PAPER – 1 : ADVANCED ACCOUNTING

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

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

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

Working Notes should form part of the answer.

Question 1

(a) On 1st April, 2023, Green Limited started the construction of an Office Building (qualified asset). The land under the building is regarded as a separate asset and is not a part of qualifying asset.

For the purpose of construction of building, the company raised a specific loan of ₹ 14 lakhs from a Bank at an interest rate of 12% per annum. An interest income of ₹ 15,000 was earned on this loan while it was held in anticipation of payments.

The company's other outstanding loans on 1st April, 2023 were as follows:

Amount of Loan	***Rate of Interest per annum***
₹ 20,00,000	*15%*
₹ 30,00,000	*8%*

The construction of building started on 1st April, 2023 and was completed on 31st January, 2024 when it was ready for its intended use. Up to the date of completion of the building, the following payments were made to the contractor:

Payment date	***Amount in ₹***
1st April,2023	*4,00,000*
1st August,2023	*10,00,000*
1st December,2023	*25,00,000*
31st January,2024	*5,00,000*

The life of building is estimated to be 20 years and depreciation is calculated on straight line method.

You are required to:

(i) Calculate the amount of borrowing cost to be capitalized.

(ii) Pass initial journal entry to recognise the cost of building.

(iii) Depreciation on building for the year ending 31st March, 2024.

(iv) Carrying value of building as on 31st March, 2024.

(b) Well Wear Limited is a Textile Manufacturing Company and engaged in the production of Polyester (P) and Nylon (N). While manufacturing the main products, a by-product Fiber (F) is also produced. Details of the cost of production are as under:

Purchase of Raw Material for manufacturing process of

30,000 units	*₹ 3,50,000*
Wages paid	*₹ 1,60,000*
Fixed overheads	*₹ 1,20,000*
Variable overheads	*₹ 60,000*
Output:	
Polyester (P)	*12,500 Units*
Nylon (N)	*10,000 Units*
Fiber (F)	*3,200 Units*
Closing Inventory:	
Polyester (P)	*1,600 Units*
Nylon(N)	*400 Units*

Average market price of Polyester and Nylon is ₹ 100 and ₹ 60 per unit respectively, by-product Fiber is sold@₹ 40 per unit. There is a profit of ₹ 8,000 on sale of by-product after incurring separate processing expenses of ₹ 10,000 and packing charges of ₹ 9,000. ₹ 5,000 was realized from sale of scrap.

On the basis of the above information, you are required to compute the value of closing inventory of Polyester and Nylon. ***(7 + 7 = 14 Marks)***

Answer

(a) (i) Computation of borrowing cost to be capitalized for specific borrowings and general borrowings based on weighted average accumulated expenses

Date of incurrence of expenditure	Amount spent	Financed through	Calculation	₹
1st April 2023	4,00,000	Specific borrowing	4,00,000 x 12% x 10/12	40,000
1st August 2023	10,00,000	Specific borrowing	10,00,000 x 12% x 10/12	1,00,000
1st December 2023	25,00,000	General borrowing	25,00,000 x 10.8% x 2/12	45,000
31st January 2024	5,00,000	General borrowing	5,00,000 x 10.8% x 0/12	Nil
				1,85,000
Less: interest income on borrowing				(15,000)
Total amount borrowing cost to be capitalized				1,70,000

(ii) Journal Entry

Date	Particulars	₹	₹
31.1.2024	Building account Dr.	45,70,000	
	To Bank account		44,00,000
	To Interest payable (borrowing cost)		1,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)		

Note: In the above journal entry, it is assumed that interest amount will be paid at the year end. Hence, entry for interest payable has been passed on 31.1.2024.

Alternatively, following journal entry may be passed if interest is paid on the date of capitalization:

Date	Particulars		₹	₹
31.1.2024	Building account	Dr.	45,70,000	
	To Bank account			45,70,000
	(Being expenditure incurred on construction of building and borrowing cost thereon capitalized)			

(iii) Depreciation on building for the year ending 31.3.2024

Cost of building 45,70,000

Life of building = 20 years

Depreciation = (45,70,000/20) x 2/12 = 38,083.33

(iv) Carrying Value of Building on 31st March 2024:

Carrying Value = Cost of Building - Accumulated Depreciation

= 45,70,000- 38,083.33

= 45,31,917

Working Notes:

1. Calculation of capitalization rate on borrowings other than specific borrowings

Amount of loan (₹)	Rate of interest		Amount of interest (₹)
20,00,000	15%	=	3,00,000
30,00,000	8%	=	2,40,000
50,00,000			**5,40,000**
Weighted average rate of interest $\left(\frac{5,40,000}{50,00,000} \times 100\right)$		=	**10.8%***

2. Total expenses to be capitalized for building

	₹
Cost of building ₹ (4,00,000 + 10,00,000 + 25,00,000 + 5,00,000)	44,00,000
Add: Amount of interest to be capitalized	1,70,000
	45,70,000

(b) As per AS 2 'Valuation of Inventories', most by-products as well as scrap or waste materials by their nature, are immaterial. They are often measured at net realizable value and this value is deducted from the cost of the main product.

Determination of value of closing inventory of Polyester and Nylon

	Polyester	**Nylon**
Closing inventory in units	1,600 units	400 units
Cost per unit	₹ 31.14	₹ 18.68
Value of closing inventory	₹ 49,824	₹ 7,472

Working Notes

1. Calculation of net realizable value of by-product, Fiber

		₹
Selling price of by-product Fiber	(3,200 units x ₹ 40 per unit)	1,28,000
Less: Separate processing charges of by-product Fiber		(10,000)
Packing charges		(9,000)
Net realizable value of by-product Fiber		1,09,000

2. Calculation of cost of conversion for allocation between joint products Polyester and Nylon

	₹	₹
Raw material		3,50,000

Wages		1,60,000
Fixed overhead		1,20,000
Variable overhead		60,000
		6,90,000
Less: NRV of by-product Fiber (W.N. 1)	(1,09,000)	
Sale value of scrap	(5,000)	(1,14,000)
Joint cost to be allocated between Polyester and Nylon		5,76,000

Determination of "basis for allocation" and allocation of joint cost to Polyester and Nylon

	Polyester	Nylon
Output in units (a)	12,500 units	10,000 units
Sales price per unit (b)	₹ 100	₹ 60
Sales value (a x b)	₹ 12,50,000	₹ 6,00,000
Total value (12,50,000 + 6,00,000) = 18,50,000		
Joint cost of ₹ 5,76,000 allocated in the ratio of 12,50,000 : 6,00,000	₹ 3,89,189	₹ 1,86,811
Cost per unit [c/a]	₹ 31.14	₹ 18.68

Question 2

Following is the summarized Balance Sheets of Z Limited as on 31st March, 2024:

Particulars	***(₹)***
EQUITY AND LIABILITIES:	
Share Capital	
Equity shares of ₹ 100 each	*60,00,000*
8% Preference shares of ₹ 100 each	*21,00,000*
10% Debentures of ₹ 100 each	*18,00,000*
Trade Payables	*16,80,000*
Total	***1,15,80,000***
ASSETS:	
Goodwill	*81,000*

Property, Plant and Equipment	*72,00,000*
Trade Receivables	*13,75,000*
Inventories	*9,80,000*
Cash at Bank	*1,33,000*
Own Debentures (Nominal value of ₹ 6 lakhs)	*5,76,000*
Profit and Loss A/c	*12,35,000*
Total	***1,15,80,000***

On 1st April, 2024, court approved the following reconstruction scheme for Z Limited:

(i) Each equity share shall be sub-divided into 10 equity shares of ₹ 10 each fully paid up. After sub-division, equity share capital will be reduced by 40%.

(ii) Preference share dividends are in arrear for last 4 years. Preference shareholders agreed to waive 75% of their dividend claim and accept payment for the balance.

(iii) Own debentures of ₹ 2,40,000 (nominal value) were sold at 98 cum interest and remaining own debentures were cancelled.

(iv) Debenture holders of ₹ 6,00,000 agreed to accept one machinery of book value of ₹ 9,00,000 in full settlement.

(v) Remaining Property, Plant and Equipment were valued at ₹ 60,00,000.

(vi) Trade Payables, Trade Receivables and Inventories were valued at ₹ 15,00,000, ₹ 13,00,000 and ₹ 9,44,000 respectively. Goodwill and Profit and Loss Account (Debit balance) are to be written off.

(vii) Company paid ₹ 60,000 as penalty to avoid capital commitments of ₹ 12 lakhs.

(viii) Interest on 10% Debentures is paid every year on 31st March.

You are required to:

(1) Pass necessary journal entries in the books of Z Limited to implement the above schemes.

(2) Prepare Capital Reduction Account.

(3) Prepare Bank Account **(14 Marks)**

Answer

1. Journal entries

In the Books of Z Ltd. as on 1st April 2024

	Particulars		Dr.	Cr.
01.04.2024			**Amount (₹)**	**Amount (₹)**
1.	Equity share capital A/c (₹ 100)	Dr.	60,00,000	
	To Equity share capital A/c (₹ 10)			60,00,000
	(Being sub-division of one share of ₹ 100 each into 10 shares of ₹ 10 each)			
2.	Equity share capital A/c (₹ 10)	Dr.	24,00,000	
	To Capital reduction A/c			24,00,000
	(Being reduction of Equity capital by 40%)			
3.	Capital reduction A/c	Dr.	1,68,000	
	To Bank A/c			1,68,000
	(Being payment in cash of 25% of arrear of preference dividend) [21,00,000x8%] x 4 years			
4.	Bank A/c	Dr.	2,35,200	
	To Own debentures A/c (5,76,000/6,00,000) x 2,40,000			2,30,400
	To Capital reduction A/c			4,800
	(Being profit on sale of own debentures of ₹ 2,40,000 transferred to capital reduction A/c)			
5.	10% Debentures A/c (6,00,000 -2,40,000)	Dr.	3,60,000	
	To Own debentures A/c			3,45,600
	To Capital reduction A/c			14,400
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			

6.	10% Debentures A/c	Dr.	6,00,000	
	Capital reduction A/c	Dr.	3,00,000	
	To Machinery or PPE A/c			9,00,000
	(Being machinery taken up by debenture holders for ₹ 6,00,000)			
7.	Capital reduction A/c (balancing figure)	Dr.	3,00,000	
	To PPE A/c			3,00,000
	(72,00,000 - 9,00,000 - 60,00,000)			
	(Being PPE revalued)			
8.	Trade payables A/c	Dr.	1,80,000	
	(16,80,000 -15,00,000)			
	To Trade receivables A/c			75,000
	(13,75,000-13,00,000)			
	To Inventory A/c			36,000
	(9,80,000-9,44,000)			
	To Capital Reduction A/c			69,000
	(Being assets and liabilities revalued)			
9.	Capital reduction A/c	Dr.	13,16,000	
	To Goodwill A/c			81,000
	To Profit and Loss A/c			12,35,000
	(Being the above assets written off)			
10.	Capital reduction A/c	Dr.	60,000	
	To Bank A/c			60,000
	(Being penalty paid for avoidance of capital commitments)			
11.	Capital reduction A/c	Dr.	3,44,200	
	To Capital reserve A/c			3,44,200
	(Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)			

2. Capital Reduction Account

	(₹)		(₹)
To Bank	1,68,000	By Equity Share Capital	24,00,000
To Property, Plant & Equipment	3,00,000	By Trade Payable	1,80,000
To Property, Plant & Equipment	3,00,000	By Bank A/c (Profit on Sale)	4,800
To Trade Receivables	75,000	By 10% debentures A/c (Profit on cancellation)	14,400
To Inventory	36,000		
To Goodwill	81,000		
To Profit and Loss A/c	12,35,000		
To Cash/Bank A/c	60,000		
To Capital Reserve	3,44,200		
	25,99,200		25,99,200

3. Bank Account

	₹		₹
To To balance b/d	1,33,000	By Capital Reduction	1,68,000
To Own Debenture (2,30,400 +4,800)	2,35,200	By Capital Reduction A/c	60,000
		By balance c/d	1,40,200
	3,68,200		3,68,200

Question 3

(a) *Constructions Limited is engaged in the business of constructing Flyovers and Railway over bridges. It obtained a contract from Railway Authorities to construct a railway over bridge for ₹ 400 crores. The construction of the railway over bridge is expected to be completed in 4 years.*

At the outset of the contract, it was estimated that the total costs to be incurred will be ₹ 370 crores but by the end of year 1, this estimate stands revised to ₹ 375 crores.

During year 3, the Construction Limited has requested for a variation in the contract which is approved by Railway Authorities and accordingly the total contract value will increase by ₹ 10 crores and costs will increase by ₹ 7 crores.

The Constructions Limited decided to measure the stage of completion on the basis of the proportion of contract costs incurred to the total estimated contract costs. Contract costs incurred at the end of each year is:

Year 1 ₹ 98.8 crores

Year 2 ₹ 202.4 crores

Year 3 ₹ 310 crores (including unused material of 3 crores)

Year 4 ₹ 382 crores

You are required to:

(1) Calculate stage of completion of contract for each year

(2) Profit to be recognised for each year.

(b) The following information is provided for Aarambh Limited:

Particulars	*31st March 2023 (₹)*	*31st March 2024 (₹)*
Profit and Loss a/c	*5,400 (Dr.)*	*37,800*
Provision for Taxation	*2,21,400*	*1,35,000*
General Reserve	*54,000*	*81,000*
12% Debentures	*1,18,000*	*2,91,600*
Trade Payables	*1,29,600*	*1,18,800*
8% Current Investments	*54,000*	*1,08,000*
Property, plant and equipment (Gross)	*3,99,600*	*3,99,600*
Accumulated Depreciation	*1,29,600*	*1,62,000*
Trade Receivables (Gross)	*81,000*	*2,61,360*
Provision for Doubtful Debts	*27,000*	*54,000*
Inventories	*1,35,000*	*81,000*
Cash and Cash Equivalents	*54,00*	*30,240*

Additional information:

(i) Income tax provided during the year ₹ 1,62,000.

(ii) New debentures have been issued at the end of current financial year.

(iii) New investments have been acquired at the end of the current financial year.

You are required to calculate net Cash Flow from Operating Activities.

(7 Marks + 7 Marks = 14 Marks)

Answer

(a) (a) Stage of completion = Costs incurred to date / Total estimated costs

Year 1: 98.8 crore / 375 crore = 26.35%

Year 2: 202.4 crore / 375 crore = 53.97%

Year 3: (310 crore – 3 crore) / (375+7) crore = 80.37%

Year 4: 382 crore / 382 crore = 100%

(b) Profit to be recognized each year has been calculated as follows:

	Year 1	Year 2	Year 3	Year 4
Contract Revenue (1)	105.40 crore	110.48 crore	113.64 crore	80.48 crore
	(400 crore x 26.35%)	(400 crore x 53.97% - 105.40 crore)	(410 crore x 80.37% - 105.40 crore -110.48 crore)	(410 crore x 100% - 105.40 crore - 110.48 crore - 113.64 crore)
Contract Cost (2)	98.8 crore	103.60 crore	104.60 crore	75 crore
		202.40 - 98.80 crore)	(307 crore - 98.8 crore- 103.60 crore)	(382 crore - 98.8 crore- 103.6 crore – 104.6 crore)
Contract Profit (1) – (2)	6.60 crore	6.88 crore	9.04 crore	5.48 crore

(b) Cash Flow from Operating Activities

	₹
Difference between Profit and Loss Account ₹ (37,800 + 5,400)	43,200
Add: Transfer to General Reserve (81,000-54,000)	27,000
Add: Adjustment for Provision for taxation	1,62,000
Profit Before tax	2,32,200
Add: Adjustment for Depreciation (₹ 1,62,000 – ₹ 1,29,600)	32,400
Add: Adjustment for provision for doubtful debt (₹ 54,000 – ₹ 27,000)	27,000
Add: Debenture Interest Paid ₹ (1,18,800 × 12%)	14,256
Less: Income from Investments (54,000 × 8%)	(4,320)
Operating Profit before Working Capital changes	3,01,536
Decrease in Inventories ₹ (1,35,000-81,000)	54,000
Increase in Trade receivables ₹ (2,61,360-81,000)	(1,80,360)
Decrease in Trade payables ₹ (1,29,600-1,18,800)	(10,800)
Cash generated from operations	1,64,376
Income tax paid	(2,48,400)
Net Cash generated from Operating Activities	(84,024)

Working Note:

Provision for taxation account

	₹		₹
To Cash (Paid) (Balancing figure)	2,48,400	By Balance b/d	2,21,400
To Balance c/d	1,35,000	By Profit and Loss A/c	1,62,000
	3,83,400		3,83,400

Question 4

Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you:

Particulars	*Intelligent Limited (₹)*	*Diligent Limited (₹)*
Equity Shares Capital of ₹ 100 each	*12,00,000*	*10,00,000*
8% Preference shares of ₹ 100 each	*3,00,000*	*2,00,000*
Trade Payables	*12,00,000*	*4,00,000*
Retirement Gratuity Fund (Long Term)	*3,00,000*	*2,00,000*
Profit and Loss Account		
Opening balance	*4,50,000*	*2,50,000*
Profit for the current year	*2,50,000*	*1,50,000*
Land and Buildings	*10,00,000*	*8,00,000*
Plant and Machinery	*10,00,000*	*6,00,000*
Inventories	*7,00,000*	*4,00,000*
Trade Receivables	*6,00,000*	*3,00,000*
Cash and Bank	*4,00,000*	*1,00,000*

On 1st April, 2024, both the companies agreed to amalgamate and form a new company 'Genius Limited, with an authorized capital of ₹ 40,00,000 divided into 30,000 equity shares of ₹ 100 each and 10,000 8% preference shares of ₹ 100 each.

The amalgamation has to be carried out on the basis of following agreement:

(1) Assets of both the companies were to be revalued as follows:

Particulars	*Intelligent Limited (₹)*	*Diligent Limited (₹)*
Land and Buildings	*11,00,000*	*8,50,000*
Plant and Machinery	*9,00,000*	*4,00,000*
Inventories	*6,00,000*	*3,00,000*

(2) Trade payables of Intelligent Limited includes ₹ 1,00,000 due to Diligent Ltd. and the Trade receivables of Diligent Limited shows ₹ 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner:

(i) Issue 22,000 Equity Shares of ₹ 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) *Preference shareholders of both companies are issued equivalent number of 8% Preference Shares of ₹ 100 each of Genius Limited at a price of ₹ 125 per share.*

(iii) *12% debentures of ₹ 100 each in Genius Limited at par to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.*

You are required to:

(a) *Compute the amount of Shares & Debentures to be issued to Intelligent Limited and Diligent Limited.*

(b) *Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.* ***(14 Marks)***

Answer

Computation of shares and debentures to be issued

		Intelligent Ltd.	**Diligent Ltd.**
(i) Equity shares	22,000 x 7/11 = 14,000 (W.N.1)	14,00,000	
	22,000 x 4/11 =8,000 (W.N.1)		8,00,000
(ii)Preference shares	$(\frac{3,00,000}{100} \times 125)$	3,75,000	
	$(\frac{2,00,000}{100} \times 125)$		2,50,000
(iii) Debentures	Refer (W.N.3)	17,50,000	11,25,000
Total Purchase Consideration (i + ii + iii)		35,25,000	21,75,000

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	**₹**
I.	**Equity and Liabilities**		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000

(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		15,00,000
	Total		77,00,000
II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr. No.	**Particular**	**₹**
1.	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of ₹ 100 each	30,00,000
	b) Preference Share Capital	
	10% 10,000 Preference Shares ₹ 100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	

	22,000 Equity Shares of ₹100 each	22,00,000
	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	
		27,00,000
2.	Reserves & Surplus	
	Securities Premium	1,25,000
3.	Long term borrowings	
	12% Debentures of ₹ 100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Total	7,00,000	4,00,000

*As the company has been in existence for two years, the opening balance of profit and loss account has been assumed to be the profit of the previous year.

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.

No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

2. Calculation of Net assets as on 31.3.2024

Particulars	Intelligent Ltd.	Diligent Ltd
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	19,50,000
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	15,00,000	6,00,000
Net Assets (a – b)	21,00,000	13,50,000

3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued	17,500	
$\left[2,10,000 \times \frac{100}{12}\right]$ = 17,50,000of ₹ 100 each		
$\left[1,35,000 \times \frac{100}{12}\right]$ = 11,25,000 of ₹ 100 each		11,250

4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	21,00,000	13,50,000	
(iii)	Goodwill	14,25,000	8,25,000	22,50,000

Alternatively:

4. Calculation of Goodwill / Capital Reserve

S. No.	Particulars	Intelligent Ltd.	Diligent Ltd	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets*	22,00,000	12,50,000	
(iii)	Goodwill	13,25,000	9,25,000	22,50,000

* Calculation of Net assets taken over

Particulars	Intelligent Ltd.	Diligent Ltd
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	2,00,000*
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	18,50,000
Liabilities		
Trade Payables	11,00,000**	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	14,00,000	6,00,000
Net Assets (a – b)	22,00,000	12,50,000

*₹ 3,00,000 - ₹ 1,00,000= ₹ 2,00,000

**₹ 12,00,000 - ₹ 1,00,000 = ₹ 11,00,000

Question 5

The Balance Sheets of Art Limited and Craft Limited as on 31 March 2024 are as below:

Particulars	Note No	Art Limited (₹)	Craft Limited (₹)
I. Equity and Liabilities			
a. Shareholder's Fund			
i. Share Capital	1	6,50,000	4,00,000
ii. Reserve & Surplus	2	3,12,000	2,48,000
b. Current Liabilities			
i. Trade Payables		1,45,000	92,000
ii. Short term borrowings	3	70,000	-
		11,77,000	7,40,000
II. Assets			
a. Non-current Assets			
i. Property, Plant & Equipment	4	4,21,000	3,60,000
ii. Non-current investment	5	4,32,000	-
b. Current Assets			
i. Inventories		1,66,000	2,05,000
ii. Trade Receivables	6	1,33,500	1,68,300
iii. Cash & Cash equivalent		24,500	6,700
		11,77,000	7,40,000

Notes to Accounts:

		Art Limited (₹)	Craft Limited (₹)
1.	Share capital		
	6,500 shares of ₹ 100 each fully paid up	6,50,000	
	4,000 shares of ₹ 100 each fully paid-up	-	4,00,000
	Total	6,50,000	4,00,000
2.	Reserves and Surplus		

	General Reserve *Profit and Loss account*	*1,20,000* *1,92,000*	*40,000* *2,08,000*
	Total	*3,12,000*	*2,48,000*
3.	*Short term borrowings* *Bank Overdraft*	*70,000*	*-*
4.	*Property Plant & Equipment* *Land & Building* *Plant & Machinery*	*1,90,000* *2,31,000*	*1,35,000* *2,25,000*
	Total	*4,21,000*	*3,60,000*
5.	*Non-current investments* *Investment in Craft Limited (Cost)*	*4,32,000*	*-*
6.	*Cash & Cash equivalents* *Cash*	*24,500*	*6,700*

Additional information:

(i) *Art Limited acquired 3,200 ordinary shares of Craft Limited on 1st October, 2023. The Reserve & Surplus and Profit & Loss Account of Craft Limited showed a credit balance of ₹40,000 and ₹58,700 respectively as on 1st April, 2023.*

(ii) *The Plant & Machinery of Craft Limited which stood at ₹ 2,50,000 as on 1st April, 2023 was considered worth ₹ 2,20,000 on the date of acquisition. The depreciation on Plant & Machinery is calculated @ 10% p.a. on the basis of useful life. The revaluation of Plant & Machinery is to be considered at the time of consolidation.*

(iii) *Craft Limited deducts 1% from Trade Receivables as a general provision against doubtful debts. This policy is not followed by Art Limited.*

(iv) *On 31st March 2024, Craft Limited's inventory includes goods which it had purchased from Art Limited for 1,03,500 which made a profit of 15% on cost price.*

You are required to prepare a consolidated Balance Sheet as on 31st March 2024.

(14 Marks)

Answer

Consolidated Balance Sheet of Art and Craft Ltd
As on 31st March, 2024

	Particulars	Note no.	₹
I.	**Equity & Liabilities**		
(1)	Shareholders' fund		
(a)	Share Capital	1	6,50,000
(b)	Reserves & Surplus	2	3,73,460
(2)	Minority Interest	3	1,26,740
(3)	Current Liabilities		
(a)	Short term borrowings	4	70,000
(b)	Trade Payables (1,45,000 + 92,000)		2,37,000
	Total		14,57,200
II.	**Assets**		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	7,65,000
(2)	Current Assets		
(a)	Inventories	6	3,57,500
(b)	Trade Receivables	7	3,03,500
(c)	Cash & Cash Equivalents	8	31,200
	Total		14,57,200

Notes to Accounts

Sr. No.	Particulars	₹
1.	Share Capital	
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	6,500 Equity Shares of ₹ 100 each	6,50,000

2.	Reserves & Surplus		
	Profit & Loss A/c (WN 5)		2,40,100
	General Reserve (WN 5)		1,20,000
	Capital Reserve (W.N. 3)		13,360
			3,73,460
3.	Minority interest in Craft Ltd. (W.N.4)		1,26,740
4.	Short-term borrowings		
	Bank Overdraft		70,000
5.	Property, Plant & Equipment		
	Land & Building		
	Art Ltd.	1,90,000	
	Craft Ltd.	1,35,000	3,25,000
	Plant & Machinery		
	Art Ltd.	2,31,000	
	Craft Ltd. (2,25,000-17,500+1,500)	2,09,000	4,40,000
			7,65,000
6.	Inventories		
	Art Ltd.	1,66,000	
	Craft Ltd.	2,05,000	
	Less: unrealized profit	(13,500)	3,57,500
7.	Trade Receivables		
	Art Ltd.	1,33,500	
	Craft Ltd.	1,70,000	3,03,500
8.	Cash & Cash Equivalents		
	Art Ltd.	24,500	
	Craft Ltd.	6,700	31,200

Working Notes:

1. Shareholding Pattern

Total 4,000 shares	
3,200 shares	800 shares
Art Ltd (80%)	20% Minority Interest

2. Analysis of Profit

	General reserve	**Profit and loss account**
Opening balance	40,000	58,700
Closing balance	40,000	2,08,000
Changes during the year		1,49,300

Analysis of Profit

Particulars	**Pre acquisition profit (6 months) (₹)**	**Post acquisition profit (6 months) (₹)**
Opening Balances (40,000 + 58,700)	98,700	
Profit for 6 months (1,49,300 x 6/12)	74,650	74,650
Provision reversed (1,700) (W.N. 8)	850	850
Revaluation Loss (W.N. 6)	(17,500)	-
Savings in depreciation (W.N. 6)	-	1,500
Total	1,56,700	77,000
Holding (80%)	1,25,360	61,600
Minority Interest (20%)	31,340	15,400

3. Cost of Control

Particulars	**₹**	**₹**
Cost of Investment (Given)		4,32,000

Less: Share in Net Assets:		
a) Share Capital (3,200 shares × ₹100)	3,20,000	
b) Capital Profit (W.N. 2)	1,25,360	(4,45,360)
Capital Reserve		13,360

4. Minority Interest

Particulars	₹
Share Capital (800 shares × 100)	80,000
Capital Profit (W.N. 2)	31,340
Revenue Profit (W.N. 2)	15,400
Total	1,26,740

5. Consolidated Profit and General Reserve of Art Ltd

Particulars	**Profit and loss account ₹**	**General reserve ₹**
Balance as per Balance Sheet	1,92,000	1,20,000
Revenue Profit	61,600	-
Unrealized Profit (Downstream)	(13,500)	
Total	2,40,100	1,20,000

6. Calculation of Revaluation Profit /Loss

Particulars	₹
Balance as on 01.04.2023 (given)	2,50,000
Depreciation for 6 months (2,50,000 × 10% × 6/12)	(12,500)
WDV as on date of acquisition	2,37,500
Revalued amount	2,20,000
Revaluation Loss	17,500

7. Savings in Depreciation

= Depreciation Provided for 6 months – Depreciation Should be

= 12,500 – (2,20,000 × 10% × 6/12)

= 1,500

8. Calculation of provision reversed

Trade Receivable (Given) =1,68,300 it is after provision i.e 99%

So, 100% will be 1,70,000 therefor provision will be **1,700**

As per para 20 and 21 of AS 21, Consolidated financial statements: Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies in preparing the consolidated financial statements, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

Question 6

(a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the following:

Cost of the machine	*₹ 18,00,000*
Lease term	*3 Years*
Fair market value of the machine	*₹ 18,00,000*
Unguaranteed residual value as on 31.3.2024	*₹ 2,00,000*
Internal rate of return	*12%*

Other information:

The expected useful life of the machine is 5 years. The machine will revert to Colour Limited on termination of the lease. The lease payment is to be made at the end of each year in 3 equal parts.

The present value of ₹ 1 due at the end of 3rd year at 12% rate of interest is ₹ 0.7118. The present value of annuity of at ₹ 1 due at the end of 3rd year at 12% IRR is ₹ 2.4018.

You are required to analyze whether lease constitutes finance lease. Also calculate unearned finance income, if any.

OR

(a) On 1 April 2023, ABC Limited has given the following information:

	₹
50,000 equity shares of ₹ 100 each (₹ 80 paid up by all shareholders)	*40,00,000*
2,00,000 8% Preference shares of ₹ 10 each	*20,00,000*
10,000, 12% Debentures of ₹ 100 each	*10,00,000*
(Each debenture is convertible into 3 equity shares of ₹ 100 each)	

On 1" July 2023, the remaining ₹ 20 was called up and paid by all the shareholders except one shareholder holding 10,000 equity shares. During the year 2023-24 the company had a profit after tax of ₹ 3,44,000.

Tax rate is 30%.

You are required to compute Basic and Diluted EPS. ***(4 Marks)***

(b) Following information are available in respect of Z Limited as on 31st March, 2024

1. *Equity shares of ₹ 100 each* — *₹ 500 lakhs*
2. *General Reserve* — *₹ 100 lakhs*
3. *Loss for the year ending 31st March, 2024* — *₹ 5 lakhs*

Due to absence of profits during the year 2023-24, the management recommends to declare dividend of 10% on equity share capital out of general reserve.

The rates of equity dividend for the last 5 years immediately preceding the year 2023-24 are as follows:

2022-23	*2021-22*	*2020-21*	*2019-20*	*2018-19*
12%	*14%*	*10%*	*10%*	*7%*

As an accountant of the company, you are required to suggest whether the recommendation of the management is justified? If, you do not agree, then suggest the rate of dividend. ***(4 Marks)***

(c) *Smart Limited is an Indian Company and has its Branch at New York. The following balances in respect of Smart Limited's USA Branch office are provided:*

(i) Debit Balances (in USD)

Expenditure (excluding Depreciation)	:	*1,03,095*
Cash & bank balances	:	*2,175*
Debtors	:	*7,365*
Fixed Assets (Gross)	:	*34,200*
(Rate of Depreciation on Fixed Assets: 20%)		
Inventory-Stock 'P'	:	*5,520*
Inventory- Stock 'Q'	:	*1,035*

(ii) Credit Balances (in USD)

Incomes	:	*1,32,000*
Creditors	:	*15,570*
HO Control a/c	:	*5,820*

The following additional information is provided:

(1) The average exchange rate during the above financial year was 1 USD = ₹ 56.

(2) The fixed assets were purchased when the exchange rate was 1 USD ₹ 55.

(3) The closing exchange rate on reporting date is 1 USD = ₹ 58.

(4) Stock item 'P' is valued at cost of USD 5,520, purchased when the exchange rate was ₹ 56.50. The present net realizable value of this item is ₹ 2,85,000.

(5) Stock item 'Q' is carried at net realizable value of USD 1,035, but its cost in USD is 1,065, It was purchased when exchange rate was 1 USD = ₹ 53.

(6) Branch Control Account as per HO books was ₹ 2,66,265.

You are required to show how it will be reflected in the books of Head Office in the form of Trial Balance, if the USA Branch Office is classified as an Integral Foreign Operation. ***(6 Marks)***

Answer

(a) Computation of Annual Lease Payment

Particulars	Amount
Cost of Equipment	18,00,000
Unguaranteed Residual Value	2,00,000
Present Value of unguaranteed residual value (₹ 200,000 x 0.7118)	1,42,360
Present Value of Lease Payments (₹ 18,00,000 – ₹ 1,42,360)	16,57,640
Present Value of Annuity for three years is 2.4018 Annual Lease Payment (16,57,640 / 2.4018)	6,90,165.71

Classification of Lease:

Parameter 1:

The present value of lease payment i.e. ₹ 16,57,649 which equals 92.09% of the fair market value i.e., ₹ 18,00,000.

The present value of minimum lease payments is substantially covers the fair value of the leased asset

Parameter 2:

The lease term (i.e. 3 years) covers the major part of the life of the asset (i.e. 5 years).

Therefore, it constitutes a finance lease.

Computation of unearned Finance Income:

Particulars	Amount
Total Lease Payments (₹ 6,90,165 x 3) *Add:* Unguaranteed residual value 	₹ 20,70,495 ₹ 2,00,000 ₹ 22,70,495

Less: Present value of lease payments and residual value i.e. Net investment (1,42,360+16,57,640)	₹ 18,00,000
Unearned Finance Income	₹ 4,70,495

OR

(a) Basic Earnings per share (EPS) =

$$\frac{\text{Net profit attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$$

$$= \frac{1,84,000}{\text{46,000 Shares (as per working note)}} = ₹\ 4 \text{ per share}$$

Diluted earnings per share

Net profit for the current year	₹ 3,44,000
No. of equity shares outstanding	50,000
Basic earnings per share	₹ 4
No. of 12% convertible debentures of ₹ 100 each Each debenture is convertible into 3 equity shares	10,000
Interest expense for the current year	₹ 1,20,000
Tax relating to interest expense (30%)	₹ 36,000
Adjusted net profit for the current year	₹ (1,84,000 + 1,20,000 - 36,000) = ₹ 2,68,000
No. of equity shares resulting from conversion of debentures	30,000
No. of equity shares used to compute diluted earnings per share	46,000 + 30,000 = 76,000
Diluted earnings per share	2,68,000 / 76,000 = ₹ 3.53

Working Note:

1. **Net profit attributable to equity share holders = Net profit less preference dividends**

   Total earnings – preference shares dividend

₹ 3,44,000 – ₹ (8% x 20,00,000)

₹ 3,44,000 - ₹ 1,60,000

= ₹ 1,84,000

2. **Calculation of weighted average number of equity shares**

As per AS 20 'Earnings Per Share', partly paid equity shares are treated as a fraction of equity share to the extent that they were entitled to participate in dividend relative to a fully paid equity share during the reporting period. Assuming that the partly paid shares are entitled to participate in the dividend to the extent of amount paid, weighted average number of shares will be calculated as follows:

Date	***No. of equity shares***	***Amount paid per share***	***Weighted average no. of equity shares***
	₹	₹	₹
01.04.2023	50,000	80	50,000x 80/100x 3/12 = 10,000
01.07.2023	40,000	100	40,000 x 9/12 = 30,000
01.07.2023	10,000	80	10,000x 80/100x 9/12 = **6,000**
Total weighted average equity shares			**46,000**

(b) In case of declaration of dividend out of free reserves, there are 3 conditions:

(1) Dividend Rate < Average Rate of last 3 years

10% < 12% [(12+14+10)/3]

Condition is Satisfied

(2) Dividend Distributed < 10% of PUSC + Reserve and Surplus

50,00,000 < 59,50,000 [(5,00,00,000 + 1,00,00,000 – 5,00,000) × 10%]

Condition is Satisfied

(3) Reserves after dividend > 15% of PUSC 45,00,000 not > 75,00,000 (5,00,00,000 × 15%)

Condition is Not Satisfied

(4) The closing balance of reserves after payment of dividend and set off of loss = ₹ 75,00,000

Therefore, can be utilized = 20,00,000 (1,00,00,000 – 5,00,000 – 75,00,000)

Thus, rate of dividend = (20,00,000/5,00,00,000) = 4%

Alternatively

To judge the recommendation of management, the satisfaction of all three conditions is to be checked:

(1) Condition I

The proposed dividend of 10% is less than the average rate of dividend being 12%

(i.e.) (12+14+10) /5 =12 %.

Hence, this condition is satisfied.

(2) Condition II

Amount to be withdrawn.

10% dividend on Equity share capital	50,00,000
+ Loss of Current year	5,00,000
Amount to be drawn from General Reserve	55,00,000

Maximum amount that can be withdrawn should not exceed 10% of paid-up share capital + free reserves.

= 10% of [₹ 500 lakhs + ₹ 100 lakhs] = ₹ 60,00,000

As the amount to be withdrawn is within the maximum limit, hence, this condition is also satisfied.

(3) Condition III

Balance of reserves after withdrawal (100-55)	₹ 45,00,000
15% of paid-up capital	₹ 75,00,000

As the balance of reserves should not be less than 15% of its paid-up share capital, but here the balance of reserves after withdrawal is less than 15% of paid-up share capital, hence this condition is not satisfied, hence, 10% dividend cannot be declared.

Maximum withdrawal of Reserve if condition II is satisfied.

Opening balance of Reserves in the beginning of the year	= ₹ 1,00,00,000
- Closing balance of reserves being 15% of paid-up capital	= ₹ 75,00,000
Reserves available =	₹ 25,00,000

Maximum permissible Divisible Profits

Permissible withdrawal as above	= ₹ 25,00,000
Less: Current Year's Loss	= ₹ 5,00,000
Maximum permissible Divisible profit	= ₹ 20,00,000

Actual permissible rate of Dividend =

(₹ 20,00,000 / ₹ 5,00,00,000) x 100 = 4%

Therefore, the recommendation of management is not justified and a dividend only up to a rate of 4% can be declared.

(c) Converted branch trail balance (in the books of head office)

Particular	**Dr. $**	**Cr. $**	**Rate per $**	**₹ Dr.**	**₹ Cr.**
Expenditure	1,03,095		56	57,73,320	
Cash & bank balance	2,175		58	1,26,150	
Debtors	7,365		58	4,27,170	
Fixed assets	27,360		55	15,04,800	
Depreciation 20%	6,840		55	3,76,200	
Inventory P	5,520		Direct	2,85,000	
Inventory Q	1,065		53	56,445	
Income		1,32,000	56		73,92,000
Creditors		15,570	58		9,03,060

HO control A/c		5,820			2,66,265
Exchange difference				12,240	
				85,61,325	85,61,325

Working Note:

Inventory P	$ 5,520	Inventory Q	$ 1,065
Purchased Cost rate	56.50	NRV	$ 1,035
NRV	₹ 2,85,000	Closing rate	58
Cost	₹ 3,11,880	Purchased Cost rate	53
Value at cost or NRV whichever is less	₹ 2,85,000	Value at cost or NRV whichever is less	$ 1,035 @ ₹ 58 or $1,065 @ ₹ 53 = 56,445 or 60,030

PAPER – 2: CORPORATE AND OTHER LAWS

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

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

Question 1

(a) *MNO limited has the following equity share capital –*

Class-1: Equity Share Capital – 3,00,000 equity shares of ₹ 10 each. *(1 voting right for every 1 share)*	*₹ 30,00,000*
Class-2: Equity share Capital – 50,000 equity shares of ₹ 10 each. *(1 voting right for every 5 shares)*	*₹ 5,00,000*

At the time of issue, the company had fulfilled all the conditions related to the issue of equity share capital.

The company wants to vary the voting rights of class 2 equity share capital– 1 voting right for every 5 shares to 1 voting right for every 10 shares.

The Company's Memorandum and Articles of Association have given the company the power to make the variation. The holders of 40,000 equity shares have their consent in writing for this variation.

Out of dissenting shareholders, the holders of 4,500 equity shares want to apply to the Tribunal against the company's action.

Examine, with reference to the relevant provisions of the Companies Act, 2013-

(i) Whether a company can change the rights of its shareholders?

(ii) Whether the dissenting shareholders can apply to the Tribunal?

(5 Marks)

(b) *BBQ Ltd., with its registered office in Hyderabad, has two branch offices, one located in Delhi and the other in London. The accounting transactions of the branches are recorded and all books of account are maintained in* *the branches. The branch accountant of the Delhi branch sent monthly and the branch accountant of London sent quarterly summarized trial balance, profits and loss account and balance sheet to the Hyderabad office. One of the assistants of the audit team, Mr. Naveen, raised the issue that the branches of the company maintain its books and records at branches, so it defaults on not maintaining the proper books of account at the registered office. Mr. Naveen further objected to the fact that the London branch sent their summarised returns on a quarterly basis instead of a monthly basis. You are requested to analyse and decide the validity of both the objections of Mr. Naveen relating to the place of maintaining the books of account and sending summarised returns thereof to the registered office by the branch offices of the company referring to the provisions of the Companies Act, 2013.* ***(5 Marks)***

(c) Mr. L was employed as a fashion designer in Elegant Textile Ltd., a public limited company in Gurugram, India during the financial year 2023-24. He had efficiently provided his services for 183 days during the above said period. On 01.04.2024, Mr. H. the Human Resource Manager of Jeff Fashion Ltd., Paris (a foreign country) offered him a better employment opportunity in such company.

On 02.04.2024, Mr. L. left India for taking up employment as a production controller at Jeff Fashion Ltd. in Paris. On 30.04.2024 he flew back to India for a 10 day family function in Manali, India.

In light of the provisions of the Foreign Exchange Management Act, 1999, elucidate: The residential status of Mr. L-

(i) On his return for attending the family function on 30.04.2024.

(ii) In case, instead of vacation, he joins an employment in an Indian company after arriving on 30.04.2024. ***(4 Marks)***

Answer

(a) Section 48 of the Companies Act, 2013, allows the variation of shareholders' rights, if three conditions have been met.

First - There should be a provision in the memorandum or articles of the company entitling it to vary such class rights, in absence of same; the terms of issue of the shares of that class not prohibiting such a variation.

Second - The holders of at-least 75% of the issued shares of that class must have given their consent in writing or pass a special resolution sanctioning the variation at a separate class meeting.

Proviso to sub-section 1, provides if variation by one class of shareholders affects the rights of any other class of shareholders, the consent of three-fourths of such other class of shareholders shall also be obtained and the provisions of this section shall apply to such variation.

Third – Where the holders of not less than10 per cent of the issued shares of a class did not consent to such variation or vote in favour of the special resolution for the variation, they may apply to the Tribunal to have the variation cancelled and where any such application is made the variation shall not have effect unless and until it is confirmed by the Tribunal.

(i) In the given question, 40,000 equity shareholders of Class 2 have given their consent in writing for the variation.

Since, 80% (40,000/ 50,000) of the shareholders have given the consent, the company can change the rights of Class 2 shareholders provided such change in the rights of Class 2 shareholders is not affecting the rights of any other class of shareholders i.e. Class 1 shareholders in this case.

(ii) Total number of dissenting shareholders= 50,000- 40,000= 10,000.

Minimum number of shareholders who may apply to the Tribunal and then variation shall not take effect unless and until it is confirmed by the Tribunal= 10% of 50,000=5,000.

In the given question, since less than 5,000 (here 4,500) shareholders are intending to apply to Tribunal, hence, they cannot apply.

(b) 1. Provisions of section 128 of the Companies Act, 2013, requires every company to prepare and keep the books of account and other relevant books and papers and financial statements at its registered office.

It also provides that all or any of the books of account may be kept at such other place in India as the Board of directors may decide. Where such a decision is taken by the Board, the company shall within seven days thereof file with the registrar a notice in writing as per rule 2A of the Companies (Accounts) Rules, 2014 in form AOC-5 giving full address of that other place.

Thus, in the given case, the books of accounts of BBQ Ltd. should be prepared and maintained at registered office in Hyderabad. However, the same can be maintained at the respective branches if the Board of directors have decided so and intimated the registrar a notice in writing within 7 days thereof giving full address of that other place (i.e. other than the registered office).

Hence, objection of Mr. Naveen is valid as intimation to registrar is not specified in the question.

2. Where a company has a branch office in or outside India, it shall be deemed to have complied with the requisite provisions of section 128(1) if-

   a. Proper books of account relating to the transactions effected at the branch office are kept at that office, and

   b. Proper summarised returns are sent on periodical basis by branch office to the company at its registered office or other place.

   As per Rule 4(1) of the Companies (Accounts) Rules, 2014, the summarized returns of the books of account of the company kept and maintained outside India shall be sent to the registered office at quarterly intervals, which shall be kept and maintained at the registered office of the company and kept open to directors for inspection.

   Since, London office was sending summarized returns to the registered office in Hyderabad on quarterly basis, which is as per the requirement of law, hence, the objection of Mr. Naveen is invalid.

(c) According to section 2(v) of the Foreign Exchange Management Act, 1999, "Person resident in India" means a person residing in India for more than 182 days during the course of the preceding financial year but does not include a person who has gone out of India or who stays outside India, for or on taking up employment besides with the other specified purposes, outside India.

(i) In the given question, Mr. L will be treated as a person resident outside from 2.4.2024 till the time he works in Jeff Fashion Ltd. in

Paris, as he has gone out of India for or on taking up employment outside India.

His return to India for 10 days to attend a family function, will not alter his residential status.

(ii) Mr. L will be treated as a person resident in India from the day he joins employment in India (after arriving on 30.4.2024).

Question 2

(a) Referring to the provisions of the Companies Act, 2013, answer the following queries:

(i) What is the type of resolution to be passed and maximum number of persons to whom an offer by private placement in a financial year be made?

(ii) Explain the consequences of non-allotment of shares within the stipulated timeline.

(iii) In case the shares were allotted within the requisite allowed time, when can the company start utilizing the funds received by it from such private placement? ***(5 Marks)***

(b) (i) In the circumstance where Mr. M and Mr. P, joint shareholders of Primal Private Limited holding 500 equity shares, have conflicting views on one special business (related to proposed changes in the Articles of Association) at the extra-ordinary general meeting, Mr. M is endorsing the resolution, and Mr. P is dissenting. Determine the procedure for casting the vote in the event of such a situation, as per the guidelines outlined in the Companies Act, 2013. ***(3 Marks)***

(ii) Okara Limited, a company. having a net worth of ₹110 crore and a turnover of ₹450 crore, wants to accept deposits from the public. Referring to the provisions of the Companies Act, 2013, decide, whether the above company can accept the deposits from the public.

(2 Marks)

(c) (i) The Board of Directors of Cool Private Limited, through a resolution passed in the board meeting, granted authorization to Mr. Sharad, the CEO of the company to appoint two employees for the procurement department. Subsequently, Mr. Sharad selected Mr. Suresh and

Mr. Hemant for the positions. However, after one month, Mr. Sharad, noticing unsatisfactory performance and lack of honesty in their duties, issued dismissal orders for both employees, citing proper reasons. Mr. Suresh contested his dismissal in the court, arguing that the Board had only empowered Mr. Sharad for appointments and not for dismissals and hence the dismissal order is invalid.

Assess the validity of Mr. Suresh's argument under the provisions of the General Clauses Act, 1897. ***(2 Marks)***

(ii) *Mr. M issued a cheque of ₹ 3,00,00 dated 31.12.2023 at 10 a.m. to Mr. N as a consideration towards the medical services provided by the later. Mr. N presented the above cheque on 31.03.2024 during the banking business hours. The cheque was dishonoured taking the plea that it was not presented within the requisite time of 3 months as provided under section 138 of the Negotiable Instruments Act 1881.*

Referring to the provisions of the General Clauses Act, 1897 decide, whether the plea for dishonouring the cheque was valid. ***(2 Marks)***

Answer

(a) (i) Rule 14 (1) of the *Companies (Prospectus and Allotment of Securities) Rules, 2014*, requires prior approval of the shareholders of the company, by a special resolution for each of the private placement offers or invitations.

Provided further that this sub-rule shall not apply in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation does not exceed the limit as specified in clause (c) of sub-section (1) of section 180 in such cases relevant Board resolution under clause (c) of sub-section (3) of section 179 would be adequate.

Provided also that in case of offer or invitation for non-convertible debentures, where the proposed amount to be raised through such offer or invitation exceeds the limit as specified in clause (c) of sub-section (1) of section 180, it shall be sufficient if the company passes a previous special resolution only once in a year for all the offers or invitations for such debentures during the year.

Thus, based on above, the resolution will be passed.

As per section 42(2) of the Companies Act, 2013, a private placement shall be made only to a select group of persons who have been identified by the Board, whose number shall not exceed 50 or such higher number as may be prescribed, in a financial year.

Rule 14 (2) of the *Companies (Prospectus and Allotment of Securities) Rules, 2014* has prescribed 'an offer or invitation to subscribe securities under private placement shall not be made to persons more than two hundred (200) in the aggregate in a financial year'.

Provided that any offer or invitation made to Qualified Institutional Buyers and Employees of the company being offered under a scheme of ESOP under section 62(1)(b) shall not be considered while calculating the limit of two hundred persons.

As per rule 14(7), NBFCs which are registered with the RBI and Housing Finance Companies which are registered with the National Housing Bank; if they are complying with any regulations made by the RBI or National Housing Bank in respect of offer or invitation to be issued on private placement basis, then need not to comply with the rule 14(2) above.

Thus, based on above, the maximum number of persons to whom an offer by private placement in a financial year will be determined.

(ii) As per section 42(6) of the Companies Act, 2013 provides that a company making an offer or invitation under private placement shall allot its securities within sixty days from the date of receipt of the application money.

If company fails to make allotment within 60 days, then repayment of the application money to the subscribers shall be made within fifteen days from the expiry of sixty days and if the company fails to repay the application money within the aforesaid period, it shall be liable to repay that money with interest at the rate of twelve per cent per annum from the expiry of the sixtieth day.

(iii) Company shall not utilise monies raised through private placement unless allotment is made and the return of allotment is filed with the Registrar in accordance with section 42(8). The return of allotment shall be filed with the Registrar within 15 days from the date of the allotment under section 42.

Hence, it can utilize the money thus received once the return has been filled with the Registrar.

(b) (i) As per the Companies Act, 2013, in case of joint shareholders, they must concur in voting unless the articles provide to the contrary.

As per Regulation 52 of Table F, the voting in case of joint shareholders is done in the order of seniority, which is determined on the basis of the order in which their names appear in the register of members. The joint-holders have a right to instruct the company as to the order in which their names shall appear in the register of members.

Accordingly, in case of Mr. M and Mr. P, it is to be seen as to whose name appears first in the register of members; and then to decide whether the vote is cast in favour of resolution or against it.

(ii) According to section 76 (1) of the Companies Act, 2013, an "eligible company" means a public company, having a net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees and which has obtained the prior consent of the company in general meeting by means of a special resolution and also filed the said resolution with the Registrar of Companies before making any invitation to the public for acceptance of deposits.

Okara Limited is having net worth of ₹ 110 crore. Hence, it falls in the category of 'eligible company' and thus can accept the deposits from public.

(c) **(i)** According to section 16 of the General Clauses Act, 1897, the authority having for the time being power to make the appointment shall also have power to suspend or dismiss any person appointed whether by itself or any other authority in exercise of that power.

In the given question, Mr. Sharad was granted authorization to appoint the said employees. This implies (in terms of the General Clauses Act, 1897) that he also had the power to dismiss or suspend these employees. Hence, Mr. Suresh's argument is not valid.

(c) **(ii)** As per the section 9 of the General Clauses Act, 1897, in case any legislation or Regulation, it shall be sufficient, for the purpose of excluding the first in a series of days or any other period of time, to use the word "from", and, for the purpose of including the last in a series of days or any other period of time, to use the word "to".

The first day in series is 31.12.2023 and last day is 31.03.2024. Hence, applying the above provisions, 31.12.2023 is to be excluded and 31.03.2024 is to be included in calculation as per the General Clauses Act, 1897.

Since, the cheque has been presented within 3 months i.e. on 31.03.2024, it is eligible for honor and payment.

Hence, the plea of dishonouring the cheque is not valid.

Question 3

(a) *"A Bonus share is a distribution of capitalized undivided profit having an identity and value capable of being bought and sold." in reference to the above line elaborate the pre-requisites for issue of bonus shares as enlisted in the Companies Act, 2013.* ***(5 Marks)***

(b) *Q L Ltd. is a public limited company incorporated in Surat, Gujarat with 1200 members. On 10.12.2023 a general meeting was convened in which 14 members were present in person. Mr. Mohan was acting as an authorized representative of two body corporates who are members of Q L Ltd. Shyam one of the important members was absent. The Chairman Mr. Rahi adjourned the meeting, taking plea of absence of Mr. Shyam, to same day and place next week. The members present at the meeting venue waiting to attend, opposed the decision submitting that the majority of them present now shall be unavailable next week. Referring to the provisions of Companies Act, 2013 elaborate:*

(i) *Whether the requisite quorum to hold meeting as required in case of public limited companies is present in this case?*

(ii) *Whether Mr. Rahi could adjourn the meeting in the current scenario?*

(5 Marks)

(c) *What are the differences between interpretation and construction in the legal context, and how do these two concepts relate to each other as per Interpretation of Statute?* ***(4 Marks)***

Answer

(a) Pre-requisites for issue of bonus shares

As per section 63(2) of the Companies Act, 2013, no company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares, unless:

a. it is authorised by its Articles,

b. it has on the recommendation of the Board, been authorised in the general meeting of the company.

c. it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it.

d. it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus.

e. the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.

f. it complies with such conditions as prescribed by Rule 14 of the *Companies (Share capital and debenture) Rules, 2014,* that a company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

(b) According to section 103 of the Companies Act, 2013, in case of a public company, unless the articles of the company provide for a larger number, if the number of members is more than 1000 but upto 5000, then the quorum shall be 15 members personally present.

As per Secretarial Standard– 2, one person can be an authorised representative of more than one body corporate. In such a case, he is treated as more than one Member present in person for the purpose of Quorum.

Here, the term 'members personally present' refers to the members entitled to vote in respect of the items of business on the agenda of the meeting.

(i) Q Ltd. is a public company, having 1200 members hence, the quorum shall be 15 members personally present.

Mr. Mohan shall be treated as 2 members as he is the authorized representative of two body corporates.

Hence, total 15 members were present at the meeting held on 10.12.2023.

Thus, the requisite quorum was present.

Assumption: It is assumed that these 14 persons are inclusive of Mr. Mohan.

(ii) In the given scenario, even if Mr. Shyam was absent, Mr. Rahi could not adjourn the meeting, as the requisite quorum was present.

(c) Difference and Relationship between Interpretation and Construction

The two terms- 'Interpretation' and 'Construction', are used interchangeably to denote a process adopted by the courts to ascertain the meaning of the legislature from the words with which it is expressed, these two terms have different connotations.

Interpretation is the art of ascertaining the meaning of words and the true sense in which the author intended that they should be understood.

Thus, where the Court adheres to the plain meaning of the language used by the legislature, it would be 'interpretation' of the words, but where the meaning is not plain, the court has to decide whether the wording was meant to cover the situation before the court. Here, the court would be resorting to 'construction'. Conclusions drawn by means of construction are within the spirit though not necessarily within the letter of the law.

In practice construction includes interpretation and the terms are frequently used synonymously.

Question 4

(a) Long Boots Ltd. a listed company is engaged in the manufacturing of shoes and related accessories. The Business is set on a recovery mode by the induction of the new Production Manager, Mr. A. The Board of Directors of the company has recommended the declaration of a dividend of ₹ 50 lakh after a gap of eight years during which profits were inadequate to distribute the same.

The dividend thus proposed is to be met partially out of the current year profit of ₹ 16 lakh. Accumulated profits during the past eight years were ₹ 170 lakh which is 25% of the total share capital of the company. Referring to the provisions of the Companies Act, 2013 decide, whether the conditions with regard to declaration of dividend in case of inadequate profit are met? You are requested to support your answer with requisite calculations.

(5 Marks)

(b) A dispute among the partners of Limited Liability Partnership (the LLP) jeopardized the stability of the business. Out of two partners, one due to a quarrel, left the LLP. The other partner alone continued the business of the LLP. You are being an expert in law is requested to explain the provisions governing the LLP being operated by a single partner and its winding up by the Tribunal as per the provisions of the Limited Liability Partnership Act, 2008. ***(5 Marks)***

(c) Explain the term "Generalia specialibus non derogant", in connection with Interpretation of Statues. ***(4 Marks)***

Answer

(a) According to second proviso to section 123, where in any year there are no adequate profits for declaring dividend, the company may declare dividend out of the accumulated profits earned by it in previous years and transferred by it to the free reserves only in accordance with the procedure laid down in Rule 3 of *the Companies (Declaration and Payment of Dividend) Rules, 2014.*

Free Reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend.

Under Rule 3 such declaration shall be subject to the following conditions:

CONDITION I

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

However, this condition shall not apply if the company has not declared any dividend in each of the three preceding financial year.

CONDITION II

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

CONDITION III

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

CONDITION IV

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

In the given question, since Long Boots Ltd. current year profits of ₹ 16 lakh are insufficient to meet the dividend requirement of ₹ 50 lakh, hence the company has to fulfil the conditions as prescribed under Rule 3 (mentioned above).

Particulars	**Amount (in ₹)**
Amount of dividend declared (A)	50 lakh
Current year profits (B)	16 lakh
Amount to be withdrawn accumulated profits [(A)- (B)]	34 lakh
Accumulated profits during the past 8 years	170 lakh
Total share capital of the company [170/25%]	680 lakh

Fulfilment of Conditions mentioned in Rule 3

<table>
<tr><th>Conditions</th><th colspan="2">Calculation</th><th>Met/ Not Met</th></tr>
<tr><td>I</td><td colspan="2">This condition is not applicable the company has not declared any dividend in each of the three preceding financial year.</td><td>-</td></tr>
<tr><td rowspan="2">II</td><td>Paid-up share capital and free reserves</td><td>680+ 170</td><td rowspan="2">Met</td></tr>
<tr><td></td><td>= 850 lakh (C)</td></tr>
</table>

	10% of (C) Amount to be withdrawn accumulated profits i.e. 34 lakhs is less than (C)	85 lakh	
III	The company has since made profit in the financial year in which dividend is declared.		Met
IV	Free Reserves (D)	170 lakh	Met
	Amount drawn for payment of dividend (E)	34 lakh	
	Balance of reserves after such withdrawal (F) =(D)- (E)	136 lakh	
	15% of its paid up share capital (G)	102 lakh	
	(F) more than (G)		

In the given question, since all the conditions are met, hence Long Boots Ltd. has validly declared dividend.

(b) According to section 6 of the Limited Liability Partnership Act, 2008,

(i) Every LLP shall have at least two partners.

(ii) If at any time the number of partners of a LLP is reduced below two and the LLP carries on business for more than six months while the number is so reduced, the person, who is the only partner of the LLP during the time that it so carries on business after those six months and has the knowledge of the fact that it is carrying on business with him alone, shall be liable personally for the obligations of the LLP incurred during that period.

In the given situation, the alone partner should consider the above provisions of the Limited Liability Partnership Act, 2008, governing the LLP being operated by a single partner.

As per section 64 of the Limited Liability Partnership Act, 2008, the circumstances in which LLP may be wound up by Tribunal are:

(a) if the LLP decides that LLP be wound up by the Tribunal;

(b) if, for a period of more than 6 months, the number of partners of the LLP is reduced below two;

(c) if the LLP has acted against the interests of the sovereignty and integrity of India, the security of the state or public order;

(d) if the LLP has made a default in filling with the Registrar the Statement of Account and Solvency or annual return for any 5 consecutive financial years; or

(e) if the Tribunal is of the opinion that it is just and equitable that the LLP be wound up.

(c) It is a basic rule of interpretation that if it is possible to avoid a conflict between two provisions on a proper construction thereof, then it is the duty of the court to so construe them that they are in harmony with each other. But where it is not possible to give effect to both the provisions harmoniously, collision may be avoided by holding that one section which is in conflict with another merely provides for an exception or a specific rule different from the general rule contained in the other. A specific rule will override a general rule. This principle is usually expressed by the maxim, "*generalia specialibus non derogant*".

However, this rule can be adopted only when there is a real and not merely apparent conflict between provisions, where the words of a statute, on a reasonable construction thereof, admit of one meaning only then such natural meaning will prevail. The court shall not attempt an interpretation based on equity and harmonious construction.

Question 5

(a) Stallworth Ltd., a listed company having a paid up share capital of ₹ 11 crore with a turnover of ₹ 100 crore had appointed an Audit Committee which recommended M/s ANC & Associates, a firm of Chartered Accountants having such qualifications and experience as is required for appointment as the auditor of the company. The next Annual General Meeting (the AGM) was due on 30.09.2023. The Board disagreed with the said recommendation of the committee and refer back to it for reconsideration. The Audit Committee was adamant on appointing the above firm of the chartered accountants.

Discuss in the light of the Companies Act, 2013:

(i) *The course of action for Board of Directors to resolve the above deadlock. What would be your answer, if above situation was that of filling the casual vacancy of auditors?*

(ii) *The steps to be taken by the Board of Directors for appointment of auditors in case there was no requirement of Audit Committee in the company?* ***(5 Marks)***

(b) (i) *Explain the protection available for the "whistleblowers" in the context of the Limited Liability Partnership Act, 2008.* ***(3 Marks)***

(ii) *Describe the consequences of making a false statement in any return, statement or other document under section 37 of the Limited Liability Partnership Act, 2008.* ***(2 Marks)***

(c) *State the provisions of the General Clauses Act, 1897 relating to 'gender and number'.* ***(4 Marks)***

Answer

(a) According to section 177 of the Companies Act, 2013 read with the *Companies (Meetings of Board and its Powers) Rules, 2014*, in every listed public company- an Audit Committee shall be constituted by Board of directors.

Rule 6 of *Companies (Meetings of Board and its Powers) Rules, 2014*, provides that in case of a company that is required to constitute an Audit Committee under section 177, the committee, and, in cases where such a committee is not required to be constituted, the Board, shall take into consideration the qualifications and experience of the individual or the firm proposed to be considered for appointment as auditor and whether such qualifications and experience are commensurate with the size and requirements of the company.

The audit committee shall recommend the name of an individual or a firm as auditor to the Board for consideration; the Board shall consider and recommend an individual or a firm as auditor to the members in the Annual General Meeting (AGM) for appointment.

If the Board disagrees with the recommendation of the Audit Committee- It shall refer back the recommendation to the committee for reconsideration citing reasons for such disagreement.

(i) In the given question, the Board shall record reasons for its disagreement with the committee and send its own recommendation for consideration of the members in the AGM.

Section 139(8) provides that the Board may fill any casual vacancy in the office of an auditor within 30 days.

Section 139(11) prescribes that where a company is required to constitute an Audit Committee under section 177, all appointments, including the filling of a casual vacancy of an auditor under this section shall be made after taking into account the recommendations of such committee.

Hence, the position will remain same even in case of casual vacancy.

(ii) In case there was no requirement of appointment of an audit committee then the BOD shall recommend to the members in the AGM, the name of an individual or a firm which can be appointed as auditor after considering qualifications and experience of such individual or firm and other matter as laid therein.

(b) (i) According to section 31 of the Limited Liability Partnership Act, 2008,

(1) The Court or Tribunal may reduce or waive any penalty leviable against any partner or employee of a LLP, if it is satisfied that:

- such partner or employee of an LLP has provided useful information during investigation of such LLP; or
- when any information given by any partner or employee (whether or not during investigation) leads to LLP or any partner or employee of such LLP being convicted under this Act or any other Act.

(2) No partner or employee of any LLP may be discharged, demoted, suspended, threatened, harassed or in any other manner discriminated against the terms and conditions of his LLP or employment merely because of his providing information or causing information to be provided pursuant to sub-section (1).

(ii) According to section 37 of the Limited Liability Partnership Act, 2008, If in any return, statement or other document required by or for the purposes of any of the provisions of this Act, any person makes a statement:

(a) which is false in any material particular, knowing it to be false; or

(b) which omits any material fact knowing it to be material,

he shall, save as otherwise expressly provided in this Act, be punishable with imprisonment for a term which may extend to 2 years, and shall also be liable to fine which may extend to 5 lakh rupees but which shall not be less than 1 lakh rupees.

(c) Gender and number

According to section 13 of the General Clauses Act, 1897, in all legislations and regulations, unless there is anything repugnant in the subject or context:

(1) Words importing the masculine gender shall be taken to include females, and

(2) Words in singular shall include the plural and vice versa.

In accordance with the rule that the words importing the masculine gender are to be taken to include females, the word men may be properly held to include women, and the pronoun 'he' and its derivatives may be construed to refer to any person whether male or female. So, the words 'his father and mother' as they occur in section 125(1)(d) of the CrPC, 1973 have been construed to include 'her father and mother' and a daughter has been held to be liable to maintain her father unable to maintain himself.

Where a word connoting a common gender is available but the word used conveys a specific gender, there is a presumption that the provisions of General Clauses Act, 1897 do not apply.

Question 6

(a) LKJ Ltd. is a company having paid up share capital of ₹ 12.50 crore with total number of members being 3500. The board of directors have called a general meeting (the meeting) to be conducted on 06.05.2023 at 2.00 pm. On the date of the meeting the required quorum was not present within half an hour and hence was adjourned to the next week on 13.05.2023 on

same day at same venue. In reference to the above scenario in light of the relevant provisions of the Companies Act, 2013 elucidate upon the following queries of the company.

(i) What will be the fate of the meeting in case two members, in person, were present at the adjourned meeting held on 13.05.2023?

(ii) In case, on 06.05.2023 a total of 16 members were present but the chairman owing to the unruly behaviour of some members during the meeting had adjourned the same to 13.05.2023 and at the adjourned meeting only 3 members, in person, are present. What will be the fate of such adjourned meeting?

(iii) In case, where such meeting was called by the requisitionists under section 100 of the Act and at such meeting the quorum was not present, what will be the fate of such meeting?

OR

(a) The Income Tax Authority (the statutory body) has gathered some information and is of the view that there has been a manipulation of accounts of FGH Ltd. reflecting an incorrect financial position of the company. The statutory body intends to get the accounts reopened to reflect correct financial position of the company. In light of the Companies Act, 2013 elucidate.

(i) the statutory provisions governing the issue of re-opening of accounts by the Income Tax Authority.

(ii) the voluntary revision of financial statements or board's report by the directors.

(iii) For how many preceding financial years the board of directors may revise the financial statements? ***(5 Marks)***

(b) (i) Who will sign the audit report in case of a proprietorship concern or the firm of the auditors and how the qualification/s in the audit report will be dealt with by the auditor at the annual general meeting of the company as per the provisions of the Companies Act, 2013?

(3 Marks)

(ii) Explain the provisions relating to expert's consent included in the prospectus to be issued in India by the companies incorporated outside India as per the provisions of the Companies Act, 2013. ***(2 Marks)***

(c) Explain the rules relating to the remittances made by persons other than individuals requiring approval of RBI as provided in Schedule III to the Foreign Exchange Management (Current Account Transactions) Rules, 2000 issued under the Foreign Exchange Management Act, 1999 in respect of the following:

(i) Commission to the agents abroad for sale of residential flats or commercial plots in India.

(ii) Remittances for consultancy services procured from outside India.

(iii) Remittances by way of reimbursement of pre-incorporation expenses.

(4 Marks)

Answer

(a) (i) According to section 103 of the Companies Act, 2013, in case of a public company, unless the articles of the company provide for a larger number, if the number of members is more than 1000 but upto 5000, then the quorum shall be 15 members personally present.

If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company:

(a) the meeting shall stand adjourned to the same day in the next week at the same time and place, or to such other date and such other time and place as the Board may determine; or

(b) the meeting, if called by requisitionists under section 100, shall stand cancelled:

Provided that in case of an adjourned meeting or of a change of day, time or place of meeting under clause (a), the company shall give not less than three days' notice to the members either individually or by publishing an advertisement in the newspapers (one in English and one in vernacular language) which is in circulation at the place where the registered office of the company is situated.

Quorum not present at the adjourned meeting also: Where quorum is not present in the adjourned meeting also within half an hour, then the members present shall form the quorum.

In the given question, the quorum for the given company having 3500 members shall be 15 members personally present.

Where quorum is not present in the adjourned meeting (i.e. 13.05.2023) also within half an hour, then the two members present shall form the quorum.

(ii) The meeting held on 6.05.2023 had 16 members present. Hence, the quorum was present. However, the meeting was adjourned due to unruly behaviour of some members and not for want of quorum. In the said meeting (13.05.2023), only 3 members in person were present. In such a case, these 3 members shall not constitute the quorum and hence, shall stand further adjourned.

(iii) If the quorum is not present within half-an-hour from the time appointed for holding a meeting of the company, the meeting, if called by requisitionists under section 100, shall stand cancelled.

OR

Answer

(a) (i) According to section 130 of the Companies Act, 2013, a company shall not:

a. re-open its books of account and

b. recast its financial statements,

unless an application in this regard is made by:

a. the Central Government,

b. the Income-tax authorities,

c. the Securities and Exchange Board of India (SEBI),

d. any other statutory regulatory body or authority or

e. any person concerned.

& an order is made by a court of competent jurisdiction or tribunal to the effect

a. That the relevant earlier accounts were prepared in a fraudulent manner; or

b. The affairs of the company were mismanaged during the relevant period, casting a doubt on the reliability of financial statements.

No order shall be made in respect of re-opening of books of account relating to a period earlier than 8 financial years immediately preceding the current financial year. However, where a direction has been issued by the Central Government under the proviso to section 128(5) for keeping of books of account for a period longer than 8 years, the books of account may be ordered to be re-opened within such longer period.

(ii) According to section 131 of the Companies Act, 2013, if it appears to the directors of a company that:

a. the financial statement of the company does not comply with the provisions of section 129; or

b. the report of the Board does not comply with the provisions of section 134.

They may prepare revised financial statement or board's report in respect of any of the three preceding financial years.

Such revised financial statement or report shall not be prepared or filed more than once in a financial year.

(iii) The board of directors may revise financial statements in respect of any of the three preceding financial years.

(b) (i) As per section 145 of the Companies Act, 2013,

The person appointed as an auditor of the company shall sign the auditor's report or sign or certify any other document of the company in accordance with the provisions of section 141(2) (i.e. in case of firm including LLP is appointed as an auditor of a company, only the partner who are Chartered Accountants shall be authorized to act and sign on behalf of the firm).

The qualifications, observations or comments on financial transactions or matters, which have any adverse effect on the functioning of the company mentioned in the auditor's report shall be read before the company in general meeting and shall be open to inspection by any member of the company.

(ii) According to section 388 of the Companies Act, 2013,

(i) No person shall issue, circulate or distribute in India any prospectus offering for subscription in securities of a company incorporated or to be incorporated outside India, whether the company has or has not been established, or when formed will or will not establish, a place of business in India,-

(a) if, where the prospectus includes a statement purporting to be made by an expert, he has not given, or has before delivery of the prospectus for registration withdrawn, his written consent to the issue of the prospectus with the statement included in the form and context in which it is included, or there does not appear in the prospectus a statement that he has given and has not withdrawn his consent as aforesaid; or

(b) if the prospectus does not have the effect, where an application is made in pursuance thereof, of rendering all persons concerned bound by all the provisions of section 33 (Issue of application forms for securities) and section 40 (Securities to be dealt with in stock exchanges), so far as applicable.

(ii) For the purposes of this section, a statement shall be deemed to be included in a prospectus, if it is contained in any report or memorandum appearing on the face thereof or by reference incorporated therein or issued therewith.

(c) The following remittances by persons other than individuals shall require prior approval of the Reserve Bank of India as provided under FEMA, 1999 read with Schedule III of the FEM (Current Account Transactions) Rules, 2000:

(i) Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or five percent of the inward remittance whichever is more.

(ii) Remittances exceeding USD 10,000,000 per project for any consultancy services in respect of infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.

Explanation—For the purposes of this sub-paragraph, the expression "infrastructure' shall mean as defined in explanation to para 1(iv)(A)(a) of Schedule I of FEMA Notification 3/2000-RB, dated the May 3, 2000.

(iii) Remittances exceeding five per cent of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.

PAPER – 3 : TAXATION

Part - II

SECTION A: INCOME TAX LAW

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

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

Working notes should form part of the respective answers.

All questions relate to Assessment Year 2024-25, unless otherwise stated.

Question 1

(a) *Mr. Sahil, resident Indian aged 40 years, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024.*

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2024

Particulars	**₹**	***Particulars***	**₹**
To Opening Stock	*71,000*	*By Sales*	*43,50,000*
To Purchase of Raw Materials	*17,20,500*	*By Closing Stock*	*2,00,000*
To Manufacturing Wages & Expenses	*5,80,500*		
To Gross Profit	*21,78,000*		
Total	***45,50,000***	***Total***	***45,50,000***
To Administrative Charges	*2,90,000*	*By Gross Profit*	*21,78,000*
To SGST Penalty Paid (It is not compensatory nature)	*7,000*	*By Dividend From Domestic Companies*	*15,000*
		By Winning from	

To GST Paid	*1,10,000*	*Lotteries (Net of TDS) (TDS 4,500)*	*10,500*
To General Expenses	*55,000*	*By Profit on Sale of*	
To Miscellaneous Expenses	*1,50,500*	*Shares*	*45,000*
To Loss on Sale of Shares	*20,000*		
To Interest to Bank (on Machinery term loan)	*60,000*		
To Depreciation	*2,00,000*		
To Net Profit	*13,56,000*		
Total	***22,48,500***	***Total***	***22,48,500***

Following are the further information relating to Financial Year 2023-2024:

(i) Administrative Charges include ₹ 46,000 paid as commission to brother of Assessee. The Commission amount at the market rate in ₹ 36,000.

(ii) The assessee paid ₹ 33,000 in cash to a Transport Carrier on 26.12.2023. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)

(iii) A Sum of ₹ 4,000 per month was paid as salary to a staff throughout the year and this has not been recorded in books of account.

(iv) Bank Term Loan Interest actually paid upto 31.03.2024 was ₹ 20,000 and the balance was paid in October 2024.

(v) Miscellaneous Expenses include ₹ 10,000 contributed to Prime Minister's Relief Fund.

(vi) Loss on Sale of Shares represents shares sold within a period of 6 months from the date of purchase.

(vii) Profit on Sale of Shares represents shares held for 2 years & Securities Transaction Tax was paid on it.

(viii) Housing Loan Principal repaid during the year was ₹ 50,000 and it relates to residential property occupied by him. Interest on Housing Loan was ₹ 2,60,000. Housing Loan was taken from Canara Bank. (Value of house property is ₹ 45 Lakhs, loan value ₹ 25 Lakhs and sanction date 31.03.2017).

These amounts were not dealt with in the Profit and Loss Account given above. (Assume this housing loan is eligible for 80EE deduction).

(ix) Deprecation allowable under the Act to be computed on the basis of following information:

Plant & Machinery (Depreciation Rate @15%)	***₹***
Opening WDV (as on 01.04.2023)	*12,00,000*
Additions During the year (Used for more than 180 Days)	*2,00,000*
Total Additions during the year	*4,00,000*
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2024-25 if he has exercised the option of shifting out of the default tax regime provided under Section 115BAC(1A). ***(15 Marks)***

Answer

Computation of total income and tax liability of Mr. Sahil for A.Y. 2024-25

	Particulars	₹	₹
I	**<u>Income from house property</u>**		
	Annual value of self-occupied property	Nil	
	Less: Deduction under section 24(b)		
	Interest on housing loan of ₹ 2,60,000 restricted to ₹ 2,00,000	2,00,000	
		(2,00,000)	
II	**<u>Profits and gains of business or profession</u>**		
	Net Profit	13,56,000	
	***Add:* Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other head**		
	- Commission paid to brother [Commission paid to a related person/relative to the extent it is excessive to market rate is disallowed under section 40A(2)]	10,000	

	- Cash payment to a Transport Carrier [Not disallowed under section 40A(3) since the limit for one time cash payment is ₹ 35,000 in respect of payment to transport operators]	Nil	
	- Interest to bank on term loan [Interest paid to bank after the due date of filing of return under section 139(1) is disallowed as per section 43B]	40,000	
	- Contribution to Prime Minister's Relief Fund [Not allowable since the same is not incurred wholly and exclusively for business purpose]	10,000	
	- SGST Penalty paid [SGST penalty paid is not compensatory in nature and therefore, not allowable]	7,000	
	- Loss on sale of shares	20,000	
	- Depreciation as per books of account	2,00,000	
		16,43,000	
	***Less:* Incomes credited to profit and loss account but not taxable as business income**		
	- Dividend from Domestic Companies	15,000	
	- Winnings from lotteries	10,500	
	- Profit on sale of shares	45,000	
		15,72,500	
	Less: Depreciation allowable as per Income-tax Rules,1962		
	- On Plant & Machinery [@15% on ₹ 14,00,000, being opening WDV of ₹ 12 lakhs and additions put to use for more than 180 days of ₹ 2 lakhs + @7.5% on ₹ 2,00,000, being additions put to use for less than 180 days]	2,25,000	
		13,47,500	

	[8% of sales i.e. ₹ 43,50,000 x 8%[1] assuming entire amount of sales are not received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes]	3,48,000	
	Business Income	13,47,500	
	[As per section 44AD, in case of Mr. Sahil, being an eligible assessee, a sum equal to ₹ 3,48,000 (8%[1] of total turnover i.e., ₹ 43,50,000) or as the case may be, a sum higher than the aforesaid sum claimed to have been earned by him would be deemed to be the business income. In this case, since Mr. Sahil has maintained books of account, he can claim the higher sum actually earned ₹ 13,47,500 as his income from business.] (See Note below the solution for alternate answer)		
	Less: Set off of loss from house property as per section 71(3A)	2,00,000	
		11,47,500	
	Add: Salary paid to staff not recorded in the books [Assuming the expenditure is in the nature of unexplained expenditure, the same is deemed to be income as per section 69C of Mr. Sahil. No deduction would be allowed in respect of such expenditure.]	48,000	11,95,500
	Alternatively, it is possible to assume that the salary not recorded in the books of account was an erroneous omission and the assessee has offered satisfactory explanation about the source of such expenditure. In such a case, it would not be considered as deemed income and the same would be allowed as deduction		

[1] If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.

	while computing business income on the basis of books of accounts. In such a case, business income, total income and tax liability (rounded off) would be ₹ 10,99,500, ₹ 10,44,500 and ₹ 1,23,080.		
III	**Capital Gains**		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	45,000	
	Less: Set off of short term capital loss as per section 70(2)	20,000	25,000
IV	**Income from Other Sources**		
	Dividend from Domestic Companies	15,000	
	Winning from lotteries (₹ 10,500 + ₹ 4,500)	15,000	
			30,000
	Gross Total Income		12,50,500
	***Less:* Deduction under Chapter VI-A**		
	Deduction under section 80C		
	Principal repayment of housing loan	50,000	
	Deduction under section 80EE		
	Interest on housing loan of ₹ 60,000 [₹ 2,60,000 – ₹ 2,00,000, allowed u/s 24(b)] allowable under section 80EE upto ₹ 50,000	50,000	
	Deduction under section 80G		
	Contribution to Prime Minister's Relief Fund[2]	10,000	1,10,000
	Total Income		11,40,500
	Tax Liability		
	Tax on LTCG of ₹ 25,000 u/s 112A [Exempt upto ₹ 1 lakh]		Nil
	Tax on winning from lotteries of ₹ 15,000 @30%		4,500

[2] Assuming contribution is made otherwise than by way of cash

	Tax on unexplained expenditure of ₹ 48,000 @60%		28,800
	Tax on balance income of ₹ 10,52,500 at slab rate		
	Upto ₹ 2,50,000	Nil	
	From ₹ 2,50,001 to ₹ 5,00,000 @5%	12,500	
	From ₹ 5,00,001 to ₹ 10,00,000 @20%	1,00,000	
	From ₹ 10,00,001 to ₹ 10,52,500 @30%	15,750	1,28,250
			1,61,550
	Add: Surcharge @25% on tax on unexplained expenditure of ₹ 28,800		7,200
			1,68,750
	Add: Health and education cess @4%		6,750
	Tax Liability		**1,75,500**

Note *– Alternatively, if Mr. Sahil claims his business income as ₹ 3,48,000 i.e., 8%[3] of total turnover under section 44AD, his total income and tax liability would undergo a change.*

Question 2

(a) Mr. Tilak aged 35 years, furnishes the following information regarding his income for the assessment year 2024-25. Compute the total income if he is:

(1) Resident and Ordinarily Resident.

(2) Resident but Not Ordinarily Resident

(Ignore the provisions of Section 115BAC).

(a) Remuneration of ₹ 50,000 for service rendered in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.

(b) Profits from a business in England controlled from Bombay ₹ 3,00,000 (out of which ₹ 25,000 is received in India).

[3] If it is assumed that the entire sales are received by A/c payee cheque or A/c payee draft or ECS or other electronic prescribed modes on or before due date of filing return of income, the presumptive rate would be 6%.

(c) *Amount brought to India out of past untaxed profits earned in Singapore ₹ 1,00,000.*

(d) *Capital gain on sale of land in India but received in Malaysia ₹ 2,00,000.*

(e) *Income from agriculture land at Nepal of ₹ 18,000, received there and then brought to India.*

(f) *He paid ₹ 50,000 towards principal payment of loan taken for construction of his self-occupied house in India.*

(g) *Interest on saving bank deposit in State Bank of India of ₹ 12,000.*

(6 Marks)

(b) *Examine the applicability of Tax Deduction at Sources (TDS) or Tax Collection at Source (TCS) as per the Income Act, 1961 for the assessment year 2024-25 in the following independent situations.*

(i) *ABC Limited paid rent of ₹ 75,000+18% GST per month to Mr. Ram for the office premises from 01.04.2023 to 31.03.2024. Mr. Ram has furnished his PAN and also filed his return of income before due date regularly.*

(ii) *XYZ Pvt. Ltd sells two cars to Mrs. Anju costing ₹ 4,00,000 and ₹ 12,00,000 respectively on 01.05.2023 and 25.12 2023. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date.* ***(4 Marks)***

Answer

(a) Computation of total income of Mr. Tilak for the A.Y. 2024-25

(if he is Resident and Ordinarily Resident - ROR)

	Particulars	**₹**
(a)	**Remuneration for services rendered in Malaysia** Global income is taxable in case of a ROR. ***[Note** – Alternatively, remuneration for services rendered in Malaysia can be taxable as "Salaries". In such case standard deduction of ₹ 50,000 would be reduced.]*	50,000

(b)	**Profit from business in England controlled from Bombay** Global income is taxable in case of a ROR.	3,00,000
(c)	**Past untaxed profits earned in Singapore and brought to India in current year**	Nil
(d)	**Capital gain on sale of land in India but received in Malaysia** Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	**Income from agricultural land in Nepal, received there** Global income is taxable in case of a ROR	18,000
(f)	**Interest on saving bank deposit in SBI** Taxable since it is deemed to accrue or arises in India.	12,000
	Gross Total Income	**5,80,000**
	***Less:* Deduction under Chapter VI-A**	
	Deduction under section 80C - For repayment of housing loan	50,000
	Deduction under section 80TTA - Interest on savings bank account subject to a maximum of ₹ 10,000	10,000
	Total Income	**5,20,000**

Computation of total income of Mr. Tilak for the A.Y. 2024-25 (if he is Resident but Not Ordinarily Resident - RNOR)

	Particulars	₹
(a)	**Remuneration for services rendered in Malaysia** In case of RNOR, remuneration would not be taxable in India since neither services are rendered in India nor remuneration received in India.	Nil
(b)	**Profit from business in England controlled from Bombay** In case of RNOR, whole profits of ₹ 3,00,000 from business in England is taxable since business is controlled from India.	3,00,000

(c)	**Past untaxed profits earned in Singapore and brought to India in current year**	Nil
(d)	**Capital gain on sale of land in India but received in Malaysia** Deemed to accrue or arises in India, since the property is situated in India.	2,00,000
(e)	**Income from agricultural land in Nepal, received there** In case of RNOR, it would not be taxable in India, since neither it is deemed to accrue or arise in India nor received in India.	Nil
(f)	**Interest on saving bank deposit in SBI** Taxable since it is deemed to accrue or arises in India.	12,000
	Gross Total Income	**5,12,000**
	***Less:* Deduction under Chapter VI-A**	
	Deduction under section 80C - For repayment of housing loan	50,000
	Deduction under section 80TTA - Interest on savings bank account subject to a maximum of ₹ 10,000	10,000
	Total Income	**4,52,000**

(b) (i) ABC Limited is required to deduct tax at source under section 194-I @10% on rent of ₹ 75,000 per month exclusive of GST component, since the aggregate rent of ₹ 9,00,000 during the financial year exceeds the threshold limit of ₹ 2,40,000.

Tax has to be deducted at the time of payment or credit, whichever is earlier.

(ii) XYZ Pvt. Ltd. is not required to collect tax at source on sale of car of ₹ 4,00,000 to Mrs. Anju since its value does not exceed ₹ 10 lakhs.

However, it is required to collect tax at source u/s 206C(1F) @1% on the total sale consideration of ₹ 12 lakhs since the value of this car exceeds ₹ 10 lakhs.

Tax has to be collected at the time of receipt of ₹ 12 lakhs.

Question 3

(a) (i) Mr. Ravi received an advance of ₹ 2,00,000 on 10.5.2023 from a closely held manufacturing company (private company in which the public are not substantially interested) in which he holds 22% shareholding. The company had an accumulated profit of ₹ 1,00,000 at the time of giving the advance. Compute the amount of income to be included in the hands of Mr. Ravi for the assessment year 2024-25 and also state the head under which it is to be included. ***(2 Marks)***

(ii) Mr. Rao finished the following information regarding the payments made towards Scientific Research during the financial year 2023-24:

(i) Revenue expenditure on Scientific Research incurred during the year ₹ 1,00,000.

(ii) Capital Expenditure for Scientific Research ₹ 3,00,000.

(iii) Contribution to Notified approved research association ₹ 1,50,000.

(iv) Amount paid to H Limited an Indian company which has as its main object scientific research and approved by the prescribed authority ₹ 2,50,000.

(v) Expenditure of ₹ 2,50,000 towards purchase of Land for scientific research.

(vi) He also incurred revenue expenditure of ₹ 2,00,000 towards salary of research staff in the F.Y.2022-23 (before commencement of business) and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for the assessment year 2024-25, assuming that he has not opted for default tax regime u/s 115BAC.

(b) Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2024. He had a Residential House, inherited from his father in December 2009, the Fair Market Value of which on 01.04.2001 is ₹ 13 lakhs. In the year 2013-2014, further construction and improvements costing of ₹ 10 lakhs. The House was originally purchased by his father on 01.03.2000 for ₹ 10 Lakhs. On 10.05.2023, the House was sold for ₹ 75 Lakhs. Expenditure in connection with transfer is ₹ 50,000. On 20.12.2023, he purchased a Residential House for ₹ 12 lakhs and he does not own any other house.

Compute the taxable Capital Gain for the assessment year 2024-25.

(Cost Inflation Index: F.Y. 2013-14=220, F.Y.2023-24=348, F.Y. 2009-10 = 148 and F.Y. 2001-02=100) ***(4 Marks)***

Answer

(a) (i) In the present case, the amount of advance of ₹ 2,00,000 received by Mr. Ravi from closely held manufacturing company would be deemed as dividend to the extent of accumulated profit of ₹ 1,00,000, since Mr. Ravi holds 22% shareholding in the company which is not less than 10% of the voting power in the company.

Accordingly, deemed dividend of ₹ 1,00,000 would be taxable in the hands of Mr. Ravi under the head "Income from Other Sources" for the A.Y. 2024-25.

(ii) Computation of deduction allowable u/s 35 for the A.Y. 2024-25

	Particulars	**₹**
(i)	Revenue expenditure on scientific research allowable as deduction u/s 35(1)(i), assuming such expenditure is related to his business.	1,00,000
(ii)	Capital expenditure allowable as deduction u/s 35(1)(iv), assuming such expenditure is incurred for his business.	3,00,000
(iii)	Contribution to notified approved research association for scientific research – 100% of the amount paid is allowed as deduction u/s 35(1)(ii).	1,50,000
(iv)	Amount paid to H Ltd., an Indian company approved by the prescribed authority - 100% of the amount paid is allowed as deduction u/s 35(1)(iia)	2,50,000
(v)	Expenditure towards purchase of land – not allowed as deduction	Nil
(vi)	Revenue expenditure towards salary of research staff incurred in the F.Y. 2022-23 (before commencement of business) – allowed as deduction u/s 35(1)(i) in the P.Y. 2023-24 as it was expended within the 3 years immediately	2,00,000

	preceding the commencement of business (assuming business is commenced during the P.Y. 2023-24). ***Note*** *- Since the date of commencement of business is not given, an alternative view is possible that the business is commenced during the F.Y. 2022-23 itself. In that case, deduction for revenue expenditure incurred towards salary of research staff in F.Y. 2022-23 before commencement of business would have been allowed in the F.Y. 2022-23 and accordingly, no deduction would be available in F.Y. 2023-24.*	
Total deduction allowable		10,00,000

(b) Computation of Taxable Capital Gains for A.Y.2024-25

Particulars	**₹**
Full Value of Consideration	75,00,000
Less: Expenditure in connection with transfer	50,000
Net Sales Consideration	74,50,000
Less: Indexed cost of acquisition [₹ 13,00,000 (higher of actual cost to the previous owner of ₹ 10 lakhs and Fair market value as on 1.4.2001 of ₹ 13 lakhs) x 348/100]	45,24,000
Less: Indexed cost of improvements [₹ 10 lakhs x 348/220]	15,81,818
	13,44,182
Less: Exemption u/s 54 – in respect of residential house purchased on 20.12.2023	12,00,000
Taxable Long Term Capital Gains	**1,44,182**

Note *– The above answer is on the basis of the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, wherein it was held that Indexed cost of acquisition in case of gifted asset has to be computed with reference to the year in which the previous owner first held the asset and not the year in which the assessee became the owner of the asset.*

Alternative answer is possible on basis of the plain reading of the provisions of section 48 wherein the indexed cost of acquisition would be determined by *taking the Cost Inflation Index (CII) for the year in which the asset is first held by the assessee i.e. F.Y.2009-10. In such a case, the Indexed cost of acquisition would ₹ 30,56,757 (₹ 13,00,000 x 348/148) and taxable long term capital gains would be ₹ 16,11,425.*

Question 4

(a) Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2023-24:

(i) Income from House property (computed) ₹ 2,00,000.

(ii) Income from Proprietary Business ₹ 3,00,000.

(iii) Short Term Capital Gain on sale of Land ₹ 2,00,000.

(iv) Short Term Capital loss on sale of equity shares listed in recognized stock exchange (STT paid) ₹ 75,000.

(v) Interest on Bank fixed deposit ₹ 50,000 received by his son, aged 21 years, out of money gifted by Mr. Joshi in 2022.

(vi) Loss from Speculation Business ₹ 40,000.

(vii) Loss from Owning and Maintenance of Race Horses ₹ 50,000.

Following are the brought forward losses:

(a) Brought forward House property loss of assessment year 2021-22 ₹ 2,50,000.

(b) Brought forward business loss of Proprietary business from assessment year 2013-14 ₹ 50,000.

(c) Unabsorbed Depreciation relating to assessment year 2014-15 ₹ 1,00,000.

(d) Brought forward Long Term Capital Loss from assessment year 2018-19 ₹ 90,000. Return of income for that year was filed on 31.01.2019, after due date of filing the return.

Compute the total income of Mr. Joshi for the assessment year 2024-25 and show the items eligible for carry forward, assuming that he exercises the option of shifting out of the default tax regime provided under Section 115BAC(1A). ***(6 Marks)*** *(b) State with reason whether the following persons are required to file their return of income as per the provisions of the Income Tax Act, 1961 for the assessment year 2024-25:*

(i) Mr. Aneesh aged 31 years, who opted for default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2023-24.

(ii) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2023-24.

(iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2023-24 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income. ***(4 Marks)***

OR

(b) CBDT has vide Notification No. 37/2022 dated 21.04.2022, inserted Rule 12AB, notified which are all the person other than a company or firm who is not required to file return of income under Section 139(1) must file the return of Income. State who are required compulsorily to file return of Income.

(4 Marks)

Answer

(a) Computation of total income of Mr. Joshi for the A.Y.2024-25

Particulars	₹	
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2021-22 is allowed, since 8 years period not yet lapsed	2,00,000	Nil
Profits and gains from business or profession		
Income from proprietary business	3,00,000	
Less: Set off of brought forward business loss of A.Y. 2013-14 not allowable as 8 years' time has already lapsed in the A.Y. 2021-22	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2014-15	1,00,000	2,00,000

[**Note** – *Alternatively, unabsorbed depreciation can be set-off against short-term capital gains]*		
Capital Gains		
Short-term capital gain on sale of land	2,00,000	
Less: Set-off of short-term capital loss on sale of listed equity shares	75,000	1,25,000
Brought forward long-term capital loss is not allowed to be carried forward and set-off, since return of income for the A.Y. 2018-19 was filed after the due date of filing return of income.		
Income from Other Sources		
Interest on fixed deposit not includible in the hands of Mr. Joshi since his son is major		Nil
Gross Total Income		**3,25,000**
***Less:* Deduction under Chapter VI-A**		Nil
Total Income		**3,25,000**

Items eligible for carried forward	
(i)	Loss from speculation business of ₹ 40,000 can be set-off against income from speculation business only. Hence, such loss would be carried forward to subsequent assessment year.
(ii)	Loss from owning and maintenance of race horses ₹ 50,000, can be set-off against income from income from owning and maintenance of race horses only. Thus, such loss would be carried forward to subsequent assessment year.
(iii)	Brought forward loss from house property can be set off only against income of house property. Hence, remaining loss of ₹ 50,000 has to be carried forward to subsequent assessment year.

(b) [First Alternative]

(i) In this case, Mr. Aneesh is not required to file return of income, since his total income does not exceed ₹ 3,00,000, being the basic exemption limit as per the default tax regime u/s 115BAC, assuming Mr. Aneesh has not claimed any deduction u/s 54/54D/54EC or 54F and deduction allowable under Chapter VI-A.

(ii) In the present case, since Smt. Patel, a senior citizen has a TDS credit of ₹ 55,000, which exceeds the threshold limit of ₹ 50,000, she is required to file her return of income even if it is assumed that her total income does not exceed the basic exemption limit.

(iii) In this case, since Mr. Ajit's gross receipts from the profession of architect was ₹ 12,00,000 for the P.Y. 2023-24, which is in excess of ₹ 10 lakhs, hence, he is required to file his return of income though his total income is ₹ 2,25,000 which does not exceed the basic exemption limit.

[Second Alternative]

The CBDT has, vide Notification No. 37/2022 dated 21.4.2022, inserted Rule 12AB to provide that a person, other than a company or a firm, who is not required to furnish a return under section 139(1), and who fulfils any of the following conditions during the previous year has to file their return of income on or before the due date in the prescribed form and manner –

(i) if his total sales, turnover or gross receipts, as the case may be, in the business > ₹ 60 lakhs during the previous year; or

(ii) if his total gross receipts in profession > ₹ 10 lakhs during the previous year; or

(iii) if the aggregate of TDS and TCS during the previous year, in the case of the person, is ₹ 25,000 or more; or

However, a resident individual who is of the age of 60 years or more, at any time during the relevant previous year (or senior citizen) would be required to file return of income only, if the aggregate of TDS and TCS during the previous year, in his case, is ₹ 50,000 or more

(iv) the deposit in one or more savings bank account of the person, in aggregate, is ₹ 50 lakhs or more during the previous year.

SECTION B: GOODS AND SERVICES TAX

1. *Section B comprises of questions from 5-8. In Section B, answer question no. 5 which is compulsory and any two questions from question nos. 6-8.*
2. *Working notes should form part of the answer.*
3. *All questions in Section B should be answered on the basis of position of GST law as amended by Finance Act, 2023 and the significant notifications/ circulars issued upto 31st October, 2023.*

Question 5

(a) *Evershine Pvt. Ltd., a GST registered supplier located in Jaipur, Rajasthan is engaged in taxable supply of packaging goods and consultancy services. It provides following details of various activities undertaken during the month of September, 2023:*

(A) *Details of Outward Supplies:*

(1) *Supply of goods of ₹ 18,00,000 to Vaidehi Enterprises, a registered person of Udaipur, Rajasthan. Further, received ₹ 50,000 from Vaidehi Enterprises towards freight charges (as agreed to deliver the goods at Vaidehi Enterprises' premises) which was not included in above value of supply.*

(2) *Supply of goods worth ₹ 35,00,000 to Calc. Exim, a registered person of Prayagraj, Uttar Pradesh. Further, the amount of ₹ 60,000 charged separately (not included above) from Calc. Exim on account of municipal taxes levied in relation to such outward supply.*

(3) *Supply of services to Sunshine Ltd., a registered person in Jodhpur, Rajasthan before discount worth ₹ 6,00,000. Further, discount of ₹ 30,000 which has been given at the time of supply of service and duly recorded in the invoice.*

(4) *It delivered the goods worth ₹ 2,00,000 to Jeevan Solutions, a registered person located at Bikaner, Rajasthan on the direction of Raghu Enterprise, a registered person of Mumbai, Maharashtra and tax invoice was issued by Evershine Pvt. Ltd. to Raghu Enterprise of Mumbai, Maharashtra.*

(B) Details of Inward Supplies:

(1) Purchased raw material goods worth ₹ 20,00,000 from PQR Ltd; a GST registered dealer, located at Kanpur, Uttar Pradesh. Goods worth ₹ 1,00,000 out of total purchases were not received during the month.

(2) Purchased machinery for manufacturing process worth ₹ 2,00,000 from MPQ Pvt. Ltd., a GST registered dealer, located at Bengaluru, Karnataka. Company has claimed depreciation under Income Tax Act 1961 on full value of the machine, including the GST component.

(3) Purchased truck worth ₹ 15,00,000 from GST registered dealer, located at Ajmer, Rajasthan for transportation of its goods. GST rate on truck is: CGST 14%, SGST 14%, IGST 28%.

(4) Purchased car (having seating capacity of 7 persons) costing to ₹ 10,00,000 excluding GST from Mihir Automobiles Pvt. Ltd., a GST registered dealer, located at Ajmer, Rajasthan for use of its director for official purpose. GST rate on car: CGST 14%, SGST 14%, IGST 28%

(5) Purchased goods worth ₹ 5,00,000 from DEF Buildwell Pvt. Ltd., a registered person of Jaipur, Rajasthan for construction of an additional floor of factory building, of Evershine Pvt. Ltd.

Opening balance of Input tax credit as on the beginning of September 2023-CGST ₹ 20,000, SGST ₹ 50,000 and IGST ₹ 75,000.

Rate of GST applicable on both inward and outward supply of goods & services: CGST 9%, SGST 9% and IGST @18%, except where otherwise provided.

Notes:

(i) All the figures mentioned above are exclusive of taxes.

(ii) Subject to the information given above, conditions necessary for claiming ITC were complied with.

(iii) All inward supplies are used for taxable goods only.

(iv) Brief and suitable notes should form part of your answer.

Calculate the amount of net minimum GST payable in cash by Evershine Pvt. Ltd. for the month of September, 2023. ***(10 Marks)***

(b) Mr. Ravindra, a registered person in Bhopal, Madhya Pradesh has provided the following information regarding outward transactions made during the month of January, 2024:

(1) He was appointed by recognized sports body as a chief selector of hockey team and received ₹ 5,00,000 as remuneration.

(2) Services of pure labour contract was provided for construction of independent residential unit for ₹ 1,80,000.

(3) He rented out his warehouse for warehousing of sugarcane and received rental income of ₹ 75,000.

(4) Provided services to Municipal Corporation of Bhopal for slum improvement and upgradation for ₹ 6,50,000.

(5) He has charged consideration of ₹ 1,25,000 against western music dance performance in an event.

You are required to compute the taxable value of supply on which GST is to be paid by Mr. Ravindra for the month of January, 2024. All the amount stated above are exclusive of GST, wherever applicable.

Suitable Notes should form part of answer. ***(5 Marks)***

Answer

(a) Computation of minimum net GST payable in cash by Evershine Pvt. Ltd. for the month of September 2023

Particulars		**Value of supply (₹)**	**CGST @ 9% (₹)**	**SGST @ 9% (₹)**	**IGST @ 18% (₹)**
Output tax payable					
Intra-State supply of goods to Vaidehi Enterprises [Since arranging freight is the liability of	Place of supply is location where movement of goods terminates	18,50,000	1,66,500	1,66,500	Nil

supplier, it is a composite supply and thus, freight charges are added to the value of principal supply.]				
Inter-State supply to Calc. Exim [Municipal tax is includible in value since it is a tax levied under a law other than GST law and is charged separately.]	35,60,000	Nil	Nil	6,40,800
Intra-State supply to Sunshine Ltd. [Place of supply is location of recipient. Discount given at the time of supply is deductible from the value since duly recorded in the invoice.]	5,70,000	51,300	51,300	Nil
Inter-State supply to Raghu Enterprise [Place of supply in case of bill to ship model is principal place of business of a third person at whose instructions the goods are delivered by supplier to recipient. Thus, it	2,00,000	Nil	Nil	36,000

is considered as Inter State supply.]				
Total output tax		2,17,800	2,17,800	6,76,800
Less: ITC available [Refer note below] [IGST credit to be utilized first towards payment of IGST.]		Nil	Nil	(4,17,000)
CGST credit utilized for payment of CGST and IGST in that order		(2,17,800)	Nil	(12,200)
SGST credit utilized for payment of SGST and IGST in that order		Nil	(2,17,800)	(42,200)
Minimum net GST payable in cash		Nil	Nil	2,05,400

Working Note:

Computation of ITC available

Particulars		**Value (₹)**	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Opening balance			20,000	50,000	75,000
Inter-State purchase of raw material [ITC is not available on goods worth ₹ 1,00,000 since not received during the month.]	Place of supply is location where movement of goods terminates.	19,00,000	Nil	Nil	3,42,000 [19,00,000 × 18%]
Purchase of machinery		2,00,000	Nil	Nil	Nil

[ITC is not available since depreciation has been claimed on the GST component.]					
Intra-State purchase of truck[1] [ITC on motor vehicles used for transportation of goods is available.]		15,00,000	2,10,000 [15,00,000 × 14%]	2,10,000 [15,00,000 × 14%]	Nil
Purchase of car [ITC on motor vehicles for transportation of persons with seating capacity up to 13 persons (including driver), is blocked, except when used for specified purposes.]		10,00,000	Nil	Nil	Nil
Purchase of goods for construction of an additional floor[2]		5,00,000	Nil	Nil	Nil

[1] *It is logically assumed that depreciation is not claimed on trucks.*

[2] *It is logically assumed that amount spent on purchase of goods is capitalized in the books.*

[ITC on goods used in construction of immovable property (other than plant or machinery) on one's own account is blocked if capitalized in the books.]					
Total			2,30,000	2,60,000	4,17,000
Note – In above answer, where location of supplier and place of supply are in two different States, it is an inter-State supply and where location of supplier and place of supply are in same State, it is an intra-State supply.					

(b) Computation of taxable value of supply on which GST is to be paid by Mr. Ravindra

Particulars	**Amount (₹)**
Remuneration received as a chief selector of hockey team. [Taxable since services provided to a recognised sports body by an individual only as a player, referee, umpire, coach or team manager are exempt.]	5,00,000
Service of pure labour contract for construction of independent residential unit [Services of pure labour contracts of construction of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt.]	NIL
Rental income from warehousing of sugarcane [Warehousing of sugarcane being an agricultural produce is exempt.]	NIL

Services to Municipal Corporation of Bhopal for slum improvement and upgradation* [Services provided to a Local Authority by way of slum improvement and upgradation are exempt.]	NIL
Consideration received against western music dance performance in an event [Taxable, since the amount received for western music dance performance but the exemption is available for performance in folk or classical art forms of music or dance. if the consideration charged for such performance is not more than ₹ 1,50,000.]	1,25,000
Value of taxable supply on which GST is to be paid by Mr. Ravindra	**6,25,000**

**Note: It has been assumed that either the services provided are pure services or composite supply where value of supply of goods is upto 25% of value of such supply and consequently, said supply has been considered as exempt from GST.*

However, it is also possible to assume that it is a composite supply with value of supply of goods more than 25% of value of such supply. In that case, said supply will be liable to GST.

Question 6

(a) As per the CGST Act 2017, Vishnu Limited was not mandatorily required to get registered, however it opted for voluntary registration and applied for registration on 12th February 2024. Registration certificate has been granted by the Department on 24th February 2024, Vishnu Limited is not engaged in making inter-State outward taxable supplies. The CGST and SGST liability for the month of February, 2024 is ₹ 31,000 each. Vishnu Limited provides the following information of goods held in stock on 23rd February 2024:

Sr. No.	***Particulars***	***Amount (₹)***
1.	*Capital goods procured on 5th February 2024, (Rate of CGST and SGST @ 6% each) being intra State supply.*	*2,00,000*

2.	*Inputs contained in finished goods stock held were procured on 13th February 2023* *(Rate of IGST @18%) being inter-State supply.*	*3,00,000*
3.	*Value of Inputs received on 10th October, 2023 contained in semi–finished goods held in stock* *(Rate of CGST and SGST @ 6% each) being intra-State supply.*	*2,50,000*
4.	*Inputs procured on 1st February 2024 lying in stock of semi -finished goods* *(Rate of CGST and SGST @ 7.5 % each) being intra-State supply.*	*1,50,000*
5.	*Inputs procured on 8th February 2024 lying in stock of finished goods.* *(Rate of IGST @ 18%) being inter-State supply.*	*60,000*

You are required to determine the eligible ITC available and amount of net minimum GST to be paid in cash by Vishnu Limited for the month of February 2024. ***(5 Marks)***

(b) Examine the following independent cases and determine the place of supply:

(1) Mr. Joy, an unregistered person of Kolkata, West Bengal sends a courier through Kolkata, West Bengal based Mohan Courier Agency to his sister in Mumbai, Maharashtra.

(2) Mr. Nitin, an unregistered person, resides at Rewa, Madhya Pradesh books a two way air journey ticket from Prayagraj, Uttar Pradesh to Jaipur, Rajasthan on 6 September and back. He leaves Prayagraj on 11 September in a morning flight and land in Jaipur the same day. He leaves Jaipur on 15 September in a late night flight and lands in Prayagraj the next day.

(3) Rimjhim Pvt. Ltd, located at Lucknow, Uttar Pradesh, purchases a manufacturing machine from Manav Steel Industries Ltd., located at Jaipur, Rajasthan, for being installed in its factory located at Haridwar, Uttarakhand. ***(5 Marks)***

Answer

(a) Computation of minimum net GST to be paid in cash by Vishnu Limited for the month of February 2024

Particulars	**CGST (₹)**	**SGST (₹)**
Output tax liability for the month	31,000	31,000
Less: Input tax credit (ITC) [Refer note below] IGST credit is utilized first for payment of CGST and SGST liability in equal proportion. CGST credit is utilized for payment of CGST liability and SGST credit is utilized for payment of SGST liability.	5,400 (IGST) 25,600 (CGST)	5,400 (IGST) 25,600 (SGST)
Net GST payable (in cash)	Nil	Nil

Note: Person taking voluntary registration can avail ITC on inputs contained in semi-finished or finished goods held in stock on the day immediately preceding the date of grant of registration, i.e. on 23.02.2024, only within 1 year from date of issue of tax invoice by supplier.

Computation of eligible ITC available[3]

Particulars	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Capital goods [Person taking voluntary registration cannot avail ITC on capital goods held on the day immediately preceding the date of grant of registration.]	Nil	Nil	Nil
Inputs procured on 13th February 2023	Nil	Nil	Nil

[3] It is assumed that amounts mentioned in the question are exclusive of GST. However, it is also possible to solve the question by assuming the amounts given in the question to be inclusive of tax.

Inputs procured on 10th October 2023	15,000	15,000	Nil
Inputs procured on 1st February 2024	11,250	11,250	Nil
Inputs procured on 8th February 2024	Nil	Nil	10,800
Total ITC	**26,250**	**26,250**	**10,800**

Note: In the above answer, minimum net GST to be paid in cash has been computed by setting off the IGST liability in equal proportion so as to minimize the amount of CGST and SGST payable in cash. Resultantly, Net GST payable (in cash) is Nil each under CGST and SGST.

However, since IGST credit can be set off against CGST and SGST liability in any order and in any proportion, the same can be set off against CGST and/or SGST liabilities in other possible ways as well.

(b) (1) The place of supply of services by way of transportation of goods by courier provided to an unregistered person is the location at which such goods are handed over for their transportation.

Therefore, the place of supply, in the given case is Kolkata, West Bengal.

(2) The place of supply of passenger transportation service to an unregistered person is place where the passenger embarks on the conveyance for a continuous journey wherein the return journey is treated as a separate journey, even if the tickets for onward and return journey is issued at the same time.

Therefore, the place of supply for the outward and return journey are the locations where Mr. Nitin embarked on the conveyance for the continuous journey, i.e. Prayagraj, Uttar Pradesh for outward journey and Jaipur, Rajasthan, for return journey.

(3) If the supply involves goods which are to be installed at site, the place of supply is the place of such installation.

Therefore, the place of supply, in the given case is Haridwar, Uttarakhand.

Question 7

(a) GSTR 3B for the month of January 2024 has been filed by M/s Avisha Limited, a registered person, within the due date prescribed by the CGST Act 2017 which is on February 20th, 2024. It came to the notice of the Co. that tax due

for the month of January, 2024 has been paid short by ₹ 16,000. The short fall of ₹ 16,000 has been paid through cash ledger and credit ledger at the time of filing GSTR 3B for the month of February 2024 on March 20th, 2024 in the following manner:

Particulars	***Cash Ledger***	***Credit Ledger***
Shortfall	*₹ 12,000*	*₹ 4,000*

Assume that electronic cash ledger and credit ledger carry sufficient balance for the above short fall.

(i) You are required to calculate the amount of interest payable if any under section 50 of the CGST Act 2017 and rule 88B of the CGST rules 2017.

(ii) Give the effect if GSTR3B for the month of January 2024 had been filed belatedly on March 20, 2024 and all other conditions remaining same.

Calculation should be rounded off to nearest rupee. As 2024 is leap year, give effect of same. ***(5 Marks)***

(b) Who is liable to collect TCS (collection of tax at source) under Section 52 of the CGST Act, 2017. Briefly explain the provisions relating to registration, filing of return and deposit of TCS to Government as per the provisions of section 52 of the CGST Act, 2017 and rule 12 of the CGST Rules, 2017.

(5 Marks)

Answer

(a) Interest is payable in case of delayed payment of tax @ 18% per annum from the date following the due date of payment to the actual date of payment of tax.

Above interest is payable on the net tax liability paid in cash only if return in Form GSTR-3B for a tax period has been filed after the due date to furnish such return. Otherwise, interest is payable on gross tax liability.

(i) Since Avisha Limited has furnished Form GSTR-3B for the month within the prescribed due date, interest is payable on the gross tax liability deposited with a delay of 29 days [21.02.2024 - 20.03.2024 (both inclusive)] as under:

= ₹ 16,000 x 18% x 29/366 = ₹ 228 (rounded off)

(ii) If Avisha Limited has filed Form GSTR-3B for the month after the due date, i.e. on 20.03.2024, interest is payable on the net tax liability paid through Electronic Cash Ledger only, for a delay of 29 days, as under:

= ₹ 12,000 x 18% x 29/366 = ₹ 171 (rounded off)

(b) Every Electronic Commerce Operator (ECO), not being an agent, is liable to collect tax at source (TCS).

Such ECO is required to submit a registration application in prescribed form through the common portal. The proper officer shall, after due verification, grant registration within 3 working days from the date of the application. On a request or upon an enquiry or pursuant to any other proceeding under GST law, if the proper officer is satisfied that a person is no longer liable to collect the tax at source, he may cancel his registration.

Such ECO shall furnish a monthly statement in prescribed form containing the details of the outward supplies of goods and/ or services effected through it, including supplies returned through it and the amount collected by it as TCS during the month within 10 days after the end of each month in which tax has been collected at source.

They also required to file annual statement[4] on or before 31st December following the end of the financial year.

The TCS amount collected by the ECO has to be deposited by 10th of the month succeeding the month in which TCS has been collected.

Question 8

(a) Describe the conditions to be satisfied for availing deduction of post supply discounts from the value of supply as per the provisions of section 15(3) of the CGST Act 2017.

OR

[4] *It may be noted that the annual statement (Form GSTR-9B) is yet to be notified.*

(a) Examine the existence of "consideration" for donation received by charitable institutions from individual donors, without quid pro quo an important feature as defined in section 2(31) of the CGST Act, 2017. ***(5 Marks)***

(b) Mohan Enterprise is a registered person having principal place of business in Gandhinagar, Gujarat. They received services of Advocate Sameer, a registered person from Ahmedabad, Gujarat. Shekhar, an unregistered person provided services of labour to Mohan Enterprise. Explain the provisions relating to issue of invoice by recipient Mohan Enterprise if he is liable to pay tax under reverse charge under Section 9(3) or 9(4) of the CGST Act, 2017. ***(5 Marks)***

Answer

(a) Conditions to be satisfied for availing deduction of post supply discounts from the value of supply as per the provisions of section 15(3) of the CGST Act, 2017 are as follows:

(i) Discount is in terms of an agreement entered into

(ii) at or before the time of supply.

(iii) Discount can be specifically linked to relevant invoices.

(iv) Input tax credit as is attributable to the discount on the basis of document issued by supplier is reversed by the recipient of the supply.

(a) Alternative

Donations received by the charitable institutions from individual donors are treated as consideration only if there exists, quid pro quo, i.e., there is an obligation on part of recipient of the donation or gift to do anything.

If the name of the donor is displayed in charitable institution's premises as an expression of gratitude and public recognition of his act of philanthropy and is not aimed at advertising or promotion of his business, there is no supply for the payment in the form of donation.

(b) A registered person shall issue an invoice in respect of goods and/or services received by him provided:

(i) he is liable to pay tax under reverse charge [under section 9(3) or 9(4) of the CGST Act, 2017] on such supplies, and

(ii) supplies are received from the supplier who is not registered on the date of receipt of goods and/or services.

In the given case, tax on services received from advocate Sameer by Mohan Enterprise is payable under reverse charge[5].

However, Mohan Enterprises is not required to issue an invoice with respect to said supply as supplier Sameer is registered.

Further, tax on labour services received from unregistered person-Shekhar is not payable under reverse charge.

Therefore, Mohan Enterprises is not required to issue an invoice with respect to said supply.

[5] *It has been assumed that service provided by Mr Sameer is legal service.*