REVISED SYLLABUS 2012

TEST PAPERS

Intermediate
Group I

QUESTION PAPERS FOR POSTAL STUDENTS ONLY
(FOR JUNE/DECEMBER 2014)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
BOARD OF STUDIES

Paper 5(Financial Accounting)
Test Paper—I/5/FAC/2012/T-1

(Answer all the questions)

Section A : Generally Accepted Principles & Accounting Systems

Question 1.

Describe about the Accounting Cycle. **(2)**

Question 2.

(i) Provisions contained in the Accounting Standard in respect of Revaluation of fixed assets.

(ii) Extraordinary Items to be disclosed as per the Accounting Standard. **(2+2)**

Question 3.

(i) Describe the reasons for differences between Cash Book and Pass Book.
(ii) D's Cash Book shows an overdrawn position of ₹3,630 on 31.03.2013, though the bank Statement shows only ₹3,378 overdrawn. Detailed examination of two records revealed the following:

(a) A cheque for ₹1,560 in favour of Rath Associates has been omitted by the Bank from its statement, thus, cheque having been debited to another customer's account.
(b) The debit side of owned book has been under caste by ₹300.
(c) A cheque for ₹182 drawn in payment of electricity amount had been entered in the cash Book on ₹128 & was shown correctly in the bank statement.
(d) A cheque for ₹210 from S. Gupta having been paid into Bank, was dishonoured & shown as such on Bank statement, although no entry relating to dishonoured had been made in Cash Book.
(e) The Bank had debited a cheque for ₹126 to D's A/c, in error. It should have debited to Sukhal's A/c.
(f) A dividend of ₹90 on D's holding of equity shares has been duly shown by bank, no entry has been made in cash book.
(g) A lodgement of ₹1,080 on 31.03.2013 had not been credited by Bank.
(h) Interest on ₹228 had been directly debited by Bank not recorded in Cash Book.

You are required to prepare a Bank reconciliation statement after necessary amendment in cash book as on 31.03.2013. **(2+2)**

Section B : Preparation of Accounts

Question 4.

(i) State the factors affecting the measurement of depreciation.

(ii) Ram Ltd. which depreciates its machinery at 10% p.a. on Diminishing Balance Method, had on 1st January, 1012 ₹9,72,000 on the debit side of Machinery Account.

During the year 2012 machinery purchased on 1st January, 2010 for ₹80,000 was sold for ₹45,000 on 1st July, 2012 and a new machinery at a cost of ₹1,50,000 was purchased and installed on the same date, installation changes being ₹8,000.

The company wanted to change the method of depreciation from Diminishing Balance method to Straight Line Method with effect from 1st January, 2009. Difference of depreciation up to 31st December, 2012 to be adjusted. The rate of depreciation remains the same as before. Show Machinery Account. **(1.5 + 3.5)**

Question 5.

Mr. Gavaskar is the proprietor of a large business. The following Trial Balance was prepared from his books as on 30th June, 2012:

Particulars	Amount (₹)	Particulars	Amount (₹)
Land & Buildings	80,000	12% Bank Loan (U.B.I)	1,00,000
Cash at Bank	50,000	(No movement during the year)	
Motor Car	40,000	Capital Accounts	1,50,000
Furniture	20,000	Bills Payable	10,000
Sundry Debtors	1,20,000	Sundry Creditors	1,30,000
Cash in hand	10,000	Returns Outward	8,000
Stock (1.7.11)	1,10,000	Discount Received	2,000
Return Inward	10,000	Sales	9,00,000
Printing & Stationery	4,000		
Drawings	16,000		
Bills Receivable	10,000		
Travelling Expenses	12,000		
Discount Allowed	4,000		
Miscellaneous Expenses	38,000		
Postage	2,000		
Joint Venture Suspense A/c	2,000		
Investments (Market value ₹28,000)	30,000		
Interest on Bank Loan	8,000		
Salaries (including advance for ₹4,000)	54,000		
Entertainment Expenses	4,000		
Purchases	6,50,000		
Carriage Inwards	8,000		
Advertisements	18,000		
	13,00,000		13,00,000

Additional Information:

(i) On 2nd January, 2012, Mr. Gavaskar entered into a Joint Venture with Mr. Shastri with an agreement to share the profits and losses equally. Shastri supplied goods totaling ₹60,000 which wrongly passed through the Purchase Day Book. The goods were sold for cash at profit of 25% on sales and stood credited to Sales Account. Shastri had earlier incurred an account of ₹4,000 on account of Freight ad Insurance. Joint Venture Suspense Account represents expenses incurred by Gavaskar on Joint Venture.

(ii) Bills Receivable for ₹8,000 endorsed on 21st March, 2012 in favour of creditors were subsequently dishonoured but no entry for the dishonoured has been passed.

(iii) Three cheques of ₹3,000 ₹4,000 and ₹6,000 issued to parties on 29th June, 2012, were lying unpresented on 30th June, 2012.

(iv) Sales included a sum of ₹60,000 received from sale of goods on behalf of Mr. Kapil, the cost of these goods to Mr. Kapil was ₹50,000. Mr. Gavaskar is entitled to a commission of 5% on sales, for which effect should be given and reimbursement of selling expenses of ₹2,000 were debited to Miscellaneous Expenses Account.

(v) 1/3rd of the advertisement expenses are to be carried forward.

(vi) Of the Debtors a sum of ₹2,000 is to be written off as bad debt. Create provision for doubtful debts @ 2%.

(vii) Depreciate fixed assets by 10% except Motor Car which is to be depreciated at 20%.

(viii) Value of Stock at the end is ₹90,000.

(ix) During the year some goods (Invoiced at ₹1,00,000) were sent to sundry customers on sales on approval. On 30th June, 2012 of these goods ₹20,000 remained with customers as the period of approval did not expire as yet. Proper adjustment should be made in respect of the above. Mr. Gavaskar makes his invoices at cost plus 25%.

You are required to prepare Trading and Profit & Loss Account for the year ended 30th June, 2012 and a Balance Sheet as at 30th June, 2012. **(10)**

Question 6.

1. **(i)** Rony, Bony and Jony were partners in a firm. They now admit Tony with equal rights. Calculate new profit sharing ratio.

(ii) Arun and Anand were partners sharing profits in the ration of 3:2. Their position as on 31st March, 2013 was as under.

Liabilities	Amount (₹)	Assets	Amount (₹)
Arun's Capital	12,000	Land and Buildings	8,000
Anand's Capital	10,000	Plant and Machinery	10,000
General reserve	12,000	Sundry Debtors	11,000
Workmen's Compensation Fund	4,000	Stock	12,000
Sundry Creditors	12,000	Cash at Bank	9,000
	50,000		50,000

They decided to admit Ashok for a 20% profit on the following terms: (a) The liability on Workmen's Compensation Fund is to be determined at ₹2,000. (b) Ashok to bring in ₹3,000 as premium out of his share of ₹3,600. He is also to bring in ₹20,000 as his capital; (c) General Reserve is to be maintained at its original value; (d) ₹2,000 out of creditors to be paid at 5% discount.

Pass the necessary journal entries to give effect to the above arrangement; the show the capital accounts and prepare the Balance Sheet of the new firm. **(0.5+4.5)**

Question 7.

M Stores Ltd., Delhi, has its branches at Lucknow and Chennai. It charges goods to its Branches at cost plus 25%. Following information is available of the transactions of the Lucknow Branch for the year ended on 31st March 2012:

Particulars	₹	Particulars	₹
Balances on 1.4.2012		Goods pilfered (at invoice price)	2,000
Stock (at invoice price)	30,000	Goods lost by fire (at invoice price)	5,000
Debtors	10,000	Insurance Co. paid to H.O. for loss by fire at	3,000
Petty Cash	50	Lucknow	
Transactions During 2011-12		Cash sent for petty expenses	34,000
(Lucknow Branch) :	3,25,000	Bad debts at Branch	500
Goods send to Lucknow Branch		Goods transferred to Chennai Branch under	15,000
(at invoice price)	10,000	H.O. advice	
Goods returned to Head Office		Insurance charges paid by H.O.	500
(at invoice price)		Goods returned by Debtors	500
Cash Sales	1,00,000	Balance on 31.3.2012:	
Credit Sales	1,75,000	Petty Cash	230
		Debtors	14,000

Goods worth ₹ 15,000 (included above) sent by Lucknow Branch to Chennai Branch were intransit on 31.3.2012.

Show the following accounts in the books of M Stores Ltd. : (a) Lucknow Branch Stock Account; (b) Lucknow Branch Debtors Account. **(5)**

Question 8.

T Ltd. purchased Motor Lorries on Hire-Purchase System over a period of 4 years, ₹24,000 being payable on delivery on 1st January 2009 and the balance by annual installments of ₹24,000 each on 31st December each year. M Ltd., which sold the Lorries, charged interest at 5% p.a. on the yearly balances. The cash value of the Lorries on delivery was ₹1,09,100. Depreciation @ 25% on Diminishing Balances was written-off each year. show the Journal entries in the books of M. Ltd. for the these years, of T. Ltd. under Interest Suspense Method. **(5)**

Section C : Control of Accounting Systems

Question 9.

From the following information taken out from the books of A. Bose & Co., prepare Purchase Ledger Adjustment Account in General Ledger and General Adjustment Accounts in Purchase Ledger:

			₹
Balance on 1.1.2012	Dr.		1,500
	Cr.		60,000
Transactions for the year ended 31.12.2012:			
Total Purchases (including credit purchases Rs. 90,000)			1,00,000
Returns to creditors	2,000		
Cash paid to creditors			87,000
Discount received			4,000
Cash received from creditors			500
Allowances			1,300
B/P accepted			2,500
Transfer of purchases to another ledger			200
Closing Debit balance on 31.12.2012			1,000

(10)

Section D : Accounting in Service Sector

Question 10.

Describe the Accounting For ITES . **(10)**

Section E : Accounting for Service Sector

Question 11.

(i) X Ltd. of Gujrat purchased 5,000 sarees @ ₹ 100 per saree. Out of these 3,000 sarees were sent on consignment to Y Ltd. of Kolkata at the selling price of ₹ 150 per saree. The consignors paid ₹ 5,000 for packing and freight.
Y Ltd. sold 2,500 sarees @ ₹ 160 per saree and incurred ₹ 500 for selling expenses and remitted ₹2,50,000 to Gujrat on account. They are entitled to a commission of 5% on total sales plus a further of 25% commission on any surplus price realized over ₹ 150 per saree. 1,500 sarees were sold at Gujarat @ ₹ 110 per saree.

Owing to fall in market price, the value of stock of saree in hand is to be reduced by 5%. Your are required to prepare (i) Consignment Account, and (ii) Nirmala Traders Account.

(ii) Short owes Slow ₹ 6,000 for which the former accepts a three months bill drawn by the latter. Slow immediately discounts the bill with his banker Strong Bank, at 12%. On the due date the bill is dishonoured and Strong Bank pays ₹ 20 as noting charge.

Short pays ₹ 1,180 including interest of ₹ 200 and gives another bill at three months for the balance. Slow endorses the bill to his creditor Slim in full settlement of his debits for ₹ 5,100. Slim discounts the bill with his banker Strong Bank who charges ₹ 40 as discount. Before maturity Short becomes bankrupt and a first and final dividend of 20 paise in a rupee is realized from his estate.

Show the journal entries in the books of Slim and Strong Bank and ledger account of Short in the book of Slow.

(iii) Ravi and Suresh entered into a Joint Venture for purchase and sale of electronic goods, sharing profit and loss in this ratio of 3:2. They also agreed to receive 5% commission on their individual sales and the following information was extracted from the records.

July 1. 2012: Ravi purchased goods worth Rs. 1,90,000 financed to the extent of 90% out of his funds and balance by load from his uncle Shyam.

Aug. 1 2012: Ravi sent goods costing Rs. 1,70,0100 to Suresh and paid Rs. 1,410 as freight. Suresh paid Rs. 13,410 to Ravi.

Oct. 1 2012: Suresh sold all the goods sent to him. Ravi paid the loan takes from his uncle including interest of Rs. 350.

All sales by either party were made at as uniform profit of 40% after cost. On Nov. 30, 2012, they decided to close the venture by transforming the balance of goods unsold lying with Ravi at a cost of Rs. 9,000 to a wholesale dealer. You are required to prepare the Memorandum Joint Venture Account, Joint Venture with Ravi in the books of Suresh and Joint Venture with Suresh in the books of Ravi. They further disclosed that goods worth Rs. 4,000 were taken personally by Ravi at an agreed price of Rs. 5,000. **(8+4+8)**

Section E : Accounting for Banking, Insurance and Electricity Companies

Question 12.

(i) The following are the figures extracted from the books of Yes Bank Ltd. as on 31.03.2012. Other information:

Particulars	Amount (₹)	Particulars	Amount (₹)
Interest and Discount received	20,30,000	Directors' fees and allowance	12,000
Interest paid on Deposits	12,02,000	Rent and taxes paid	54,000
Issued and Subscribed Capital	5,00,000	Stationery and printing	12,000
Reserve Under Section 17	3,50,000	Postage and telegram	25,000
Commission, Exchange and Brokerage	90,000	Other expenses	12,000
Rent received	30,000	Audit fees	4,000
Profit on sale of investment	95,000	Depreciation on Bank's properties	12,500
Salaries and Allowances	1,05,000		

(a) Provision for bad and doubtful debts necessary ₹ 2,00,000.

(b) Rebate on bills discounted as on 31.03.2012 ₹ 7,500.

(c) Provided ₹ 3,50,000 for income tax.

(d) The directors desire to declare 10% dividend.

Make the necessary assumption and prepare the Profit and Loss Account in accordance with the law.

(ii) Ratnakar Electricity Supply Company Ltd. (which adopts the Double Account Systems) re-built and re-equipped a power station and the connecting lines during the year 2012. For this purpose they purchased material worth ₹ 10,85,000 and used stores worth ₹ 4,90,000 from their existing stocks. The cost of labour came to ₹ 5,22,000. The estimated supervision overheads attributed to this project were ₹ 13,000. The station was erected in 2012 at a cost of ₹ 5,00,000 and the index of costs in this line stood in 1994 @ 385, taking 1995 as the base year. Discarded materials from the old station fetched ₹ 12,000.

Calculate the amount to be capitalized and the amount to be charged on Revenue Account.

(iii) Prudence Life Insurance Co. furnishes you the following information:

Particulars	Amount (₹)
Life Insurance fund on 31.3.2010	1,30,00,000
Net liability on 31.3.2010 as per actuarial valuation	1,00,00,000
Interim bonus paid to policyholders during intervaluation period	7,50,000

You are required to prepare:

(i)Valuation Balance Sheet;

(ii)Statement of Net Profit for the valuation period; and

(iii)Amount due to the policyholders. **(10 + 5 + 5)**

Paper 5(Financial Accounting)
Test Paper—I/5/FAC/2012/T-2
(Answer all the questions)

Question 1.

Choose the correct answer from the following alternatives: (8 x 1 = 8)

(i) The cost of a Fixed Assets of a business has to be written off over its

(A) Natural Life
(B) Accounting Life
(C) Physical Life
(D) Estimated Economic Life

(ii) Short workings can be recouped out of

(A) Minimum rent
(B) Excess of actual Royalty over minimum rent
(C) Excess of minimum rent over actual Royalty
(D) Profit and Loss Account

(iii) In Hire Purchase system cash price plus interest is known as

(A) Capital value of asset
(B) Book value of asset
(C) Hire purchase price of asset
(D) Hire purchase charges

(iv) In partnership when a new Partner brings his share of Goodwill in cash, then the amount of such Goodwill will be credited to Partners' capitals as per the following ratio :

(A) Old Profit sharing ratio
(B) Sacrifice ratio
(C) Gain ratio
(D) None of the above

(v) The Receipts and Payments Account generally begins with

(A) Credit Balance
(B) Debit Balance
(C) Both Debit and Credit Balance
(D) None of the above

(vi) In case of a Banking Company, entries in the Personal Ledger are made from

(A) Day Book
(B) Vouchers
(C) Rough Register
(D) None of the above

(vii) When Sales = ₹ 1,80,000, Purchase =₹ 1,60,000, Opening Stock = ₹ 34,000 and rate of the Gross Profit is 20% on cost, the Closing Stock would be

(A) ₹50,000

(B) ₹44,000

(C) ₹46,000

(D) None of the above

(viii) Goods are transferred from Department X to Department Y at a price so as to include a profit of 33.33% on cost. If the value of closing stock of Department Y is ₹ 18,000, then the amount of stock reserve on closing stock will be **:**

(A) ₹ 6,000

(B) ₹ 4,500

(C) ₹ 9,000

(D) None of the above

Question 2.

State whether the following statements are TRUE (T) or FALSE (F) : **[1×4=4]**

(i) Original cost minus scrap value is the depreciable value of asset.

(ii) Royalty is a Revenue Expenditure to Lessor.

(iii) According to AS-2 Inventories are held for sale in normal course of business.

(iv) Income and Expenditure Account is prepared by adopting accrual principle of accounting.

Question 3.

Fill in the blanks in the following sentences using the appropriate word from the alternatives indicated: **[1×4=4]**

(i) Depreciation is an item of ________________ **.** (gross profit/expenditure)

(ii) Compensation paid to employees who are retrenched is _______________ expenditure. (Capital/Revenue)

(iii) Receipts and Payment Account is a __________Account is nature. (Real/Nominal)

(iv) Unclaimed Dividend appears under the head of ____________in the Balance Sheet of a Company. (Deferred Expenditure/Liabilities)

Question 4.

Match the followings : **[1×4=4]**

(i) AS—6	(I) Borrowing costs
(ii) AS—13	(II) Depreciation Accounting
(iii) AS—16	(iii) Accounting for Investment
(iv) AS—19	(IV) Leases
	(V)No matching statements found

Question 5.

(a) State the rules for determining Capital Expenditure

(b) On 1st April, 2010, Nath Ltd. purchased a second-hand Machine for₹ 1,20,000 and spent ₹ 30,000 on its renewal. On 1st October, 2011, ₹ 3,000 was spent on repairs. On 30th September, 2012 the Machine was sold for ₹ 75,000. Depreciation is to be provided @ 20 per cent per annum according to written down value method.

Prepare Machinery Account reflecting all these transactions assuming Books are closed on 31stMarch each year.

(c) Determine the value of stock on 31st March, 2013 from the following particulars:

Stock was valued on 15th April 2013 and the amount came to ₹ 1,00,000.

(a) Sales ₹ 82,000 (including cash sales ₹ 20,000)

(b) Purchase ₹ 10,068 (including cash purchase ₹ 3,980)

(c) Returns inward ₹ 2,000

(d) On 15th March, goods of the sale value of ₹ 20,000 were sent on sale or return basis to a customer, the period of approval being four weeks. He returned 40% of the goods on 10th April approving the rest, the customer was received on 16th April.

(e) Goods received value ₹ 16,000 in March for sale on consignment basis 20% of the goods has been sold by 31st March, and another 50% by 15th April. These sales are not included in above sales.

Goods are sold at a profit of 20% on sales

(d) The difference between actual expense or income and the estimated expense or income as accounted for in earlier years' accounts, does not necessarily constitute the item to be a prior period item comment. **[5+2+5+3]**

Section B : Preparation of Accounts

Question 6.

The following are the items of Receipts and Payments of the Bengal Club as summarized from the books of account maintained by the Secretary:

Receipts	Amount (₹)	Payments	Amount (₹)
Opening Balance 1.1.2012	4,200	Manager's Salary Printing and	1,000
		Stationery Advertising Fire	2,600
Entrance Fees 2011	1,000	Insurance Investments	1,800
		Purchased Closing Balance	1,200
Do 2012	10,000	31.12.2012	20,000
			7,600
Subscriptions 2011	600		
Do 2012	**34,200**		**34,200**

It was ascertained from enquiry that the following represented a fair picture of the Income and Expenditure of the Club for the year 2012 for audit purpose:

Expenditure	Amount (₹)	Amount (₹)	Income	Amount (₹)
Manager's Salary		1,500	Entrance Fees	10,500
Printing & Stationery	2,000		Subscription	15,600
Add: Accrued	400	2,400	Interest on Investments	4,000
Advertising (accrued Nil)		1,600		
Audit Fees		500		
Fire Insurance		1,000		
		4,940		
		30,100		**30,100**

You are required to prepare the Balance Sheet of the Club as on 31.12.2011 and 31.12.2012, it being given that the values of the Fixed Assets as on 31.12.2011 were: Building ₹ 44,000, Cricket Equipment ₹25,000 and Furniture ₹ 4,000. The rates of depreciation are Building 5%, Cricket Equipments 10%, Furniture 6%. You are entitled to make assumptions as may be justified. **[5]**

Question 7.

The Balance Sheet of Baichung, Tausif and Vijayan who shared profit and losses in the ratio 3:3:2 respectively was as follows on 31st December, 2012:

Capitals:			Machinery	31,600
Baichung	24,000		Furniture	6,400
Tausif	10,000		Stock	8,500
Vijayan	8,000	42,000	Debtors	4,300
Reserve		4,800	Cash at Bank	4,700
Creditors		8,700		
		55,500		55,500

Baichung retired from the business on 1st January, 2008. Revaluation of assets were made as: Machinery ₹34,000, Furniture ₹5,000 Stock ₹9,600, Debtors ₹4,000 and Goodwill ₹10,000.

Baichung was paid ₹4.225 immediately and the balance was transferred to a Loan Account for payment in 4 equal half-yearly installments together with interest @ 6% p.a.

Show the necessary accounts, the Balance Sheet of the firm immediately after Baichung's retirement and his Loan Account till finally paid off. **[6]**

Question 8.

A. Ltd. obtain from B.S. Ltd. a lease of some coal-bearing land, the terms being a royalty of ₹ 15 per ton of coal raised subject to a minimum rent of ₹ 75,000 p.a. with a right of recoupment of short-working over the first four years of the lease. From the following details, show (i) Short-working Account, (ii) Royalty Account

Year	Sales (Tons)	Closing Stock (Tons)
2008	2,000	300
2009	3,500	400
2010	4,800	600
2011	5,600	500
2012	8,000	800

[5]

Question 9.

From the following Trial Balance, prepare Departmental Trading and Profit and Loss Account for the year ended 31.12.2012 and a Balance Sheet as at the date in the books of Sri S. Maity:

Particulars	Dr. ₹	Cr. ₹
Stock (1.1.2012):		
Dept. A	5,400	
Dept. B	4,900	
Purchases:		
Dept. A	9,800	
Dept. B	7,350	
Sales:		
Dept. A		16,900
Dept. B		13,520
Wages:		
Dept. A	1,340	
Dept. B	240	
Rent	1,870	
Salaries	1,320	
Lighting and Heating	420	
Discount Allowed	441	
Discount Received		133
Advertising	738	
Carriage Inward	469	
Furniture and Fittings	600	
Plant and Machinery	4,200	

Sundry Debtors	1,820	
Sundry Creditors		3,737
Capital		9,530
Drawings	900	
Cash in hand	32	
Cash at Bank	1,980	
	43,820	43,820

The following information is also provided:

Rent and Lighting and Heating are to be allocated between Factory and Office in the ratio of 3:2. Rent, Lighting and Heating, Salaries and Depreciation are to be apportioned to A and B Depts. as 2:1. Other expenses and incomes are to be apportioned to A and B Depts. on suitable basis **(5)**

Section C : Control of Accounting Systems

Question 10.

From the following particulars which have been extracted from the books of Sundar Company for the ended 31.12.2012, prepare General Ledger Adjustment Account in the Creditors' Ledger and a Debtors' Ledger Adjustment Account in the General Ledger:

	₹
Debtors' balance – 1.1.2012 (Dr.)	30,000
(Cr.)	450
Creditors' balance – 1.1.2012(Dr.)	300
(Cr.)	22,500
Purchases (including Cash Rs. 6,000)	18,000
Sales (including cash Rs. 9,000)	37,500
Cash paid to Suppliers	12,750
Discount earned	750
Cash received from customers	21,150
Discount allowed	1,350
Bills Payable accepted	3,000

Bills Receivable received	4,500
Bills Receivable Dishonoured	600
Returns Outward	1,500
Debtors' balance – 31.12.2012 (Cr.)	675
Creditors' balance – 31.12.2012 (Cr.)	16,305

[8]

Section D : Accounting in Service Sectors

Question 11.

(i) Write a short notes on how to maintain the accounts of Cinema, Theatre and Circus.
(ii) Write a short notes on how to maintain the accounts of Hotels, Restaurant and Caterers **[4+4]**

Section E : Accounting for Special Transaction

Question 12.

(i) Daga of Kolkata sent to Lodha of Kanpur goods costing ₹ 40,000 on consignment at a commission of 5% on gross sales. The packaging and forwarding charges incurred by consignor amounted to ₹ 4,000. The consignee paid freight and carriage of ₹ 1,000 at Kanpur. Three-forth of the goods were sold for ₹ 48,000. Then the consignee remitted the amount due from him to consignor along with the account sale, but he desired to return the goods still lying unsold with him as he was not agreeable to continue the arrangement of consignment. He was then persuaded to continue to joint venture basis sharing profit or loss as Daga 3/5th and Lodha 2/5th.

Daga then supplied another lot of goods of ₹ 20,000 and Lodha sold out all the goods in his hand for ₹ 50,000 (Gross). Daga paid expenses ₹ 2,000 and Lodha ₹ 1,700 for the second lot of goods.

Show necessary Ledger A/c in the books of both parties. No final settlement of balance due is yet made.

(ii) S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 9 months. During April 2012, the following are the details of the goods sent.

Date	Customers	Value (₹)	Proforma Invoice No.
2012 April 2	G	20,000	002
4	H	36,000	005
16	I	50,000	017
20	J	16,000	020
24	K	42,000	031
28	L	60,000	060

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Show the following accounts in the books of the firm.

Sale on Approval Account and Customers for Sale on Approval Account as on 15th May 2012.

(iii) X has the following transactions with Y

Date	Particulars	₹
2012 January, 1	Sold goods to Y	3,000
February, 15	Received cash from Y	1,200
March, 5	Bought goods from Y	8,000
April, 15	Paid to Y	5,400

Prepare an Account current to be recorded to be rendered by X to Y under backward Method for the period to 31st June, 2013 reckoning interest @ 12% p.a. **[5+4+4]**

Section F : Accounting for Banking, Electricity and Insurance company

Question 13.

(i) From the following information profit & Loss Account of East Bank of Bharat Ltd. as on 31st March, 2011.

Particulars	(₹ in '000)
Interest and discount	65,80
Income from investments	2,30
Interest on Balances with RBI	4,60
Commission, exchange and brokerage	14,40
Profit on sale of investment	2,20
Interest on deposit	26,50
Interest to RBI	3,44
Payment to and provision for employees	22,88
Rent, taxes and lighting	4,40
Printing and stationery	4,60
Advertisement and publicity	2,90
Depreciation	1,84
Directors' fees	3,30
Auditor's fees	2,20
Law charges	4,60
Postage, telegram and telephone	1,50
Insurance	1,16
Repair and maintenance	86

Other information:

(i)	**Interest and discount mentioned above is after adjustment for the following:**	
	Particulars	**(₹ in '000)**
	Tax provision for the year	460
	Provision during the year for doubtful debt	204
	Loss on sale of investment	22
	Rebate on bills discounted	114
(ii)	**20% of profit is transferred to statutory reserve.**	
	5% of the profit is transferred to revenue reserve.	
	Profit brought forward from last year	44

(ii) The BESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1946 for ₹ 67,50,000. To build a new plant of the same size and capacity it would now cost ₹ 1,00,00,000. The cost of the new plant with larger capacity was ₹ 2,12,50,000 and in addition, materials of the old plant valued at ₹ 6,87,500 were used in the construction of the new plant. The balance of the old plant was sold for ₹ 3,75,000.

You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account.

(iii) From the following figures of Well Life assurance Co. Ltd. prepare a Valuation Balance Sheet and Profit Distribution Statement for the year ended 31st March 2012. Also pass necessary journal entries to record the above transactions with narrations.

Particulars	**₹ (in lakhs)**
Balance of Like Assurance Fund as on 01.04.2011	167.15
Interim bonus paid in the valuation period	25.00
Balance of Revenue Amount for the year ended 31.03.2012	240.00
Net Liability as per valuer's Certificates as on 31.03.2012	165.00

The company declares a revisionary bonus of Rs. 185 per ₹ 1,000 and gave the policyholders an option to take bonus in cash ₹105 per ₹1,000. Total business conducted by the company was ₹600 lakhs. The company issued profit policy only, 3/5th of the policyholders in value opted for cash bonus. **[5+5+5]**

Paper 5(Financial Accounting)
Test Paper—I/5/FAC/2012/T-3
(Answer all the questions)

Section A : Generally Accepted Principles & Accounting Systems

Question 1.

Distinction between Accrual Basis and Cash Basis Accounting. **(2)**

Question 2.

On 20.4.2012 JLC Ltd. *obtained a loan from the Bank for* ₹ 50 lakhs *to be* utilised *as under:*

Particulars	₹
Construction of a shed	20 lakhs
Purchase of machinery	15 lakhs
Working capital	10 lakhs
Advance for purchase of truck	5 lakhs

In March, 2013 construction of shed was completed and machinery installed. Delivery of truck was not received. Total interest charged by the bank for the year ending 31.3.2013 was ₹ 9 lakhs. Show the treatment of interest under AS 16. **(4)**

Question 3.

Mr.B sold goods on credit to various customers. Details related to one of the customer, Mr.Z, is as under:

(i) Goods sold on credit ₹ 5,00,000

(ii) Goods returned by the customer ₹ 30,000 due to defective quality, credit note raised but not recorded.

(iii) Payment received from customer in cash ₹ 1,00,000 and by cheques ₹ 2,30,000. Out of cheques received, a cheque of ₹ 38,000 was dishonoured by bank.

(iv) Customer accepted two Bills of ₹ 19,000 and ₹ 56,000 for 2 months and 3 months respectively.

(v) Credit note raised against the customer ₹ 3,400 for excess payment charged against one of the consignment.

Mr.Z, the customer is in need to ascertain the actual balance due to Mr.B. Prepare a Reconciliation Statement. **(4)**

Section B : Preparation of Accounts

Question 4.

From the following information prepare

(i) Fixed Assets Account and

(ii) Accumulated Depreciation Account :

Particulars	Opening Balance ₹	Closing Balance ₹
Fixed Assets	4,00,000	5,50,000
Accumulated Depreciation	80,000	1,35,000

Additional information:
A part of a machine costing ₹ 60,000 has been sold for ₹ 30,000, on which accumulated depreciation was ₹ 15,000. **(5)**

Question 5.

Complete the following Annual Financial Statements on the basis of ratios given below

Profit and Loss Account

Particulars	₹	Particulars	₹
To, Cost of Goods Sold To, Operating Expenses To, Earning Before Interest and Tax	6,00,000	By, Sales	20,00,000
To, Debenture Interest To, Income Tax To, Net Profit	10,000	By, Earnings before Interest and Tax	

Balance Sheet

Liabilities	₹	Assets	₹
Net Worth: Share Capital Reserve and Surplus 10% Debentures Sundry Creditors	60,000	Fixed Assets Current Assets: — Cash — Stock — Debtors	35,000

Other information:

Net Profit to Sales	5%	Inventory Turnover (based on Cost of Goods Sold)	15 times
Current Ratios	1.5	Share Capital to Reserves	4:1
Return on Net Worth	20%	Rate of Income tax	50%

(10)

Question 6.

The following was the Balance Sheet of A, B and C who shared profits in the ratio of 1 : 2 : 2 as on 31st December, 2011.

Sundry Creditors		10,000	Goodwill	15,000
Capital A/c :			Debtors	10,000
A	10,000		Machinery	20,000
B	20,000		Buildings	30,000
C	20,000	50,000	Stock	10,000
General Reserve		5,000	Cash at Bank	5,000
Investment Fluctuation Fund		3,000	Investments	10,000
Bad Debts Reserve		2,000		
Bank Loan		30,000		
		1,00,000		1,00,000

C died on 31st March, 2012. His account is to be settled under the following terms :

Goodwill is to be calculated at the rate of 2 years purchase on the basis of the average of 5 years profit or loss. Profit for January to March' 12 is to be calculated proportionately on the average profit of 3 years. The profits were : 2007 ₹ 3,000, 2008 ₹ 7,000, 2009 ₹ 10,000, 2010 ₹ 14,000, 2011 loss ₹ 12,000. During 2011 a Moped costing ₹ 4,000 was purchased and debited to Travelling Expenses Account on which depreciation is to be calculated @ 25%. Other values agreed on assets are : Stock ₹ 12,000, Building ₹ 35,000, Machinery ₹ 25,000 and Investments ₹ 8,000. Debtors are considered good.

Prepare new Balance Sheet of the firm, necessary Journal entries and Ledger Accounts of the Partners.

(5)

Question 7.

X purchased a truck for ₹ 2,80,000, payment to be made ₹ 91,000 down and 3 installments of ₹ 76,000 each at the end of each year. Rate of interest is charged at 10% p.a. Buyer depreciates assets at 15% p.a. on written down value method.

Because of financial difficulties, X, after having paid down payment and first installment to the end of 1st year could not pay second installment and seller took possession of the truck. Seller, after spending ₹ 9,200 on repairs of the asset sold for ₹ 150,000. Show the relevant accounts in the books of the purchaser & the vendor. **(5)**

Question 8.

How will you translate the following items of Singapore Branch for the year 2012-13 :

Fixed Assets as on 31.3.2013 $ 70,000, Balance of Loan (taken to purchase the fixed Assets) on 31.3.2013 $ 52,000, Depreciation as on 31.3.2013 $ 10,000, Interest paid during 2013 $ 11,520.

Fixed Assets having useful life of 10 years were purchased for $ 1,00,000 on 1.4.2010 after taking a loan of $ 88,000 @ 18% interest p.a. Annual loan installment of $ 12,000 and interest were paid on 31st March each year. Exchange Rate 1.4.2010 $ 1 = ₹ 25.50, Average of 2010-11 $ 1 = 25.70, 31.3.2011 $ 1 = ₹ 26.10, Average of 2011-12 $ 1 = ₹ 26.20, 31.3.2012, $ 1 = ₹ 26.40, Average of 2012-13 $ 1 = ₹ 36.50, 31.3.2013, $ 1 = ₹ 42.20. **(10)**

Section C : Control of Accounting Systems

Question 9.

The following information is avail from the books of the trader for the period 1st Jan. to 31st March 2012:

(1) Total Sales amounted to ₹ 70,000 including the sale of old furniture for ₹ 10,000(book value is ₹ 12,300). The total cash sales were 80% less than total credit sales.

(2) Cash collection from Debtors amounted to 60% of the aggregated of the opening Debtors and Credit sales for the period. Discount allowed to them amounted to ₹ 2,600

(3) Bills receivable drawn during the period totaled ₹ 7,000 of which bills amounting to ₹ 3,000 were endorsed in favour of suppliers. Out of these endorsed bills, a Bill receivable for ₹ 1,600 were dishonoured for non-payament, as the party became insolvent and his estate realized nothing.

(4) Cheques received from customer of ₹ 5,000 were dishonoured; a sum of ₹ 500 is irrecoverable.

(5) Bad Debts written-off in the earlier year realized ₹ 2,500.

(6) Sundry debtors on 1st January stood at ₹ 40,000.

You are required to show the Debtors Ledger Adjustment Account in the General Ledger. **(10)**

Section D : Accounting in Service Sector

Question 10.

(i) Applicability of AS – 7.

(ii) P Ltd. Took a contract to construct a multistoried building for a consideration of ₹ 20,00,000 to be complete within 3 years for which total cost to be incurred ₹ 16,50,000. The details are :

Particulars	Year –I (₹)	Year –II (₹)	Year – III (₹)
Total cost incurred	3,50,000	8,00,000	16,50,000
Estimated cost to be incurred for completion	7,00,000	1,00,000	-
Progress payment to be received	2,50,000	9,00,000	12,00,000
Progress Payment Received	1,70,000	5,50,000	2,20,000

Advise the company to prepare the accounts in completion AS -7. **(3+7)**

Section E : Accounting for Special Transaction

Question 11.

(i) 5,000 shirts were consigned by Raizada & Co. of Delhi to Zing of Tokyo at cost of ₹ 375 each. Raizada & Co. paid freight ₹ 50,000 and Insurance ₹ 7,500.

During the transit 500 shirts were totally damaged by fire. Zing took delivery of the remaining shirts and paid ₹ 72,000 on custom duty.

Zing had sent a bank draft to Raizada & Co. for ₹ 2,50,000 as advance payment. 4,000 shirts were sold by him at ₹ 500 each. Expenses incurred by Zing on godown rent and advertisement etc. amounted to ₹ 10,000. He is entitled to a commission of 5%

One of the customer to whom the goods were sold on credit could not pay the cost of 25 shirts.

Prepare the Consignment Account and the Account of Zing in the books of Raizada & Co. Zing settled his account immediately. Nothing was recovered from the insurer for the damaged goods.

(ii) Mr. Shape dealt on the stock exchange and had purchased and sold leading scripts but did not maintain his accounts in a proper manner. He furnished the following data:

Investment on hand as at July 1.2012

300-3% Conversion Loan 1982-84 of ₹ 100 each purchased at ₹ 60.

250-Equity shares of ₹ 10 each of Everlite Limited at ₹ 18 per share.

1,000-9% Preference shares of ₹ 100 each of Prosperous Limited at ₹ 95.

Transactions during the year

Purchases:

750 Equity Shares of ₹ 10 each of Evelite Ltd. at ₹ 23.

250 Equity Shares of ₹ 10 each of Small Limited at ₹ 9.

125 Equity Shares of ₹ 10 each of Bright Shipping Ltd. at ₹ 12.

Sold

100-3% Conversion Loan 1982-2022 at ₹ 65.

100-9% Preference Shares of Prosperous Ltd. at ₹ 99.

Interest/Dividend Received

3% Conversion Loan – Interest Received ₹ 900.

9% Preference Shares of Prosperous Ltd. ₹ 9,000.

Everlite Ltd. – Dividend at 20 per cent on 1,000 shares ₹ 2,000.

Everlite Limited issued Bonus shares and Mr. Shape received 1,000 shares of the Company as Bonus Shares.

You are required to show the Investment Account in the Books of Mr. Shape.

(iii) On 30.09.2012 the stock of Harshvardhan was lost in a fire accident. From the available records the following information is made available to you to enable you to prepare a statement of claim of the insurer:

Particulars	Amount ₹	Particulars	Amount ₹
Stock at cost on 1.4.2011	75,000	Sales less returns for the year ended 31.3.2012	6,30,000
Stock at cost on 31.3.2012	1,04,000	Purchase less returns up to 30.09.2012	2,90,000
Purchases less returns for the year ended 31.3.2012	5,07,500	Sales less returns up to 30.09.2012	3,68,100

In valuing the stock on 31.03.2012 due to obsolescence 50% of the value of the stock which originally cost ₹ 12,000 had been written-off. In May 2012, ¾th of these stocks had been sold at 90% of original cost and it is now expected that the balance of the obsolete stock would also realize the same price, subject to the above, G.P had remained uniform throughout stock to the value of ₹ 14,400 was salvaged. **(5+10+5)**

Section F : Accounting for Banking , Electricity and Insurance Company

Question 12.

(i) From the following trial balance and the additional information, prepare a Balance Sheet of Lakshmi Bank Ltd. as at 31st March,2012:

Debit balance	**₹ (in Lakhs)**
Cash Credits	1,218.15
Cash in hand	240.23
Cash with Reserve Bank of India	67.82
Cash with other Banks	132.81
Money at call and short notice	315.18
Gold	82.84
Government securities	365.25
Current Accounts	42.00
Premises	133.55
Furniture	95.18

Term Loan	1,189.32
	3,882.33
Credit balance	**₹ (in Lakhs)**
Share Capital (29,70,000 equity shares of ₹ 10 each, fully paid up)	297.00
Statutory Reserve	346.50
Net Profit for the year (before appropriation)	225.00
Profit & Loss Account (Opening balance)	618.00
Fixed deposit Accounts	775.50
Savings Deposit Accounts	675.00
Current Accounts	780.18
Bills Payable	0.15
Borrowings from other Banks	165.00
	3,882.33

Additional Information :

(i) Bills for collection : ₹ 18,10,000

(ii) Acceptance and endorsements : ₹ 14,12,000

(iii) Claims against the bank not acknowledged as debts : ₹ 55,000

(iv) Depreciation charged on premises : ₹ 1,10,000 and Furniture : ₹ 78,000

(ii) Saharanpur Electricity Ltd. earned a profit of ₹ 17,40,000 during the year ended 31st March 2013 after charging interest on debentures amounting to ₹ 45,000 @ 7 ½%. You are required to show the disposal of profits assuming bank rate at 6 % with the help of the following data:

Particulars	**Amount** ₹
Fixed Assets at Cost	2,50,00,000
Preliminary Expenses	5,00,000
Monthly average of current assets including amounts due from customers ₹ 6,00,000	36,00,000
Reserve Fund (represented by 6% Govt. Securities)	40,00,000
Total depreciation written-off	77,00,000

Contingency Reserve Investment	10,00,000
Loan from Electricity Board	50,00,000
Tariff and Dividend Control Reserve	2,00,000
Security Deposit received from customers	5,00,000
Development Reserve	5,00,000

(iii) The life insurance fund of Prakash Life Insurance Co. Ltd. was ₹ 34,00,000 on 31st March, 2012. Its actuarial valuation on 31st March, 2012 disclosed a net liability of ₹ 28,80,000. An interim bonus of ₹ 40,000 were paid to the policyholders during the previous two years. It is now proposed to carry forward ₹ 1,10,000 and to divide the balance between the policyholders and the shareholders. Show (a) the Valuation Balance Sheet, (b) the net profit for the two-year period, and (c) the distribution of the profits. **(8+6+6)**

Paper 5(Financial Accounting)
Test Paper—I/5/FAC/2012/T-4

(Answer all the questions)
Section A : Generally Accepted Principles & Accounting Systems

Question 1.

(a) Briefly describe the Business Entity Concept.

(b) The company revised an actuarial valuation for the first time for its pension scheme, which revalued a surplus of ₹12 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹4 lakhs instead of ₹10 lakhs. The average remaining life of the employees, if estimated to be 6 years, you are required to advise the company considering the Accounting Standards 15 and 5.

(c) The Bank column of the Cash Book showed an overdraft of ₹5,000 on 31-03-2012, whereas as per Bank statement the overdraft is ₹4,200. The following differences were noticed between the two records:

(i) Cheques of ₹2,400 issued but not encashed by customers.
(ii) Cheques deposited but not cleared ₹1,200.
(iii) Collection charges debited by Bank not recorded in CB ₹100.
(iv) Bank interest charged by the Bank not recorded in CB ₹300.
(v) Cheques dishonoured debited by Bank not in CB ₹400.
(vi) Interest directly received by Bank not entered in CB ₹400.

Prepare Bank reconciliation statement after amending the CB.

[2+4+4]

Section B : Preparation of Accounts

Question 2.

(a) Write a short note on Sinking Fund method of Depreciation.

(b) X, Y and Z are three Partners sharing profit and Losses equally. Their capital as on 01.04.2012 were: X ₹80,000; Y ₹60,000 and Z ₹50,000.
They mutually agreed on the following points (as per partnership deed):

(i) Interest on capital to be allowed @ 5% P.a.
(ii) X to be received a salary @ ₹500 p.m.
(iii) Y to be received a commission @ 4% on net profit after charging such commission.
(iv) After charging all other items 10% of the net profit to be transferred General Reserve.

Profit from Profit and Loss Account amounted to ₹66,720. Prepare a Profit and Loss Appropriation Account for the year ended 31st March, 2013.

[5+5]

Question 3.

(a) Ram, Rahim and Robert are partners of the firm ABC & Co-sharing profits and losses in the ratio of 5:3:2. The Balance Sheet of the firm as on 01.04.2012 is given below:

Liabilities	₹	Assets	₹
Partners Capital:		Goodwill	50,000
Ram	3,00,000	Machinery	4,55,000
Rahim	2,50,000	Furniture	10,000
Robert	2,00,000	Stock	2,00,000
General Reserve	1,05,000	Debtors	3,00,000
Loan	95,000	Cash & Bank	35,000
Sundry Creditors	1,00,000		
	10,50,000		10,50,000

Partners of firm decided to dissolve the firm. The firm decided to settle the loan creditors directly.

Ram took over goodwill for ₹75,000. Rahim took over machinery and furniture at 90% of book value and sundry creditors at book value.

Robert took over stock at 95% of book value and debtors at 90% of the book value. Partners have to pay cash if the assets taken over had exceeded the amounts due to them.

Prepare only Realisation Account.

(b) Department A sells goods to Department B at a profit of 25% on cost and to department C at 10% profit on cost. Department B sells goods to Department A and Department C at a profit of 15% and 20% on sales respectively. Dept. C charges 20% and 25% profit on cost and department A and department b respectively.

Department managers are entitled to commission on net profit subject to unrealized profit on departmental sales being eliminated before department profit after charging managers commission not before adjustments of unrealized profits are: Dept. A ₹72,000; Dept. B ₹ 4,000; and Dept. C ₹36,000. Stock lying at different departments at the end of the year is:

Particulars	Department A (₹)	Department B (₹)	Department C (₹)
Transfer from Department A	—	30,000	22,000
Transfer from Department B	28,000	—	24,000
Transfer from Department C	12,000	10,000	—

Find out the correct departmental profit after charging manager's commission.

[5+5]

Question 4.

The hire purchases department of Zapak Ltd provides you the following information for the year ending on 30th September, 2012:

Purchase cost per unit ₹3,000
Cash sales price per unit ₹4,000
Cash down payment per unit ₹400
Monthly payment per unit ₹350
Number of installments per unit 12
Number of units sold on hire purchase basis 120
Number of installments collected 420
Number of installments due but not yet collected 58
Required : Calculate the following :

(a) Number of installments fallen due during the year, (b) Number of installments not yet due on30.9.2012, (c) Amount of installment not yet due, (d) Amount of installment due but not yet collected,(e) Amount fallen due during the year, (f) Cash collected during the year, (g) Hire Purchase price per unit, (h) Total hire purchase price of units sold, (i) Total cost price of units sold on hire purchase, (j)% of profit margin on H.P. Sales, (k) Profit included in total hire purchases price, (l) Profit included in the amount of installments not yet due, (m) Gross Profit.

Also Prepare Hire Purchase Stock Account, Hire Purchases Debtors Account and Hire Purchase Adjustment Account.

[10]

Section C : Control of Accounting Systems

Question 5.

The balance on the Sales Ledger Control Account of X & Co. on Sept. 3, 2012 amounted to ₹7,600 which did not agree with the net total of the list of Sales Ledger Balance on that date.

Errors were found and the appropriate adjustments when made balanced the books. The errors were:

(a) Debit balance in the sales ledger amounting to ₹206 had been omitted from the list of balances.

(b) A Bad Debt amounting to ₹800 had been written-off in the sales ledger, but had not been posted to the Bad Debts Account, or entered in the Control Account.

(c) An item of goods sold to S. for ₹500 had been entered once in the Day Book but posted to his account twice.

(d) ₹50 Discount Allowed to W had been correctly recorded and posted in the books. This sum had been subsequently disallowed, debited to W's account, and entered in the discount received column of the Cash Book.

(e) No entry had been made in the Control Account in respect of the transfer of a debit of ₹140 from Q's Account in the Sales Ledger to his account in the Purchase Ledger.

(f) The Discount Allowed column in the Cash Book had been undercast by ₹280.

You are required to give the journal entries, where necessary, to rectify these errors, indicating whether or not any control accounts is affected, and to make necessary adjustments in the Sales Ledger Control Account bringing down the balance.

[10]

Section D : Accounting in Service Sector

Question 6.

(a) On 31.12.2011, Viswakarma Construction Company Ltd. undertook a contract to construct a building for ₹85 lakhs. On 31.03.2012, the company found that it had already spent ₹64,99,000 on the construction. Prudent estimate of the additional cost for completion was ₹32,01,000.
What is the additional provision for foreseeable loss which must be made in the final accounts for the year ended 31.03.12 as per provisions AS 7 on "Accounting for construction contract"?

(b) Arjun Ltd. sold farm equipment through its dealer. One of the conditions at the time of sale is payment of consideration in 14 days and, in the event of delay, interest is chargeable @ 15% p.a. The company has not realized interest from the dealers in the past. However, for the year ended 31.03.2012, it wants to recognized interest due on the balances due from dealers. The account is ascertained at ₹9 lakhs.
Decide whether the income by way of interest from dealers is eligible for recognition as per AS 9.

[5+5]

Section E : Accounting for Special Transaction

Question 7.

(a) Sunil owed Anil ₹80,000. Anil draws a bill on Sunil for that amount for 3 months on 1st April 2012. Sunil accepts it and returns it to Anil. On 15th April 2012, Anil discounts it with Citi Bank at a discount of 12% p.a. On the due date the bill was dishonoured, the bank paid noting charges of ₹100. Anil settles the bank's claim along with noting charges in cash. Sunil accepted another bill for 3 months for the amount due plus interest of ₹3,000 on 1st July 2012. Before the new bill became due, Sunil retires the bill with a rebate of ₹500. Show journal entries in books of Anil.

(b) On 1.7.2012, Mantu of Chennai consigned goods of the value of ₹50,000 to Pandey of Patna. This was made by adding 25% on cost. Mantu paid that on ₹2,500 for freight and ₹1,500 for insurance.
During transit 1/10th of the goods were totally destroyed by fire and a sum of ₹2,400 was realised from the insurance company. On arrival of the goods, Pandey paid ₹1,800 as carriage to godown. During the year ended 30th June 2013, Pandey paid ₹3,600 for godown rent and ₹1,900 for selling expenses. 1/9th of the remaining goods were again destroyed by fire in godown and nothing was recorded from the insurance company. On 1.6.2013, Pandey sold half (1/2) the original goods for ₹30,000 and changed a commission of 5% on sales as on 30.6.2013, Pandey sent a bank draft to Mantu for the amount so far due from him.
You are required to prepare Consignment to Patna Account in the books of Mantu of Chennai for the year ended 30.6.2013.

[5+5]

Question 8.

(a) John and Smith entered into a joint venture business to buy and sale garments to share profits or losses in the ratio of 5:3. John supplied 400 bales of shirting at ₹500 each and also paid ₹18,000 as carriage & insurance. Smith supplied 500 bales of suiting at ₹480 each and paid ₹22,000 as advertisement & carriage. John paid ₹50,000 as advance to Smith. John sold 500 bales of suiting at ₹600 each for cash and also all 400 bales of shirting at ₹650 each for cash. John is entitles for commission of 2.5% on total sales plus an allowance of ₹2,000 for looking after business. The joint venture was closed and the claims were settled.

Prepare Joint Venture A/c and Smith's A/c in the books of John and John's A/c in the books of Smith.

(b) S Ltd. sells goods on Sale or Return basis. Customers having the choice of returning the goods within 9 months. During April 2012, the following are the details of the goods sent.

Date	Customers	Value (₹)	Proforma Invoice No.
02.04.2012	G	20,000	002
04.04.2012	H	36,000	005
16.04.2012	I	50,000	017
20.04.2012	J	16,000	020
24.04.2012	K	42,000	031
28.04.2012	L	60,000	060

Within the stipulated time G and I returned the goods while H, J and K informed that they have accepted the goods. Show the following accounts in the books of the firm.
Sale on Approval Account and Customers for Sale on Approval Account as on 15th May 2012.

[5+5]

Section F : Accounting for Banking , Electricity and Insurance Company

Question 9.

(a) Write short note on Rebate on Bill Discount.

(b) While closing the books of AB Bank Ltd. on 31st March, 2012, you find in the loan ledger an unsecured balance of ₹1 lakh in the account of Mr. X, whose financial condition is reported to you as bad and doubtful. Interest accrued on that account is ₹10,000. On 1st July, 2012 the bank accepted a dividend of @ 75 paise in rupee in full settlement of amount due upto 31st March, 2012. You are required to pass necessary Journal Entries and prepare necessary Ledger Account.

(c) Briefly describe Net Revenue Account, maintained by Electricity Companies.

[4+3+3]

Question 10.

(a) The BESC Limited decided to replace one of its old plants by an improved plant. This plant was built in 1946 for ₹67,50,000. To 'build a new plant of the same size and capacity it would now cost ₹1,00,00,000. The cost of the new plant with larger capacity was ₹2,12,50,000 and in addition, materials of the old plant valued at ₹6,87,500 were used in the construction of the new plant. The balance of the old plant was sold for ₹3,75,000.
You are required to calculate the amount to be charged to Revenue Account and the amount to be capitalized. Also show the Plant Account and the Replacement Account.

(b) What types of books required to be maintained by Insurance Companies?

[4+6]

Paper 6 (Laws, Ethics and Governance)
Test Paper—I/6/LEG/2012/T-1
Section A
Answer Question 1 and any four from the rest.

Question 1

Comment on the following based on legal provisions: **[20x 1 = 20]**

(i) Proposal +Acceptance +Enforceable by Law=Contract.

(ii) Minor under Contract Act is always beneficiary.

(iii) There is presumption of undue influence in husband wife relationship.

(iv) There is no difference between void and illegal agreements.

(v) 'A' applies to a banker for a loan at a time where there is stringency in the money market. The banker declines to make the loan except at an unusually high rate of interest. A accepts the loan on these terms. Whether the contract is induced by undue influence? Decide.

(vi) Risks follows ownership.

(vii) A places an order with D for supply of tomato sauce of a particular brand. D supplies tomato sauce of a different brand. A rejects the lot. D redelivers the ordered lot with correct specifications. But A refuses to accept the same and cancels the order.

(viii) X obtains possession of a motorcycle under hire-purchase agreement. He then sells the same to Y who purchased the same in good faith and for value . Meanwhile X defaults in paying the hire charges and the owner wants his motorcycle back. Y pleads ignorance of the defective title.

(ix) Define 'goods' under Sale of Goods Act,1930**.**

(x) Factories employing women workers should maintain crèches.

(xi) X met with an accident while returning from work. He was travelling by bus provided by his employer. He filed a civil suit against the employer for claim of compensation under the Employees' Compensation Act, 1923.

(xii) 'A' joined FL Engineering Works (P) Ltd. on 5.3.2012. On 8th December, 2012 he was laid off as the management wanted to slow down due to shortage of power. 'A' was not allowed lay-off compensation on the ground that his period of service was less than one year. Can he claim compensation under the Industrial Disputes Act, 1947?

(xiii) P, a major, and Q, a minor, executed a promissory note in favour of R. Examine with reference to the provisions of the Negotiable Instruments Act, the validity of the promissory note and whether it is binding on P and Q.

(xiv)Who is a 'holder' under Negotiable Instrument Act, 1881?

(xv) What is money laundering?

(xvi) On whom does the burden of proof vest under the PMLA, 2002?

(xvii) Is it possible for the partners in a firm having majority to expel a partner under the provisions of the Indian Partnership Act, 1932?

(xviii) A minor may be admitted in the business of a partnership firm. State your views.

(xix)The Limited Liability Partnership was enacted in 2009.

(xx)Companies cannot form LLPs.

Question 2
(i) What is the status of a "finder of goods" under the Indian Contract Act, 1872? What are his rights?
(ii) Explain the general rules of relating to "Acceptance" under the Indian Contract Act, 1872. **[3+3+4=10]**
Question 3

(i) What are the consequences of "destruction of goods" under the Sale of Goods Act, 1930, where the goods have been destroyed after the agreement to sell but before the sale is affected.
(ii) What do you understand by "Caveat-Emptor" under the Sale of Goods Act, 1930? **[5+5=10]**
Question 4

(i) Minimum wage rate may vary. Comment.
(ii) When is a person allowed Gratuity even before completing 5 years of employment?
(iii) K earns a salary Rs.9000/- per month. Bonus declared by the establishment is 12% of salary. Bonus received by K is Rs. 5040. Justify.
(iv) ABC (P) Ltd. imposed a fine on D, one of its employees for regularly reporting late for work. The fine was imposed on 4th April, 2012. The management wanted to recover the amount in September, 2012 during half yearly increment. State your views.
(v) Where should one file complaint under the Child Labour (Prohibition and Regulation) Act, 1986? **[5 x 2=10]**

Question 5
(i) Distinguish between inland and foreign bills.
(ii) State briefly the rules laid down under the Negotiable Instruments Act for determining the date of maturity of a bill of exchange**.** **[5+5=10]**

Question 6
(i) What do you understand by "Implied Authority" of a partner?
(ii)Compare and contrast LLP and a Partnership firm. **[5+5=10]**

Question 7
(i) What tests can be applied in determining whether a person is an agent of another?
ii) In what ways does a "Sale" differ from "Hire-Purchase"? **[5+5=10]**

Question 8
(i) Comment on the following statement with reference to the provisions Negotiable Instruments Act. 1881: "Once a bearer instrument always a bearer instrument."
(ii)Answer the following questions:
(a) Who is an insurable employee under the ESI Act, 1948?
(b) 'B' joined ADC (P) Ltd. on 6.3.2012. The employer said that he will have to wait for one year to be a member of EPF till he becomes permanent. Comment. **[5 + (2+3) =10]**

Section B

Answer Question 9 and any two from the rest.

Question 9

(i)What do you understand by the term' body corporate'?
(ii)What is meant by 'promotion' in relation to Companies Act, 1956?
(iii) When is an Allotment of Shares treated as an irregular allotment?
(iv) State any two ways to become a member of a company.
(v) What do you under by 'competent authority' under the Right to Information Act, 2005?
(vi) In which section do you find definitions under the RTI Act, 2005?
(vii)What led the Indian Government to introduce a programme of reforms in early 1990's?

(viii)Sarbanes-Oxley Act (2002) is associated with which country? **[1 x 8 =8]**

Question 10

(i)' A company is a person distinct from its members.' Explain.

(ii) Comment on the applicability of the Right to Information Act, 2005. **[3+3=6]**

Question 11

(i) Explain the provisions of the Companies Act, 1956 relating to establishment of an "Investors Education and Protection Fund."

(ii) Discuss the relationship between Corporate Governance and Internal Audit. **[3+3=6]**

Question 12

(i) The Board of Directors of M/s ABC Ltd. propose to pay interim dividend of Rs.2 per equity share of Rs. 10 each. Advise the Board regarding:

(a) The time limit for payment of interim dividend to the shareholders, and

(b) Steps to be taken in case any dividend amount remains unpaid in the books of the company.

(ii) State key characteristics influencing Indian Corporate Governance. **[4+2=6]**

Section C

Answer Question 13 and any one from the rest.

Question No. 13

(i)State the need for business ethics.

(ii)Discuss the terms 'ethics' and moral. Are they same?

(iii)What do you understand by 'ethical conflict'?

(iv) How will you create ethical accounting environment? **[3x4=12]**

Question No. 14

Finance Ethics: Do Small Errors need to be Reported?

X is a fresh qualified CMA who has just started his first job in the finance department of a major publicly traded Silicon Valley company. One of his main responsibilities is to create and distribute extensive Excel reports that analyze costs and revenues for different divisions. While X considers himself to be detailed-oriented, the complicated nature of the reports and the sheer volume of data he has to process can sometimes be a little overwhelming.

Each of these reports has a strict deadline, and once X is finished he sends them to his direct supervisor and the CFO. The CFO then uses the information while planning economic strategies and forecasting for the company. The CFO often references the data in the reports during critical meetings.

While X works hard to prepare the reports to the best of his ability, he often finds errors after he has already sent them off. When the errors are critical, he revises the reports and resends them. However, some of the errors are much less important, and X doubts that the CFO will use or look at those figures. X worries that if he sends out an updated report for every mistake he catches and revises, he will look like he's not doing his job properly. He feels stuck between ensuring maximum quality of his work and meeting deadlines.

He really wants to move up in the company, and he is afraid that if he has to send out too many updates, he won't be trusted as reliable. On the other hand, he doesn't want to send out incorrect information, especially when the CFO could be using it to make critical decisions. Because he's only in his second year at the company, X does not have a comprehensive understanding of the implications of inaccurate information.

Question: What should X do when he catches a mistake? Especially since he works for a publicly traded company, is he obligated to report every error?

Question No. 15

Uncomfortable Attention from a Supervisor

A has been recently hired full time at the major tech company where she interned for two summers during her college career. X loves her job and has established many strong relationships with her co-workers over the time she has worked there. The company encourages the interns and new hires to interact with seniors and upper management in order to create an open and friendly atmosphere.

During her time as an intern, A began to notice that one of the seniors s paid her extra attention. When he was around he would always make an extra effort to stop by A's cubicle and chat, something he did not do with any of the other interns. He reached out to her over social networking sites and even invited her to a gathering at his house. Some of her co-workers began to make offhand comments to A about the extra attention.

Now that she was in a full time position, A began to dread that she would soon have to work with this senior directly more frequently. While he has not done or said anything explicitly inappropriate, the extra attention (and the fact that her co-workers noticed it) made her very uncomfortable and impeded her work. When she was hired, she was told that she should always speak to her manager if she was uncomfortable or had issues with the work environment. However, she is afraid to come across like a tattle-tale, since the senior hasn't explicitly done anything wrong.

Question:

What course of action should A take?

Paper 6 (Laws, Ethics and Governance)

Test Paper—I/6/LEG/2012/T-2
Section A

Answer Question 1 and any four from the rest.

Question 1

Comment on the following based on legal provisions: **[1x 20 = 20]**

(i)D appoints his brother C who is 16 years 7months as his agent.

(ii) 'X' stands surety for 'Y' for any amount which 'Z' may lend to Y from time to time during the next three months subject to a maximum of Rs.150,000. One month later X revokes the guarantee, when Z had lent to Y Rs.15,000. Referring to the provisions of the Indian Contract Act, 1872 decide whether 'X' is discharged from all the liabilities to 'Z' for any subsequent loan. What would be your answer in case 'Y' makes a default in paying back to 'Z' the money already borrowed i.e. Rs.15,000?

(iii) Explain the concept of 'misrepresentation' in matters of contract.
(iv) C delivered furniture items to AB Transport Co. for transporting the goods from Asansol to Kolkata. On the way the truck carrying the items met with an accident due to rash driving on part of the driver and the goods got damaged. C sued the owner of the Co. for the loss.

(v) A promises to cure B terminal illness by magic . B promises to reward A by paying Rs 10000. Decide on the nature of agreement.

(vi) What are the implied conditions in a contract of 'Sale by sample' under the Sale of Goods Act, 1930?
vii) 'A stipulation may be a condition though called warranty in a contract.' Justify.

(viii)Explain the term 'seller's lien' under the Sale of Goods Act, 1930 .

(ix)Performance of contract under the Sale of Goods Act, 1930 involves two aspects. Name them.

(x)State 'price' under a CIF contract.

(xi) X is owner of a cotton mill. The mill has certain persons on contract basis in putting the ginned cotton into *bojhas* . These persons are employed not by X but by merchants who owned the cotton. Their names do not appear in attendance register of the mill. Whether these persons can claim to be worker of the mill as per the Factories Act, 1948 ?
(xii) As per the Industrial Disputes Act, 1947, the Charitable Institutions are not industry.
(xiii) X , had undertaken a piece of work in course of his ordinary business. He sub- contracted a part of his work to Y who in turn sub-contracted a part to Z. F, an employee of Z got killed in an accident while working at a machine. The widow of F applied to the Commissioner for an order on X under the Employees' Compensation Act, 1923 to deposit the amount of compensation for the death of her husband.
(xiv) Ascertain the date of maturity of a bill payable hundred days after sight and which is presented for sight on 4th May, 2013.

(xv)What do you under by 'noting' under the Negotiable Instrument Act, 1881.
(xvi) What is 'KYC' norm?
(xvii) Explain 'designated partners' under the Limited Liability Partnership Act, 2008.
(xviii)What is the duration of 'partnership at will'?
(xix)Under which circumstances a firm is compulsorily dissoluted?
(xx)Define 'authorised person' under the PMLA Act 2002?

Question 2

(i) What do you understand by "Agency by Ratification"? What is the effect of ratification?

(ii) State the grounds upon which a contract may be discharged under the provisions of Indian Contract Act, 1872? **[5+5=10]**

Question 3

(i)State the difference between 'contract of sale' and 'contract of bailment'?

(ii) Distinguish between a 'Condition' and a 'Warranty' in a contract of sale. When shall a 'breach of condition' be treated as 'breach of warranty' under the provisions of the Sale of Goods Act, 1930? Explain. **[5+5=10]**

Question 4

(i) The Minimum Wages Act, 1948 prescribes payment of wages in cash only. Comment.

(ii) The balance to the credit of Provident Fund Account of an employee is attachable by the decree of a Court as per Employees' Provident Funds and Miscellaneous Provisions Act, 1952. State your views.

(iii) Bonus payment under the Payment of Bonus Act,1965 may be linked to production or productivity. Do you agree?

(iv) Gratuity can be withheld by the employer non-vacation of official quarter by the employee under the Payment of Gratuity Act, 1972.

(v) On whom does the responsibility for payment of wages lie under the Payment of Wages Act,1936? **[2x5=10]**

Question 5

(i) Mr. C obtains fraudulently from K a cheque crossed 'Not Negotiable. He later transfers the cheque to P, who gets the cheque encashed from ADC Bank, which is not the Drawee Bank. J, comes to know about the fraudulent act of C, sues ADC Bank for the recovery of money. Examine with reference to the relevant provisions of the Negotiable Instruments Act, 1881, whether K will be successful in his claim. Would your answer be still the same in case C does not transfer the cheque and gets the cheque encashed from ADC Bank himself?

(ii) Explain clearly the meaning of the term 'Promissory' Note as provided in the Negotiable Instruments Act, 1881.In what way does a 'Promissory Note' differ from a 'Bill of Exchange'? **[5+5=10]**

Question 6

(i) "Mere sharing in the profits of a business is not a conclusive proof of existence of partnership."- State your views.

(ii) What are the liabilities of designated partners under the LLP Act, 2008**?** **[5+5=10]**

Question 7

(i) Explain the concept of 'special courts' under the PMLA 2002?

(ii) B buys goods from A on payment but leaves the goods in the possession of A. A then pledges the goods to C who has no notice of the sale to B. State whether the pledge is valid and whether C can enforce it. Decide with reference to the provisions of the Sale of Goods Act, 1930. **[5+5=10]**

Question 8

(i) State the objectives of the Child Labor (Prohibition & Regulation) Act,1986.

(ii)What is the difference between a 'holder' and' holder in due course' under the Negotiable Instrument Act 1881? **[5+5=10]**

Section B

Answer Question 9 and any two from the rest.

Question 9

(i)What do you understand by the term 'incorporation' of a company?

(ii)Mention the purpose of situation clause under Memorandum of Association of a Company.

(iii)Who is a Director of a company?

(iv) What is the ceiling of number of Directorships?

(v)Who is eligible to right to information under the RTI Act, 2005?

(vi) What is the constitution of State Information Commission?

(vii)With which country do we relate 'Cadbury Report' (1992)?

(viii)What is predominant business ownership structure in Japan known as? **[1 x 8 =8]**

Question 10

(i) Explain the position of a minor as director of a company under the Companies Act, 1956?
(ii) What is 'Right to Information 'under the RTI Act, 2005**?** **[3+3=6]**

Question 11

(i) State the qualifications a director should possess?
(ii) Explain the basic features of Corporate Governance in UK. **[3+3=6]**

Question 12

(i) Explain the circumstances in which a company can alter its 'Objects' as slated in the Memorandum of Association.
(ii) State the legal frame work of Corporate Governance in India**.** **[3+3=6]**

Section C

Answer Question 13 and any one from the rest.

Question 13

(i)What do you understand by the term Business Ethics?

(ii) Write short not on 'evolution ' of Ethics.

(iii) State the interface of Law and Ethics.

(iv)Write the reasons for unethical behavior**.** **[3x4=12]**

Question 14

A Job Search Dilemma

Y, a second-semester senior, is looking for a job. Anxious about finding work in the worst economy in decades, he sends out scores of resumes for a wide variety of positions. The first call he gets is for a position that doesn't really interest him, but he figures he should be open to every opportunity. He schedules an interview, which he aces. In fact, the recruiter offers Y the job on the spot. He would like Y to start as soon as possible. –

Question: Should Y accept the offer? If he does, can he continue to pursue other jobs actively? [8]

Question 15

You are the senior finance manager of XYZ Ltd, a large Indian subsidiary of an internationally based financial services organisation, which has grown substantially in recent years. You have been in the role for 5 years and believe that there is a very real chance that you might be in line for promotion to the group finance director position within the next couple of years, as long as you play your cards right. You believe that such a promotion is merited. You have committed yourself to the organisation and your work-life balance is heavily weighted towards the former. Your work is your life, at least at the moment.

The group, has had a bad couple of years worldwide, partly to do with the economic downturn in most areas, but also to do with poor management in some key areas of operations (but not in the India). In response to these poor results, the US parent had insisted on 5% cost cutting efficiencies in the current year in all subsidiaries: for you in the Indian subsidiary, this was a very tough target and you have just about achieved it, but at the cost of a dispirited workforce and a range of economies which could not be sustained in the long term. The need to ensure that the company satisfies all of its regulatory requirements is a major issue and these cuts have left your organisation vulnerable.

At a recent video conference, Mr. Y, the American Group FD, informed you that all subsidiaries must achieve a further 10% efficiency saving in the subsequent year (for which you are currently preparing the budgets), but that all operational and sales targets must still be met. This news is greeted with a degree of incredulity by you and your colleagues but it is made very clear that this is not negotiable.

You know that this is going to be almost impossible to achieve in practice and so, the next day, you call Mr. Y and share these views with him. He tells you in no uncertain terms that your views are unhelpful and that if you are not prepared to implement these cuts then someone else will be found who can. You point out that the cuts will severely impact on the business's ability to satisfy its legal and regulatory responsibilities:

By the end of the call it is crystal clear: either cuts will be made or you will be fired.

Question: You come to the same conclusion that this does not appear possible unless the company is willing to live with the significant risk that it will not comply with the regulatory requirements. What would you do? [8]

Paper 6 (Laws, Ethics and Governance)

Test Paper—I/6/LEG/2012/T-3
Section A

Answer question 1 and any four from the rest.

Question 1

Comment on the following based on legal provisions : **[1x20=20]**

(i) A offered to sell his car to B for Rs. 20000/-. B replied that he can accept for only Rs. 17000/-.A rejected B's counter offer to buy for Rs.20000/-.B later changed his mind and was ready to buy the car for Rs.20000/- . Is A bound to sell the car?

(ii) S delivered his car to M for repairs. M completed the work, but did not return the car to S within reasonable time, though S repeatedly reminded M for the return of car. In the meantime a big fire occurred in the neighborhood and the car was destroyed. Decide whether M can be held liable under the provisions of the Indian Contract Act, 1872.

(iii) Mr. A of Delhi engaged Mr. S as his agent to buy a house in West Extension area. Mr. Singh bought a house for Rs.30 lacs in the name of a nominee and then purchased it himself for Rs.34 lacs. He then sold the same house to Mr. A for Rs.36 lacs. Mr. A later comes to know the mischief of Mr. S and tries to recover the excess amount paid to Mr. S. Is he entitled to recover any amount from Mr. S ? If so, how much? Explain.

(iv)State an occasion when silence is equivalent to speech.

(v)What do you understand by the term 'past consideration'?

(vi) With a view to boost the sales HM Automobiles sells a motorcar to Mr. X on trial basis for a period of three days with a condition that if Mr. X is not satisfied with the performance of the car, he can return back the car. However, the car was destroyed in a fire accident at the place of Mr. X before the expiry of three days. Decide whether Mr. X is liable for the loss suffered.

(vii) A contracts to sell B, by showing sample, certain quantity of sunflower oil described as 'foreign refined sunflower oil'. The oil when delivered matches with the sample, but is not foreign refined sunflower oil. Referring to the provisions of Sale of Goods Act, 1930 advise the remedy, if any, available to B.

(viii)Give an example of an absolute contract of sale under the Sale of Goods Act, 1930.

(ix)State the broad classification of the term 'goods'.

(x)State two persons who can effect sale as non-owners.

(xi) It is illegal to pay Gratuity in excess of the limits prescribed in the Payment of Gratuity Act, 1972.

(xii) The payment of contribution to provident fund of an employee, to be made by his employer, who has become insolvent, a preferential payment as per the provisions of the Employees Provident fund and Miscellaneous Provisions Act, 1952. State your views.

(xiii) Daily working hours in a factory cannot be more than 8 hours on any day considering ceiling of 48 working hours in a week as per the Factories Act 1948. State your views.

(xiv) What is the immunity granted to Banking Companies under the PMLA, 2002?

(xv) Promissory note dated 1st February, 2013 payable two months after date was presented to the maker for payment 10 days after maturity. What is the date of Maturity?

(xvi)Name the type of Negotiable Instrument that requires notice of dishonour.

(xv)What is qualified acceptance of a bill?

(xvi)State any one case where there is sharing of profit but partnership relation does not exist.

(xv)Registration of firm is not necessary. State any one consequence of non registration of firm.

(xvi)State the minimum number of partners required to form LLP.

(xvii)State any one effect of registration of LLP.

(xviii)Who is a 'puffer' in an auction sale?

(xix)What is the extent of liability of a surety?

(xx)With which type of Negotiable Instrument the term 'crossing' is used?

Question 2

(i)Distinguish between offer and invitation of offer with example.

(ii) What is meant by Anticipatory Breach of Contract? **[5+5=10]**

Question 3

(i) "Nemo Dat Quod Non Habet" – "None can give or transfer goods what he does not himself own."
Explain the rule and state the cases in which the rule does not apply under the provisions of the Sale of Goods Act, 1930.

(ii)Discuss the different modes of 'delivery' of goods under the Sale of Goods Act, 1930. **[5+5=10]**

Question 4

(i) An individual dispute is not an industrial dispute under the Industrial Disputes Act, 1947.Comment.

(ii) W, a heart patient worked for four hours in a factory premises. He profusely sweated during the recess and died of heart failure which resulted on account of severe stress and strain inside the factory premises. Is the employer liable to pay compensation under the Employees Compensation Act, 1923?

(iii) C failed to give details of travelling expenses on account of tour inspite of several reminders. His company deducted the amount of tour advance from C's salary after expiry of 3 months. Is the company justified under the Payment of Wages Act, 1936?

(iv) X is engaged in two types of job in a factory, that of a mechanic and watchman. The wage rates are different for two different jobs. The employer calculates his minimum wage at an average rate**.** Comment.

(v) What is the function of 'The Child Labour Technical Advisory Committee'? **[2x5=10]**

Question 5

(i) Whether a minor may be admitted in the business of a partnership firm? Explain the rights of a minor in the partnership firm.

ii) What are the prerequisites of registering a LLP Firm? **[5+5=10]**

Question 6

(i) In what way 'Discharge of a party' to a negotiable instrument differ from the 'Discharge of instrument'.

(ii) State the privileges of a 'Holder in due course'. **[5+5=10]**

Question 7

(i) Distinguish between Contract of Indemnity and Contract of Guarantee.

(ii) State the obligation of banking companies under the PMLA, 2002? **[5+5=10]**

Question 8

(i) WX is working as a marketing personnel in a company. The following payments were made to him by the company during the previous financial year –

(a) overtime allowance,
(b) dearness allowance
(c) commission on sales
(d) employer's contribution towards pension fund
(e) value of food.

Which items will be included for calculation of Bonus?
(ii)State the rights of buyer under the Sale of Goods Act, 1930. **[(1x5)+5=10]**

Section B

Answer Question 9 and any two from the rest.

Question 9

(i)State on restriction which is imposed on private limited company but not public limited company.

(ii)State any one significance of Prospectus.

(iii)List the types of liabilities of Directors of a company.

(iv)What is the quorum for a Board Meeting of a company?

(v)Specify one type of organization to which RTI Act, 2005 doesnot applies.

(vi)What is meant by 'third party' under RTI Act, 2005?

(vii)Write in one sentence the stakeholders in corporate governance.

(viii)The Combined Code (1998) drew together recommendation from which reports? **[1x8=8]**

Question 10

(i) Who is a Managing Director under the Companies Act, 1956?

(ii)Under the Right to Information Act, 2005 competent authority means authority competent to seek information. Comment. **[3+3=6]**

Question 11

(i) Explain the term 'minimum subscription'?

(ii) Discuss the evolution of corporate governance in India. **[3+3=6]**

Question 12

(i) State the remedies available against a company to a subscriber for allotment of shares on the faith of a misleading prospectus.

(ii) Discuss Japanese approach towards Corporate Governance. **[3+3=6]**

Section C

Answer Question 13 and any one from the rest.

Question 13

(i)Discuss the elements of Ethics.

(ii)What to you understand by 'application' of ethics.

(iii) What are the fundamental principles of Ethical Behaviour for Finance Professionals?

(iv)What are the threats to ethical behavior? **[3x4=12]**

Question 14

You are a management accountant working for a privately owned manufacturing company.

While the finance director is on leave, you are in charge of the finances. The managing director has a director's loan account and has asked you to make transactions on it, some of which are prior to the year end.

He has said this has been agreed by the other directors. You do not feel comfortable authorizing this and also feel that it will not reflect well on your year end.

Question: What would you do in such situation. **[8]**

Question 15

You lead a finance team in a company with a significant government contract, providing goods/services on an open book, cost-plus basis.

You've been asked to reduce the figures for internal reporting by 15 per cent so that the costs don't look so high for the group, while showing the client the original figures.

Although you realise that you are not actually taking more money from your client, and that management wants to give the impression of lower costs to the group, neither yourself nor your team are happy about doing this and you have raised this in writing with management and also informed HR.

Question: HR have now called a formal meeting. Do you now feel you are overreacting? **[8]**

Paper 6 (Laws, Ethics and Governance)

Test Paper—I/6/LEG/2012/T-4

Section A

Answer question 1 and any four from the rest.

Question 1

Comment on the following based on legal provisions: **[1x20= 20]**

(i) As per Section 10 of the Contract Act 'consideration 'is an important element for a contract to be valid. Hence all contracts without consideration are void.

(ii) An offer must be communicated to the acceptor.

(iii) D owes F Rs. 50,000/- only guaranteed by S. The debt becomes payable on 26th December 2012. F does not sue D for a year after the debt has become payable. S is discharged from his surety ship.

(iv) G started "self service" system in his shop. P entered the shop, took a basket and after taking articles of his choice into the basket reached the cashier for payments. The cashier refuses to accept the price. Can G be compelled to sell the said articles to P?

(v)A was given money to divorce her husband B and marry lender of money C. Examine the validity of the agreement.

(vi) G has bought 20 kgs of foodstuff against cash payment from N under a contract of sale. But half the consignment is rotten and N is refusing to refund the money.

(vii) Risk is transferred only on delivery.

(viii) No one can give a better title than he himself has. State the exceptions to the rule under the Sale of Goods Act, 1930.

(ix) X buys goods from Y on payment but leaves the goods in the possession of X. X then pledges the goods to Z who has no notice of the sale to Y. State whether the pledge is valid and whether Z can enforce it as per provisions of the Sale of Goods Act, 1930.

(x)Is 'money' considered goods under the Sale of Goods Act, 1930?

(xi) Who is a 'occupier' under the Factories Act, 1948 ?

(xii) Differentiate between lay off and retrenchment under Industrial Dispute Act , 1947

(xiii) How do you define 'disablement' under the Workmen's Compensation Act, 1923?

(xiv)How does Sec 13 of the NI Act , 1881 define a negotiable instrument?

(xv)"Mr. C, IOU Rs 1000'. Examine whether this is a promissory note.

(xvi)Name a type of Negotiable Instrument that does not require acceptance.

(xvii)Who is a working partner?

(xviii)State one ground for dissolution of partnership?

(xix)When does a partner of LLP incur unlimited liability?

(xx)On whom does burden of proof lies under the PMLA , 2002?

Question 2

(i) “An agreement made without consideration is void.” With reference to provisions of the Indian Contract Act, 1872 examine the validity of the statement and explain the cases in which the statement does not apply.

(ii) Point out the distinction between ‘Coercion’ and ‘Undue influence’. **[5+5=10]**

Question 3

(i)State the position of buyer in case of delivery of goods in wrong quantity.

(ii)State the rules regarding an auction sale. **[5+5=10]**

Question 4

(i) What is a ‘Sans Recourse’ endorsement?

ii) When is an alteration of an instrument treated as a material alteration under the Negotiable Instruments Act, 1881? What is the effect of such an alteration? **[5+5=10]**

Question 5

(i) Normal wages of X along with his colleagues were reduced by his employer for a particular day in a month. The reason provided by management was that as they had worked for less than normal working hours on account of power failure, their wages have been proportionately reduced. Explain the rule in this context as per the Minimum Wages Act,1948.

(ii) The employer of TGH Ltd made certain alteration in wage structure as a result of which certain allowances were discontinued. However the total salary of an employee remained unchanged. Will an application under Sec 15(2) of the Payment of Wages Act, 1936 lie for this?

(iii) Explain the provisions of Employees' Provident Funds and Miscellaneous Provisions Act, 1952 with regard to determination of 'Escaped Amount' after an officer has passed an order concerning 'Determination of Amount' due from an Employer under the Act.

(iv) Explain the term’ rate of gratuity’ in relation to Payment of Gratuity Act, 1972.

(v) What do you understand by the term’ exempted employee’ under the ESI Act, 1948? **[2 x 5=10]**

Question 6

(i) When is the registration of a Partnership firm deemed to be complete under the Indian Partnership Act, 1932?

(ii) Discuss the extent and limitation of liability of Limited Liability Partnership and Partners. **[5+5=10]**

Question 7

(i) Explain the circumstances where under a party to a contract may be exempted from the performance of contract on the ground of ‘Supervening impossibility’ under the Indian Contract Act, 1872.

(ii) Explain the provisions of the **Payment of Bonus Act, 1965** relating to ‘adjustment of customary bonus against bonus payable under the Act.’ **[5+5=10]**

Question 8

(i) What are the authorities under the PMLA, 2002?

(ii) C, the holder of an overdue bill of exchange drawn by A as surety for B, and accepted by B, contracts with X to give time to B. Is A discharged from his liability ? **[5+5=10]**

Section B

Answer Question 9 and any two from the rest.

Question 9

(i)Name a famous case that emphasized the separate legal entity principle of company.

(ii)List the classification companies on basis of incorporation.

(iii)What does liability clause under memorandum of association state?

(iv)What is the minimum number of directors liable to retire by rotation?

(v)What is the constitution of Central Information Commission?

(vi)Who provides information to public under RTI Act, 2005?

(vii)Define in one line 'e- governance'.

(viii)What is XBRL? **[1x8=8]**

Question 10

(i) What conditions as required under the Companies Act, 1956 must be satisfied by a company for the forfeiture of shares of a member, who has defaulted the payment of calls? What are the consequences of such forfeiture?

(ii) Discuss the salient features of the Combined Code (1998) **[3+3=6]**

Question 11

(i) What do you understand by the term 'minutes' as regards to the Companies Act, 1956?

(ii) PIO under the RTI Act , 2005 rejected X's application because he wanted too many information which PIO found difficult to handle. Explain the provision**.** **[3+3=6]**

Question 12

(i))Enumerate the general duties of the directors under the Companies Act, 1956.

ii) Write short note on Financial Reporting Council. **[3+3=6]**

Section C

Answer Question 13 and any one from the rest.

Question 13

(i) Discuss the seven principles of Public Life.

(ii)Discuss the concept of 'Value-free' ethics.

(iii)Discuss the safeguards to threats against ethical behavior created by Finance Professionals.

(iv) Discuss the Ethics of Management Accountant Professional. **[3x4=12]**

Question 14

You are the financial manager for a listed company. You have worked there for three years and it has been doing well.

One of the directors is also a director at another firm. You have been asked to transfer a large sum of money between the two – unrelated – companies.

Although you have requested further information, as you do not feel comfortable, you have been asked to "sign off" the transfer urgently. You have been verbally told that it is in the business's interest and has the support of the board.

But you do not want to be responsible for approving such a transfer without the appropriate paperwork and feel awkward questioning the director's decision again.

Question: What should you do now? [8]

Question 15

You have just starting working for a Public Limited Company and your colleagues have warned you that your predecessor was asked to inflate the value of products, as well as to overvalue stock, when reporting.

Question: This, you understand, was to benefit the Director's bonus. To date you have not been asked to do anything untoward, but wonder how best you can approach the issue should you be put in this position. [8]

Paper 7 – Direct Taxation
Test Paper –I/7/ADT/2012/T-1

Full Marks : 100 **Time : 3 hours**

Group A

1. (a) Ms. Kohli, a citizen of India, is an export manager of Arjun Overseas Limited, an Indian Company, since 1-5-2009. She has been regularly going to USA for export promotion. She spent the following days in U.S.A. for the last five years:

Previous year ended	No. of days spent in USA
31-3-2010	319 days
31-3-2011	150 days
31-3-2012	270 days
31-3-2013	310 days
31-3-2014	295 days

Determine her residential status for assessment year 2014-15 assuming that prior to 1-5-2009 she had never travelled abroad. [4]

or

(b) What is the difference between dispersal and diversion of income? [4]

2. (a) Is Agricultural Income from a business of growing rubber, tea and coffee taxable in India? If so, what are the existing rules of classification of agricultural income and business income? [4]

or

(b) X owns a house property which is given on rent. For the previous year 2002-03, he claims a deduction of ₹78,000 on account of unrealized rent, out of which the Assessing Officer allows only ₹62,000 as deduction. What are the tax consequences if X recovers on June 19, 2013 from the defaulting tenant (a) ₹10,000, (b) ₹16,000 or (c) ₹35,000 as full and final payment? [4]

3. (a) Mr. King is getting a salary of ₹5,400 pm since 1.1.12 and dearness allowance of ₹3,500 pm, 50% of which is a part of retirement benefits. He retires on 30th November 2012 after 30 years and 11 months of service. His pension is fixed at ₹ 3,800 pm. On 1st February 2014 he gets 3/4ths of the pension commuted at ₹1,59,000. Compute his gross salary for the previous year 2013-14 in the following cases:

(i) If he is a government employee, getting gratuity of ₹ 1,90,000
(ii) If he is an employee of a private company, getting gratuity of ₹ 1,90,000
(iii) If he is an employee of a private company but gets no gratuity. [4]

or

(b) The assessee took a loan of ₹6,00,000 on 1.4.2006 from a bank for construction of a house property. The Loan carries an interest @ 9.25 %p.a. The construction is completed on 15.6.2010.The entire loan is still outstanding. Compute the interest allowable u/s 24(b). [4]

4. (a) (i) A firm comprising of four partners A, B, C and D carrying on business in partnership, sharing profits/losses equally shows a profit of ₹2,00,000 in its books after deduction of the following amounts for the year :

Particulars	₹
Remuneration to partner 'A' who is not actively engaged in business	60,000
Remuneration to partners 'B' & 'C' actively engaged in business	
Partner 'B'	80,000
Partner 'C'	90,000

Interest to partner 'D' on loan of ₹1,50,000	36,000

The deed of partnership provides for the payment of above remuneration and interest to partners. You are required to work out the taxable income of the firm as well as partners for assessment year 2014-15. [7]

(ii) Vineet had been working with M Ltd., in a tribal area since 1-10-1999. He was entitled to the following emoluments:
(1) Basic salary w.e.f. 1-1-2013 ₹ 6,000 p.m.
(2) Dearness allowance 50% of basic salary (40% of which forms part of salary for retirement benefits)
(3) Medical allowance ₹ 1500 p.m., (entire amount is spent on his own medical treatment).
(4) Entertainment allowance ₹ 400 p.m.
(5) Children education allowance ₹ 80 p.m. per child for three children.
(6) Hostel expenditure allowance ₹ 100 p.m. per child for three children.
(7) Uniform allowance ₹ 250 p.m. (He spends ₹ 1,500 on the purchase and maintenance of uniform)
(8) House rent allowance ₹ 750 per month. He pays ₹ 1,000 per month as rent.
(9) He contributes ₹ 900 per month to a recognised provident fund to which his employer contributes an equal amount.

He resigned from his job on 1.1.2014 and shifted to Delhi. He was entitled to the following benefits at the time of his retirement:
(a) Gratuity ₹ 1,35,000
(b) Pension from 1.1.2014 ₹ 3,000 p.m.
(c) Payment from recognised provident fund ₹ 3,00,000
(d) Encashment of earned leave for 150 days ₹ 36,000

He was entitled to 40 days leave for every completed year of service. He got 50% of his pension commuted in lump sum w.e.f. 1.3.2014 and received ₹ 1,20,000 as commuted pension.
He joined K Ltd. at Mumbai w.e.f 1-2-2014 and was entitled to the following emoluments:
(1) Basic salary ₹ 5,000 p.m.
(2) Dearness allowance (forming part of salary) 20% of basic salary
(3) Rent-free unfurnished accommodation in Delhi which is owned by the employer and whose fair rental value is ₹48,000 p.a.

He was also given the following facilities by the employer:
(a) Motor car (1.4 ltr. engine capacity) with driver, which he uses partly for official and partly for personal purposes.
(b) The monthly expenses incurred by 'A' on gas and electricity were ₹ 500 which were reimbursed by the employer.
(c) Reimbursement of educational expenses of his two children which amounted to ₹ 350 p.m.
(d) On 4.3.2012 his wife fell ill and the employer reimbursed the expenditure of medical treatment amounting to ₹ 17,500.
(e) A watchman, a sweeper, a cook and a gardener have been provided to whom the company pays a salary of ₹ 400 p.m. each.
(f) Loan of ₹ 1,00,000 @ 8% p.a. for construction of his house was given by the company. SBI rate of interest is 7% p.a.

He made the following payments during the previous year:
(1) Professional tax ₹ 500
(2) Premium on Life Insurance Policy of his own, ₹ 1,00,000 amounting to ₹ 15,000.
(3) Deposit in PPF account ₹ 50,000.

Compute his total income and tax liability for the assessment year 2014-15. [15]

or

(b) (i) SK Industries, a diversified group, discloses profit from the following sources for the previous year 2013-2014:

	(₹ in lakhs)
(i) Profits from small-scale unit, started in 2003-2004	6.00
(ii) Profit from industrial undertaking 1998-99, in Vidisha, a B-class industrially backward district.	10.00
(iii) Profit from multiplex theatre, started in 2007-2008	
(a) Delhi	4.00
(b) Allahabad	2.00
(iv) Profits from convention centre, started in 2009-2010	
(a) Delhi	5.00
(b) Allahabad	3.00
(v) Profits from Hill View, a hotel started in 2004-2005 at Manali in Himachal Pradesh. Hotel is approved by prescribed authority	10.00
(vi) Profits from undertakings engaged in refining of mineral oil since 1 January, 2005 in Uttar Pradesh, not listed in backward state in Eighth Schedule.	10.00

Compute the total income for the assessment year 2014-2015. [7]

(ii) Mr. Krishna is a lawyer of Allahabad High Court. He keeps his accounts on cash basis. His Receipts and Payments A/c for the year ending 31-03-2014 is given below :

Receipts and Payments A/c

Dr. **Cr.**

Receipts	₹	**Payments**	₹
Balance b/d	3,820	Purchase of Infrastructure	20,000
Legal fees	3,45,000	Subscription and membership	4,500
Special commission fees	5,500	Purchase of legal books	17,500
Salary from Law College as part time lecture	87,000	Rent	47,500
		Municipal Tax paid on H. P.	3,000
Exam. Remuneration	1,480	Car expenses	44,000
Interest on Bank Deposit	3,500	Office expenses	38,500
Sale proceeds of residential property	3,01,000	Electricity Expense	4,000
		Income tax	8,000
Dividend from Co-operative	1,000	Gift to daughter	12,000
Dividend received from units of UTI	2,000	Domestic expenses	85,000
Rent from house property	15,000	Donation to Institutions Approved u/s 80G	12,000
		Car purchased	3,27,000
		Life Insurance premium	16,000
		Balance c/d	1,26,300
	7,65,300		**7,65,300**

Following information are available:

(1) The Rent and electric expenses are related to a house, of which half portion in used for self residence and remaining half portion in used for office.
(2) Car is used only for professional purposes.
(3) Outstanding legal fees ₹ 10,000.
(4) Rent has been paid for 10 months only.
(5) Car was purchase on 25-09-2013. Law books purchased are annual publications out of which books of ₹2,000 were purchased on 6-4-2013 and balance on 31-10-2013.
(6) The house was purchased in January 1988 for ₹ 50,000 and sold on 1-7-2013.
(7) Rent of the property which has been sold was ₹ 5,000 p.m. The property was vacated by the tenant on 30-6-2013

Compute his Total Income for the assessment year 2014-15. [10]

(iii) Sawant is a fashion designer having lucrative business. His wife is a model. Sawant pays her a monthly salary of ₹20,000. The Assessing Officer, while admitting that the salary is an admissible deduction, in computing the total income of Sawant, had applied the provisions of Sec. 64(1) and had clubbed the income (salary) of his wife in Sawant's hands.
Discuss the correctness of the action of the Assessing Officer. [5]

5. R, S and T Ltd. (a widely held domestic company) are members in an AOP for the Previous Year 2013-2014. They share profit and losses in the ratio 30%, 40% and 30%. Taxable business income of AOP is determined at ₹ 8,00,000. Personal incomes of the partners are given below:

	₹
R - House Property	90,000
S – Short-term Capital Gain	1,00,000

R deposits ₹ 20,000 in CTDS-15-year account in Post Office in February 2014. S purchases NSC VIH-Issue for ₹ 25,000 in December 2013.
Determine the tax liability of the AOP and its partners. [7]

6. (a) D Ltd., a closely-held Indian company, is engaged in the business of manufacture of chemical goods (value of plant and machinery owned by the company is ₹55 lakh). The following information for the financial year 2013-14 are given :

	₹
Domestic Sales	20,00,000
Export Sales	7,00,000
Amount withdrawn from general reserve (reserve was created in 1997-98 by debiting P&L A/c)	2,00,000
Amount withdrawn from revaluation reserve	1,50,000
Total	**35,50,000**
Less : Expenses	
Depreciation (normal)	6,16,000
Depreciation (extra depreciation because of revaluation)	2,70,000
Salary and wages	2,10,000
Wealth tax	10,000
Income-tax	3,50,000

Outstanding customs duty (not paid as yet)	17,500
Proposed dividend	60,000
Consultation fees paid to tax expert	21,000
Other expenses	1,39,000
Net Profit	**13,56,500**

For tax purposes the company wants to claim the following:
—Deduction under section 80-1B (30 per cent of ₹14,56,500).
—Depreciation under section 32 (₹5,36,000)
The company wants to set off the following losses/allowances:

	For tax purposes ₹	For accounting purpose ₹
Brought forward loss of 2005-06	14,80,000	4,00,000
Unabsorbed depreciation	—	70,000

Compute the net income and tax liability of D Ltd. for the assessment year 2014-15 assuming that D Ltd. has a (deemed) long-term capital gain of ₹60,000 under proviso (i) to section 54D(2) which is not credited in Profit and Loss Account. [7]

or

(b) (i) From the following information, determine the tax liability of Z Ltd., domestic company, for the Assessment Year 2013-2014 and 2014-2015.

S. No.	Assessment year	Book-profits (₹)	Total income (₹)
1.	2013-2014	2,80,000	1,30,000
2.	2014-2015	3,00,000	2,00,000

[4]

(ii) A company issued discount coupons to its shareholders which entitled them to purchase the products of the company at a discount. The Assessing Officer is of the opinion that this is to be considered as deemed dividend. Discuss the tenability. [3]

7. (a) A firm made the following payments of advance tax during the Financial Year 2013-14 :

	Figures in ₹ Lakhs
15.09.2013	9.30
15.12.2013	9.0
15.03.2014	13.9
	32.20

The income returned by the firm is ₹100 Lakhs under the head "Business" and ₹10 Lakhs by way of Long-term Capital Gains on sale of a property effected on 1.3.2014 What is the interest payable by the assessee u/s 234B and 234C of the Income Tax Act for Assessment Year 2014-2015? Assume that the return of income was filed on 31.07.2014 and tax was fully made upon self-assessment. [7]

or

(b) Find out the amount of advance tax payable by Mr. Amanat on specified dates under the Income tax Act, 1961 for the Previous Year 2013-14:

	₹
Business income	2,75,000
Long Term Capital Gain on 31-7-2012	1,60,000
Winning from lotteries on 12-9-2012	50,000
Bank interest	10,000
Other income	5,000
Investment in PPF	40,000
Tax deducted at source :	
Case I	48,000
Case II	25,000

[7]

8. Answer any five of the following: [2×5]

(a) Why is tax planning necessary?
(b) When should planning be done?
(c) Has tax planning any effect on the rate of tax?
(d) How to select a location for business?
(e) What is the best investment?
(f) What is the difference between amalgamation in terms of company law and income-tax law?

Group B

9. (a) Samir furnishes the following particulars for the compilation of his Wealth Tax return for Assessment Year 2014-15.

(i) Gifts of jewellery made to wife from time to time aggregating ₹80,000.Market value on valuation date ₹3,00,000
(ii) Flat purchased under installment payment scheme in 1979 for ₹9,50,000. Used for purposes of his residence and market value as on 31.3.2014. (Installment remaining unpaid ₹ 80,000) ₹10,00,000
(iii) Urban land transferred to minor handicapped child valued on 31.3.2014 ₹5,00,000. [5]

(b) Property Company Ltd. has let-out a premise with effect from 1.10.2013 on monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹2 lakhs. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax? [5]

Group C

10. (a) What is arm's length price? State the methods prescribed for its computation. [4]
(b) Branco Inc., French Company, holds 45% of Equity in the Indian company Chirag technologies Ltd (CTL). CTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Branco Inc. During the year, CTL had spent 2,400 Man hours for developing and maintaining software for Branco Inc, with each hour

being billed at ₹1,300. Costs incurred by CTL for executing work for Branco Inc. amount to ₹20,00,000.

CTL had also undertaken developing software for Harsha Industries Ltd for which CTL had billed at ₹2,700 per Man hour. The persons working for Harsha Industries Ltd. and Branco Inc. were part of the same team and were of matching credentials and caliber. CTL had made a gross profit of 60% on the harsha Industries work.

CTL's transactions with Branco Inc. are comparable to the transactions with harsha Industries, subject to the following differences:

(i) Branco Inc. gives technical know- how support to CTL which can be valued at 8% of the normal gross profit. Harsha Industries does not provide any such support.
(ii) Since the work for Branco involved huge number of man hours, a quantity discount of 14% of Normal Gross Profits was given.
(iii) CTL had offered 90 days credit to Branco the cost of which is measured at 2% of the Normal Billing rate, no such discount was offered to Harsha Industries Ltd.

Compute ALP and the amount of increase in Total income of Chirag technologies Ltd. [7]

(c) Fox Solutions Inc. a US Company, sells Leaser Printer Cartridge Drums to its Indian Subsidiary Quality Printing Ltd. at S 20 per drum. Doc Solutions Inc. has other takers in India for its Cartridge Drums. For whom the price is $ 30 per drum. During the year, Fax Solutions had supplied 12,000 Cartridge Drums to Quality Printing Ltd.

Determine the Arm's Length Price and taxable income of Quality Printing Ltd if its income after considering the above is ₹45,00,000. Compliance with TDS provisions may be assumed and Rate per USD is ₹45. Also determine income of Doc Solutions Inc. [5]

(d) Write short note on Associated Enterprise. [3]

(e) What is the full form of GAAR? What are the four tests of GAAR? [3]

(f) What do you mean by Agreement under APA? [2]

Paper 7 – Direct Taxation
Test Paper –I/7/ADT/2012/T-2

Full Marks : 100 **Time : 3 hours**

Group A

1. (a) (i) State the situations, when previous year and assessment years are same.
(ii) State the undisclosed sources of income. [2+2]

or

(b) Mr. X furnishes the particulars of his income earned during previous year 2013-14:

(i) Income from agriculture in Bangladesh, received there ₹2,00,000, subsequently remitted to India,
(ii) Interest on Asian Development Bonds, ₹90,000, one-third of which received outside India,
(iii) Gift of ₹50,000 received in foreign currency from a relative in India,
(iv) Arrears of salary ₹50,000 received in India from a former employer in Pakistan.
(v) Income from property received outside India ₹3,00,000 (₹1,00,000 is used in Bahrain for the educational expenses of his son in Bahrain, and ₹2,00,000 later on remitted to India).
(vi) Income from business in Iran which is controlled from India (₹90,000 being received in India) ₹2,00,000.
(vii) Dividends received on 30.06.2013 outside India from an Indian company, ₹2,50,000.
(viii) Untaxed profit of the FY 2009-2010 brought to India in July 2013, ₹2,50,000.
(ix) Profit (computed) on sale of building in India received in Pakistan ₹2,00,000.
(x) Profit from business outside India managed from India ₹90,000, received outside India.

Find out gross total income of Mr. X for AY 2014-2015, if Mr. X is resident but not ordinarily resident. [4]

2. (a) State the conditions under which the political party gets tax exemption under section 13A in respect of certain types of income/receipts. [4]

or

(b) Explain the concept of Reverse Mortgage and discuss its tax implications. [4]

3. (a) Chris, an employee of Beautiful World Ltd. was presented a gift voucher of Pantaloons amounting to ₹17,000, on the occasion of his marriage. Discuss taxability. Would your answer differ, if the same was presented to Chris on the occasion of her first marriage anniversary? [4]

or

(b) Mr. Prabir Nandy is a Manager in H Ltd. He gets salary @ ₹ 30,000 pm. He is also allowed free use of computer, video-camera and television of the company. H Ltd. has purchased (i) Computer for ₹ 1,00,000 (ii) Video-camera for ₹ 30,000. Their written down value on 1.4.10 is ₹ 60,000 and ₹ 30,000 respectively. Television set has been taken on lease rent @ ₹ 100 pm. The employer recovers ₹ 500 per month for use of the assets. Compute his gross salary for the assessment year 2014-15. [4]

4. (a) (i) Aniket was holding 5,000 listed shares in Blue Arrow Ltd. purchased by him on 15.9.2013 at ₹50 per share. He gifted them to his girlfriend, Chitralekha on 14.2.2014. Aniket married Chitralekha on 17.2.2014. Chitralekha was allotted bonus shares by the company at the rate of one for every four shares held on 21.3.2014. She sold all shares including bonus shares at ₹135 per share on 30.03.2014. State in whose hands capital gain on sale of shares is taxable. Also compute the capital gain. [5]

(ii) Mr. Maity, a resident individual, furnishes the following particulars of his income/expenditure for the Previous Year 2013-2014 :

		₹
(i)	Gross Salary	3,00,000
(ii)	Income from House Property	1,70,000
(iii)	Share of profit from an AOP	25,000
(iv)	Long-term Capital Gain	50,000

He has paid medical insurance on his life, his wife and his dependent children. Total premium paid under GIC approved policies is ₹ 10,000 but a sum of ₹ 1,000 was paid in cash due to a prolonged bank clearing strike. He has spent ₹ 20,000 on the treatment of his brother, a dependant with disability. He has also deposited ₹ 25,000 with a specified company u/s 2(h) of Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2003 for maintenance of his brother.

He has paid the following donations during the year:

	Particulars of donations made during the year	₹
•	Donation to P.M.'s National Relief Fund	10,000
•	Donation to Jamia Milia University	5,000
•	Donation to National Cultural Fund, set up by Central Government	5,000
•	Donation to Delhi Municipal Corporation for Family Planning	12,000
•	Donation to Birla Temple (notified)	
(i)	for repair and renovation of the temple	2,000
(ii)	for religious ceremonies, prasad, etc. for the benefit of devotees in general	5,000
•	Donation to a temple managed by the Residents Welfare Association for its much needed repair and maintenance. The Association is a non-profit entity registered with the Registrar of Societies.	5,000
•	Following donations to Pt. Pyare Lai Charitable Trust recognised by the Commissioner u/s 80G(5)(vi).	
(i)	Donation in form of equity shares of blue chip companies: The shares were sold by the Trust at their market value of ₹75,000 and used wholly towards its charitable objectives. However, shares were transferred at cost,	25,000
(ii)	Donation paid in cash,	5,000
(iii)	Donation made by cheque,	7,000
(iv)	50 blankets costing ₹100 each.	5,000
•	Donation for developing low cost homes for slum-dwellers, paid	
(i)	Delhi Development Authority, and	3,000

(ii)	Delhi Slum-dwellers Rehabilitation Society duly registered with the Registrar,	2,500
•	The Rajiv Gandhi Foundation	6,000
•	National Children's Fund	3,000

Mr Maity borrowed a sum of ₹2,00,000 in 2003 @ 9% interest from Harsh Vardhan Charitable Trust (registered under Sec. 80G) to complete his B.Tech. degree from Nalanda University. In March 2014, he repaid a sum of ₹75,000 (including ₹20,000 interest) to the said trust.

Compute his total income for the Assessment Year 2014-2015. [14]

or

(b) (i) During the Previous Year ending March 31, 2014, Adi, a salaried employee (age: 40 years), received ₹10,70,000 as basic salary and ₹20,000 as arrears of bonus of the financial year 1992-93. During the Previous Year 1992-93, Adi has received ₹50,000 as salary. Adi deposits ₹1,500 (during 1992-93) and ₹13,000 (during 2013-14) in public provident fund. Compute taxable income for the Assessment Year 2014-15 [5]

(ii) RP (HUF), furnishes the following particulars of its income and outgoing for the Previous Year 2012-2013.

Receipts :	
(i) Short-term Capital Gain	4,00,000
(ii) Gross winning from lottery	1,00,000
(iii) Sale consideration of 3/4th of agriculture produce, derived from land located in India, the balance produce has been kept for family use.	12,00,000
(iv) Net sale proceeds of wild grass and fruits from trees of spontaneous growth	50,000
Payments:	
(i) Repair of tube-well WDV of tuble-well on 1-4-2013	60,000 10,00,000
(ii) Wages paid to agriculture labour	6,00,000
(iii) Manuring and spraying charges	50,000
(iv) Rent of the building, used for storing agriculture produce on site	50,000
(v) Petrol, repair, salary of driver and insurance of motor car. WDV of motor car on 1-4-2013 50% use of the motor car is for personal purpose of the family	1,50,000 2,00,000
(vi) LIP paid to insure members of the family	20,000
(vii) School fees paid for 3 children of the family @ ₹ 15,000 per child	45,000
(viii) Purchase of infrastructure bonds	90,000
(ix) Deposit with LIC for maintenance of a dependant member with disability: Unabsorbed losses brought forward:	
AY: 2004-2005	40,000

AY: 2006-2007	5,00,000
AY: 2009-2010	1,00,000

Determine the total income of the HUF and its tax liability for the Assessment Year 2014-2015. [9+5]

5. (a) Prem was the Karta of HUF. He died leaving behind his major son Anand, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons become co-owners? [3]

(b) Discuss whether Mr. Das, an individual, can become a partner in dual capacity, that is, one representing HUF as Karta and the other as representing himself. Is a firm constituted by partners, including a partner in dual capacity, entitled to get the deduction of salary and interest paid to its partner? [3]

(c) J.Hazra was the Karta of a Hindu Undivided Family which was assessed to income tax. He died in an air crash and his two sons received ₹ 8 lakhs as compensation and ₹ 6 lakhs from the insurance company. The said amount of ₹ 14 lakhs was invested in units. The assessee claims that the income from these units is assessable as income of the Hindu Undivided Family composed of his sons and their families. Discuss. [2]

6. Classic Exporters Ltd, runs a new industrial undertaking set up in 2006-2007 which satisfies the conditions of Sec. 80-IB. Given below is the profit and loss account for the Previous Year 2012-2013 :

Particulars	₹	**Particulars**	₹
Stock	4,00,000	Domestic sales	24,00,000
Purchases	23,00,000	Export sales	43,00,000
Salaries and wages	9,70,000	Export incentives Sec. 28(iiia)/(iiic)	50,000
Entertainment expenses	1,30,000	Profit of foreign branch	2,50,000
Freights and insurance attributable to exports	3,00,000	Brokerage/commission/interest/ rent, etc	50,000
Travelling expenses	2,20,000	Transfer from contingency reserve	10,00,000
Depreciation	1,50,000	Stock	3,50,000
Selling expenses	1,20,000		
Income tax paid	90,000		
Income-tax penalty	20,000		
Wealth tax paid	10,000		
Custom duty payable against demand notice	30,000		
Provision for unascertained liabilities	20,000		
Provision for ascertained liabilities	50,000		
Proposed dividend	3,00,000		
Loss of subsidiary company	50,000		
Net Profit	32,40,000		
	84,00,000		84,00,000

You are further informed:

(i) Excise duty for 2012-2013, amounting ₹ 1,20,000 was paid on 15 December 2013.

(ii) Depreciation under Sec. 32 is ₹ 2,20,000.

(iii) During the year 2009-2010, contingency reserve, amounting ₹ 10,00,000, debited to Profit and Loss A/c, was added back to the extent of ₹ 4,00,000 in the computation of Book-profits. The company has transferred the said reserve to the Profit and Loss A/c during the year.

(iv) Brought forward business loss/depreciation:

PY	Accounting purposes		Tax purposes	
	Loss	Depreciation	Loss	Depreciation
2009-2010	(-) 10,00,000	(-) 1,00,000	(-) 5,00,000	(-) 2,50,000
2010-2011	(-) 2,00,000	(-) 3,00,000	(-) 1,00,000	(-) 2,00,000

Compute the following: (a) Total Income, (b) Book-profits and (c) Tax Liability. [8]

7. (a) X is in employment of A Ltd., drawing salary of ₹5,70,670, during the financial year 2013-14. He contributes ₹50,000 towards public provident fund. The following information is submitted by X in respect of other income to his employer.

Particulars	**Amount (₹)**
Income from consultancy	80,000
Tax deducted by the payer under section 194J	7,000
Expenses on earning the above income	68,000
Short-term capital loss	(-)6,000
Loss from self occupied house property	(-)40,000
Loss from let out house property	(-)61,000
Tax deducted by the payer of rent	6,240

You are required to calculate the amount of tax to be deducted. [5]

(b) Who shall sign and verify the return of income of a Limited Liability Partnership? [1]

(c) Is a Company liable to pay advance tax on Book profits? [2]

8. Answer any five of the following:

(a) A certain family has four concerns in which it has controlling interest. Different members are controlling the concerns. There are disputes that one group is favoured more than others. How is this to be resolved?

(b) What is the difference between amalgamation in terms of company law and income-tax law?

(c) Does the liability of shareholder get altered in amalgamation, demerger or slump sale?

(d) What is meant by reverse merger?

(e) What are the main advantages in conducting business in corporate form?

(f) What is meant by dividend policy? How does it affect the tax liability of company and its shareholders?

(g) Is advance tax payable with reference to MAT? Is interest under section 234B/234C chargeable where the liability is only for MAT? [2×5]

Group B

9. (a) Anu Constructions Ltd. is engaged in the construction of residential flats. For the valuation date 31.3.2014, furnishes the following data and requests you to compute the taxable wealth:

(i) Land in urban area (construction is not permitted as per Municipal laws in force) ₹ 50 lakhs
(ii) Motor-cars (in the use of company) ₹10lakhs
(iii) Jewellery (Investment) ₹10 lakhs
(iv) Cash balance (As per books) ₹ 3 lakhs
(v) Bank Balance (As per books) ₹ 6 lakhs
(vi) Guest House (Situated in rural area) ₹ 8 lakhs
(vii) Residential flat occupied by Managing Director (Annual remuneration of whom is ₹8 Lakhs excluding perquisites) ₹ 10 lakhs
(viii) Residential house let-out for 100 days in the financial year ₹ 5 lakhs
(ix) Loan obtained for:
• Purchase of Motor Car ₹ 3 lakhs
• Purchase of Jewellery ₹ 2 lakhs [7]

(b) X' received a vacant site under his father's will. The value of the site on 31.3.2014 is ₹15 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at ₹10 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹10 Lakhs as at 31.3.2014. Is the claim correct? [3]

Group C

10. (a) An Indian software company receives an order from an European union country. The buyer will pay in four quarterly installments each of €0.5 million, starting from the end of the first quarter. The rates for Euros in India is as follows:

Spot	3 month forward	6 months forward	9 month forward	1 year forward
₹52.80	₹52.70	₹52.55	₹52.50	₹52.48

If an Indian company hedges its foreign exchange rate risk in the forward market, how much revenue does it earn? [5]

(b) Are arbitrage gains possible from the following set of information to the arbitrageur?

Spot rate: 47.88/$
3 month forward rate: ₹ 47.28/$
3 month interest rates: ₹: 7% p.a.
$: 11% p.a. [7]

(c) Write short notes on:
(i)RPM
(ii)CPM [4+4]

(d) Write short note on GAAR [3]
(e) Who are eligible to enter into an agreement under Advance Pricing Agreement Scheme? [2]

Paper 7 – Direct Taxation
Test Paper –I/7/ADT/2012/T-3

Full Marks : 100 **Time : 3 hours**

Group A

1. Write short notes on Seventh Schedule of the Constitution. [4]

2. (a) State the conditions for claiming exemption u/s 11. [4]

or

(b) State the difference between Exemption u/s 10 and deduction under Chapter VIA of the Income Tax Act. [4]

3. Answer the following question:

(a) EPABX and Mobile Phones owned by a company are charged to depreciation @ 60%, similar to Computers. Discuss the tenability.

(b) X Ltd. transferred unpaid excise credit to the Profit & Loss A/c. Discuss taxability, if any.

(c) A Plantation company, holding several acres of land, sold trees of spontaneous growth. The Assessing officer is of the opinion that there arise capital gains. Discuss

(d) Well Wishers & Associates, a partnership firm, is holding land. This firm is not engaged in real estate business. The land was sold during the year. Discuss taxability, whether, this would be assessed to tax as business income or capital gain. [4×1]

4. (a) Mr. P has estates in Rubber, Tea and Coffee. He has also a nursery wherein he grows plants and sells. For the Previous Year ending 31.3.2014, 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 Assessment Year 2014-2015:

Manufacture of Rubber	₹ 15,00,000
Manufacture of Coffee grown and cured	₹ 13,50,000
Manufacture of Tea	₹ 17,00,000
Sale of Plants from Nursery	₹ 5,00,000

[7]

(b) Mr. N discloses the following incomes for the Previous Year 2013-2014 :

House Property	**Business or Profession**		**Capital Gains**		**Income from Other Sources**
₹	**Speculation ₹**	**Non-speculation ₹**	**STCG ₹**	**LTCG ₹**	
A 1,50,000	P 5,00,000	X 5,00,000	C 6,00,000	F 7,00,000	Family pension 95,000
B (-) 1,40,000	S (-)2,00,000	Y (-) 6,00,000	D (-) 3,00,000	E (-)5,00,000	Loss from (-) 50,000 letting out from machinery/plant

Determine income under head of income for the A. Y. 2014-2015 [6]

(c) Mr Jamal, a resident assessee, runs a manufacturing business in Delhi. For the Previous Year 2013-2014, he disclosed his taxable income as below:

	₹
Business Profits	2,55,000
Long-term Capital Gains	25,000
Short-term Capital Gain	15,000

He has hired furnished accommodation for his own use and pays ₹ 4,000 p.m. He has paid donation amounting to ₹10,000 to National Defence Fund. He has deposited ₹ 50,000 under a scheme framed by the Life Insurance Corporation for maintenance of his dependant brother with a disability. The disability is certified by the medical authority. Compute his total income for the Assessment Year 2014-2015. [7]

5. (a) ABC LLP is liquidated. What is the liability of partners of XYZ LLP in respect of its tax dues? [2]
(b) A, B and C Ltd. are three members of an AOP, sharing profit and losses in the ratio 2:2:1. The AOP discloses its income for the PY 2013-2014 as below:

Particulars	₹
Long-term Capital Gains Business Profits	4,00,000 6,00,000

Determine tax liability of AOP in the following cases:

(i) C Ltd. is an Indian company

(ii) C Ltd. is a foreign company [6]

6. (a) Write short notes on Minimum Alternate Tax (MAT) [2]
(b) A foreign company has put forth the following arguments amongst others to say that provisions of Sec.115JB regarding minimum alternate tax are not applicable to it:
(i) The company does not prepare the accounts in accordance with the provisions of part II and III of Schedule VI of the Companies Act, 1956
(ii) It does not lay its accounts before the general meeting in accordance with Sec.210 of the Companies Act, since no meeting is held in India.
(iii) It does not declare any dividend in India. [2]
(c) Is it possible to convert a firm into a company? [3]

7. (a) (i) During the previous year 2013-14, X is employed simultaneously by A Ltd. (salary: ₹60,000) and B Ltd. (salary: ₹52,000) on part-time basis. Calculate the amount of tax to be deducted by both the companies. [4]
(ii) Briefly describe the consequence of non-compliance of TDS provisions. [4]

or

(b) (i) During the previous year 2013-14, Mrs. X (aged 46 years) pays the following installments of advance tax :

	₹
On September 15, 2013	6,000
On December 15, 2013	14,000
On March 15, 2014	16,000
On March 16, 2014	18,000

Mrs. X files return of ₹ 7,01,000. Assessment is also completed on the basis of income returned by Mrs. X after making addition of ₹ 25,000 (date of assessment order : January 20, 2015). Mrs. X is entitled to tax credit of ₹ 12,510 on account of tax deducted at source. Compute interest under sections 234B and 234C. [5]

(ii) Briefly describe the consequence of non-payment or delay in payment of tax as demanded by Notice u/s 156. [3]

8. (a) Is it possible for a firm to be treated as a company? [2]

(b) What is better, whether slump sale or severable itemised sale? [3]

(c) Is there a gift element when a firm is converted into a company? [3]

(d) During the period, when dividend income is exempt, could the loss arising on payment of interest on borrowings for acquiring shares be treated as business loss, so as to be available for set off against other heads of income and be carried forward? [2]

Group B

9. (a) Net wealth of firm consisting of three partners Bidyut, Kingshuk and Deepak in 2:2:1 and a capital contribution of ₹ 25 Lakhs, ₹20 Lakhs, and ₹ 15 Lakhs respectively is as under -

(i)	Value of assets located outside India	₹ 60,00,000
(ii)	Value of assets located in India	₹ 90,00,000
(iii)	Debts incurred in relation to assets in India	₹ 70,00,000

Determine the value of interest of the partners in the firm under the Wealth Tax Act, 1957. [5]

(b) State the persons on whom no Wealth Tax is chargeable? [3]

(c) What do you mean by Net Wealth as per Wealth Tax Act? Answer in two sentences. [2]

Group C

10. (a) Answer any four of the following:

(i) Briefly discuss the conditions for applicability of arm's length price in the international transaction.

(ii) Discuss in brief the Resale Price Method.

(iii) Discuss in brief the Profit Split Method.

(iv) Discuss in brief the Transaction Net Margin Method.

(v) Discuss in brief the Comparable Uncontrolled Price Method. [4×5]

(b) Discuss in short the applicability of GAAR. [3]

(c) Briefly discuss the purpose of Advance Pricing Agreement. [2]

Paper 7 – Direct Taxation
Test Paper –I/7/ADT/2012/T-4

Full Marks : 100 **Time : 3 hours**

1. (a) (i) Ashim incurred an expenditure of ₹5 lakhs, on the occasion of his daughter's marriage on 14th February, 2014. He has no explainable source of this expenditure. What is the tax implication, if any? [2]
(ii) Define Substantial Interest in few words. [2]

or

(b) (i) Mr. Harry, after 25 years of residing in India, returns to UK on 2.2.2010. He again returns to India on 19th September, 2013 to join British Company in India. Determine his residential status for the assessment year 2013-14. [3]
(ii) What do you mean by Assessment Year? [1]

2. What are the consequences of amalgamation in respect of availing deduction u/s 10AA? [4]

3. (a) Abhi owns a plot of land acquired on 1.7.2002 for a consideration of ₹4 lakhs. He enters into an agreement to sell the property on 23.3.2014 for a consideration of ₹15 lakhs. In part performance of the contract, he handed over the possession of land on 25.3.2014 on which date, he received the full consideration. As on 31.3.2014, the sale was pending registration. Discuss liability of capital gains for the assessment year 2013-14 (no computation is required) [1]
(b) Trisa was the owner of two residential houses. On 5th April, 2013, she disposed one of the houses and utilized the entire sale proceeds to construct first floor on her second house which he completed by 15th March, 2014. She seeks your advice as to the taxability of transaction to capital gains under the provisions of Income Tax Act, 1961. [2]
(c) A farmer resident of Bikaner sold his rural agricultural land in Nepal and received Indian Rupees of 5 lacs over the cost of acquisition of this land. Explain the taxability of sale. [1]

4. (a) Mr. Samil submits the following information for the A.Y. 2014-15.

Particulars	**₹**
Taxable Income from Salary	1,64,000
Income from House property :	
House 1 Income	37,000
House 2 loss	(53,000)
Textile Business (discontinued on 10.10.2013)	(20,000)
Brought forward loss of textile business - A.Y. 2010-11	(80,000)
Chemical Business (discontinued on 15.3.2013)	
– b/f loss of Previous Year 2010-11	(25,000)
– unabsorbed depreciation of Previous Year 2010-11	(15,000)
– Bad debts earlier deducted recovered in July '2013	40,000
Leather Business	62,000
Interest on securities held as stock in trade	10,000

Determine the gross total income for the Assessment Year 2014-15 and also compute the amount of loss that can be carried forward to the subsequent years. [7]

(b) Mrs. Z is the owner of the business units A and B. A unit has been started with capital contribution from Mr. Z and B unit has been started out of capital contribution from Mrs. Z. The particulars of their income for the Previous Year 2013-2014 are as follows:

Particulars	Mrs. Z	Mr. Z
(i) Income from A unit	—	(–) 6,00,000
(ii) Income from B unit	4,00,000	—
(iii) Income from House Property	—	2,50,000

How would you assess them for the Assessment Year 2014-2015? [3]

(c) Mr. Jamal resident in India, has paid ₹ 60,000 for medical expenses during the Previous Year 2013-2014 for his wife suffering from cancer. Mrs. Jamal is also resident in India and turns 60 years of age on 31st March 2014. The full treatment cost has been reimbursed by the General Insurance Corporation of India. Please determine if Mr. Jamal is entitled to any deduction under Sec. 80DDB and if the answer is yes, determine the quantum of deduction. Also, please work out the quantum of deduction in the following circumstances:

I. Mrs. Jamal turns 60 years of age on 1 April 2014 and the amount reimbursed by the insurer is ₹ 25,000. Payment of medical treatment was made out of exempted income.

II. Jamal turns 60 years of age on 1 April 2013 but Mrs. Jamal is 59 years, 11 months and 30 days as on 31 March 2014 and the insurer has not reimbursed any expenditure.

III. Mrs. Jamal is 61 years of age, a non-residential in India and the insurer has reimbursed ₹ 35.000

IV. Mr. Jamal, though having assessable income in India, is actually resident in Sri Lanka and is getting his wife treated in India for sake of better and more advanced medical facilities Mrs. Jamal is residential in India and the insurer has reimbursed ₹ 20,000.

V. The expenditure is incurred by the assessee on cancer treatment of his 25 year old grandson who is dependent on him and is resident in India. The insurer has not reimbursed the claim.

VI. Mr. Jamal is able to produce the receipt of the medical expenditure only to the extent of ₹ 10,000 as he misplaced other receipts and the certificate in Form 10-I regarding the treatment of his wife does not mention the total amount incurred by him during the previous year. The insurer has reimbursed only ₹ 5,000. [6]

(d) Gross Total Income ₹5,00,000 (including LTCG ₹3,90,000]. Deductions under Chapter VIA [Sections 80C to 80U] ₹1,79,000. Compute tax liability for Mr.A. [5]

5. (a) (i) PDM Charitable Trust submits the particulars of its receipts and outgoing during the Previous Year 2013-2014 as below :

	₹
(i) Income from property held under trust for charitable purposes	20,00,000
(ii) Voluntary contribution (out of which ₹ 5,00,000 will form part of the corpus)	15,00,000
(iii) Donations paid to blind charitable school	6,00,000
(iv) Scholarship paid to poor students	4,00,000
(v) Amount spent on holding free eye camps in urban slums	3,00,000

(vi) Amount set apart for setting up an old age home by March 2015 10,00,000

Compute the total income of the trust for the Previous Years 2013-2014 and 2014-2015 if it spends ₹ 5,00,000 during the Previous Year 2013-2014 and ₹ 3,00,000 during the Previous Year 2014-2015 in setting up the old age home. [5]

(ii) A co-operative society, engaged in the business of banking, seeks your opinion by the matter of eligibility of deduction under Sec. 8OP on the following items of income earned by it during the year ending 31-3-2014.

(I) Interest on investment in Government securities made out of statutory reserves

(II) Hire charges of safe deposit lockers. [2]

or

(b) (i) Salil was running a business. He died on 20th December, 2013, leaving behind his wife Sruti and two minor sons - Sampat and Samar. He did not have any will. Sruti is running the business for and on behalf of herself and the minor children. Salil owned two house properties. Discuss how the rental income and the business income of the financial year 31st March, 2014 will be assessed and in whose hands. [4]

(ii) Write short notes on Alternate Minimum Tax (AMT) [3]

or

(c) The following is the Profit and Loss Account for the year ending 31.3.2014 of XYZ (LLP) having 3 partners :

Profit and Loss Account

	₹	₹		₹
Establishment & other expenses		45,50,000	Gross Profit	69,20,000
Interest to partner @ 15%			Rent from house property	1,60,000
X	90,000		Interest on Bank deposits	20,000
Y	1,20,000			
Z	60,000	2,70,000		
Salary to designated partners				
X	2,40,000			
Y	1,80,000	4,20,000		
Net Profit		18,60,000		
		71,00,000		71,00,000

The LLP is eligible for 100% deduction under section 80-IC as it is established in notified area in Himachal Pradesh.

Compute the tax payable by the Limited Liability Firm. [7]

6. Fashion Ltd., a well-diversified group, given below its Profit and Loss Account for the Previous Year 2013-2014 :

Particulars	₹	Particulars	₹
Manufacturing expenses	9,00,000	Sale of manufactured goods	10,00,000
Salaries/wages	5,50,000	Sale of agriculture produce	15,00,000
Cultivation expenses	4,00,000	Receipt from generation /distribution of power	15,00,000
Power generation/distribution expenses	4,00,000	Receipt from I.U. set up in backward district in July 2004	10,00,000
Irrigation expenses	6,00,000	Transfer from Reserve & Provision A/c, debited to Profit and Loss Account in 2005-06 on account of free service under warranty period	9,50,000
Expenses of I.U., located in backward district	5,00,000	Sale of goods of I.U. (Sec. 10B)	2,00,000
Expenses of I.U., located in free trade zone(Sec. 10A)	1,50,000	Sale of goods of I.U, located in free trade zone (Sec. 10A)	2,00,000
Expenses of I.U. (Sec. 10B)	1,00,000	Sale of goods of I.U. located in Northern Eastern Region (NER) (Sec. 10C)	1,00,000
Expenses of I.U. located in NRE	50,000	Income from UTI	50,000
Provision for losses of subsidiary	4,00,000	Long Term Capital Gain on sale of equity shares, transaction chargeable to Securities Transaction Tax	5,00,000
Sundry expenses	10,000		35,00,000
Provision for bad and doubtful debts	2,00,000		
Provision for bills under discount	50,000		
Provision for sales tax, wealth tax against demand notice	3,30,000		
Income tax provision against demand notice	3,00,000		
Dividend paid on preference shares	2,00,000		
Proposed dividend on equity shares	4,00,000		
Transfer to General Reserve	1,00,000		
Dividend Equalisation reserve	2,00,000		
Penalties under direct tax laws	60,000		
Goodwill written off	50,000		
Depreciation	3,00,000		
Amortisation of patent rights	30,000		
Expenses on transfer of equity shares	20,000		
Net Profit	42,00,000		
	1,05,00,000		**1,05,00,000**

The following additional information is provided as below:

1. Depreciation includes, a sum of ₹ 1,00,000 on account of revaluation of building and plant and machinery.
2. Past year losses, before depreciation, are given below:

	Loss (₹)	Depreciation (₹)
2009-2010	(-) 5,00,000	(-) 6,00,000
2010-2011	Nil	(-) 5,00,000
2011-2012	(-) 7,00,000	(-) 4,00,000
2012-2013	(-) 5,00,000	Nil

Compute book-profits for the Previous Year 2013-2014/AY 2014-2015 for MAT under Sec. 115 JB. [8]

7. (a) A foreign enterprise enters into a contract for the fabrication and supply of components for machinery with X & Co., a firm in India. X & Co. in turn subcontracts the work to Y & Co (a Partnership firm) and pays it ₹23 lakhs during the previous year 2013-14. Discuss the liability for tax deduction at source. [4]

(b) Write short notes on Tax Return Preparer. [2]

(c) Can a revised return be further revised? [1]

8. (a) How is the work in progress valued? Should the overheads be treated as part of cost? [4]

(b) Is it possible to capitalise expenditure as cost of the asset for purposes of depreciation? [1]

(c) A certain family has four concerns in which it has controlling interest. Different members are controlling the concerns. There are disputes that one group is favoured more than others. How is this to be resolved? [2]

(d) Where there is a shift from straight line to WDV method of depreciation, larger arrears of depreciation are to be provided. This enables reduction in tax liability. Could arrears be treated as a proper charge on taxable book profits? Can an upward revision be made to enable larger depreciation? [1]

(e) Can wealth-tax payable by company be treated as a charge on book profits? [2]

9. (a)(i) 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 31.3.2010 on the following situations —

(1) The house is built on a freehold land.
(2) It is built on a leasehold land, the unexpired period of lease of the land is more than 50 years.
(3) If the area of the plot on which the house is built is 800 sq. meters. FSI, permissible is 1.4 and
(4) FSI utilised is 1088 Sq. metres. (136 Sq. metres × 8 Storeys)
(5) The tenant had made interest free deposit of ₹1,00,000 with the landlord. [6]

(ii) Is a charitable trust liable to to pay wealth Tax? Is it entitled for exemption under Wealth Tax Act if it loses exemption under Income Tax Act? [4]

or

(b) (i) From the following dated furnished by Mr. Souma, determine the value of house property built on leasehold land as at the valuation date 31.3.2014:

Particulars	₹
Annual Value as per Municipal valuation	1,40,000
Rent received from tenant (Property vacant for 3 months during the year)	1,08,000
Municipal tax paid by tenant	10,000
Repairs on property borne by tenant	8,000
Refundable deposit collected from tenant as security deposit which does not carry any interest	50,000

The difference between unbuilt area and specified area over aggregate area is 10.5%. [5]

(ii) Briefly define the term "Asset" u/s 2(ea) of the Wealth Tax Act. [5]

10. (a) The following quotes are available for 3 months options in respect of a share currently traded at ₹31:

Strike Price ₹30
Call Option ₹3
Put Option ₹2

An investor devises a strategy of buying a call and selling the share and a put option. Draw his profit/loss profile if it is given that the rate of interest is 10% per annum. What would be the position if the strategy adopted is selling a call and buying the put and the share? [3]

(b) What is the difference between Forward and Futures contracts? [2]

(c) Write short notes on:

(i) Berry Ratio

(ii) Return on Asset Ratio

(iii) Cost Cover Ratio [3×2]

(d) Briefly describe the steps in computation of Arm's Length price using Transaction Net Margin Method. [3]

(e) Explain the legislative objective of bringing in the provisions relating to Transfer Pricing. [3]

(f) Define the term "Enterprise" for the purpose of Section 92 to 92F. [3]

(g) Shortly describe the procedure for invoking GAAR? [3]

(h) What do you mean by Bilateral Agreement under APA. [2]

Cost Accounting and Financial Management

Test Paper—I/8/CAFM/2012/T-1

Time Allowed-3hours **Full Marks-100**

Part A-Cost Accounting (60 Marks)

Attempt Question No-1 which is compulsory and any three from the rest

Question 1

A. Match items of column A with items in column B from the following [1x5=5marks]

Column A	Column B
CAS 6	Cost of production for captive consumption
CAS 8	Classification of cost
CAS 12	Material cost
CAS I	Cost of utilities
CAS 4	Repair and maintenance

B. In the following cases one out of four answers is correct. You are required to indicate the correct answer [1X4=4marks]

(i) The allotment of whole item of cost to a cost centre or cost unit is called as:

(a) Cost allocation;
(b) Cost apportionment;
(c) Overhead absorption;
(d) Cost classification.

(ii) The valuation of Closing Stock according to Last in First Out method of pricing is done at:

(a) The latest prices;
(b) The earliest prices;
(c) At average prices;
(d) None of the above.

(iii) The cost of obsolete inventory acquired several years ago, to be considered in a keep vs. disposal decision is an example of:

(a) Uncontrollable cost
(b) Sunk cost
(c) Avoidable cost
(d) Opportunity cost

(iv) Which of the following is not a avoidable cause of labour turnover?

(a) Dissatisfaction with the job.
(b) Dissatisfaction with the working hours.
(c) Change of locality
(d) Relationship with the colleagues.

C. State whether the following statements are true or false [1X5=5marks]

(i) ABC Analysis is made on the basis of unit prices of materials.
(ii) Opportunity Cost is the value of benefit sacrificed in favor of an alternative course of action.
(iii) Bin cards show quantity and value of stores.
(iv) Variable Cost varies with time.
(v) Is an expense can be identified with a specific cost unit, it is treated as Direct Expense

D. Define [2x2=4 marks]

(i) Perpetual Inventory System
(ii) Chargeable Expenses

Question 2

(a) A company has the option to procure a particular materials from two sources:
Source 1 assures that defectives will not be more than 2% of supplied quantity.
Source 2 does not give any assurance but on the basis of past experience of supplies received from it, it is observed that defective percentage is 2.8%.
The material is supplied in lots of 1000 units. Source 2 supplies the lot at a price, which is lower by ₹100 as compare to source 1. The defective units of materials can be rectified for use at a cost of ₹5 per unit.
You are required to find out which of the two sources is more economical. [7 marks]

(b) The standards hours of job X is 100 hrs. The job has been completed by Amar in 60 hrs, Akbar in 70 hrs, and Alam in 95 hrs. The bonus system is applicable to the job is as follows:

Percentage of time saved to time allowed	Bonus
Saving upto 10%	10% of time saved
From 11% to 20%	15% of time saved
From 21% to 40%	20% of time saved
From 41% to 100%	25% of time saved

The rate of pay is ₹10 per hour. Calculate the total earnings of each worker and also the rate of earnings per hour. [7 marks]

Question 3

(a) What are the avoidable and unavoidable causes of labour turnover? [4 marks]

(b) The budgeted working conditions for a call center are as follows:
Normal working per week 42 hrs.
No. of machines 14
Normal weekly loss of hrs. on maintenance 5 hrs per machine.
No. of weeks works per year 48
Estimated annual overheads ₹1,24,320
Actual result in respect of a 4 week period are :
Overhead incurred ₹10,200
Machine hours produced 2000

On the basis of the above information you are required to calculate
1. The machine hour rate.
2. The amount of under or over absorption of overhead [10 marks]

Question 4

(a) A company buys in lot of 125 boxes which is a 3 months' supply. The cost per boxes ₹125 and the ordering cost is ₹250 per order. The inventory carrying cost is estimated at 20% of unit value per annum.
You are required to ascertain
(i) What is the total annual cost of the existing inventory policy?
(ii) How much money would be saved by employing the economic order quantity (EOQ)?
[8 marks]

(b) Compute the machine hour rate from the following data:
Royalty paid on Sales-₹40,000;
Royalty paid on units produced ₹25,000
Hire Charges for equipment used for production-₹2,000
Design Charges-₹18,000
Software Development Charges use for production-₹22,000

Compute Direct Expenses following CAS 10. (6 marks)

Question 5

(a) Distinguish between allocation and apportionment of overhead. [5 marks]

(b) Short Notes: [3 x 3=9marks]

(i) Imputed cost
(ii) Uniform costing
(iii) Cost of utilities

Part B-Financial Management (40 Marks)

Attempt Question No-6 which is compulsory and any two from the rest

Question 6

A. In the following cases one out of four answers is correct. You are required to indicate the correct answer (1mark) and give your reason for answer (1 mark) [2x4=8 marks]

(i) The degree of operating leverage and degree of financial leverage of V Ltd are 2 and 1.5 respectively. What will be the percentage of change in EPS,IF the sale increases by 10%.

(a) 10% increase
(b) 15% increase
(c) 30% increase
(d) Insufficient Information

(ii)Two firms P Ltd and M Ltd are similar in all respect s except that Maruti Ltd uses ₹10,00,000debt in its capital structure. If the corporate tax rate for these firms is 40%,the value of M ltd exceeds that of P Ltd by

(a) ₹4,00,000
(b) ₹6,00,000
(c) ₹6,20,000
(d) ₹7,00,000

(iii)R ltd has an ROA of 10% and a profit margin of 2%.The company's total asset turnover is

(a) 3%
(b) 45
(c) 5%
(d) 6%

(iv) A firm has sales of ₹75,00,000 variable cost of ₹42,00,000 and fixed cost of ₹6,00,000.It has a debt of ₹45,00,000 at 9% interest and equity of ₹55,00,000. At what level of sales, the EBIT of the firm will be equal to zero?

(a) ₹28,48,500
(b) ₹28,84,500
(c) ₹22,84,500
(d) ₹26,48,500

B. Define [2X2=4marks]

(i) Break Even Point
(ii)Debt Service Coverage Ratio

Question 7

(a) From the following data compute the duration of the operating cycle for each year.

Particulars	Year 1	Year 2
Stock		
Raw materials	20,000	27,000
Work in progress	14,000	18,000
Finished goods	21,000	24,000
Purchase	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computational purposes. [8 marks]

(b) S ltd. is marketing all its products through a network of dealers. All sales are on credit and the dealers are given one month time to settle bills. The company is thinking of changing the credit period with a view to increase its overall profits. The marketing department has prepared the following estimates for different periods of credit.

Particulars	Present Policy	Plan 1	Plan 2	Plan 3
Credit period in months	1	1.5	2	3
Sales in Lakhs	120	130	150	180
Fixed cost in lakhs	30	30	35	40
Bad debts % of sales	0.5	0.8	1	2

The company has a contribution / sales ratio of 40%, further it required a pre tax return on investment at 20%. Evaluate each of the above proposals and recommend the best credit periods for the company. [6 marks]

Question 8

(a) Assuming no taxes and given the Earning before interest and taxes (EBIT), Interest (I), and Equity capitalization rate (K_e) below, calculate the total market value of each firm under net income approach.

Firms	EBIT	I	K_e
	₹	₹	
X	2,00,000	20,000	12%
Y	3,00,000	60,000	16%
Z	5,00,000	2,00,000	15%
W	6,00,000	2,40,000	18%

Also determine the weighted average cost of capital for each firm. [8 marks]

(b)

(i) Find out operating leverage from the following data [3 marks]

Sales	₹50,000
Variable Cost	60%
Fixed cost	₹12,000

(ii) Find out the financial leverage from the following data. [3 marks]

Net worth	₹25,00,000
Debt / Equity	3:1
Interest Rate	12%
Operating profit	₹20,00,000

Question 9

(a) X Ltd. has 8 lakhs equity shares outstanding at the beginning of the year 2011. The current market price per share is ₹120. The Board of Directors of the company is contemplating ₹6.4 per share as dividend. The rate of capitalization, appropriate to the risk class to which the company belong is 9.6%.

Based on M – M approach, calculate the market price of the share of the company, when the dividend is a declared, b not declared. [6 marks]

(b) Short Notes: [4x2=8marks]

(i) Factoring
(ii) Price Earnings ratio and its significance.

Cost Accounting and Financial Management

Test Paper—I/8/CAFM/2012/T-2

Time Allowed-3hours **Full Marks-100**

Part A- Cost Accounting (60 Marks)

Attempt Question No-1 which is compulsory and any three from the rest

Question 1

A. Match items of column A with items in column B from the following : [1x4=4marks]

Column A	Column B
CAS-4	Cost Accounting Standard on Cost of Service Cost Centre
CAS-7	Cost Accounting Standard on Selling and Distribution Overheads
CAS-13	Cost Accounting Standard on Employee Cost
CAS-15	Cost Accounting Standard on Cost of Production for Captive Consumption

B. In the following cases one out of four answers is correct. You are required to indicate the correct answer : [1x4=4marks]

(i) Conversion cost is equal to the total of
 (a) Material Cost and direct wages
 (b) Material Cost and indirect wages
 (c) Direct wages and factory overhead
 (d) Material cost and factory overhead

(ii) Which of the following is an accounting record?
 (a) Bill of Material
 (b) Bin Card
 (c) Stores Ledger
 (d) All of these

(iii) Cost Accounting concepts include all of the following except
 (a) Planning
 (b) Controlling
 (c) profit sharing
 (d) product costing

(iv) A cost which increases or decreases per unit when volume of output increases or decreases is
 (a) Fixed cost
 (b) Variable cost
 (c) Direct cost
 (d) Indirect cost

C. Fill up the blank with appropriate words : [1x5=5marks]
 (i) Wages under Halsey Plan and Rowan Plan are exactly equal when time saved is Nil or it is ------------% of standard time.
 (ii) The technical term for charging of overheads to cost units is known as -----------.
 (iii) Reorder level = -------------------- .

(iv) Cost sheet is a document which provides for assembly of the detailed cost of a -----------
(v) The technical term for charging of overheads to cost units is known as ---------- .

D. Explain the following terms in two lines : [1x5=5marks]

(i) Sunk cost
(ii) Profit centre
(iii) Cost Allocation
(iv) Pre-determined overhead rate
(v) Normal Capacity

Question 2

(a) The books of Adarsh Manufacturing Company present the following data for the month of April, 2012.
Direct labour cost ₹17,500 being 175% of works overheads.
Cost of goods sold excluding administrative expenses ₹56,000.

Inventory accounts showed the following opening and closing balance:

	April 1	April 30
	₹	₹
Raw materials	8,000	10,600
Works in progress	10,500	14,500
Finished goods	17,600	19,000

Other data are :	₹
Selling expenses	3,500
General and administration expenses	2,500
Sales for the month	75,000

You are required to:

(i) Compute the value of materials purchased

(ii) Prepare a cost statement showing the various elements of cost and also the profit earned. [7marks]

(b) A factory has 3 production departments (P1, P2, P3) and 2 service departments (S1 & S2). The following overheads & other information are extracted from the books for the month of January 2012.

Expense	Amount (₹)
Rent	6,000
Repair	3,600
Depreciation	2,700
Lighting	600
Supervision	9,000
Fire Insurance for stock	3,000
ESI contribution	900
Power	5,400

Particulars	P1	P2	P3	S1	S2
Area sq ft	400	300	270	150	80
No. of workers	54	48	36	24	18
Wages	18,000	15,000	12,000	9,000	6,000
Value of plant	72,000	54,000	48,000	6,000	
Stock value	45,000	27,000	18,000		
Horse power of plant	600	400	300	150	50

Allocate or apportion the overheads among the various departments on suitable basis.

[7marks]

Question 3

(a) Two workmen, Vishnu and Shiva, produce the same product using the same material. Their normal wage rate is also the same. Vishnu is paid bonus according to the Rowan system, while Shiva is paid bonus according to the Halsey system. The time allowed to make the product is 100 hours. Vishnu takes 60 hours while Shiva takes 80 hours to complete the product. The factory overhead rate is ₹10 per man-hour actually worked. The factory cost for the product for Vishnu is ₹7,280 and for Shiva it is ₹7,600.

You are required:

(i) to find the normal rate of wages;
(ii) to find the cost of materials ;
(iii) to prepare a statement comparing the factory cost of the products as made by the two workmen. [6marks]

(b) Distinguish between: [4x2=8marks]

(i) 'Cost centre' and 'Cost unit'
(ii) 'Bill of Materials' and 'Material Requisition Note'

Question 4

(a) Calculate:

(i) Value of raw materials consumed;
(ii) Total cost of production
(iii) Cost of goods sold and
(iv) The amount of profit from the following particulars:

OPENING STOCK:		
Raw Materials	5,000	
Finished goods	4,000	
CLOSING STOCK:		
Raw materials	4,000	
Finished goods	5,000	
Raw materials purchased		50,000
Wages paid to laborers		20,000
Chargeable expenses		2,000
Rent, rates & taxes		5,000
Power		2,000
Factory heating and lighting		2,000
Factory insurance		1,000

Experimental expenses	500
Wastage of material	200
Office management salaries	4,000
Office printing and stationery	200
Salaries of sales men	2,000
Commission of travelling agents	1,000
Sales	1,00,000

[8marks]

(b) A workman takes 9 hours to complete a job on daily wages and 6 hours on a scheme of payment by results. His hourly rate is 25 p. The Material cost of the product is ₹4 and factory overheads are recovered at 150% of the total direct wages. Calculate the factory cost of the product under:

(i) Time rate system
(ii) Halsey Plan
(iii) Rowan Plan. [6marks]

Question 5

(a) List down any eight factors that you will consider before installing a costing system. [8marks]

(b) Write short notes on: [3x2=6marks]

(i) Controllable and Uncontrollable cost.
(ii) Techniques of costing.
(iii) VED analysis.

Part B-Financial Management (40 Marks)

Attempt Question No-6 which is compulsory and any two from the rest

Question 6

A. In the following cases one out of four answers is correct. You are required to indicate the correct answer (1mark) and give your reason for answer (1mark) [2x4=8 marks]

(i) The average daily sales of a company are ₹5 lakhs. The company normally keeps a cash balance of ₹80,000. If the weighted operating cycle of the company is 45 days, its working capital will be
(a) ₹112.9 lakhs (b) ₹113.3 lakhs
(c) ₹5.8 lakhs (d) ₹225.8 lakhs

(ii) According to the second method of lending by a bank as per Tandon committee suggestion, the maximum permissible bank borrowing – based on the following information is:
Total current assets ₹40,000; Current assets other than bank borrowings ₹10,000; Core current assets ₹5,000.
(a) ₹22,500 (b) ₹20,000
(c) ₹16,250 (d) ₹8,500

(iii) ABC Ltd. Is selling its products on credit basis and its customers are associated with 5% credit risk. The annual turnover is expected at ₹5,00,000 if credit is extended with cost of sales at 75% of sale value. The cost of capital of the company is 15%. The net profit of the company is :
(a) ₹1,25,000 (b) ₹77,670
(c) ₹88,430 (d) ₹1,10,500

(iv) A company has obtained quotes from two different manufacturers for an equipment. The details are as follows :

Product	Cost (₹Million)	Estimated life (years)
Make X	4.50	10
Make Y	6.00	15

Ignoring operation and maintenance cost, which one would be cheaper?
The company's cost of capital is 10%.
[Given : PVIFA (10%, 10 years) = 6.1446 and PVIFA (10%, 15 years) = 7.6061]
(a) Make X will be cheaper (b) Make Y will be cheaper
(c) Cost will be the same (d) None of the above

B. Define [2X2=4 marks]

(i) Gross working capital
(ii) Working capital gap.

Question 7

(a) Electronics Devices Ltd. sells goods to domestic market on a gross profit of 25% on sales without considering depreciation. Its estimates for the next year are as follows :
Amount (₹ lakh)
<u>Sales :</u>
Domestic market at 2 months' credit 1,600
Export selling price 10% below home price (Exports at 3 months' credit) 540

<u>Costs :</u>
Material used (Supplied extend 2 months' credit) 600
Wages paid (½ month in arrear) 400
Manufacturing expenses (paid 1 month in arrear) 600
Sales promotion (payable quarterly in advance 80
Administration expenses (paid 1 month in arrear) 200

The company maintains one month's stock of each of raw material and finished goods. A cash balance of ₹20 lakh is also maintained.
You are required to work out the working capital requirement of the company. [8marks]

(b) A firm's sales, variable costs and fixed cost amount to ₹75,00,000, ₹42,00,000 and ₹6,00,000 respectively. It has borrowed ₹45,00,000 at 9 per cent and its equity capital totals ₹55,00,000.

(i) What is the firm's ROI?
(ii) Does it have favourable financial leverage?
(iii) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?
(iv) What are the operating, financial and combined leverages of the firm?
(v) If the sales drop to ₹50,00,000, what will the new EBIT be?
(vi) At what level will the EBT of the firm equal to zero? [6marks]

Question 8

(a) The Balance Sheet of JK Limited as on 31st March, 2012 and 31st March, 2013 are given below:

Balance Sheet as on

(₹ '000')

Liabilities	31.03.12	31.03.13	Assets	31.03.12	31.03.13
Share Capital	1,440	1,920	Fixed Assets	3,840	4,560
Capital Reserve	--	48	Less: Depreciation	1,104	1,392
General Reserve	816	960		2,736	3,168
Profit and Loss A/c	288	360	Investment	480	384
9% Debenture	960	672	Cash	210	312
Current Liabilities	576	624	Other Current Assets		
Proposed Dividend	144	174	(including Stock)	1,134	1,272
Provision for Tax	432	408	Preliminary Expenses	96	48
Unpaid Dividend	--	18			
	4,656	5,184		4,656	5,184

Additional Information:

1. During the year 2005-2006, Fixed Assets with a book value of ₹2,40,000 (accumulated depreciation ₹84,000) was sold for ₹1,20,000.
2. Provided ₹4,20,000 as depreciation.
3. Some investments are sold at a profit of ₹48,000 and profit was credited to Capital Reserve.
4. It decided that stocks be valued at cost, whereas previously the practice was to value stock at cost less 10 per cent. The stock was ₹2,59,200 as on 31.03.12. The stock as on 31.03.13 was correctly valued at ₹3,60,000.
5. It decided to write off Fixed Assets costing ₹60,000 on which depreciation amounting to ₹48,000 has been provided.
6. Debentures are redeemed at ₹105.

Required:

Prepare a Cash Flow Statement. [10 marks]

(b) The following information is available for ABC & Co.

EBIT	₹ 11,20,000
Profit before Tax	3,20,000
Fixed costs	7,00,000

Calculate % change in EPS if the sales are expected to increase by 5%. [4marks]

Question 9

(a) Cost of capital is used by a company as a minimum benchmark for its yield". —Comment.
Also enumerate the applications of cost of capital in managerial decisions [6marks]

(b) Short Notes: [4x2=8marks]

(iii) Operating or service lease

(iv) American Depository Receipt (ADR)

Cost Accounting and Financial Management

Test Paper—I/8/CAFM/2012/T-3

Time Allowed-3hours **Full Marks-100**

Part A-Cost Accounting (60 Marks)

Attempt Question No-1 which is compulsory and any three from the rest

Question 1

A. Match items of column A with items in column B from the following [1x5=5marks]

Column A	Column B
CAS 7	Determination of Average Cost of Transportation
CAS 9	Capacity Determination
CAS 12	Employee Cost
CAS 2	Packing Material Cost
CAS 5	Repair and maintenance

B. In the following cases one out of four answers is correct. You are required to indicate the correct answer [1x4=4marks]

(i) One of the most important tools in cost planning is:
- (a) Direct cost
- (b) Cost Sheet
- (c) Budget
- (d) Marginal Costing.

(ii) A cost which increases or decreases per unit when volume of output increases or decreases is:
- (a) Fixed cost
- (b) Variable cost
- (c) Direct cost
- (d) Indirect cost

(iii) Costing Profit and Loss Account does not record the:
- (a) sale value of goods
- (b) balance of overhead adjustment account
- (c) balance of cost of sales account
- (d) balance of stores ledger control account

(iv) One important opposing factor in fixing the economic order quantity is:

- (a) Ordering cost
- (b) Variable cost
- (c) Fixed cost
- (d) Semi-variable cost

(C) State whether the following statements are true or false [1X4=4marks]

(i) Perpetual inventory system enables management to ascertain stock at any time without physical inventory being taken.

(ii) Purchase requisition is usually prepared by the storekeeper.

(iii) Weighted average method of pricing issue of materials involves adding all the different prices and dividing by the number of such prices.

(iv) Under the average price method of valuing material issues, a new issue price is determined after each purchase.

(D) Define [2.5x2=5marks]

(i) Blanket (Single) Overhead Rate

(ii) Idle capacity

Question 2

(a) Two components A and B are used as follows:

Normal usage	=50 per week each
Re-order quantity	=A- 300; B-500
Maximum usage	=75 per week each
Minimum usage	=25 per week each
Re-order period:	A - 4 to 6 weeks; B - 2 to 4 weeks

Calculate for each component

(a) Re-order level; (b) Minimum level; (c) Maximum level; (d) Average stock level.

Comment briefly on the difference in levels for the two components. [8marks]

(b) The following information relates to the activities of a production department of factory for a certain period:

Material used	₹36,000
Direct Wages	₹30,000
Labour hours	12,000 Hrs
Hours of Machinery-operation	20,000 Hrs
Overhead Chargeable to the Dept	₹25,000

On one order carried out in the department during the period the relevant data were:

Material used	₹6,000
Direct Wages	₹4,950
Labour hours worked	1,650 Hrs
Machine Hours	1,200 Hrs

Calculate the overheads chargeable to the job by four commonly used methods. [6marks]

Question 3

(a) State briefly the methods of segregating semi-variable cost into fixed and variable. [5marks]

(b) In a manufacturing concern bonus to workers is paid on a slab rate based on cost savings towards labour and overheads. The following are the slab rates:

Upto 10% saving 5% of the earning
Upto 15% Saving 9% of the earning
Upto 20% Saving 13% of the earning
Upto 30% Saving 21% of the earning
Upto 40% Saving 28% of the earning
Above 40% Saving 32% of the earning

The wage rate per hour of workers - P, Q, R and S are respectively ₹1.00 ,₹1.10 , ₹1.20 and ₹1.40. Overheads is recovered on direct wages at the rate of 200%. Standard cost under wages and overhead per unit of production is fixed at ₹30. The workers have completed one unit each in 8, 7, 5 ½ and 5 hours respectively. Calculate in respect of each worker:

a) Amount of bonus earned b) Total earnings; c) Total earnings per hour. [9marks]

Question 4

(a) The following figures were extracted from the trial balance of a company as on 31st December 2012.

Particulars	Debit ₹	Credit ₹
Inventories		
Raw Material	1,40,000	
WIP	2,00,000	
FG	80,000	
Office Appliances	17,400	
Plant and Machinery	4,60,500	
Buildings	2,00,000	
Sales		7,68,000
Sales Returns	14,000	
Material purchased	3,20,000	
Freight on materials	16,000	
Purchase returns		4,800
Direct labour	1,60,000	
Indirect labour	18,000	
Factory supervision	10,000	
Factory repairs & upkeep	14,000	
Heat, light & power	65,000	
Rates & taxes	6,300	
Misc factory expenses	18,700	
Sales commission	33,600	
Sales travelling	11,000	
Sales Promotion	22,500	
Distribution department salaries & wages	18,000	
Office salaries	8,600	
Interest on borrowed funds	2,000	

Further details are given as follows:

a. Closing inventories are Material ₹180000, WIP ₹192000 & FG ₹115000.
b. Accrued expenses are direct labour ₹8000, indirect labour ₹1200 & interest ₹2000.
c. Depreciation should be provided as 5% on Office Appliances, 10% on machinery and 4% on Buildings.
d. Heat, light and power are to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively
e. Rates & taxes apply as 2/3rd to the factory and 1/3rd to office
f. Depreciation on building to be distributed in the ratio of 8:1:1 among factory, office and distribution respectively

Prepare a cost sheet showing all important components. [8marks]

(b) The budgeted working conditions for a cost centre are as follows :
Normal working per week 42 hours

Number of machines 14
Normal weekly loss of hours on maintenance 5 hours per machine
Number of weeks works per year 48
Estimated annual overheads ₹1,24,320
Actual result in respect of a 4 week period are:
Overhead incurred ₹10,200
Machine hours produced 2,000
On the basis of the above information you are required to calculate:
(i) The machine hour rate.
(ii) The amount of under- or over-absorption of overhead. [6marks]

Question 5

(a) Describe briefly the role of the cost accountant in a manufacturing organization. [5marks]

(b) Short Notes: [3x3=9marks]

(i) Bin Card Vs. Stores Ledger
(ii) Merit Rating
(iii) Labour Turnover

Part B-Financial Management (40 Marks)

Attempt Question No-6 which is compulsory and any two from the rest

Question 6

A. In the following cases one out of four answers is correct. You are required to indicate the correct answer (1mark) and give your reason for answer (1 mark) [2x4=8 marks]

(i) Bidhan purchased a second hand machine for ₹8,000 on April, 2008 and spent ₹3,500 on overhauling and installation. Depreciation is written-off 10% p.a. on original cost. On June 30, 2011, the machine was found to be unsuitable and sold for ₹6,500. What is the loss to be written –off?

(a)₹1,265.80 (b)₹1,262.50
(c)₹1,309.80 (d)₹1,350.05

(ii) Based on the following information, what will be the amount of Inventory?
Current ratio=2.6: 1
Liquid ratio=1.5:1
Current liabilities= ₹40,000.

(a)₹55,000 (b)₹44,000
(c)₹22,000 (d)₹33, 000

(iii) The computed financial leverage based on the given data below
Net worth Rs. 25,00,000
Debt/Equity 3 : 1
Interest rate 12%
Operating profit ₹ 20,00,000, is

(a)2.43 (b)2.16 (c)1.82 (d)1.56

(iv) Durga Farm Supplies has an 8 per cent return on total assets of ₹3,00,000 and a net profit margin of 5 per cent. Its sales are then

(a)₹37,50,000 (b)₹4,80,000
(c)₹3,00,000 (d)₹15,00,000

B. Define [2X2=4 marks]

(i) Net working capital
(ii) Inventory control

Question 7

(a) A company is presently working with an earning before interest and taxes (EBIT) of ₹90 lakhs. Its present borrowings are:

	(₹ Lacs)
12.5% term loan	300
Working capital:	
Borrowing from Bank at 13%	200
Public deposit at 11.5%	90

The sales of the company is growing and to support this, the company proposes to obtain additional borrowing of ₹100 lakhs expected to cost 15%. The increase in EBIT is expected to be 15%.
Calculate the change in interest coverage ratio after the additional borrowing and commitment. [6marks]

(b) The turnover of Bengal Polymers Limited is ₹60 lakhs of which 80% is on credit. Debtors are allowed one month to clear off the dues. A factor is willing to advance 90% of the bills raised on credit for a fee of 2% per month plus a commission of 4% on the total amount of debts. The company, as a result of this arrangement, is likely to save ₹21,600 annually in management costs and avoid bad debts at 1 % on the credit sales.
A scheduled bank has come forward to make an advance equal to 90% of the debts at interest rate of 18% per annum. However, its processing fee will be 2% on the debts.
Advise management of the company whether it should avail services of a factor or accept offer from the bank. [8marks]

Question 8

(a) The net Sales of W Ltd. is ₹45 crores. Earnings before interest and tax of the company as a percentage of net sales is 12%. The capital employed comprises ₹15 crores of equity, ₹3 crores of 12% Cumulative Preference Share Capital and 13% Debentures of ₹ 9 crores. Income-tax rate is 30%.

(i) Calculate the Return-on-equity for the company
(ii) Calculate the Operating Leverage of the company given that Combined Leverage is 4.5

[7marks]

(b) Bisk-Farm Biscuits Ltd is considering the purchase of a delivery van, and is evaluating the following two choices:

(i) The company can buy a used van for ₹20,000 and after 4 years sell the same for ₹2,500 (net of taxes) and replace it with another used van which is expected to cost ₹30,000 and has 6 years life with no terminating value,
(ii) The company can buy a new van for ₹40,000. The projected life of the van is 10 years and has an expected salvage value (net of taxes) of ₹5,000 at the end of 10 years.

The services provided by the vans under both the choices are the same. Assuming the cost of capital at 10 percent, which choice is preferable? [7marks]

Question 9

(a) Assuming no taxes and given the earnings before interest and taxes (EBIT), interest (I) at 10% and equity capitalisation rate (K_e) below, calculate the total market value of each firm under Net Income approach:

Firms	EBIT	I	K_e
	₹	₹	
X	2,00,000	20,000	12.0%
Y	3,00,000	60,000	16.0%
Z	5,00,000	2,00,000	15.0%
W	6,00,000	2,40,000	18.0%

Also determine the weight average cost of capital for each firm. [8marks]

(b) Short Notes: [3x2=6marks]

(i) Capital Asset Pricing Model (CAPM)
(ii) Financial Leverage

Cost Accounting and Financial Management

Test Paper—I/8/CAFM/2012/T-4

Time Allowed-3hours **Full Marks-100**

Part A-Cost Accounting (60 Marks)

Attempt Question No-1 which is compulsory and any three from the rest

Question 1

A. Match items of column A with items in column B from the following [1x5=5marks]

Column A	Column B
CAS 3	Selling and Distribution overheads
CAS 10	Pollution Control Cost
CAS 11	Overheads
CAS 14	Direct Expenses
CAS 15	Administrative overhead

B. In the following cases one out of four answers is correct. You are required to indicate the correct answer and give reason for answer [4x2=8marks]

(i) After inviting tenders for supply of raw materials, two quotations are received as follows—
Supplier A ₹2.20 per unit, Supplier B ₹2.10 per unit plus ₹2,000 fixed charges irrespective of the units ordered. The order quantity for which the purchase price per unit will be the same

(a) 22,000 units (c) 20,000 units
(b) 21,000 units (d) None of the above.

(ii) Normal rate per hour for worker A in a factory is ₹5.40. Standard time per unit for the worker is one minute. Normal piece rate per unit for the worker is

(a) ₹ 0.90 (c) ₹ 0.11
(b) ₹ 0.09 (d) None of the above

(iii) The cost per unit of a product manufactured in a factory amounts to ₹160 (75% variable) when the production is 10,000 units. When production increases by 25%, the cost of production will be ₹--- per unit.

(a) ₹ 145 (c) ₹ 150
(b) ₹ 152 (d) ₹ 140

(iv) If minimum stock level and average stock level of a particular raw material are 4,000 and 9,000 units respectively, find out its recorder level

(a) 9,000 units (b) 10,000 units
(c) 4,000 units (d) 5,000 units.

(C) State whether the following statements are true or false [1X5=5marks]

(v) Cost Accounting is a branch of Financial Accounting.
(vi) Labour Turnover is the movement of people out of the organisation.
(vii) Bincard shows the value of a material at any movement of time.
(viii) In Cost Accounting, abnormal losses are transferred to Costing Profit and Loss A/c.
(ix) The success of the uniform costing is based on mutual belief and understanding.

Question 2

(a) A company manufactures a standard component. The details of current operations of the company are as follows :
Number of workers employed 100
Weekly working hours 48
Average number of hours lost due to idle time per employee per week 8
Standard time required per unit 2 hours
Hourly wage rate ₹15
Current level of efficiency 80%
For every unit sold the company is getting a cash profit of ₹120 before charging labour cost.
In view of the increased demand for the product, the company has come to an agreement with the labour union to raise the wage rate by ₹3 per hour in return for the workers reducing the idle time by 4 hours and raising the operational efficiency to 90%.
Calculate the

(i) Net Profit at current operations;
(ii) Net Profit after the agreement; and
(iii) Increase/decrease in Net Profit. [4+4+2=10marks]

(b) The following data are available in respect of material X for the year ended 31st March 2012.

	₹
Opening stock	90,000
Purchases during the year	2,70,000
Closing stock	1,10,000

Calculate –
(i) Inventory turnover ratio; and
(ii) The number of days for which the average inventory is held. [4marks]

Question 3

(a) Explain briefly to classification of overheads according to behavior. [4marks]

(b) Madhav has a small furniture factory and specializes in the manufacture of small tables of standard sizes of which he can make 30,000 a year, he made and sold 20,000 tables and his cost per table was ₹110, made up as under – i) Materials ₹60; ii) Labour ₹20 and iii) Overhead (Fixed) recovered at 50% of Material cost ₹30.
Prices are fixed by adding a standard margin of 15% to the total cost arrived at as above. For the current year, due to a fall in the cost of materials, total cost was determined at ₹95 per table as under – i) Materials ₹50; ii) Labour ₹20 and iii) Overhead (Fixed) recovered at 50% of Material cost ₹25.
Madhav maintained his standard margin at 10% of his total cost of sale. Sales were at the same level as in the previous year. You are required to –

(i) Determine profit and loss for the current year.
(ii) Compute the price that should have been charged in the current year to yield the same profit as in previous year. [10marks]

Question 4

(a) M/s XY Ltd. are the manufacturers of picture tubes for T.V. The following are the details of their operation during 2011:

Average monthly market demand 2,000 Tubes
Ordering cost ₹100 per order
Inventory carrying cost 20% per annum
Cost of tubes ₹500 per tube
Normal usage 100 tubes per week
Minimum usage 50 tubes per week
Maximum usage 200 tubes per week
Lead time to supply 6-8 weeks

Compute from the above:

(1) Economic Order Quantity. If the supplier is willing to supply quarterly 1,500 units at a discount of 5%, is it worth accepting?
(2) Maximum level of stock
(3) Minimum level of stock
(4) Reorder level [8marks]

(b) From the following particulars given below compute Machine hour rate for a machine.

(i) Cost ₹ 24,000
(ii) Scrap value ₹ 4,000
(iii) Estimated Working life 40,000 hours.
(iv) Estimated cost of repairs and maintenance during the whole life ₹ 2,000.
(v) Standard charges of the shop for 4 weekly period ₹ 3,000.
(vi) Working hours in 4 weekly period 100 hours.
(vii) No. of machines in the shop each of which is liable for equal change are 30 machines.
(viii) Power used per hour 4 units @ 10p. per unit. [6marks]

Question 5

(a) Difference between Cost Control and Cost Reduction [8marks]

(b)Short Notes: [3x2=6marks]

(i) Bin Card Vs. Stores Ledger
(ii) Merit Rating
(iii) Labour Turnover

Part B-Financial Management (40 Marks)

Attempt Question No-6 which is compulsory and any two from the rest

Question 6

A. In the following cases one out of four answers is correct. You are required to indicate the correct answer (1mark) and give your reason for answer (1 mark) [2x4=8 marks]

(i) A Limited is presently selling 1,00,000 units of its products. The selling price per unit is ₹25 and variable cost per unit is ₹15. The fixed cost is ₹5,00,000. The financial breakeven point for the company is ₹1,50,000. What will be the percentage change in EBIT required to increase EPS by 20%?
(a)10% (b)12% (c)14% (d)20%

(ii) The capital structure of a company is as under:

3,00,000 Equity Shares of ₹10 each,
32,000, 12% Preference Shares of ₹100 each,
General Reserve ₹15,00,000,
Securities Premium Account ₹5,00,000,
25,000, 14% Fully Secured Debentures of ₹100 each,
Term Loan of ₹13,00,000.
Based on these, the leverage of the company is

(a)60.22% (b)58.33%
(c)55.21% (d)62.10%.

(iii) The average daily sales of a company are ₹5 lac. The company normally keeps a cash balance of ₹80000.If the weighted operating cycle of the company is 45 days, its working capital will be:

(a)₹112.9 lac (b) ₹113.3 lac
(c) ₹5.8 lac (d) ₹225.8 lac.

(iv) Basic objective of Financial Management is:

(a)maximization of shareholder's wealth;
(b)maximization of profits.
(c)arrangement of financial resources.
(d)efficient utilization of funds.

B. Define [2X2=4 marks]

(i) Return on Equity
(ii)Financial Lease

Question 7

(a) The Balance Sheets of A, B, & C Co. Ltd. as at the end of 2011 and 2012 are given below:

LIABILITIES	2011(₹)	2012(₹)	ASSETS	2011(₹)	2012(₹)
Share Capital	1,00,000	1,50,000	Freehold land	1,00,000	1,00,000
Share premium	-	5,000	Plant at cost	1,04,000	1,00,000
General Reserve	50,000	60,000	Furniture at cost	7,000	9,000
Profit & Loss Account	10,000	17,000	Investments	60,000	80,000
6% Debentures	70,000	50,000	Debtors	30,000	70,000
Provision for Depreciation on Plant	50,000	56,000	Stock	60,000	65,000
Provision for Dep. on Furniture	5,000	6,000	Cash	30,000	45,000
Provision for taxation	20,000	30,000			
Sundry Creditors	86,000	95,000			

	3,91,000	4,69,000		3,91,000	4,69,000

A plant purchased for ₹4,000 (Depreciation ₹2,000) was sold for cash for ₹800 on September 30, 2012. On June 30, 2012 an item of furniture was purchased for ₹2,000. These were the only transactions concerning fixed assets during 2012. A dividend of 22½ % on original shares was paid. You are required to prepare funds flow statement and verify the results by preparing a schedule of changes in working Capital. [8marks]

(b) Bombay Cotton Mills Limited Ltd. makes a rights issue at ₹5 a share of one new share for every four shares held. Before the issue, there were 10 million shares outstanding and the share price was ₹6. Based on the above information you are required to compute-

a. The total amount of new money raised.
b. How many value of one rights are required to buy one new share?
c. What is the value of one right?
d. What is the prospective ex-rights price? [1.5x4=6marks]

Question 8

(a) A company has a profit margin of 20% and asset turnover of 3 times. What is the company's return on investment? How will this return on investment vary if?

Profit margin is increased by 5%?
Asset turnover is decreased to 2 times?
Profit margin is decreased by 5% and asset turnover is increase to 4 times? [6marks]

(b) Surya Industries Ltd. is marketing all its products through a network of dealers. All sales are on credit and the dealers are given one month time to settle bills. The company is thinking of changing the credit period with a view to increase its overall profits. The marketing department has prepared the following estimates for different periods of credit:

Particulars		**Present Policy**	**Plan I**	**Plan II**	**Plan III**
Credit period	(in months)	1	1.5	2	3
Sales	(₹ Lakhs)	120	130	150	180
Fixed costs	(₹ Lakhs)	30	30	35	40
Bad debts	(% of sales)	0.5	0.8	1	2

The company has a contribution/sales ratio of 40% further it requires a pre-tax return on investment at 20%. Evaluate each of the above proposals and recommend the best credit period for the company. [8marks]

Question 9

(a) With the help of the following information complete the Balance Sheet of MNOP Ltd.

Equity share capital	₹1,00,000	
The relevant ratios of the company are as follows:		
Current debt to total debt	40	
Total debt to owner's equity	60	
Fixed assets to owner's equity	60	
Total assets turnover	2 Times	
Inventory turnover	8 Times	[8marks]

(b) Short Notes: [3x2=6marks]

(v) Venture Capital
(vi) Securitisation