ACCOUNTING
TEST PAPER – I/5/FAC/2008/T-4

Time Allowed : 3 hours

Full Marks : 100

(Answer Question No. 1 and any four questions from the rest)

1. Choose the correct answer (5×1 = 5)
- A. Livestock in the case of mixed farming is
- i) A fixed asset.
 - ii) A current asset.
 - iii) A wasting asset.
 - iv) A tangible asset.
- B. Crops are valued at
- i) market price
 - ii) Cost price
 - iii) Capitalized value
 - iv) Economic value
- C. Final accounts of a farmer can be prepared under
- i) Single entry method
 - ii) Double entry method
 - iii) Both single and double entry methods
 - iv) None of the above
- D. The cash book usually maintained by the farmer is
- i) petty cash book
 - ii) two-column cash book
 - iii) Analytical cash book
 - iv) Three column cash book

- E. Livestock purchased will figure in
 i) The balance sheet
 ii) The trading account
 iii) The profit and loss account
 iv) The current account
- F. Define cash and cash equivalents as suggested in AS- 3 to be used for preparing a cash flow statement. (5)
- G. What is the objective of Accounting Standard? (5)
- H. State whether each of the following statement is true or false. (2)
 (i) Going concern means that business has entered into a process of liquidation.
 (ii) The principle of consistency requires that all business enterprises should follow the same method of accounting.
- I. When parties are considered 'Related' as per A.S. 18? 3
2. FGH Ltd. has three departments I.J.K. The following information is provided for the year ended 31.3.2010 :

| | I | J | K |
|---------------------------------------|--------|--------|--------|
| | ₹ | ₹ | ₹ |
| Opening stock | 5,000 | 8,000 | 19,000 |
| Opening reserve for unrealised profit | — | 2,000 | 3,000 |
| Materials consumed | 16,000 | 20,000 | — |
| Direct Labour | 9,000 | 10,000 | — |
| Closing stock | 5,000 | 20,000 | 5,000 |
| Sales | — | — | 80,000 |
| Area occupied (sq. mtr.) | 2,500 | 1,500 | 1,000 |
| No. of employees | 30 | 20 | 10 |

Stocks of each department are valued at costs to the department concerned. Stocks of I are transferred to J at cost plus 20% and stocks of J are transferred to K at a gross profit of 20% on sales. Other common expenses are salaries and staff welfare ₹ 18,000, rent ₹ 6,000.

Prepare Departmental Trading, Profit and Loss Account for the year ended 31.3.2010.

3.

Literary Society showed the following position on 31st March 2010

| Liabilities | ₹ | Assets | ₹ |
|----------------------|---------------|--------------------------|---------------|
| Capital Fund | 79,300 | Electrical Fittings | 15,000 |
| Outstanding Expenses | 700 | Furniture | 5,000 |
| | | Books | 40,000 |
| | | Investment in Securities | 15,000 |
| | | Cash at Bank | 2,500 |
| | | Cash in hand | 2,500 |
| | 80,000 | | 80,000 |

Receipts and Payments Account for the year ended on 31st March, 2010

| Receipts | ₹ | Payments | ₹ |
|--------------------------|---------------|----------------------------|---------------|
| To Balance b/d | | By Electric Charges | 720 |
| Cash at Bank | 2,500 | “ Postage & Stationery | 500 |
| Cash in hand | 2,500 | Telephone charges | 500 |
| Entrance Fees | 3,000 | Books Purchased (1.4.09) | 6,000 |
| Membership Subscriptions | 20,000 | Outstanding Expenses | 700 |
| Sale proceeds of Old | | Rent Account | 8,800 |
| Newspapers | 150 | Investment in Securities | |
| Hire of lecture Hall | 2,000 | (1.10.08) | 4,000 |
| Interest on Securities | 800 | Salaries A/c | 6,600 |
| | | Balance c/d : Cash at Bank | 2,000 |
| | | Cash in hand | 1,130 |
| | 30,950 | | 30,950 |

You are required to prepare an Income & Expenditure Account for the year ended on 31.3.2010 and a Balance Sheet on that date after incorporating the following adjustments

- (i) Membership subscriptions included ₹ 1,000 received in advance.
- (ii) Provide for outstanding Rent ₹ 400 and Salaries ₹ 300.

20

- (iii) Books to be depreciated @ 10% including additions. Electrical Fittings and Furniture are also to be depreciated at the same rate.
 - (iv) 75% of the Entrance Fees are to be capitalised.
 - (v) Interest on Securities to be calculated at 5% p.a.
4. Weak, Able and Lazy are in partnership business sharing profit and losses in the ratio of 2 : 1 : 1. It is agreed that interest on capital will be allowed @ 5% p.a. and interest on drawings will be charged @ 6% p.a. (No Interest will be charged/allowed on current accounts).

The following are the particulars of the Capital, Current and Drawings Accounts of the partners:

| | Week ₹ | Able ₹ | Lazy ₹ | |
|--------------------------------|-----------|-----------|-----------|-------|
| Capital (1.4.2009) | 75,000 | 40,000 | 30,000 | |
| Current Accounts (1.4.2009) | 10,000 | 5,000 | 5,000 | (Dr.) |
| Drawings | 15,000 | 10,000 | 10,000 | |
| Interest on Drawings (2009-10) | 500 | 190 | 350 | |

The draft account for 2009-10 showed a net profit of ₹ 60,000 before taking into account interest on capital and drawings and subject to following rectification of errors :

- (a) Life Insurance Premium of Weak amounting to ₹ 1,000 paid by the firm on 30th September, 2009 has been charged to Miscellaneous Expenditure A/c.
 - (b) Repairs of Machinery amounting to ₹ 10,000 has been debited to Plant Account and depreciation thereon charged @ 20%
 - (c) Travelling Expenses of ₹ 3,000 of Able for a pleasure trip to U.K. paid by the firm on 30th June, 2010 has been debited to Travelling Expenses A/c.
- You are required to prepare the Profit & Loss Appropriation Account for the year ended 31st March, 2010 and the Partners' Currents Accounts for the year. 20
5. (a) Prepare a Bank Reconciliation Statement as on 31.3.10 for Ms. Neha Gonzalves :
- (i) Bank balance as per Cash Book (Credit) ₹25,000
 - (ii) Cheques of ₹15,000 deposited during the month of March,2010, of which cheques of ₹7,000 only was credited by 31.3.10.

- (iii) Cheques issued for ₹45,000 during the month of March, 2010, were sent to the creditors on 31.3.10 by courier. The suppliers received the cheques on 2nd April, 2010
- (iv) Bank Charges debited twice in the Cash Book ₹100
- (v) Interest credited by Bank not recorded in the Cash Book ₹500
- (vi) Cheques recorded as deposited into Bank ₹1,000 instead of a payment.
- (b) Pass necessary entries relating to the errors detected after the preparation of Final Accounts and also show the effect on profit :
- (i) Purchase of goods for sale ₹25,000 wrongly debited to Furniture Account. Depreciation @ 10% p.a. on furniture
- (ii) Goods drawn by proprietor ₹5,000 not recorded.
- (iii) Credit Purchases ₹5,000 wrongly recorded as credit sales. Provision for Bad & Doubtful debts @ 3%.
- (iv) Received goods from Ms.Z (the consignor) for ₹15,000 included in Purchase. Those goods were sold for ₹25,000 wrongly included in Sales. Commission receivable @ 5% not accounted. 20
6. Nivedita Fertilisers Ltd. issued a prospectus inviting applications for 20,000 shares of ₹10 each at a premium of ₹ 2 per share, payable as follows :

| | ₹ |
|------------------------|----------------------------|
| On Application | 3 (including Re.1 premium) |
| On Allotment | 4 (including Re.1 premium) |
| On First Call | 3 |
| On Second & Final Call | 2 |

Applications were received for 30,000 shares and pro rata allotment was made on the applications for 24,000 shares. It was decided to utilise excess application money towards the amount due on allotment.

Arunavo, to whom 400 shares were allotted, failed to pay the allotment money and on his subsequent failure to pay the first call, his shares were forfeited.

Victor, who applied for 720 failed to pay the two calls and on his such failure, his shares of the shares forfeited, 800 shares were sold to Srijita credited as fully paid for ₹9 per share, the whole of Arunavo's shares being included.

Required : Give Journal Entries to record the above transactions (including cash transactions) 20

7. Debtors' velocity = 3 months

Creditors' velocity = 3 months

Stock velocity = 2 months

Fixed Assets – Turnover Ratio = 2.5 times

Capital – Turnover Ratio = 1.5 times

Gross Profit Margin = 25%

Gross Profit for the year amounts to ₹ 1,15,000. Reserve and Surplus amounts to ₹ 40,000. Liquid Assets are ₹ 1,10,000. Closing Stock of the year is ₹ 15,000 more than the Opening Stock. Bills Receivable and Bills Payable at the end of the year amount to ₹ 10,000 and ₹ 8,000 respectively. There is no long-term loan or bank overdraft.

From the above information you are required to find out : (a) Sales, (b) Purchase, (c) Sundry Creditors, (d) Sundry Debtors, (e) Closing Stock, (f) Fixed Assets, (g) Share Capital and (h) Bank Balance.

PAPER 6

COMMERCIAL AND INDUSTRIAL LAW AND AUDITING

TEST PAPER – I/6/CIA/2008/T-1

Time Allowed : 3 hours

Full Marks : 100

PART - A

(Answer Q. No. 1 and any two from the remaining)

1. (a) Comment on the following :

- (i) An auctioneer X advertised that sale of furniture would take place on 21/2/10 on Ice Skating Ring in Kolkata. Y travelled from Dhanbad to the auction but found that it has been withdrawn. Y sued X for loss of time and expenses.
- (ii) A, a partner of XYZ & Co buys office furnitures on behalf of the firm without the consent of other partners.
- (iii) B just signs the back of a cheque.
- (iv) Y, a dealer in motorcycles sales a Yamaha bike to B. B leaves it possession. The bike gets damaged. B sues Y for compensation.
- (v) D, met an accident in factory premises. He filed a suit against the owner for claim of compensation.
- (vi) An A. C installed in office of ABC & Co. stopped working within 2 months of purchase. The proprietor made an complaint with District forum against seller.
- (vii) A earns a salary of ₹ 10,000 per month. Bonus declared by employer was 10% of salary. Bonus received by A was ₹ 3000.
- (viii) X owes G. Bank a sum of ₹ 100,000 repayable on 31/3/2010. Y is guarantor of the said loan. X fails to pay up. The bank does not take any action against X. Y feels he is no longer party to the contract.
- (ix) All dealership agreements require registration (Competition Act)
- (x) Limited Liability Partnership is distinct from limited partnership. (2×10)

2. (a) Discuss the essentials of a valid contract.
(b) Who cannot enter into a contract?
(c) Distinguish between void and illegal contracts. (9+3+3)
3. (a) Explain the following terms in relation to The Payment of Bonus Act , 1965.
(i) Available surplus
(ii) Gross Profits.
(iii) Sums deductible from Gross Profits. (3+3+3)
(b) Explain the following terms in relation to Payment of Gratuity Act, 1972 :
(i) Wages
(ii) Rate of Gratuity. (3+3)
4. (a) (i) Discuss the various modes of creating an agency.
(ii) When does an agent incur personal liability? (5+6)
(b) List the rights of an unpaid seller against goods. (4)
5. Write short notes on :
(i) "Delivery" in relation to Sale of Goods Act .
(ii) Forged Instrument.
(iii) Rights of a surety
(iv) 'Consumer' under The Competition Act, 2002 (3+3+5+4)

PART - B
(AUDITING)

Answer Q6 and any two of the remaining :

6. State with reasons whether the following statements are True/False (any six)
- i) Auditing, in India can be traced back to the days of Vedas .
 - ii) The concept of evidence is fundamental to auditing.
 - iii) Test check approach and random sampling approach are same
 - iv) By obtaining inventory valuation certificate from management, the auditor is no longer responsible for verifying Closing Stock.

- v) Indirect expenditure relating to construction of a project should not be capitalized.
 - vi) National Advisory committee on Accounting Standards may be constituted by Central Government u/s 210A.
 - vii) An Auditor is always appointed by passing a special resolution to this effect.
 - viii) When separate Branch Auditors are appointed, the company auditor may not visit the branches. (6×3)
7. (a) Discuss the importance of Audit Working Papers.
- (b) State the factors to be considered while drafting an Audit Report. (7+9)
8. (a) Define audit risk. Discuss the relation between materiality and audit risk.
- (b) (i) What are Contingent Liabilities? Where do they appear in Balance Sheet ?
- (ii) What points the Auditor should keep in mind while verifying Contingent Liabilities. (8+8)
9. How would you vouch the followings : (4×4)
- (i) Travelling Expenses
 - (ii) Goods sent on Consignment
 - (iii) Preliminary Expenses
 - (iv) Book Debts realised.

PAPER 6

COMMERCIAL AND INDUSTRIAL LAW AND AUDITING

TEST PAPER – I/6/CIA/2008/T-2

Time Allowed : 3 hours

Full Marks : 100

PART - A

(Answer Q. No. 1 and any two from the remaining)

1. Comment on the following : (10×2)
 - i) A counter offer constitutes an acceptance of an offer.
 - ii) Delivery of goods under Bailment may be actual or constructive.
 - iii) A stipulation may be a condition though called warranty in the contract.
 - iv) A draws a cheque in favour of Y or order 'sans recourse'.
 - v) Minimum Wage Rate may vary
 - vi) Applicability of The Consumer Protection Act, 1986.
 - vii) 'Competent person' in relation to Factory Act, 1948
 - viii) Maximum bonus payable u/s 11 of The payment of Bonus Act, 1965.
 - ix) 'Wages' under The Workmen's Compensation Act, 1923
 - x) Settling an EPF A/c.
2. (a) Define Consideration . 'No Consideration, no Contract'; discuss the cases when the rule is not applicable.
(b) Discuss Mistake of law and its consequences. (7+8)
3. (a) What is a Contract of Indemnity? How is it different from Contract of Guaranty. (3+5)
(b) Discuss the rights and duties of 'finder of lost goods'. (4)
(c) Who is a del credere agent? (3)
4. (a) Who is a 'occupier' under Factories Act, 1948. List the general duties of Occupier. (4+5)

- (b) Explain the term 'appropriate Government' under the Industrial Dispute Act, 1947. (6)
5. (a) Define 'continuous service' under Payment of Gratuity Act. (4)
- (b) Define the term Complaint under Consumer Protection Act, 1986? Who can file a complaint? (4+3)
- (c) What are the objectives of Right to Information Act ? (4)

PART - B
(AUDITING)

Answer Q No. 6 and any two of the remaining :

6. Comment in one or two sentences :
- i) How would Auditor verify charge on Goodwill?
 - ii) Where should 'loose tools' appear in Balance Sheet?
 - iii) What is LFAR ?
 - iv) Auditor of Holding Company and its Subsidiaries is always the same.
 - v) 100% vouching ensures 100% effectiveness as regards to verification.
 - vi) What is meant by CAAT?
 - vii) To whom is audit certificate addressed?
 - viii) Define 'Disclaimer' with respect to Audit Report.
 - ix) Can a company show its assets at a value below cost? (2×9)
7. (a) What is Joint Audit? How is it different from Branch Audit? (4+5)
- (b) Discuss the advantages and disadvantages of Joint Audit. (7)
8. (a) State the objectives of internal check system in an organization.
- (b) Discuss the duties of auditor with regard to internal check system.
- (c) Discuss the difference between internal audit and internal control. (6+6+4)
9. Write short notes on : (4×4)
- (a) Efficiency Audit.
 - (b) Qualified Report
 - (c) Auditing in EDI environment
 - (d) Audit checks in case of Depreciation.

PAPER 6

COMMERCIAL AND INDUSTRIAL LAW AND AUDITING

TEST PAPER – I/6/CIA/2008/T-3

Time Allowed : 3 hours

Full Marks : 100

PART - A

(Answer Q. No. 1 and any two from the remaining)

1. Comment on the following :

- (i) A promissory note is made without specifying the time for payment. The holder added 'on demand' on face of the instrument. Does that amount to changing character of the instrument?
- (ii) X consigns a truck of Dussera mangoes to Y at Asansol via Kolkata through A. Sensing that the mangoes may get destroyed, A sells them at Kolkata itself.
- (iii) XZ, printing press agreed to print 50,000 copies of Study Materials for an educational institution to be supplied in batches as per requirement of the institute. The printing press supplied the whole lot together but the institute accepted 5000 copies only. The printing press sent bill for whole 50,000 copies.
- (iv) A contract of Guarantee in which W is surety does not benefit him at all. Does the contract bind W?
- (v) Staff of a nationalized bank without giving any prior notice suddenly decided on pen down strike to press their demand against entering of private companies in banking sector.
- (vi) X was on maternity leave for 3 months during the accounting year 2009-10. She availed casual leave of another 8 days. Does this entitle her to full bonus.
- (vii) Y worked in Z firm five years 1 month only. State whether Y is entitled to Gratuity?
- (viii) Fast Cool Co. Ltd. launched a new line of refrigerators in market with a claim that ice would be formed instantly. C purchased one on basis of the claim. C later found that the claim was false, and it took at least 20 minutes for formation of ice. Can C claim damages?

- (ix) X and Y both workers of the same factory entered into a fight over work division and ended up in hurting each other. State whether this is an Industrial dispute?
(2×9)
2. Distinguish between :
- (a) (i) Negotiation and assignment
 - (b) (ii) Holder and Holder in due course
 - (c) (iii) Lay-off and retrenchment
 - (d) (iv) Award and settlement. (4×4)
3. (a) Discuss the provisions of Payment of Bonus Act relating to
- (i) eligibility and disqualification.
 - (ii) time limit for payment of bonus. (8)
- (b) Explain the following terms in relation to Payment of Gratuity Act :
- (i) employee
 - (ii) family (8)
4. (i) What do you mean by discharge of contract? (4)
- (ii) Discuss the various modes through which a contract may be discharged. (12)
5. (a) When is a consideration considered unlawful? (12)
- (b) In cases of equal guilt, the defendant is in a better position. Explain. (4)

PART - B
(AUDITING)

Answer Q No. 6 and any two from the remaining.

6. State with reasons whether the following statements are True/False (*any six*) :
- a) Operational audit is primarily based on financial data.
 - b) Internal Audit may be performed by employees of an organization.
 - c) Management Audit is forward looking Audit.
 - d) It is mandatory that provisions of Audit Committee is applicable to all the companies.
 - e) The scope of Audit depends on nature of appointment.
 - f) CAS 3 deals with capacity determination.

- g) Auditor should qualify audit report if any Secret Reserve is created.
 - h) The CARO has extended the scope of audit .
 - i) Detection of fraud is duty of statutory auditor only. (3×6)
7. Write short notes on :
- a) Propriety Audit.
 - b) Compliance Procedure.
 - c) Flow Chart.
 - d) Audit in online system environment. (4×4)
8. (a) State the Audit checks involved in :
- (i) Stock in Trade (6)
 - (ii) Copy Rights (5)
 - (iii) Petty cash (5)
9. (a) State the advantages and disadvantages of Management Audit. (10)
- (b) Necessity of Internal Audit to management. (6)

PAPER 6

COMMERCIAL AND INDUSTRIAL LAW AND AUDITING

TEST PAPER – I/6/CIA/2008/T-4

Time Allowed : 3 hours

Full Marks : 100

PART - A

(Answer Q. No. 1 and any two from the remaining)

1. Comment on the following :

- (i) A has worked for only 40 days in an accounting year. State whether he is eligible to receive bonus.
- (ii) Under what circumstances do an employee is entitled to receive Gratuity even without completing 5 years of service?
- (iii) X has balance of ₹ 3000/- in YZ Bank. He draws a cheque of ₹ 10,000/- in favour of C knowing fully that he has no O/D facility. The cheque is dishonoured. Is notice of dishonour to X necessary?
- (iv) When does an agreement become Contract? (Answer in one sentence)
- (v) A promises not to file case against her husband B if B pays A maintenance allowance. What is the consideration as far as B is concerned?
- (vi) A Bill of Exchange dated 30/6/2010 was made payable at 3months after date. When was the date of maturity?
- (vii) X guarantees all advances made to C within a period of one quarter by YZ bank subject to maximum of ₹ 100,000/- .What is the nature of guarantee? If X dies, whether his legal sucesors will be liable to pay the amount.
- (viii) How much do the employers contribute to PF in case of Jute Industry?
- (ix) Can an employer reduce his liability to pay compensation under The Workmen's Compensation Act ,1923 by entering into a contract with employee. (2×9)

2. (i) What is coercion?

- (ii) Does threat to commit suicide amount to coercion?

- (iii) State the difference between coercion and undue influence.
- (iv) Is there presumption of undue influence in relationship of husband and wife? (4+3+6+3)
3. (i) Define 'goods' under Sale of Goods Act, 1930.
- (ii) Who is an unpaid seller?
- (iii) Describe unpaid seller's right of lien on goods.
- (iv) State difference between lien and stoppage in transit. (4+4+3+5)
4. (a) (i) State the provisions of EPF Act regarding contribution to provident fund.
- (ii) Discuss the Pension benefits under EPF and Miscellaneous Provision Act.
- (b) Distinguish between strike and lockout.
- (c) Distinguish between Bill of Exchange and Cheque. (8+4+4)
5. Write short notes on :
- (a) Cartel and Domestic Nexus under Competition Act, 2002. (3+3)
- (b) 'Competent Authority' and 'Information' under RTI, Act., 2005 (3+3)
- (c) Treatment of limited liability partnerships under Income Tax. (4)

PART - B
(AUDITING)

Answer Q No. 6 and any two from the remaining.:

6. Comment on the following (*any six*) :
- (i) Management audit is conducted by statutory auditor of the company
- (ii) US -GAAP and INDIA'S GAAP are different
- (iii) When Information System Audit is an Information Technology, auditor is required to have detailed knowledge of auditing as well as information system
- (iv) Function of Audit Trail
- (v) Internal check is only necessary to comply with CARO
- (vi) The first Auditor is appointed by Board of Directors
- (vii) Mr. A is appointed auditor of AB Ltd. at its AGM.
- (viii) Mr. A holds securities of the Co. valuing ₹ 5000
- (ix) Compliance certificate is signed by CEO, so auditor need not verify it. (3×6)

7. (a) Discuss the difference between Audit Report and Audit Certificate. (8)
(b) Explain the term auditors' independence. (5)
(c) State the provisions that safe guard the independence of auditor. (3)
8. Write short notes on : (4×4)
(i) Corporate Governance.
(ii) Auditor-Auditee relationship
(iii) Removal of a Statutory Auditor.
(iv) Compliance Audit.
9. Discuss the Statutory powers and duties of a company auditor. (16)

PAPER 7

APPLIED DIRECT TAXATION
TEST PAPER – I/7/ADT/2008/T-1

PART - A

Time Allowed : 3 hours

Full Marks : 100

(Answer Q. No. 1 and any four from the remaining)

1. Choose the correct answer with reference to the provisions of the Income-tax Act, 1961.
- (i) Surcharge of 10% is payable by an individual where the total income exceeds:
- a) ₹ 9,50,000
 - b) ₹ 9,99,999
 - c) ₹ 10,00,000
 - d) None of these
- (1)
- (ii) Education Cess of 2% and Secondary & Higher Education Cess of 1% is payable on :
- a) Income tax
 - b) Income tax plus surcharge, if any
 - c) Surcharge
 - d) Not payable by the assessee
- (1)
- (iii) For an employee in receipt of hostel allowance for his three children, the maximum annual allowance exempt u/s 10(14) is :
- a) ₹ 10,800
 - b) ₹ 7,200
 - c) ₹ 9,600
 - d) ₹ 3,600
- (1)

- (iv) Fill in the blanks having regard to the provisions of the Income-tax Act, 1961 :
Where a person transfers capital asset to a firm in which he becomes partner, the full value of consideration in the context of capital gain computation, will be..... (1)
- (v) In respect of shares held as investment, while computing the capital gains, securities transaction tax paid in respect of sale of listed shares sold in a recognized stock exchange,
(a) Is deductible upto ₹ 1,00,000
(b) Is deductible upto ₹ 2,00,000
(c) Is deductible where capital gains is below ₹ 5,00,000
(d) Is not deductible at all (1)
- (vi) For an individual who has derived short-term capital gains of ₹ 40,000 from transfer of listed equity shares after 1.10.2004, with other income of ₹ 20,000 (these two items above making up his total income), income-tax payable in respect of short-term capital gains is
(a) ₹ 4,000
(b) ₹ 8,000
(c) ₹ 1,000
(d) None of the above (1)
- (vii) What are the exceptions to the general rule that income of the previous year alone is taxed in an assessment year? Discuss. (6)
- (viii) State whether True or False, with reasons, having regard to the provisions of the Income-tax Act, 1961 (Answers without reasoning will not be given any mark)
An existing assessee engaged in trading activities, can claim additional depreciation under Section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%. (2)
- (ix) What are the transactions not regarded as transfer as per section 47 under the Income Tax Act, 1961. (List at least six of such transactions). (6)

2. (a) Mr. Pradip Das had estates in Rubber, Tea and Coffee. He derives income from them. He has also a nursery wherein he grows and sells plants. For the previous year ending 31.3.2011, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the relevant Assessment year.

| | ₹ |
|--|----------|
| (i) Manufacture of Rubber | 5,00,000 |
| (ii) Manufacture of Coffee grown and cured | 3,50,000 |
| (iii) Manufacture of Tea | 7,00,000 |
| (iv) Sale of plants from Nursery | 1,00,000 |
| | (10) |

- (b) John is employed in a public company and is paid a sum of ₹ 6,00,000 on Voluntary Retirement from service. The normal age of retirement in the company is 60 and John, who was 45 at the time of retirement had completed 20 years of service. His monthly salary at the time of retirement was as follows :

| | ₹ |
|---|--------|
| Basic pay | 10,000 |
| Dearness allowance (50% includible for pension) | 6,000 |
| H.R.A. | 3,000 |
| Conveyance allowance | 800 |
| What is the amount of compensation taxable under the Act? | (10) |

3. From the following particulars furnished by Mr. X for the year ended 31.3.2011, you are requested to compute his total income and tax payable for the relevant assessment year.
- (a) Mr. X retired on 30.09.2010 at the age of 58, after putting in 25 years and 9 months of service, from a private company at Mumbai.
- (b) He was paid a salary of ₹ 35,000 p.m. and house rent allowance of ₹ 16,000 p.m. He paid rent of ₹ 18,000 p.m. during his tenure of service.
- (c) On retirement, he was paid a gratuity of ₹ 9,50,000. He was not covered by the payment of Gratuity Act. His average salary in this regard may be taken as ₹ 32,500. Mr. X had not received any other gratuity at any point of time earlier, other than this gratuity.

- (d) He had accumulated leave of 15 days per annum during the period of his service ; this was encashed by Mr. X at the time of his retirement. A sum of ₹ 8,60,000 was received by him in this regard. His average salary may be taken as ₹ 32,000.
- (e) After retirement, he ventured into textile business and incurred a loss of ₹ 1,80,000 for the period upto 31st March of the relevant previous year.
- (f) Mr. X has invested ₹ 22,500 in recognized provident fund, ₹ 40,000 in public provident fund and ₹ 37,500 in National Savings Certificates and ₹ 25,000 in Infrastructure Bonds. (20)
4. (a) Arvind commenced construction of a residential house intended exclusively for his residence, on 1.11.2008. He raised a loan of ₹5,00,000 at 16 per cent interest for the purpose of construction 1.11.2008. Finding that there was an over-run in the cost of construction he raised a further loan of ₹8,00,000 at the same rate of interest on 1.10.2009. What is the interest allowable under section 24, assuming that the construction was completed by 31st March of the relevant previous year. (8)
- (b) Ram owned a house property at Madras which was occupied by him for the purpose of his residence. He was transferred to Bombay in June, 2011 and therefore he let out the property with effect from 1st July, 2011 on a monthly rent of ₹ 3,000. The corporation tax payable in respect of the property was ₹ 6,000 of which 50 per cent was paid by him before 31.3.11. Interest on money borrowed for the construction of the property amounted to ₹ 20,000. Compute the income from house property for the relevant assessment year. (8)
- (c) A car purchased by S on 10.8.2006 for ₹ 3,25,000 for personal use is brought into the business of the assessee on 1st December of the relevant previous year, when its market value is ₹ 1,50,000.
- Compute the actual cost of the car and the amount of depreciation for the relevant Assessment year assuming the rate of depreciation to be 20%. (4)
5. (i) Write short notes on the following : Carry forward and set off of depreciation (6)
- (ii) Expenditure involving cash payment exceeding ₹ 20,000. (3)
- (iii) State the cases when payment exceeding ₹ 20,000 made otherwise than by a crossed cheque or by a crossed demand bank draft will not be disallowed. (3)

- (iv) Discuss the provisions of Income-tax Act that relate to amortisation of expenses for obtaining a licence to operate telecommunication services. (4)
- (v) Discuss the provisions of 44AB Audit under the Income-tax Act, 1961. (4)
6. (a) Mr. Kartick is engaged in the business of plying goods carriages. On 1st April, 2011, he owns 10 trucks (out of which 6 are heavy goods vehicles). On 2nd May, 2011, he sold one of the heavy goods vehicles and purchased a light goods vehicle on 6th May, 2011. This new vehicle could however be put to use only on 15th June, 2011.

Compute the total income of Mr.Kartick for the relevant assessment year, taking note of the following data :

| | ₹ | ₹ |
|--|----------|----------|
| Freight charges collected | | 8,70,000 |
| Less : Operational expenses | 6,25,000 | |
| Depreciation as per section 32 | 1,85,000 | |
| Other office expenses | 15,000 | |
| | | 8,25,000 |
| Net Profit | | 45,000 |
| Other business and non - business income | | 70,000 |

(10)

- (b) Ramesh owned a residential house at Kolkata, the original cost of which was ₹ 1,00,000. It was acquired on 1.9.1992. He sold the house on 1.6.2009 for ₹ 8,00,000 and purchased another house on 30.5.2010 at Tripura for ₹ 6,00,000. The second house at Tripura was sold by him for ₹ 8,00,000 on 30.6.2011. Discuss the impact of these transactions with regard to assessment to capital gains. (10)
7. (a) State whether True or False, with reasons, having regard to the provisions of the Income-tax Act, 1961 (Answers without reasoning will not be given any mark; all sub-divisions relate to the assessment year 2012-13) :
- Where an individual repays a sum of ₹ 30,000 towards principal and ₹ 14,000 as interest in respect of loan taken from a bank for pursuing eligible higher studies, the deduction allowable under Section 80E is ₹ 40,000, and not ₹ 30,000 (principal component only). (2)

- (b) Discuss the allowability of the following:
- (i) Romit has to pay to a hospital for treatment ₹ 42,000 and spent nothing for life insurance or for maintenance of handicapped dependent.
 - (ii) Romit has incurred for treatment ₹ Nil in the previous year and deposited ₹ 25,000 with LIC for maintenance of handicapped dependant.
 - (iii) Romit has incurred ₹ 20,000 for treatment and ₹ 25,000 was deposited with LIC for maintenance of handicapped dependant. (3)
- (c) Family pension received by a widow of a member of the armed forces where the death of the member has occurred in the course of the operational duties in the circumstances and subject to prescribed conditions, is
- (i) Exempt upto ₹ 3,00,000
 - (ii) Exempt upto ₹ 3,50,000
 - (iii) Totally exempt under section 10(19)
 - (iv) Totally chargeable to tax (1)
- (d) Gift of ₹ 5,00,000 received on 10th July, 2011 through account payee cheque from a non-relative regularly assessed to income-tax, is
- (i) A capital receipt not chargeable to tax
 - (ii) Chargeable to tax as income from other sources
 - (iii) Chargeable to tax as business income
 - (iv) Exempt upto ₹ 25,000 and balance chargeable to tax as income from other sources. (1)
- (e) Fill in the blanks having regard to the provisions of the Income-tax Act, 1961 (All sub-divisions relate to the assessment year 2012-13) :
- The first item in the order of priority of set off as between current year capital expenditure on scientific research, current year depreciation and brought forward (1)
- (f) Section 119 empowers the Central Board of Direct Taxes to issue such orders, instructions and directions as it may deem fit, for the proper administration of the Act. What are the exceptions to this power? (3)
- (g) Fill in the blanks having regard to the provisions of the Income-tax Act, 1961 (All sub-divisions relate to the assessment year 2012-13):

42 ♦ Test Papers — Intermediate Group I

- (i) The due date for filing of return under section 139(1) by a company having a turnover of less than ₹ 40 lakhs is (1)
- (ii) No order of assessment or reassessment shall be made under section 147 after the expiry of from the end of ($\frac{1}{2} + \frac{1}{2}$)
- (h) Simran Pharma Ltd. manufacturer of drugs and pharma products provides the following information relating to payments made to its marketing manager in the year 2011-12 :
- (a) Salary at ₹ 30,000 p.m.
- (b) Motor Cycle purchased for ₹ 45,000 in June, 2010 was given free of cost.
- (c) Conveyance allowance of ₹ 5,000 p.m. which was allowed to him.
- (d) Tickets worth ₹ 4,000 for a cricket match between India and England.
- (e) Reimbursement of medical expenses incurred actually by him of ₹ 17,500.
- Compute Gross Income from Salary. (7)

APPLIED DIRECT TAXATION
TEST PAPER – I/7/ADT/2008/T-2

PART - A

Time Allowed : 3 hours

Full Marks : 100

(Answer Q. No. 1 and any four from the remaining)

1. Mr. Ganesh retires on 31.10.2011 voluntarily from XYZ (P) Ltd. as per the scheme approved under section 10(10C) of the Income-tax Act, 1961. He furnishes the following particulars: Salary ₹40,000 p.m.; Pension ₹16,000 p.m.; D.A. forming part of basic pay ₹12,000 p.m.; Compensation on voluntary retirement ₹8,00,000; Gratuity ₹11,10,000;

Leave Salary ₹6,75,000; He gets 60% of his pension commuted for ₹,600,000 on 31.1.2011. Completed years of service 18 years and 7 months. Leave availed while in service 19 months. But for the voluntary retirement Mr. Ganesh would have retired only after 45 months. The last increment he received was on 1.11.2010. Compute his taxable salary income for the relevant A.Y. (20)

2. (a) State, with reasons, whether the following statements are true or false : (10)
- i) All firms have to pay surcharge @10% irrespective of their total income.
 - ii) Mrs. G, a non-resident Indian 68 years of age, is eligible for a basic exemption limit of ₹2,45,000.
 - iii) Sale of drawings and paintings does not attract capital gains tax.
 - iv) Subscription to infrastructure bonds qualifies for deduction under section 80C.
 - v) The order of the Transfer Pricing Officer determining the arm's length price of an international transaction is not binding on the Assessing Officer.
 - vi) Medical insurance premium paid by the employer to insure the health of his employees would qualify for deduction under section 36(1)(ib) for relevant A.Y. only if the same is paid by cheque.

- vii) Under section 80E, deduction is allowable for A.Y.2012-13 in respect of interest on loan taken for higher education of self alone
- viii) Tax is deductible@5% in respect of payment of fees for professional services to a resident

(b) Subhash discloses following particulars of his receipts during the financial year 2011-2012 :

| | |
|---|--------------|
| (i) Salary income earned at Pune but received in Srilanka | 2,50,000 |
| (ii) Profits earned from a business in Kenya which is controlled in India, half of the profits being received in India. | 2,20,000 |
| (iii) Income from property, situated in Nairobi and received there | 75,000 |
| (iv) Income from agriculture in Bangladesh and brought to India | 68,000 |
| (v) Dividend-paid by an Indian company but received in London on 15 May 2011. | 22,000 |
| (vi) Interest on USA Development Bonds and one half of which was received in India | 44,000 |
| (vii) Past foreign untaxed income brought to India | 2,10,000 |
| (viii) Gift of \$1000 from father, settled in USA, received in India | 80,000 |
| (ix) Land sold in Delhi, consideration received in Canada, resulting into capital gain | 2,50,000 |
| (x) Income from structure-designing constancy service, set up in Germany, controlled from India, profits being received outside India | 4,00,000 |
| (xi) Loss from foreign business, controlled from India, sales being received in India | (-) 2,00,000 |

3. Style Ltd. is an Indian company engaged in the manufacture and sale of cotton fabrics. Its net profit for the year ending 31.3.2011 after debit/credit of the following items to the Profit and Loss Account was ₹60 lakh.

- i) Dividend received from a foreign company ₹80,000.
- ii) Retrenchment compensation paid to employees of one of the units closed down during the year ₹8 lakh.
- iii) Interest paid under section 234B for short payment of advance tax pertaining to the relevant A.Y. ₹45,000.

- iv) Compensation received from supplier for delay in supply of raw materials ₹50,000.
- v) Loss incurred in transactions of purchase and sale of shares of various companies ₹2 lakh
- vi) Banking cash transaction tax paid ₹20,000.
- vii) Capital expenditure incurred for the purpose of promoting family planning amongst its employees ₹1 lakh.
- viii) Payment to two employees of ₹3 lakh each in connection with their voluntary retirement.

Compute the total income of Style Ltd. for the relevant assessment year. Furnish explanation for the treatment of the various items given above. (20)

4. (a) Mr. Anirban has filed his return of loss under section 139(3) for A.Y. 2011-12 on 13.6.2010 disclosing a loss of ₹7 lakh. His brother, Mr. Kamal has filed his return of income under section 139(4) for A.Y. 2011-12 on 18.8.2010 disclosing an income of ₹5 lakh. Later, the brothers found that they had erroneously omitted to claim deduction under section 80D in respect of medical insurance premium paid by them. They want to file a revised return for claiming such deduction. However, they are advised that they cannot do so, since only a return of income filed under section 139(1) can be revised. Is this advice correct, taking into account the provisions of the Income-tax Act ? Discuss. (6)

- (b) Mr. Dey furnishes the following particulars of his income for the relevant previous year :

| Particulars | ₹ |
|----------------------------|--------------|
| A: Business loss | (-) 4,00,000 |
| Unabsorbed depreciation | (-) 2,00,000 |
| B: Business profit | 10,00,000 |
| Income from house property | 2,00,000 |

Carried forward losses and allowance;

C: business was discontinued on 31-12-2007

46 ♦ Test Papers — Intermediate Group I

Apart from the abovementioned, the following unabsorbed:

| | |
|------------------|--------------|
| 1. Business loss | (-) 3,00,000 |
| 2. Depreciation | (-) 2,00,000 |

D: business was discontinued on 1-3-2009 leaving the following unabsorbed:

| | |
|------------------|--------------|
| 1. Business loss | (-) 3,00,000 |
| 2. Depreciation | (-) 1,00,000 |

Compute his total income for the relevant Assessment Year. (14)

5. Dr. Paul gives the particulars of the assets held by him on 31.3.2011. You are required to compute his net wealth giving reasons for the treatment of each item of asset :
- (i) He is a qualified doctor and was in possession of surgical equipments used for his professional activity. The value of all such equipments was ₹3 lakh.
 - (ii) House located in Gurgaon shown in his wealth-tax return for A.Y.2009-10 at ₹62 lakh was sold on 28.3.10 for ₹70 lakh, but the sale deed thereof was executed on 5.4.09.
 - (iii) Urban land located at Pune was purchased for ₹4 lakh in April 2005, in the name of his minor daughter who is suffering from a disability specified under section 80U. The value of land on 31.3.2011 was ₹8 lakh.
 - (iv) A flat in Bangalore purchased under installment scheme in 1990 for ₹20 lakh and used for own residence since then. The market value of it was ₹52 lakh on 31.3.2011 and installment of ₹2 lakh was also outstanding.
 - (v) Jewellery gifted to wife from time to time in total of ₹2 lakh and were available with her on the valuation date having market value of ₹7 lakh. (20)
6. (a) X Ltd. incurs an expenditure of ₹ 200 crores for acquiring the right to operate telecommunication services for Bihar and Jharkhand circles. The payment of ₹ 200 crores was made in September 2010 and the licence to operate the services was valid for 8 years. In December 2011, the Company transfers part of the licence, in respect of Bihar, to Excel Ltd. for a sum of ₹ 30 crores and continues to operate the licence in respect of Jharkhand. What is the amount allowable as deduction u/s 35ABB to X Ltd. in respect of the licence fee, for Assessment Year 2012-13.

- (b) Dream Ltd. is an existing Indian Company, which sets up a new Project Unit. It incurs the following expenditure in connection with the new unit :

| | ₹ |
|---|-----------|
| Preparation of Project Report | 14,00,000 |
| Market Survey Expenses | 15,00,000 |
| Legal and other charges for issue of additional capital required for the new unit | 11,00,000 |
| Total | 40,00,000 |

The following further data is given :

| | |
|-------------------------------------|-------------|
| Cost of Project | 3,00,00,000 |
| Capital Employed in the new project | 4,00,00,000 |

What deduction is admissible to the Company u/s 35D for Assessment Year 2012-2013? (8+12 = 20)

7. (a) Write short notes on Capital Gains on Sale of Property at less than Government Value.

- (b) A piece of land owned by Mr. Adhikary located on Durgapur Expressway was acquired by NHAI in the Financial Year 2008-09, but the award ordered in F.Y. 2009-10 was paid in the FY. 2011-12. This land was purchased by him on 02.04.1978 for ₹ 8,000. The fair market value of the land as on 01.04.1981 was ₹ 6,000. Compensation paid was ₹ 5 lakhs.

Other piece of land located in Asansol purchased in April, 2006 for ₹ 27 lakhs was also sold by him on October, 2011 for ₹ 35 lakhs, but sale deed there of could not be executed by 31.3.2011. The value for the purpose of stamp duty applied by the Stamp Valuation Authority was ₹ 38 lakhs.

Compute the income chargeable to tax arising as a result of these transactions in the A.Y. 2012-13. (8+12 = 20)

PAPER 7

APPLIED DIRECT TAXATION
TEST PAPER – I/7/ADT/2008/T-3

Time Allowed : 3 hours

Full Marks : 100

(Answer Q. No. 1 and any four from the remaining)

1. (a) State the essentials of the concepts of : (4)
 - i) Diversion of income
 - ii) Application of income
- (b) What does the term “substantial interest” denote under Income-tax Act? (2)
- (c) When is an individual/HUF said to be “Resident but not ordinarily Resident” under the Income tax Act, 1961? (4)
- (d) Mr.X visited India for 100 days every year since 2002-2003. During the previous year 2010-11, he visited India for 65 days only. Determine his Residential Status for the Assessment Year 2012-13. Would your answer differ if he had visited India for 110 days instead of 100 days? (6)
- (e) State the activities and operations, income from which is not deemed to accrue or arise in India. (4)
2. (a) Compute Gross Salary of Mr. G for the assessment year 2012-13 from the following details relating to the financial year 2011-12 :
 - (i) Gross salary ₹ 1,25,000;
 - (ii) Medical expenditure for treatment of G directly paid by the employer to a private practitioner ₹ 25,000;
 - (iii) Medical expenditure of Mrs.G directly paid by the employer to a hospital, approved by the Chief Commissioner of Income Tax ₹ 50,000

- (iv) Reimbursement of medical expenses incurred by G, for his son, not dependent on him, ₹ 10,000; son was suffering from a prescribed disease under Rule 11DD and was treated in a hospital approved by the Chief Commissioner;
 - (v) Expenditure on G's father, dependent on him, in USA and stay expenses of G's father and brother but reimbursed by the employer fully ₹ 2,50,000;
 - (vi) However, RBI granted permission for the foreign exchange of ₹ 2,30,000
 - (vii) Traveling expenses of G's father and brother in USA, fully reimbursed by the employer ₹ 1,00,000
 - (viii) Income from other sources ₹44,999. (10)
- (b) Mr. F is the manager of Z Ltd. his son is a student of Amity International School. School fees of ₹ 3,000 pm and hostel fees of ₹ 2,000 pm., are directly paid by Z Ltd. to the school but it recovers from F only 40%. F also joins an advanced course of Marketing Management for 3 months at IIM, Ahmedabad, fees of the course, ₹ 1,50,000 is paid by Z Ltd. Determine the perquisite value of the education facility. (4)
- (c) Mr. Amal is a Manager in R Ltd. He gets salary @ ₹ 20,000 pm. He is also allowed free use of computer, video-camera and television of the company. R Ltd. has purchased (i) Computer for ₹ 1,50,000 (ii) Video-camera for ₹ 40,000. Their written down value on 1.4.12 is ₹ 60,000 and ₹ 30,000 respectively. Television set has been taken on lease rent @ ₹ 75pm. Compute his gross salary for the Assessment Year 2012-13. (6)
3. (a) Ownership itself is the criteria for assessment under the head income from house property. Discuss. (3)
- (b) State the conditions for allowability of unrealised rent for the purpose of computation of Income from House Property. (3)
- (c) Discuss the tax liability in respect of arrears of rent. (3)
- (d) In the following cases state the head of income under which the receipt is to be assessed and comment. (3)
- (i) X let out his property to Y. Y sublets it. How is sub-letting receipt to be assessed in the hands of Y.

- (ii) Y has built a house on a leasehold land. He has let out the property and claims income from house property under "Other sources" and deducted expenses on repairs, security charges, and insurance and collection charges in all amounting to 40% of receipts.
- (e) Discuss the following issues relating to Income from house property.
- (i) Income earned by residents from house properties situated in foreign countries.
- (ii) Properties which are used for agricultural purposes. (3)
- (f) Arvind commenced construction of a residential house intended exclusively for his residence, on 1.11.2009. He raised a loan of ₹5,00,000 at 16 per cent interest for the purpose of construction 1.11.2009. Finding that there was an over-run in the cost of construction he raised a further loan of ₹8,00,000 at the same rate of interest on 1.10.2010. What is the interest allowable under section 24, assuming that the construction will be completed by 31.3.2012? (5)
4. (a) State whether True or False, with reasons, having regard to the provisions of the Income-tax Act, 1961 (Answers without reasoning will not be given any mark)
An existing assessee engaged in trading activities, can claim additional depreciation under Section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%. (2)
- (b) Discuss 'Block of Assets' concept under the Income-tax Act, 1961 (4)
- (c) A car purchased by S on 10.8.2008 for ₹ 3,25,000 for personal use is brought into the business of the assessee on 01.09.2011, when its market value is ₹ 1,50,000.
Compute the actual cost of the car and the amount of depreciation for the Assessment year 2012-13 assuming the rate of depreciation to be 20%. (4)
- (d) What are the receipts to be excluded for computing "actual cost" of an asset under Income-tax Act? (4)
- (e) A non-resident is engaged in shipping business. The company also operates its ship in India. Explain how the income from the company's business operation in India is computed. (6)

5. (a) Calculate the deduction allowable under section 80GG to an assessee having the following income :

| | ₹ |
|---|---------------|
| Business income | 55,000 |
| Interest from bank and dividend income | <u>15,000</u> |
| Total income | <u>70,000</u> |
| Rent paid by him for a house occupied by him for the purpose of his residence ₹ 1400 p.m. | (6) |

- (b) Under what circumstances is interest u/s 234A chargeable? (4)
- (c) When & how is interest u/s 234B computed? (4)
- (d) Write short note on self-assessment tax under section 140A of the Income-tax Act, 1961. (6)
6. (a) Discuss the taxability of Zero Coupon Bonds. (5)
- (b) A Ltd is engaged in the construction of residential flats. For the valuation date 31.3.2012, it furnishes the following data and requests you to compute the taxable wealth –
- (a) Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹ 35,00,000
- (b) Motor-cars (used on hire by the company) ₹ 23,80,000
- (c) Jewellery (Investment) ₹ 25,00,000. Loan taken for purchasing the same ₹ 20,00,000
- (d) Cash Balance (as per books) ₹ 2,75,000
- (e) Bank Balances ₹ 5,50,000
- (f) Guest House (situated in a place which is 30 Kms away from the local limits of the municipality) ₹ 10,00,000
- (g) Residential flats occupied by the Managing Director ₹ 15,00,000. The Managing Director is on whole time appointment and is drawing remuneration of ₹ 2,00,000 per month.

(h) Residential house were let out on hire for 200 days ₹ 10,00,000
The computation should be supported with proper reasoning for inclusion or exclusion. (15)

7. (a) The W.D.V. of the block of assets as on 1.4.2011 was ₹ 5 lacs. An asset of the same block was acquired on 11.5.11 for ₹ 3 lacs. There was a fire on 18.9.2011 and the assets were destroyed by fire and the assessee received a sum of ₹ 11 lacs from the insurance company. Compute the capital gain assuming :

- i) All the assets were destroyed by fire
- ii) Part of the block was destroyed by fire

Would your answer differ if the assessee received ₹6,00,000 from insurance company assuming :

- i) All the assets were destroyed by fire
- ii) Part of the block was destroyed by fire. (10)

(b) Z Ltd is a qualifying shipping company which has got two qualifying ships during the previous year 2011-2012 :

| Ship | Tonnage Weight | No.of operational days |
|------|---------------------------|------------------------|
| A | 37,949 Tonnes and 990 kgs | 300 days |
| B | 25,550 tonnes and 275 kg | 365 days |

Compute its tonnage income under Tonnage Tax Scheme for the assessment year 2012-2013. (6)

(c) Define "SPECIFIED PERSONS" for deduction of tax at source u/s 194C. (4)

PAPER 7

APPLIED DIRECT TAXATION
TEST PAPER – I/7/ADT/2008/T-4

Time Allowed : 3 hours

Full Marks : 100

(Answer Q. No. 1 and any four from the remaining)

1. (a) In the Previous year 2011-12, a sailor has remained on ship for a foreign company owning ocean going ships as follows :
- Outside the territorial waters of India for 183 days.
 - Inside the territorial waters of India for 183 days.

Is he considered to be resident or not for the Assessment Year 2012-13. Comment. (3)

- (b) How the following concept is defined under section 9 of the Income-tax Act, 1961? "Income arising from business connection in India. (3)

- (c) Mr. X furnishes the following particulars of his income earned during previous year ending on 31 March 2012 :

- Income from agriculture in Bangladesh, received there ₹ 3,80,000, but later on remitted to India,
- Interest on Pakistani Development Bonds, ₹ 60,000, one-sixth of which received in India,
- Gift of ₹ 70,000 received in foreign currency from a relative in India,
- Arrears of salary ₹ 1,50,000 received in Pakistan from a former employer in India.
- Income from property received outside India ₹ 3,00,000 (₹ 1,00,000 is used in Bahrain for the educational ex-penses of his son in Bahrain, and ₹ 2,00,000 later on remitted to India).
- Income from business in Iran which is controlled from India (₹ 1,00,000 being received in India) ₹ 2,00,000.
- Dividends received on 30.06.2011 outside India from an Indian company, ₹ 2,50,000.

- (viii) Untaxed profit of the FY 2010-2011 brought to India in July 2011, ₹ 2,50,000.
- (ix) Profit (computed) on sale of building in India received in Pakistan ₹ 21,00,000.
- (x) Profit from business in Kolkata managed from outside India ₹ 90,000, 60% of which is received outside India.

Find out gross total income of Mr. X for AY 2012-2013, if Mr. X is (a) resident and ordinarily resident; (b) resident but not ordinarily resident; (c) non-resident. (10)

- (d) Mr. JK is a Manager in R Ltd. He gets salary @ ₹ 20,000 pm. He is also allowed free use of computer, video-camera and television of the company. R Ltd. has purchased (i) Computer for ₹ 50,000 (ii) Video-camera for ₹ 20,000. Their written down value on 1.4.07 is ₹ 20,000 and ₹ 8,000 respectively. Television set has been taken on lease rent @ ₹ 1.75 pm. Compute his gross salary for the assessment year 2012-13. (4)
2. (a) Mr. Kabir is getting a salary of ₹12,000 p.m. w.e.f. 1.4.2011. He is promoted w.e.f. 31.12.2009 and got arrears of ₹75,000. Bonus for the year 2010-11 is ₹15,000 remains outstanding but bonus of ₹12,000 for the year 2009-10 was paid on 1st January 2012. Compute the gross salary for the assessment year 2012-13. (6)
- (b) Z is employed in A Ltd. As on 31.03.12, his basic salary ₹6,000 p.m. He is also entitled to a dearness allowance of 50% of basic salary. 70% of the dearness allowance is considered for retirement benefits. The company gives him HRA ₹ 3,000pm. With effect from 1/1/12 he receives an increment of ₹ 1,000 in his basic salary. He was staying with his parents till 31.10.2011. From 1.11.11 he takes an accommodation on rent in Delhi and pays ₹ 2,500 pm as rent for the accommodation. Compute taxable HRA for the assessment year 2012-13. (8)
 - (c) Mr. Surya was an employee of IPC Ltd. After 38 years of service, he retiring on 20.2.12. He was drawing a monthly salary of ₹ 15,000 in 2010, ₹ 16,500 in 2011 and ₹ 18,000 from 1.1.12 to 20.2.11. On retirement he received a gratuity of ₹ 4,00,000. Compute taxable gratuity. (6)
3. (a) State the circumstances when income is deemed to have escaped assessment. (3)
- (b) Summary assessment u/s 143(1) of the Income Tax Act, 1961. (3)
 - (c) If a return of loss was not filed within the due date, what are the consequences? (3)
 - (d) Write short notes on best judgment assessment. (5)

(e) What do you understand by Permanent Account Number? Discuss the procedure for allotment of this number, and its use. (6)

4. (a) Fiona received the following gifts during the year ending 31.03.2012 :

- i) ₹ 40,000 from her elder sister.
 - ii) ₹60,000 from the daughter of her elder sister.
 - iii) ₹ 1,25,000 from various friends on the occasion of her marriage,
- Discuss the taxability or otherwise of these gifts in the hands of Fiona. (4)

(b) Discuss the taxability of Family Pension. (4)

(c) Mr. J is suffering with 60% locomotor disability which is certified by medical authority. He is employed as Techni-cal Supervisor Sing Air Tel at a salary of ₹ 20,000 p.m.

| Particulars | ₹ |
|---|------------|
| (i) Income from government securities | 20,000 |
| (ii) Long-term capital loss | (-) 40,000 |
| (iii) Short-term capital gain (Sec. 111A) | 1,00,000 |
| (iv) Insurance commission (gross) | 1,00,000 |
| (v) Interest on Saving Fund a/c from bank | 10,000 |

He has incurred the following expenses :

- (i) Medical insurance paid by cheque for his father, resident in India and 70 years age Rs. 18,000
- (ii) Deposit with LIC for maintenance of father, mainly dependant on him for support and maintenance and suffering from low-vision with a severe disability of 80%, as per certificate of the medical authority
- (iii) Rent paid for the year 2011-2012 for accommodation hired by him. ₹ 40,000

Compute his total income for the assessment year 2012-2013. (12)

5. (a) Mr. Kushal Sengupta owns a house at Jharkhand, which is let-out at ₹1,35,000 per annum. The annual value of the property as per municipal records also is ₹ 1,00,000. Municipal taxes are partly borne by the owner (₹ 5,000) and partly by the tenant (₹ 6,000). Repair expenses are borne by tenant (₹ 10,000) the difference between the un-built area and specified area does not exceed 5%. The property was acquired on 10.5.1998 for ₹ 15,00,000.

Determine for purposes of Wealth Tax Act, the value of the property as on 31.3.2012 on the following situations –

- i) The house is built on a freehold land.
- ii) It is built on a leasehold land, the unexpired period of lease of the land is more than 50 years.
- iii) If the area of the plot on which the house is built is 800 sq. meters. FSI, permissible is 1.4 and FSI utilised is 1088 sq. metres. (136 sq. metres × 8 Storeys)
- iv) The tenant had made interest free deposit of ₹ 1,00,000 with the landlord.

12

- (b) P Ltd. furnishes the following details in respect of Block of Assets No.5, entitled to 60% rate of depreciation :

WDV on 1.4.11, consisting of five machines ₹ 25,00,000; Assets acquired during the year ₹ 10,50,000.

Compute WDV/capital gain/loss in the following cases for the previous year 2011-12 under each of the following situations :

- (i) 3 machines have been sold during the year for ₹ 20,50,000
- (ii) Entire block is sold during the year for ₹ 30,00,000
- (iii) Entire block is sold during the year for ₹ 45,00,000. 8

6. (a) From the following data provided by an individual, you are required to work out the total income chargeable to tax and ascertain the tax thereon for A Y 2012-2013 :

| | (₹) | |
|-------------------------------|-----------|-----|
| (a) Business Loss | 40,00,000 | |
| (b) Property Income | 50,00,000 | |
| (c) Income from other Sources | 2,00,000 | |
| (d) Capital Gains : | | |
| Short Term | 3,00,000 | |
| Long Term | 11,00,000 | (6) |

- (b) Dr. (Ms) P. Chopra is the owner of a big house consisting of three units. Unit I consist of 40% area and Unit II and III are equal dimension, each occupying 30% area. The construction of house was completed on 1 April 2006 at a cost of ₹ 10,00,000. The municipal value of the house for the previous year 2011-2012

has been fixed at ₹ 2,00,000. Municipal taxes have been levied and paid @ 15% of rateable value. The rent under the Rent Control Act is ₹ 1,50,000. Unit I is let out @ 20,000 p.m. for residential purposes. Unit II is self-occupied. Unit III is used by her for professional purposes. The rent did not pay two months rent and conditions of Rule 4 are satisfied. She paid ground rent, ₹ 9,000; interest on loan, taken during 2001-2002 for the construction of the house and payable during the PY 2011-2012 ₹ 1,60,000; insurance premium, ₹ 6,000. She spent ₹ 30,000 on repair of the house. Depreciation for the clinic portion is ₹ 15,000. Her gross receipt from professional during the previous year 2011-2012 amount to ₹ 6,50,000.

Compute her gross total income for the assessment year 2012-2013. (14)

7. (a) What would be your advice regarding admissibility of the following items of expenditure in computing the business income : (12)
- i) A donation of ₹ 1 lakh made to a University for starting a laboratory for scientific research (i) relating to the assessee's business, (ii) not relating to the assessee's business.
 - ii) Travelling expenses include a sum of ₹ 15,000 incurred by a director in travelling abroad for negotiating purchase of plant and purchase of plant and machinery.
 - iii) Amount payable as damages to Government on account of shortfall in export target.
 - iv) Overdraft from bank for payment of income tax: interest charged by the bank is ₹ 20,000.
 - v) Payment of interest of ₹ 40,000 on monies borrowed from bank for payment of dividends to shareholders.
 - vi) ₹ 12,000 paid for shifting of business from the original site to the present place which is more advantageously located.
 - vii) Retrenchment compensation of ₹ 4 lakh paid to the workmen on the closure of one of the units.
 - viii) Fees paid to the Registrar of Companies for bringing about a change in the Memorandum and Articles of Association in regard to issue of Equity.
- (b) Discuss the undisclosed sources of Income as per Income Tax Act, 1961. 8