MODEL TEST PAPERS

(RELEVANT FOR MAY, 2025 EXAMINATION AND ONWARDS)

INTERMEDIATE COURSE

GROUP - I

BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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MODEL TEST PAPERS

INTERMEDIATE COURSE GROUP - I

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MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. SEAS Ltd., the "Company", is in the business of tours and travels. It sells holiday packages to the customers. The Company negotiates upfront with the Airlines for specified number of seats in flight. The Company agrees to buy a specific number of tickets and pay for those tickets regardless of whether it is able to resell all of those in package.

   The rate paid by the Company for each ticket purchased is negotiated and agreed in advance. The Company also assists the customers in resolving complaints with the service provided by airlines. However, each airline is responsible for fulfilling obligations associated with the ticket, including remedies to a customer for dissatisfaction with the service.

   The Company bought a forward contract for three months of US$ 1,00,000 on 1 March 2024 at 1 US$ = INR 83.10 when exchange rate was US$ 1 = INR 83.02. On 31 March 2024, when the Company closed its books, exchange rate was US$ 1 = INR 83.15. On 1 April 2024, the Company decided for premature settlement of the contract due to some exceptional circumstances.

   The Company is evaluating below mentioned schemes:

   i. Introduction of a formal retirement gratuity scheme by an employer in place of ad hoc ex-gratia payments to employees on retirement.

   ii. Management decided to pay pension to those employees who have retired after completing 5 years of service in the organization. Such employees will get pension of ₹ 20,000 per month. Earlier there was no such scheme of pension in the organization.

   SEAS Ltd. has a subsidiary, ADI Ltd., which is in the business of construction having turnover of ₹ 200 crores. SEAS Ltd. and ADI Ltd. hold 9% and 23% respectively in an associate company, ASOC Ltd. Both SEAS Ltd. and ADI Ltd. prepare consolidated financial statements as per Accounting Standards notified under the Companies (Accounting Standards) Rules, 2021.

   i. What would be the basis of revenue recognition for SEAS Ltd. as per the requirements of Accounting Standards?

      (a) Gross basis.

(b) Net basis.

(c) Depends on the accounting policy of the Company.

(d) Indian GAAP allows a choice to the Company to recognize revenue on gross basis or net basis.

ii. Please suggest accounting treatment of forward contract for the year ended 31 March 2024 as per Accounting Standard 11.

(a) MTM (marked to market value) of contract will be recorded on 31 March 2024.

(b) MTM (marked to market value) of contract will be computed as at 31 March 2024 and only if there is loss, it will be recorded during the year ended 31 March 2024.

(c) No accounting will be done during the year ended 31 March 2024.

(d) Premium on contract will be amortized over the life of the contract.

iii. You are requested to advise the Company in respect of the accounting requirements of above schemes related to employee benefits as to which one of those schemes should be considered as a change in accounting policy during the year.

(a) 1 – Change in accounting policy. 2 – Change in accounting policy.

(b) 1– Not a change in accounting policy. 2 – Change in accounting policy.

(c) 1 – Not a change in accounting policy. 2 – Not a change in accounting policy.

(d) 1– Change in accounting policy. 2 – Not a change in accounting policy.

iv. Please comment regarding consolidation requirements for SEAS Ltd. and ADI Ltd. using the below mentioned options as to which one should be correct.

(a) ADI Ltd. would using equity method of accounting for 23% in ASOC Ltd. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically equity account 23% and separately account for the balance 9% as per AS 13.

(b) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and consequently automatically account 23% and separately account for the balance 9%.

(c) ADI Ltd. would account for 23% share in ASOC Ltd using equity method of accounting. SEAS Ltd. would consolidate ADI Ltd. and consequently, automatically account for ASOC Ltd 23% share and separately account for 9% share in ASOC Ltd. using equity method of accounting in consolidated financial statements.

(d) ADI Ltd. would account for 23% in ASOC Ltd. as per AS 13. SEAS Ltd. would consolidate ADI Ltd. and using equity method of accounting 23% in ASOC Ltd. and separately account for the balance 9% as per AS 13.

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. On 1st April, 2022, Shubham Limited purchased some land for ₹ 30 lakhs for the purpose of constructing a new factory. This cost of 30 lakhs included legal cost of ₹ 2 lakhs incurred for the purpose of acquisition of this land. Construction work could start on 1st May, 2022 and Shubham Limited provides you the details of the following costs incurred in relation to its construction:

	₹
Preparation and levelling of the land	80,000
Employment costs of the construction workers (per month)	29,000
Purchase of materials for the construction	21,24,000
Cost of relocating employees to new factory for work	60,000
Costs of inauguration ceremony on 1st January, 2023	80,000
Overhead costs incurred directly on the construction of the factory (per month)	25,000
General overhead costs allocated to construction project by the Manager is ₹ 30,000. However, as per company's normal overhead allocation policy, it should be ₹ 24,000. The auditor of the company has support documentation for the cost of ₹ 15,000 only) and raised objection for the balance amount.	

The construction of the factory was completed on 31st December, 2022 and production could begin on 1st February, 2023. The overall useful life of the factory building was estimated at 40 years from the date of completion. However, it was estimated that the roof will need to be replaced 20 years after the date of completion and that the cost of replacing the roof at current prices would be 25% of the total cost of the building.

The construction of the factory was partly financed by a loan of ₹ 28 lakhs borrowed on 1st April, 2022. The loan was taken at an annual rate of interest of 9%. During the period when the loan proceeds had been fully utilized to finance the construction, Shubham Limited received investment income of ₹ 25,000 on the temporary investment of the proceeds.

You are required to assume that all of the net finance costs to be allocated to the cost of factory (not land) and interest cost to be capitalized based on nine months' period.

Based on the information given in the above scenario, answer the following multiple choice questions:

i. Which of the following cost (incurred directly on construction) will be capitalized to the cost of factory building?

   (a) ₹ 2,00,000 incurred as legal cost

   (b) ₹ 60,000 – costs of relocating employees

   (c) ₹ 80,000 costs of inauguration ceremony

(d) ₹ 24,000 – allocated general overhead cost

ii. What amount of employment cost of construction workers will be capitalized to the cost of factory building?

(a) ₹ 2,90,000

(b) ₹ 3,48,000

(c) ₹ 2,32,000

(d) ₹ 29,000

iii. What is the amount of net borrowing cost capitalized to the cost of the factory?

(a) ₹ 1,89,000

(b) ₹ 1,68,000

(c) ₹ 1,44,000

(d) ₹ 1,64,000

iv. What will be the carrying amount (i.e. value after charging depreciation) of the factory in the Balance Sheet of Shubham Limited as at 31st March, 2023?

(a) ₹ 30,00,000

(b) ₹ 57,78,125

(c) ₹ 27,78,125

(d) ₹ 58,00,000

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. Kesar Ltd., a company engaged in various business activities, has decided to initiate a share buy-back on 1st April, 2023. The company plans to repurchase 25,000 equity shares of ₹ 10 each at a price of ₹ 20 per share. This buy-back initiative is in compliance with the company's articles of association, and the necessary resolution has been duly passed by the company. As part of the financial arrangement for the share buy-back, Kesar Ltd. intends to utilize its current assets, particularly the bank balance, to make the payment for the repurchased shares.

Here is a snapshot of Kesar Ltd.'s Balance Sheet as of 31st March, 2023:

A. Share Capital: Equity share capital (fully paid up shares of ₹ 10 each) - ₹ 12,50,000

B. Reserves and Surplus: Securities premium ₹ 2,50,000; Profit and loss account ₹ 1,25,000; Revenue reserve ₹ 15,00,000;

C. Long term borrowings: 14% Debentures- ₹ 28,75,000, Unsecured Loans - ₹ 16,50,000

D. Land and Building ₹ 19,30,000; Plant and machinery ₹ 18,00,000; Furniture and fitting ₹ 9,20,000 and Other Current Assets - ₹ 30,00,000

Authorized, issued and subscribed capital: Equity share capital (fully paid up shares of 10 each) - 12,50,000.

i. By using the Shares Outstanding Test the number of shares that can be bought back

(a) 1,25,000

(b) 31,250

(c) 25,000

(d) 30,000

ii. By using the Resources Test determine the number of shares that can be bought back:

(a) 25,000

(b) 31,250

(c) 28,750

(d) 39,062

iii. By using the Debt Equity Ratio Test determine the number of shares that can be bought back:

(a) 25,000

(b) 31,250

(c) 28,750

(d) 39,062

iv. On the basis of all three tests determine Maximum number of shares that can be bought back:

(a) 25,000

(b) 31,250

(c) 28,750

(d) 39,062

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. All of the following costs are excluded while computing value of inventories except?

(a) Selling and Distribution costs

(b) Allocated fixed production overheads based on normal capacity.

(c) Abnormal wastage

(d) Storage costs (which is necessary part of the production process)

(2 Marks)

5. According to AS-18 Related Party Disclosures, which ONE of the following is not a related party of Skyline Limited?
   (a) A shareholder of Skyline Limited owning 30% of the ordinary share capital
   (b) An entity providing banking facilities to Skyline Limited in the normal course of business
   (c) An associate of Skyline Limited
   (d) Key management personnel of Skyline Limited **(2 Marks)**

6. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
   (a) Internal reconstruction.
   (b) External reconstruction.
   (c) Amalgamation in the nature of merger.
   (d) Amalgamation in the nature of purchase. **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) Innovative Garments Manufacturing Company Limited invested in the shares of another company on 1st October, 2022 at a cost of ₹ 2,50,000. It also earlier purchased Gold of ₹ 4,00,000 and Silver of ₹ 2,00,000 on 1st March, 2020. Market value as on 31st March, 2023 of above investments are as follows:

	₹
Shares	2,25,000
Gold	6,00,000
Silver	3,50,000

How above investments will be shown in the books of accounts of Innovative Garments Manufacturing Company Limited for the year ending 31st March, 2023 as per the provisions of Accounting Standard 13 "Accounting for Investments"? **(5 Marks)**

(b) Lessee Ltd. took a machine on lease from Lessor Ltd., the fair value being ₹ 7,00,000.

The economic life of machine as well as the lease term is 3 years. At the end of each year Lessee Ltd. pays ₹ 3,00,000. The Lessee has guaranteed a residual value of ₹ 22,000 on expiry of the lease to the Lessor. However, Lessor Ltd., estimates that the residual value of the machinery will be only ₹ 15,000. The implicit rate of return is 15% p.a. and present value factors at 15% are 0.869, 0.756 and 0.657 at the end of first, second and third years respectively.

Calculate the value of machinery to be considered by Lessee Ltd. and the finance charges in each year. **(5 Marks)**

(c) X Ltd. purchased a Property, Plant and Equipment four years ago for ₹ 150 lakhs and depreciates it at 10% p.a. on straight line method. At the end of the fourth year, it has revalued the asset at ₹ 75 lakhs and has written off the loss on revaluation to the profit and loss account. However, on the date of revaluation, the market price is ₹ 67.50 lakhs and expected disposal costs are ₹ 3 lakhs. What will be the treatment in respect of impairment loss on the basis that fair value for revaluation purpose is determined by market value and the value in use is estimated at ₹ 60 lakhs?. **(4 Marks)**

2. Following is the trial balance of Delta limited as on 31.3.2023.

(Figures in ₹ '000)

Particulars	Debit	Particulars	Credit
Land at cost	800	Equity share capital (shares of ₹ 10 each)	500
Calls in arrears	5	10% Debentures	300
Cash in hand	2	General reserve	150
Plant & Machinery at cost	824	Profit & Loss A/c (balance on 1.4.22)	75
Trade receivables	120	Securities premium	40
Inventories (31-3-23)	96	Sales	1200
Cash at Bank	28	Trade payables	30
Adjusted Purchases	400	Provision for depreciation	150
Factory expenses	80	Suspense Account	10
Administrative expenses	45		
Selling expenses	25		
Debenture Interest	30		
	2455		2455

Additional Information:

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

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

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

(iv) Suspense account of ₹ 10,000 represents cash received from the sale of some of the machinery on 1.4.2022. The cost of the machinery was

₹ 24,000 and the accumulated depreciation thereon being ₹ 20,000. The balance of Plant & Machinery given in trial balance is before adjustment of sale of machinery.

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

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

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

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

You are required to prepare Delta Limited's Balance Sheet as at 31.3.2023 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2023 as per Schedule III. Ignore previous year's figures & taxation.

(14 Marks)

3. (a) Y Ltd., used certain resources of X Ltd. In return X Ltd. received ₹ 10 lakhs and 15 lakhs as interest and royalties respective from Y Ltd. during the year 2022-23. You are required to state whether and on what basis these revenues can be recognized by X Ltd. **(4 Marks)**

(b) Following is the Balance Sheet of ABC Ltd. as at 31st March, 2023:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	26,00,000
	B	Reserves and Surplus	2	(4,05,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	12,00,000
3		**Current liabilities**		
	A	Trade Payables		5,92,000
	B	Short term borrowings - Bank overdraft		1,50,000
		Total		41,37,000
		Assets		
1		**Non-current assets**		
	A	Property, plant and equipment	4	11,50,000
	B	Intangible assets	5	70,000
	C	Non-current investment	6	68,000
2		**Current assets**		
	A	Inventory		14,00,000
	B	Trade receivables		14,39,000

	C	Cash and cash equivalents		10,000
		Total		41,37,000

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital:	
	2,00,000 Equity Shares of ₹ 10 each	20,00,000
	6,000, 8% Preference shares of ₹ 100 each	6,00,000
		26,00,000
2	**Reserves and Surplus**	
	Debit balance of Profit and loss A/c	(4,05,000)
		(4,05,000)
3	**Long-term borrowings**	
	9% debentures	12,00,000
		12,00,000
4	**Property, Plant and Equipment**	
	Plant and machinery	9,00,000
	Furniture and fixtures	2,50,000
		11,50,000
5	**Intangible assets**	
	Patents and copyrights	70,000
		70,000
6	**Non-current investments**	
	Investments (market value of ₹ 55,000)	68,000
		68,000

The following scheme of reconstruction was finalized:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debenture holders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Inventory equal to ₹ 5,00,000 in book value will be taken over by trade payables in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for ₹ 3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet extract for Equity & Liabilities of the company after internal reconstruction. **(10 Marks)**

4. The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 2023 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	11,00,000	4,00,000
	B	Reserves and Surplus	2	70,000	70,000
2		**Non-current liabilities**			
	A	Long term provisions	3	50,000	20,000
3		**Current liabilities**			
	A	Trade Payables		1,30,000	80,000
		Total		13,50,000	5,70,000
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	8,00,000	2,50,000
	B	Intangible assets	5	50,000	25,000
2		**Current assets**			
	A	Inventories		2,50,000	1,75,000
	B	Trade receivables		2,00,000	1,00,000
	C	Cash and Cash equivalents		50,000	20,000
		Total		13,50,000	5,70,000

Notes to accounts

			Hari Ltd.	Vayu Ltd.
1	**Share Capital**			
	Equity shares of ₹ 10 each		10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each		1,00,000	--
	10% Preference Shares of ₹ 100 each		--	1,00,000
			11,00,000	4,00,000

2	**Reserves and Surplus**			
	General reserve		70,000	70,000
			70,000	70,000
3	**Long term Provisions**			
	Retirement gratuity fund		50,000	20,000
			50,000	20,000
4	**Property, plant and Equipment**			
	Land and Building		3,00,000	1,00,000
	Plant and machinery		5,00,000	1,50,000
			8,00,000	2,50,000
5	**Intangible assets**			
	Goodwill		50,000	25,000
			50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2023. **(14 Marks)**

5. From the Balance Sheets and information given below, prepare Consolidated Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March. Virat Ltd. holds 80% of Equity Shares in Anushka Ltd. since its (Anushka Ltd.'s) incorporation.

Balance Sheet of Virat Ltd. and Anushka Ltd. as at 31st March, 2023

Particulars	Note No.	Virat Ltd. (₹)	Anushka Ltd. (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	6,00,000	4,00,000
(b) Reserves and Surplus	2	1,00,000	1,00,000
(2) Non-current Liabilities			
Long Term Borrowings		2,00,000	1,00,000

(3) Current Liabilities			
(a) Trade Payables		1,00,000	1,00,000
Total		10,00,000	7,00,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment		4,00,000	3,00,000
(b) Non-current investments	3	3,20,000	-
(2) Current Assets			
(a) Inventories		1,60,000	2,00,000
(b) Trade Receivables		80,000	1,40,000
(c) Cash & Cash Equivalents		40,000	60,000
Total		10,00,000	7,00,000

Notes to Accounts

	Particulars	(₹)	Virat Ltd. (₹)	Anushka Ltd. (₹)
1.	**Share capital**			
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000	--
	40,000 equity shares of ₹ 10 each fully paid up		--	4,00,000
	Total		6,00,000	4,00,000
2.	**Reserves and Surplus**			
	General Reserve		1,00,000	1,00,000
	Total		1,00,000	1,00,000
3.	**Non-current investments**			
	Shares in Anushka Ltd		3,20,000	--

(14 Marks)

6. (a) What are the qualitative characteristics of the financial statements which improve the usefulness of the information furnished therein? **(4 Marks)**

Or

What are the issues, with which Accounting Standards deal? **(4 Marks)**

(b) From the following information, calculate cash flow from operating activities:

Summary of Cash Account
for the year ended March 31, 2023

Particulars	₹	Particulars	₹
To Balance b/d	1,00,000	By Cash Purchases	1,20,000
To Cash sales	1,40,000	By Trade payables	1,57,000
To Trade receivables	1,75,000	By Office & Selling Expenses	75,000
To Trade Commission	50,000	By Income Tax	30,000
To Sale of Investment	30,000	By Investment	25,000
To Loan from Bank	1,00,000	By Repayment of Loan	75,000
To Interest & Dividend	1,000	By Interest on loan	10,000
		By Balance c/d	1,04,000
	5,96,000		5,96,000

(4 Marks)

(c) Following is the information of the Jammu branch of Best New Delhi for the year ending 31st March, 2023 from the following:

(1) Goods are invoiced to the branch at cost plus 20%.

(2) The sale price is cost plus 50%.

(3) Other information:

	₹
Stock as on 01.04.2022(invoice price)	2,20,000
Goods sent during the year (invoice price)	11,00,000
Sales during the year	12,00,000
Expenses incurred at the branch	45,000

Ascertain

(i) the profit earned by the branch during the year.

(ii) branch stock reserve in respect of unrealized profit.

(6 Marks)

MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Mars Ltd. is a manufacturing enterprise which is starting a new manufacturing plant at X Village. It has commenced construction of the plant on April 1, 2023 and has incurred following expenses:

   - It has acquired land for installing Plant for ₹ 50,00,000
   - It incurred ₹ 35,00,000 for material and direct labour cost for developing the Plant.
   - The Company incurred ₹ 10,00,000 for head office expenses at New Delhi which included rent, employee cost and maintenance expenditure.
   - The Company borrowed ₹ 25,00,000 for construction work of Plant @12% per annum on April 1, 2023. Director finance of the Company incurred travel and meeting expenses amounting to ₹ 5,00,000 during the year for arranging this loan.
   - On November 1, 2023, the construction activities of the plant were interrupted as the local people alongwith the activists have raised issues relating to environmental impact of plant being constructed. Due to agitation the construction activities came to standstill for 3 months.
   - With the help of Government and NGOs, the agitation was over by February 28, 2024 and the work resumed. However, to balance the impact on environment, government ordered the company to install certain devices for which the Company had to incur ₹ 6,00,000 in March 2024.
   - The rate of depreciation on Plant is 10%.

   Based on the above information, answer the following questions.

   (i) Which of the following expenses cannot be included in the cost of plant:

   (a) Cost of Land

   (b) Construction material and labour cost

   (c) Head office expenses

   (d) Borrowing cost

   (ii) How much amount of borrowing cost can be capitalised with the plant:

   (a) ₹ 300,000

(b) ₹ 2,00,000

(c) ₹ 7,00,000

(d) ₹ 6,00,000

(iii) The total cost of plant as on march 31, 2024 will be:

(a) ₹ 85,00,000

(b) ₹ 98,00,000

(c) ₹ 93,00,000

(d) ₹ 95,00,000

(iv) The amount of depreciation to be charged for the year end March 31, 2024

(a) ₹ 4,30,000

(b) ₹ 9,30,000

(c) ₹ 9,80,000

(d) Nil

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Beloved Finance Ltd. is a financial enterprise which is in the business of lending loan to small businesses and earn interest on loans.

- During the year the Company has lend 50 crores and earned ₹ 1.5 crore as interest on loans.
- The Company had surplus funds during the year and invested then in Fixed Deposits with bank and earned interest on fixed deposits of ₹ 20 lacs.
- The Company also acquired a gold loan unit for ₹ 10 crore during the year and the Company provided interest free loan of ₹ 15 crore to its wholly-owned subsidiary.
- The Company paid a total income tax of ₹ 75 lacs for the year.

Based on the above information, answer the following questions.

(i) In the Cash Flow Statement as per AS 3, the interest income of ₹ 1.5 crore earned on earned on loans given by the Company will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(ii) In the Cash Flow Statement as per AS 3, the interest income of ₹ 20 Lacs earned fixed deposits with bank will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iii) In the Cash Flow Statement as per AS 3, amount paid for acquiring gold loan unit will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(iv) In the Cash Flow Statement as per AS 3, total income tax of ₹ 75 lacs paid for the year will be disclosed as:

(a) Cash Flow from Operating Activities

(b) Cash Flow from Investing Activities

(c) Cash Flow from Financing Activities

(d) Non-cash Items

(v) Is any specific disclosures required to made in relation to the interest free loan of ₹ 15 crore provided by the Company to its wholly-owned subsidiary, if yes, as per which Accounting Standard:

(a) Yes, disclosure is required to be made as per AS 3, Cash Flow Statements.

(b) Yes, disclosure is required to be made as per AS 18, Related Party Disclosures

(c) Yes, disclosure is required to be made as per AS 13, Accounting for Investments

(d) No specific disclosures are required.

Multiple Choice Questions [5 MCQs of 2 Marks each: Total 10 Marks]

3. Kumar Ltd., a privately-held company, operates in the manufacturing industry. Founded in 2008, the company has steadily grown its operations and established a strong presence in the market. As of 31st March, 2023, the company's capital structure reflects a blend of equity and debt financing.

Capital Structure Overview:

- Equity Share Capital: The company has a total of ₹ 30,00,000 invested in equity shares, each valued at ₹ 10 and fully paid.
- Reserves & Surplus: Kumar Ltd. has accumulated reserves and surplus totaling ₹49,00,000, comprising contributions from various sources including General Reserve (₹ 32,50,000), Security Premium Account (₹ 6,00,000), Profit & Loss Account (₹ 4,30,000), and Revaluation Reserve (₹ 6,20,000).

- Loan Funds: The company has acquired loan funds amounting to ₹ 42,00,000 to support its operational and growth initiatives.

Buy-Back Decision:

Considering its financial position and market conditions, Kumar Ltd. has decided to initiate a share buy-back program. The company intends to repurchase its shares at a price of ₹30 per share.

In accordance with financial regulations and internal policies, Kumar Ltd. aims to assess the maximum number of shares it can repurchase while maintaining a prudent debt-equity ratio. By utilizing the Debt Equity Ratio Test, the company seeks to strike a balance between its equity base and debt obligations.

Based on the above information, answer the following questions.

(i) What is the minimum equity Kumar Ltd. needs to maintain after buy-back, according to the Debt Equity Ratio Test?

(a) ₹ 12,95,000

(b) ₹ 21,00,000

(c) ₹ 32,50,000

(d) ₹ 6,00,000

(ii) What is the maximum permitted buy-back of equity for Kumar Ltd.?

(a) ₹ 38,85,000

(b) ₹ 42,00,000

(c) ₹ 12,95,000

(d) ₹ 59,85,000

(iii) How many shares of Kumar Ltd. can be bought back at ₹ 30 per share according to the Debt Equity Ratio Test?

(a) 43,000

(b) 1,29,500

(c) 2,00,000

(d) 78,000

Multiple Choice Questions [3 MCQs of 2 Marks each: Total 6 Marks]

4. Sahil Ltd agreed to sell its factory located in Assam to Kali Ltd on 4.12.2023. It entered into a sale deed (transferring all significant risks and rewards of ownership) on 1.2.2024. But the transaction was registered with the registrar on 30.5.2024 When should the sale and gain be recognized?

(a) Both sale and gain should be recognized as on the balance sheet date i.e. 31.3.2024.

(b) Both sale and gain should be recognized on 30.5.2024.

(c) The sale should be recognized as on balance sheet date but gain should be recognized on 30.5.2024.

(d) Both sale and gain should be recognized on 4.12.2023. **(2 Marks)**

5. Pratham and Associates is a manufacturer of steel rods. It invests its profits by purchasing shares of listed companies in order to earn dividend income. It had purchased shares of Bharti Airtel Limited in FY 2018-19. However, it sold all the shares of Bharti Airtel Limited during the current year i.e. FY 2023-24. What amount would be disclosed in the profit and loss account for FY 2023-24?

(a) This transaction would not affect the profit and loss account since the primary business of the company is manufacturing, and not investment.

(b) The carrying amount net of expenses would be disclosed in the profit and loss account.

(c) The disposal proceeds net of expenses would be disclosed in the profit and loss account.

(d) The difference between the carrying amount and the disposal proceeds, net of expenses, would be disclosed in the profit and loss account.

(2 Marks)

6. As per Accounting Standards, difference between the Gross Investment and the present value of Minimum Lease Payments under finance lease (from the standpoint of the lessor) and Unguaranteed Residual Value accruing to the lessor is recorded as

(a) Unearned finance income

(b) Guaranteed Residual Value

(c) Profit on lease

(d) Loss on lease **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) K Ltd. launched a project for producing product X in October, 2023. The Company incurred ₹ 40 lakhs towards Research and Development expenses upto 31st March, 2024. Due to prevailing market conditions, the Management came to conclusion that the product cannot be manufactured and sold in the market for the next 10 years. The Management hence wants to defer the expenditure write off to future years.

Advise the Company as per the applicable Accounting Standard.

(5 Marks)

(b) Wooden Plywood Limited has a normal wastage of 5% in the production process. During the year 2023-24, the Company used 16,000 MT of Raw material costing ₹ 190 per MT. At the end of the year, 950 MT of wastage was in stock. The accountant wants to know how this wastage is to be treated in the books.

You are required to :

(1) Calculate the amount of abnormal loss.

(2) Explain the treatment of normal loss and abnormal loss in the context of AS-2. **(5 Marks)**

(c) On 15^{th} June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

(1) A portion of long term investments purchased on 1^{st} March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15^{th} June, 2024 was ₹ 11 lakhs.

(2) A portion of current investments purchased on 15^{th} March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31^{st} March, 2024 was ₹ 6 lakhs and fair value on 15^{th} June 2018 was ₹ 8.5 lakhs. **(4 Marks)**

2. The following balance appeared in the books of Oliva Company Ltd. as on 31-03-2024.

Particulars		**₹**	**Particulars**		**₹**
Inventory 01-04-2023			Sales		17,10,000
-Raw Material	30,000		Interest		3,900
-Finished goods	46,500	76,500	Profit and Loss A/c		48,000
Purchases		12,15,000	Share Capital		3,15,000
Manufacturing Expenses		2,70,000	Secure Loans: Short–term	4,500	
			Long-term	21,000	25,500
Salaries and wages		40,200	Deposits (unsecured):		
General Charges		16,500	Short -Term	1,500	
Interim Dividend paid		27,000	Long-term	3,300	4,800
			Trade payables		3,27,000
Building		1,01,000			

Plant and Machinery		70,400			
Furniture		10,200			
Motor Vehicles		40,800			
Stores and Spare Parts Consumed		45,000			
Investments:					
Current	4,500				
Non Current	7,500	12,000			
Trade receivables		2,38,500			
Cash in Bank		2,71,100			
		24,34,200			24,34,200

From the above balance and the following information, prepare the company's Profit and Loss Account for the year ended 31st March, 2024 and Company's Balance Sheet as on that date:

1. Inventory on 31st March,2024 Raw material ₹ 25,800 & finished goods ₹ 60,000.
2. Outstanding Expenses: Manufacturing Expenses ₹ 67,500 & Salaries & Wages ₹ 4,500.
3. Interest accrued on Securities ₹ 300.
4. General Charges prepaid ₹ 2,490.
5. Provide depreciation: Building @ 2% p.a., Machinery @ 10% p.a., Furniture @ 10% p.a. & Motor Vehicles @ 20% p.a.
6. The Taxation provision of 40% on net profit is considered. **(14 Marks)**

3. (a) XYZ Ltd. has not made provision for warrantee in respect of certain goods due to the fact that the company can claim the warranty cost from the original supplier. Hence the accountant of the company says that the company is not having any liability for warrantees on a particular date as the amount gets reimbursed. You are required to comment on the accounting treatment done by the XYZ Ltd. in line with the provisions of AS 29. **(4 Marks)**

(b) The Balance Sheet of Radhika Ltd. as at 31-3-2024 is as follows:

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	13,80,000
	b	Reserves and Surplus	2	(6,42,000)
2		Non-current liabilities		
	a	Long-term borrowings	3	4,50,000
3		Current liabilities		

	a	Trade Payables		3,60,000
	b	Short term borrowings - Bank Overdraft		2,34,000
	c	Other current liabilities	4	1,47,000
		Total		19,29,000
		Assets		
1		Non-current assets		
	a	Property, plant and equipment	5	5,70,000
	b	Intangible assets	6	2,01,000
	c	Non-current investments	7	66,000
2		Current assets		
	a	Inventories		5,10,000
	b	Trade receivables		5,00,000
	c	Cash and Cash Equivalents		82,000
		Total		19,29,000

Notes to accounts

		₹
1	Share Capital	
	Equity share capital:	
	9,000 Equity Shares of ₹100 each	9,00,000
	Preference share capital:	
	4,800 6% Cumulative Preference Shares of ₹100 each	4,80,000
		13,80,000
2	Reserves and Surplus	
	Debit balance of Profit and loss Account	(6,42,000)
3	Long-term borrowings	
	Secured: 6% Debentures	4,50,000
4	Other current liabilities	
	Loan from directors	1,20,000
	Interest payable on 6% debentures	27,000
		1,47,000

5	Property Plant and Equipment	
	Freehold property	5,10,000
	Plant	60,000
		5,70,000
6	Intangible assets	
	Goodwill	1,56,000
	Patents	45,000
		2,01,000
7	Non-current investments	
	Investments at cost	66,000

The Court approved a Scheme of re-organization to take effect on 1-4-2024, whereby:

(1) Equity Shares to be reduced to ₹ 20 each.

(2) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(3) Of the Preference Share dividends which are in arrears for four years, three fourths to be waived and Equity Shares of ₹ 20 each to be allotted for the remaining quarter.

(4) Interest payable on debentures to be paid in cash.

(5) Goodwill to be written off.

(6) Inventory to be written off by ₹65,000.

(7) Amount of ₹ 68,500 to be provided for bad debts.

(8) Freehold property to be revalued at ₹6,49,000

(9) Investments be sold for ₹ 1,40,000.

(10) Directors to accept settlement of their loans as to 90% thereof by allotment of equity shares of ₹ 20 each and as to 5% in cash, and balance 5% being waived.

(11) There were capital commitments totaling ₹ 2,50,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(12) Ignore taxation and cost of the scheme.

(13) Eliminate debit balance of Profit and Loss A/c

You are requested to prepare the Balance Sheet of the company after completion of the Scheme. **(10 Marks)**

4. Following is the information of Anu Ltd. and Banu Ltd. as on 31.03.2023 were as under:

	Anu Ltd. (₹)	Banu Ltd. (₹)
Share Capital:		
50,000 Equity Shares of ₹10 each, Fully Paid	5,00,000	
37,500 Equity Shares of ₹10 each, Fully Paid		3,75,000
General Reserve	3,00,000	-
Profit and Loss Account	62,500	62,500
Trade Payables	2,62,500	1,62,500
5% Debentures	-	1,50,000
Freehold Property	3,75,000	3,00,000
Plant and Machinery	75,000	50,000
Motor Vehicle	37,500	25,000
Trade Receivables	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000

Anu Ltd. and Banu Ltd. carry on business of similar nature and they agreed to amalgamate.

A new Company, Anban Ltd. is formed to take over the Assets and Liabilities of Anu Ltd. and Banu Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

(a) Goodwill of Anu Ltd. and Banu Ltd. is to be valued at ₹1,75,000 and ₹50,000 respectively.

(b) Plant and Machinery of Anu Ltd. are to be valued at ₹1,25,000.

(c) The Debentures of Banu Ltd. are to be discharged by the issue of 6% Debentures of Anan Ltd. at a premium of 5%.

You are required to:

1. Compute the basis on which shares in Anban Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of Anban Ltd. is ₹10.

2. Draw up a Balance Sheet of Anban Ltd. as on 1st April, 2023, when Amalgamation is completed. **(14 Marks)**

5. (a) Star Ltd.acquires 70% of equity shares of Moon Ltd.as on 31st March, 2024 at a cost of ₹ 140 lakhs. The following information is available from the balance sheet of Moon Ltd.as *on* 31st March, 2024:

	₹ in lakhs
Property, plant and equipment	240

Investments	110
Current Assets	140
Loans & Advances	30
15% Debentures	180
Current Liabilities	100

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment		Up by 20%

Investments		Down by 10%

Moon Ltd. declared and paid dividend @ 20% on its equity shares as on 31^{st} March, 2024 (Face value - ₹ 10 per share). Star Ltd. purchased the shares of Moon Ltd.@ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Moon Ltd. 31st March, 2024.

(b) Gamma Ltd. acquired 24,000 equity shares of ₹ 10 each, in Beta Ltd. on October 1, 2023 for₹ 4,60,200. The profit and loss account of Beta Ltd. showed a balance of ₹ 15,000 on April 1,2023. The plant and machinery of Beta Ltd. which stood in the books at ₹ 2,25,000 on April 1,2023 was considered worth ₹ 2,70,000 on the date of acquisition.

The information of the two companies as at 31-3-2024 was as follows:

	Gamma Ltd. (₹)	Beta Ltd. (₹)
Shares capital (fully paid equity shares of ₹ 10 each)	7,50,000	3,00,000
General reserve	3,60,000	1,50,000
Profit and loss account	85,800	1,23,000
Current Liabilities	2,54,700	49,500
Land and building	2,70,000	2,85,000
Plant and machinery	3,60,000	2,02,500
Investments	4,60,200	
Current assets	3,60,300	1,35,000

You are required to compute impact of revaluation of Plant and Machinery. **(7+7 = 14 Marks)**

6. (a) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement? **(4 Marks)**

Or

Opening Balance Sheet of Mr. Amit is showing the aggregate value of assets, liabilities and equity ₹ 16 lakh, ₹ 6 lakh and ₹ 10 lakh respectively. During accounting period, Mr. Amit has the following transactions:

(1) Earned 10% dividend on 4,000 equity shares held of ₹ 100 each

(2) Paid ₹ 1,00,000 to creditors for settlement of ₹ 1,40,000

(3) Rent of the premises is outstanding ₹ 20,000

(4) Mr. A withdrew ₹ 18,000 for his personal use.

You are required to show the effect of above transactions on Balance Sheet in the form of Assets - Liabilities = Equity after each transaction.

(4 Marks)

(b) C Ltd. had ₹ 5,00,000 authorized capital on 31-12-2021 divided into shares of ₹ 100 each out of which 4,000 shares were issued and fully paid up. In June 2022 the Company decided to convert the issued shares into stock. But in June, 2023 the Company re-converted the stock into shares of ₹ 10 each, fully paid up.

Pass entries and show how Share Capital will appear in Notes to Balance Sheet as on 31-12-2022 and 31-12-2023. **(4 Marks)**

(c) Alfa of Chennai has a branch at Mumbai to which goods are sent @ 20% above cost. The branch makes both cash and credit sales. Branch expenses are met partly from H.O. and partly by the branch. The statement of expenses incurred by the branch every month is sent to head office for recording.

Following further details are given for the year ended 31st December, 2023:

		₹
Cost of goods sent to Branch at cost		2,00,000
Goods received by Branch till 31-12-2023 at invoice price		2,20,000
Credit Sales for the year @ invoice price		1,65,000
Cash Sales for the year @ invoice price		59,000
Cash Remitted to head office		2,22,500
Expenses paid by H.O.		12,000
Bad Debts written off		750
Balances as on	1-1-2023	31-12-2023
	₹	₹
Stock	25,000 (Cost)	28,000 (invoice price)
Debtors	32,750	26,000
Cash in Hand	5,000	2,500

You are required to prepare Branch stock account and branch debtor account in the books of the head office for the year ended 31st December, 2023.

(6 Marks)

MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. MBB Ltd. has the following particulars:

Particulars	**₹ (lacs)**
10% Preference Share Capital (₹ 10 each)	2,500
Equity Share Capital of ₹ 10 each	8,000
Capital Redemption Reserve	1,000
Securities Premium	800
General Reserve	6,000
Profit & Loss A/c	300
Cash	1,650
Investments (Market Value ₹ 1,500 lacs)	3,000

The company decides to redeem all it's preference shares at a premium of 10% and buys back 25% of equity shares @ ₹ 15 per share. Investments amounting to Market Value of ₹ 1,000 lakhs sold at ₹ 3,000 lakhs and raises a bank loan of ₹ 2,000 lakhs.

Answer the following questions based on above:

(i) The amount of Profit/Loss on Sale of Investment is:

(a) ₹ 1,500 lakhs Profit

(b) ₹ 1,000 lakhs Profit

(c) ₹ 2,000 lakhs Loss

(d) ₹ 1,000 lakhs Loss

(ii) Securities Premium available for Buyback after redemption of Preference Shares

(a) ₹ 550 lakhs

(b) ₹ 800 lakhs

(c) Can't utilize securities premium for buyback

(d) ₹ 350 lakhs

(iii) Total amount to be transferred to Capital Redemption Reserve:

(a) ₹ 2,000 lakhs

(b) ₹ 4,500 lakhs

(c) ₹ 2,500 lakhs

(d) ₹ 1,750 lakhs

(iv) Cash balance after buyback

(a) ₹ 1,150 lakhs

(b) ₹ 2,200 lakhs

(c) ₹ 3,250 lakhs

(d) ₹ 900 lakhs

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Suman Ltd. is in the business of manufacturing electronics equipment and selling these at its various outlets. It provides installation services for the equipment sold and also provide free 1 year warranty on all the sold products.

Beach Resorts are leading resorts in the city. It purchased 5 air conditioners (AC) from Suman Ltd. for its resort. Suman Ltd. sold 5 AC to Beach resort for ₹ 45,000 each which includes installation fees of ₹ 1,000 for each AC. The Company also offers 1 year warranty for any repair etc. The Company also offered ₹ 500 per AC as trade discount. Beach resort placed order on March 15, 2024 and made payment on March 20, 2024. The ACs were delivered on March 27, 2024 and the installation was completed on April 5, 2024.

(i) How much revenue should be recognised by the Company as on March 31, 2024:

(a) ₹ 2,25,000

(b) ₹ 2,17,500

(c) ₹ 2,00,000

(d) ₹ 2,30,000

(ii) How much revenue should be recognised by the Company in the financial year 2024-25:

(a) ₹ 5000

(b) ₹ 2,20,000

(c) ₹ 10,000

(d) ₹ 2,40,000

(iii) What will be the accounting for trade discount:

(a) The same will be recognised separately in the profit and loss.

(b) The trade discounts are deducted in determining the revenue.

(c) Trade discount will be recognised after one year, when the warranty will be over.

(d) Trade discount will be recognised after installation is complete.

(iv) Is the Company required to do any accounting for 1 year warranty provided by it:

(a) No accounting treatment is required till some warranty claim is actually received by the Company.

(b) As there exist a present obligation to provide warranty to customers for 1 year, the Company should estimate the amount that it may have to incur considering various factors including past trends and create a provision as per AS 29.

(c) Accounting for claims will be done on cash basis i.e. expense will be recognised when expense is made.

(d) As the Company is not charging separately for the warranty provided, there is no need to create any provision.

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. On April 1, 2022, X Limited approached a software company for implementation of SAP ERP at its organisation. The cost of implementation of SAP ERP is ₹ 25,00,000 and the time required is 15 months. The company was also required to pay ₹ 100,000 annually after implementation for maintenance and normal updation of ERP. The implementation work started in June, 2022 and could not be finished in 15 months. The ERP was implemented on May 2024. Due to delay in implementation the vendor refunded ₹ 2,00,000. The Company recognised the intangible asset 'SAP ERP' on September 2023 (15 months from June 2022). After two years, the Company has got the SAP ERP more upgraded with latest version and additional features and functions which also increased its speed and usage to X Limited for ₹ 7,00,000.

(i) On which date the Intangible asset should be recognised:

(a) April 2022 (When it was decided that SAP ERP is to be implemented)

(b) June 2022 (When the implementation work started)

(c) September 2023 (When the implementation work should have completed as per agreed terms)

(d) May 2024 (When the SAP actually got implemented)

(ii) At what amount the SAP ERP should be initially recognised as 'intangible asset:

(a) ₹ 25,00,000

(b) ₹ 26,00,000

(c) ₹ 23,00,000

(d) ₹ 32,00,000

(iii) How should the annual maintenance and updation expenses should be accounted for:

(a) Should be capitalised with 'Intangible Asset'

(b) Should be recognised as a separate 'Intangible Asset'

(c) Should be recognised as expense in Profit and Loss annually.

(d) No accounting is required

(iv) During the implementation period, how the expenditure incurred will be accounted for:

(a) It will be expensed in profit and loss as and when incurred

(b) It will be recognised as an asset 'Intangible asset under development'

(c) It will only be disclosed in notes to accounts and will be recognised when complete

(d) It will be recognised as an item of Property, Plant and Equipment

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. Vijay Ltd. borrowed ₹ 30 lakh at interest rate of 5% per annum and purchased plant and machinery for ₹ 60 lakh (using borrowed funds) and started production. It took 1 year time for Vijay Ltd. to create optimum market for the goods manufactured and generate revenue. How much borrowing cost can be capitalised with cost of plant and machinery:

(a) ₹ 1.5 lakh

(b) ₹ 3 Lakh

(c) Nil

(d) ₹ 5 Lakh **(2 Marks)**

5. The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects should be assigned using following cost formula

(a) By specific identification of their individual costs

(b) First-in, First-out (FIFO) Method

(c) Weighted average cost formula

(d) The formula used should reflect the fairest possible approximation to the cost incurred in bringing the items of inventory to their present location and condition. **(2 Marks)**

6. Securities held as stock-in-trade held by an entity are:

(a) Investments

(b) Not Investments

(c) May or may not be Investments

(d) Not an asset for entity **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) A Ltd. purchased on 1st April, 2023 8% convertible debenture in C Ltd. of face value of ₹ 2,00,000 @ ₹ 108. On 1st July, 203 A Ltd. purchased another ₹ 1,00,000 debentures @ ₹ 112 cum interest. On 1st October, 2023 ₹ 80,000 debentures were sold @ ₹ 105. On 1st December, 2023, C Ltd. give option for conversion of 8% convertible debentures into equity share of ₹ 10 each. A Ltd. received 5,000 equity shares in C Ltd. in conversion of 25% debentures held on that date. The market price of debenture and equity share in C Ltd. on 31st December, 2023 is ₹ 110 and ₹ 15 respectively. Interest on debenture is payable each year on 31st March, and 30th September. Prepare investment account in the books of A Ltd. on average cost basis for the accounting year ended 31st December, 2023. **(10 Marks)**

   (b) A company incorporated in June 2023, has setup a factory within a period of 8 months with borrowed funds. The construction period of the assets had reduced drastically due to usage of technical innovations by the company and the company is able to justify the reasons for the same. Whether interest on borrowings for the period prior to the date of setting up the factory should be capitalized although it has taken less than 12 months for the assets to get ready for use. You are required to comment on the necessary treatment with reference to AS 16. **(4 Marks)**

2. You are required to prepare a Balance Sheet as at 31st March 2024, as per Schedule III of the Companies Act, 2013, from the following information of Mehar Ltd.:

Particulars	Amount (₹)	Particulars	Amount (₹)
Term Loans (Secured)	40,00,000	Investments (Non-current)	9,00,000
Trade payables	45,80,000	Profit for the year	32,00,000
Cash and Bank Balances	38,40,000	Trade receivables	49,00,000
Staff Advances	2,20,000	Miscellaneous Expenses	2,32,000
Other advances (given by Co.)	14,88,000	Loan from other parties	8,00,000
Provision for Taxation	10,20,000	Provision for Doubtful Debts	80,000
Securities Premium	19,00,000	Stores	16,00,000
Loose Tools	2,00,000	Finished Goods	30,00,000
General Reserve	62,00,000	Plant and Machinery (WDV)	2,14,00,000

Additional Information: -

1. Share Capital consists of-

   (a) 1,20,000 Equity Shares of ₹ 100 each fully paid up.

   (b) 40,000, 10% Redeemable Preference Shares of ₹ 100 each fully paid up.

2. Write off the amount of Miscellaneous Expenses in full, amounting ₹ 2,32,000. **(14 Marks)**

3. (a) You are required to give the necessary journal entry at the inception of lease to record the asset taken on finance lease in books of lessee from the following information:

Lease period	=	5 years;
Annual lease rents	=	₹ 50,000 at the end of each year.
Guaranteed residual value	=	₹ 25,000
Fair Value at the inception (beginning) of lease	=	₹ 2,00,000

Interest rate implicit on lease is = 12.6% (Discounted rates for year 1 to 5 are .890, .790, .700, .622 and .552 respectively). **(7 Marks)**

(b) Ram Ltd. purchased machinery for ₹ 80 lakhs (useful life 4 years and residual value ₹ 8 lakhs). Government grant received was ₹ 32 lakhs. The grant had to be refunded at the beginning of third year. Show the Journal Entry to be passed at the time of refund of grant and the value of the fixed assets in the third year and the amount of depreciation for remaining two years, if the grant had been credited to Deferred Grant A/c. **(7 Marks)**

4. Robert Ltd. and Diamond Ltd. give the following information as at 31.03.2024:

	Robert Ltd. (₹ in lakhs)	**Diamond Ltd. (₹ in lakhs)**
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500

Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Robert Ltd.'s acceptances.

On 1st April 2024, Robert Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Robert Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Robert Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	**Robert Ltd.**	**Diamond Ltd.**
		(₹ in lakhs)
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ₹ 1.5 lakhs were borne by Robert Ltd.

You are required to:

Prepare Robert Ltd.'s Balance Sheet immediately after the merger.

(14 Marks)

5. H Ltd. and its subsidiary S Ltd. Give the following information as on 31st March, 2024:

	H Ltd. (₹)	**S Ltd. (₹)**
Share Capital		
Equity Share Capital (fully paid up shares of ₹ 10 each)	12,00,000	2,00,000
Reserves and Surplus		
General Reserve	4,35,000	1,55,000
Cr. Balance in Profit and Loss Account	2,80,000	65,000

Current Liabilities		
Trade Payables	3,22,000	1,23,000
Non-Current Assets		
<u>Property, Plant and Equipment</u>		
Machinery	6,40,000	1,80,000
Furniture	3,75,000	34,000
Non-Current Investments		
Shares in S Ltd. - 16,000 shares @ ₹ 20 each	3,20,000	-
Current Assets		
Inventories	2,68,000	62,000
Trade Receivables	4,70,000	2,35,000
Cash and Bank	1,64,000	32,000

H Ltd. acquired the 80% shares of S Ltd. on 1st April, 2023. On the date of acquisition, General Reserve and Profit Loss Account of S Ltd. stood at ₹ 50,000 and ₹ 30,000 respectively.

Machinery (book value ₹ 2,00,000) and Furniture (book value ₹ 40,000) of S Ltd. were revalued at ₹ 3,00,000 and ₹ 30,000 respectively on 1st April,2023 for the purpose of fixing the price of its shares (rates of depreciation on W.D.V basis: Machinery 10% and Furniture 15%). Trade Payables of H Ltd. include ₹ 35,000 due to S Ltd. for goods supplied since the acquisition of the shares. These goods are charged at 10% above cost. The inventories of H Ltd. includes goods costing ₹ 55,000 (cost to H Ltd.) purchased from S Ltd.

You are required to prepare the Consolidated Balance Sheet of H Ltd. With its subsidiary as at 31st March, 2024. **(14 Marks)**

6. "Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements." Discuss and explain the benefits of Accounting Standards **(4 Marks)**

Or

XYZ Ltd. proposes to declare 10% dividend out of General Reserves due to inadequacy of profits in the year ending 31-03-2024.

From the following particulars ascertain the amount that can be utilized from general reserves, according to the Companies Rules, 2014: **(₹)**

8,00,000 Equity Shares of ₹ 10 each fully paid up	80,00,000
General Reserves	25,00,000
Revaluation Reserves	6,50,000
Net profit for the year	1,42,500

Average rate of dividend during the last five years has been 12%. **(4 Marks)**

(b) Following is the cash flow abstract of Alpha Ltd. for the year ended 31st March, 2024:

Cash Flow (Abstract)

Inflows	**₹**	**Outflows**	**₹**
Opening cash and bank balance	80,000	Payment for Account Payables	90,000
Share capital – shares issued	5,00,000	Salaries and wages	25,000
Collection from Trade		Payment of overheads	15,000
Receivables	3,50,000	Machinery acquired Debentures redeemed	4,00,000 50,000
Sale of Machinery	70,000	Bank loan repaid	2,50,000
		Tax paid	1,55,000
		Closing cash and bank balance	15,000
	10,00,000		10,00,000

Prepare Cash Flow Statement for the year ended 31st March, 2024 in accordance with AS 3. **(5 Marks)**

(c) M/s Shrikant operates a number of retail outlets to which goods are invoiced at wholesale price which is cost plus 25%. These outlets sell the goods at the retail price which is wholesale price plus 20%.

Following is the information regarding one of the outlets for the year ended 31.3.2024:

Stock at the outlet 1.4.2023	₹ 45,000
Goods invoiced to the outlet during the year	₹ 4,86,000
Gross profit made by the outlet	₹ 90,000
Goods lost by fire	?
Expenses of the outlet for the year	₹ 30,000
Stock at the outlet 31.3.2024	₹ 54,000

You are required to prepare the following accounts in the books of M/s Shrikant for the year ended 31.3.2024: [a] Outlet Stock Account [b] Outlet Profit & Loss Account [c] Stock Reserve Account **(5 Marks)**

MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

(a) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed

i 20% of its total paid-up capital and free reserves

ii 25% of its total paid-up capital and free reserves

iii 25% of its total paid-up capital

iv 20% of its total paid-up capital

(b) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(c) What is the maximum number of shares that can be bought back according to the Resources Test?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

(d) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

(i) 35,000 shares

(ii) 42,500 shares

(iii) 37,500 shares

(iv) 54,375 shares

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Venus Limited received a parcel of land at no cost from the government for the purpose of developing a factory in an outlying area. The land is valued at ₹ 75 lakhs, while the nominal value is ₹ 10 lakhs. Additionally, the company received a government grant of ₹ 30 lakhs, which represents 25% of the total investment needed for the factory development. Furthermore, the company received ₹ 15 lakhs with the stipulation that it be used to purchase machinery. There is no expectation from the government for the repayment of these grants.

Answer the following questions based on the above information:

(a) The land received from Government, free of cost should be presented at:

(i) ₹ 75 Lakhs

(ii) ₹ 30 Lakhs

(iii) ₹ 10 Lakhs

(iv) ₹ 45 Lakhs

(b) As per AS 12, how the Government Grant of ₹ 30 Lakhs should be presented:

(i) It should be recognised in the profit and loss statement as per the related cost.

(ii) It will be treated as capital reserve.

(iii) It will be treated as deferred income.

(iv) It will not be recognised in the financial statements.

(c) As per AS 12, how the Government Grant of ₹ 15 Lakhs with a condition to purchase machinery may be presented as:

(i) Capital Reserve

(ii) Shareholders Fund

(iii) Deferred Income

(iv) Income in statement of profit and loss as received.

(d) Which of the above grants are required to be recognised in the statement of profit and loss on a systematic and rational basis over the useful life of the asset:

(i) Land received as Grant

(ii) Government Grant of ₹ 30 Lakhs

(iii) Government Grant of ₹ 15 Lakhs with a condition to purchase machinery

(iv) Noe of the above

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. Axis limited is a manufacturing company. It purchased a machinery costing ₹ 10 Lakhs in April 2023. It paid ₹ 4 lakhs upfront and paid the remaining ₹ 6,00,000 as deferred payment by paying instalment of ₹ 1,05,000 for the next 6 months. During the year, the Company sold a land which was classified as its 'property, plant and equipment' for ₹ 25,00,000 and paid ₹ 1,00,000 as income tax as long term capital gain on such sale. During the year, the Company also received income tax refund along with interest.

(a) As per the requirements of AS 3, 'Cash Flow Statements', how the amount for purchase of machinery should be presented:

(i) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 will simply be booked in profit and loss with no presentation if Cash Flow Statement.

(ii) ₹ 10.30 lakhs as 'Cash flows from Investing Activities' as entire amount is spend on purchase of machinery.

(iii) ₹ 10 lakhs as 'Cash flows from Investing Activities' and ₹ 30,000 as 'Cash flows from Financing Activities'.

(iv) ₹ 10.30 lakhs as 'Cash flows from Financing Activities' as the machinery has been purchased on finance.

(b) At what amount, the machinery should be recognised in the financial statements:

(i) ₹ 400,000

(ii) ₹ 10,30,000

(iii) ₹ 600,000

(iv) ₹ 10,00,000

(c) How should the income tax paid on sale of land should be disclosed in the Cash Flows Statement:

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

(d) How should the interest on income tax refunds should be disclosed in the Cash Flows Statement:

(i) Cash flows from Operating Activities

(ii) Cash flows from Investing Activities

(iii) Cash flows from Financing Activities

(iv) No disclosure in Cash Flow Statement

Multiple Choice Questions [4 MCQs of 2 Marks each: Total8 Marks]

4. Gyan Ltd. borrowed ₹ 10 crore for construction of a plant at the rate of 10% per annum (interest paid annually ₹ 1 crore). The construction was being carried on and out of the borrowings, ₹ 4 crore was temporarily placed in a fixed deposit at the rate of 6% per annum (interest earned ₹ 24 lakh). At the year end, how much cost of borrowing Gyan Limited will capitalise?

(a) Interest paid on ₹ 10 crore i.e. ₹ 1 crore

(b) Interest paid on ₹ 6 crore as only this amount was utilized i.e. ₹ 60 Lakh.

(c) Interest paid less income on temporary investment i.e. ₹ 76 lakh

(d) Nothing will be capitalised. **(2 Marks)**

5. Cost of current investment acquired was ₹ 1,00,000 but the fair value was ₹ 80,000. The Investment was recorded at ₹ 80,000. Now the fair value of Investment is Rs 1,20,000. At what value should it be recorded and how much gain will be credited to profit and loss account.

(a) No change is required and it will continue at ₹ 80,000

(b) Current investment will be recorded at ₹ 1,00,000 and gain of ₹ 20,000 will be credited to profit and loss account.

(c) Current investment will be recorded at ₹ 1,20,000 and gain of ₹ 40,000 will be credited to profit and loss account.

(d) Current investment will be recorded at ₹ 1,20,000 but no gain will be credited to profit and loss account. **(2 Marks)**

6. In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Which of the following is not an examples of such costs:

(a) Abnormal amounts of wasted materials, labour, or other production costs;

(b) Storage costs, unless the production process requires such storage;

(c) Raw Material cost

(d) Selling and distribution costs. **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) On 15th June, 2024, Y limited wants to re-classify its investments in accordance with AS 13 (revised). Decide and state the amount of transfer, based on the following information:

i) A portion of long term investments purchased on 1st March, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 14 lakhs but had been written down by ₹ 2 lakhs (to recognise 'other than temporary' decline in value). The market value of these investments on 15th June, 2024 was ₹ 11 lakhs.

ii) Another portion of long term investments purchased on 15th January, 2023 are to be re-classified as current investments. The original cost of these investments was ₹ 7 lakhs but had been written down to ₹ 5 lakhs (to recognize 'other than temporary' decline in value). The fair value of these investments on 15th June, 2024 was ₹ 4.5 lakhs.

iii) A portion of current investments purchased on 15th March, 2024 for ₹ 7 lakhs are to be re-classified as long term investments, as the company has decided to retain them. The market value of these investments on 31st March, 2024 was ₹ 6 lakhs and fair value on 15th June 2024 was ₹ 8.5 lakhs.

iv) Another portion of current investments purchased on 7th December, 2023 for ₹ 4 lakhs are to be re-classified as long term investments. The market value of these investments was:

on 31st March, 2024	₹ 3.5 lakhs
on 15th June, 2024	₹ 3.8 lakhs

(7 Marks)

(b) The financial statements of PQ Ltd. for the year 2023-24 approved by the Board of Directors on 15th July, 2024. The following information was provided:

(i) A suit against the company's advertisement was filed by a party on 20th April, 2024, claiming damages of ₹ 25 lakhs.

(ii) The terms and conditions for acquisition of business of another company have been decided by March, 2024. But the financial resources were arranged in April, 2024 and amount invested was ₹ 50 lakhs.

(iii) Theft of cash of ₹ 5 lakhs by the cashier on 31st March, 2024 but was detected on 16th July, 2024.

(iv) Company sent a proposal to sell an immovable property for ₹ 40 lakhs in March, 2024. The book value of the property was ₹ 30 lakhs on 31st March, 2024. However, the deed was registered on 15th April, 2024.

(v) A, major fire has damaged the assets in a factory on 5th April, 2024. However, the assets are fully insured.

With reference to AS-4 "Contingencies and events occurring after the balance sheet date", state whether the above mentioned events will be treated as contingencies, adjusting events or non-adjusting events occurring after the balance sheet date. **(7 Marks)**

2. From the following particulars furnished by the Prashant Ltd., prepare the Balance Sheet as at 31st March, 2024 as required by Schedule III of the Companies Act, 2013:

Particulars	**Debit (₹)**	**Credit (₹)**
Equity share capital (face value of ₹ 10 each)		15,00,000
Calls-in-arrears	5,000	
Land	5,50,000	
Building	4,85,000	
Plant & machinery	5,60,000	
General reserve		2,70,000
Loan from State Financial Corporation		2,10,000
Inventories	3,15,000	
Provision for taxation		72,000
Trade receivables	2,95,000	
Short-term loans & advances	58,500	
Profit & loss account		1,06,800
Cash in hand	37,300	
Cash at bank	2,85,000	
Unsecured loans		1,65,000
Trade payables		2,67,000
Total	25,90,800	25,90,800

The following additional information is also provided:

(1) 10,000 equity shares were issued for consideration other than cash.

(2) Trade receivables of ₹ 55,000 are due for more than six months.

(3) The cost of building and plant & machinery is ₹ 5,50,000 and ₹ 6,25,000 respectively.

(4) The loan from State Financial Corporation is secured by hypothecation of plant & machinery. The balance of ₹ 2,10,000 in this account is inclusive of ₹ 10,000 for interest accrued but not due.

(5) Balance at Bank included ₹ 15,000 with Aakash Bank Ltd., which is not a scheduled bank. **(14 Marks)**

3. (a) The following information was provided by PQR Ltd. for the year ended 31st March, 2024 :

(1) Gross Profit Ratio was 25% for the year, which amounts to ₹ 3,75,000.

(2) Company sold goods for cash only.

(3) Opening inventory was lesser than closing inventory by ₹ 25,000.

(4) Wages paid during the year ₹ 5,55,000.

(5) Office expenses paid during the year ₹ 35,000.

(6) Selling expenses paid during the year ₹ 15,000.

(7) Dividend paid during the year ₹ 40,000.

(8) Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹ 5,000)

(9) Trade Payables on 31st March, 2023 were ₹ 50,000 and on 31st March, 2024 were ₹ 35,000.

(10) Amount paid to Trade payables during the year ₹ 6,10,000

(11) Income Tax paid during the year amounts to ₹ 55,000

(Provision for taxation as on 31st March, 2024 ₹ 30,000)·

(12) Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.

(13) Depreciation on furniture amounts to ₹ 40,000.

(14) Depreciation on other PPE amounts to ₹ 20,000.

(15) Plant and Machinery purchased on 15th November, 2023 for ₹ 3,50,000.

(16) On 31st March, 2024 ₹ 2,00,000, 7% Debentures were issued at face value in an exchange for a plant.

(17) Cash and Cash equivalents on 31st March, 2023 ₹ 2,25,000.

(i) Prepare cash flow statement for the year ended 31st March, 2024, using direct method.

(ii) Calculate cash flow from operating activities, using indirect method.

(10 Marks)

(b) Wow Ltd. agreed to takeover Wonder Ltd. on 1st April, 2024. The terms and conditions of takeover were as follows:

(i) Wow Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 15 per share to the equity shareholders of Wonder Ltd.

(ii) Cash payment of ₹ 39,000 was made to equity shareholders of Wonder Ltd.

(iii) 24,000 fully paid preference shares of ₹ 50 each issued at par to discharge the preference shareholders of Wonder Ltd.

(iv) The 8% Debentures of Wonder Ltd. (₹ 78,000) converted into equivalent value of 9% debentures in Wow Ltd.

(v) The actual cost of liquidation of Wonder Ltd. was ₹ 23,000. Liquidation cost is to be reimbursed by Wow Ltd. to the extent of ₹ 15,000.

You are required to:

(1) Calculate the amount of purchase consideration as per the provisions of AS 14 and

(2) Pass Journal Entry relating to discharge of purchase consideration in books of Wow Ltd. **(4 Marks)**

4. The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2024:

Particulars	**VT Ltd. (₹)**	**MG Ltd. (₹)**
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Preference Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
PPE	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

PPE of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd. **(14 Marks)**

5. From the following information of Kedar Ltd. and its subsidiary Vijay Ltd. at 31^{st} March, 2024, prepare a consolidated balance sheet as at that date, having regard to the following:

(i) Reserves and Profit and Loss Account of Vijay Ltd. stood at ₹ 62,500 and ₹ 37,500 respectively on the date of acquisition of its 80% shares by Kedar Ltd. on 1st April, 2023.

(ii) Machinery (Book-value ₹ 2,50,000) and Furniture (Book value ₹ 50,000) of Vijay Ltd. were revalued at ₹ 3,75,000 and ₹ 37,500 respectively on 1st April, 2023 for the purpose of fixing the price of its shares. [Rates of depreciation computed on the basis of useful lives: Machinery 10%, Furniture 15%.]

Kedar Ltd. and VIJAY Ltd. give the following information as on 31st March, 2024

	Kedar Ltd. (₹)	VIJAY Ltd. (₹)
Equity and Liabilities: Shareholders' funds		
Share Capital: Shares of ₹ 100 each	15,00,000	2,50,000
Reserves	5,00,000	1,87,500
Profit and Loss Account	2,50,000	62,500
Trade Payables	3,75,000	1,42,500
PPE	-	
Machinery	7,50,000	2,25,000
Furniture	3,75,000	42,500
Other non-current assets	11,00,000	3,75,000
Non-current Investments	-	-
Shares in Vijay Ltd.:2,000 shares at ₹ 200 each	4,00,000	—

(14 Marks)

6. (a) Distinguish between Amalgamation, Absorption and External Reconstruction of Company. **(4 Marks)**

Or

Summarised Balance Sheet of Cloth Trader as on 31.03.2023 is given below:

Liabilities	Amount (₹)	Assets	Amount (₹)
Proprietor's Capital	3,00,000	Fixed Assets	3,60,000
Profit & Loss Account	1,25,000	Closing Stock	1,50,000
10% Loan Account	2,10,000	Sundry Debtors	1,00,000
Sundry Creditors	50,000	Deferred Expenses	50,000
		Cash & Bank	25,000
	6,85,000		6,85,000

Additional Information is as follows :

(1) The remaining life of fixed assets is 8 years. The pattern of use of the asset is even. The net realisable value of fixed assets on 31.03.2024 was ₹ 3,25,000.

(2) Purchases and Sales in 2023-24 amounted to ₹ 22,50,000 and ₹ 27,50,000 respectively.

(3) The cost and net realizable value of stock on 31.03.2024 were ₹ 2,00,000 and ₹ 2,50,000 respectively.

(4) Expenses for the year amounted to ₹ 78,000.

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

(6) Sundry Debtors on 31.03.2024 are ₹ 1,50,000 of which ₹ 5,000 is doubtful. Collection of another ₹ 25,000 depends on successful re-installation of certain product supplied to the customer;

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

(8) Cash balance as on 31.03.2024 is ₹ 4,22,000.

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

You are required to prepare Profit & Loss Account for the year 2023-24 (Not assuming going concern). **(4 Marks)**

(b) Synergy Ltd., is in engineering industry. The company received an actuarial valuation for the first time for its pension scheme which revealed a surplus of ₹ 6 lakhs. It wants to spread the same over the next 2 years by reducing the annual contribution to ₹ 2 lakhs instead of ₹ 5 lakhs. The average remaining life of the employee is estimated to be 6 years.

You are required to advise the company. **(4 Marks)**

(c) Karan Enterprises having its Head Office in Mangalore, Karnataka has a branch in Greenville, USA. Following is the trial balance of Branch as at 31-3-2024:

Particulars	**Amount ($) Dr.**	**Amount ($) Cr.**
Fixed assets	8,000	
Opening inventory	800	
Cash	700	
Goods received from Head Office	2,800	
Sales		24,050
Purchases	11,800	
Expenses	1,800	
Remittance to head office	2,450	
Head office account		4,300
	28,350	28,350

(i) Fixed assets were purchased on 1st April, 2020.

(ii) Depreciation at 10% p.a. is to be charged on fixed assets on straight line method. ·

(iii) Closing inventory at branch is $ 700 as on 31-3-2024.

(iv) Goods received from Head Office (HO) were recorded at ₹ 1,85,500 in HO books.

(v) Remittances to HO were recorded at ₹ 1,62,000 in HO books.

(vi) HO account is recorded in HO books at ₹ 2,84,500.

(vii) Exchange rates of US Dollar at different dates can be taken as :

1-4-2020	₹ 63
1-4-2023	₹ 65 and
31-3-2024	₹ 67

Prepare the trial balance after been converted into Indian rupees in accordance with AS-11. **(6 Marks)**

MODEL TEST PAPER 5

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

AB Ltd. is engaged in manufacturing a variety of products, including modules, dyes, infrastructure goods, etc. The company caters to a broad customer base across sectors like automobiles, infrastructure, construction, and others, both in India and internationally. Its financial statements are prepared annually as of 31st March.

Additional details for the financial year ending 31st March 2024 are provided below:

Segment Information

AB Ltd. has identified five segments. The details are as follows:

Segment	Sale		Total sale	Profit	Asset
	Export	Domestic			
K	54,00,000	-	54,00,000	4,50,000	9,00,00,000
L	1,12,50,000	36,00,000	1,48,50,000	13,50,000	2,25,00,000
M	2,02,50,000	-	2,02,50,000	22,50,000	3,15,00,000
M	1,21,50,000	27,00,000	148,50,000	13,50,000	4,50,00,000
O	18,00,000	22,50,000	40,50,000	9,00,000	6,75,00,000
			5,94,00,000	63,00,000	25,65,00,000

Additional Information

1. **Machinery Purchase**

   On 1st April 2023, AB Ltd. purchased machinery worth ₹15,00,000 for producing specific items for a particular customer. The cost is deductible over two years for tax purposes: ₹10,00,000 in year 1 and the balance in year 2. The applicable tax rate is 30%.

2. **Trademark and Process Development**:

   AB Ltd. introduced a new manufacturing process and incurred the following costs:

   - Trademark acquisition: ₹70,00,000
   - Product promotion: ₹2,00,000
   - Employee benefits for testing: ₹3,00,000

3. **Government Grant**:

AB Ltd. was engaged in the process of development of a manufacturing unit in one of the specified industrial areas. The development of the manufacturing unit shall be completed within 2 years. To encourage industrial promotion in specified areas, the government provides government grants in the form of subsidies. The cost of the project for the company is ₹ 700 lakhs against which the government provided a grant of ₹ 500 lakhs & this grant was in nature of the promoter's contribution.

Based on the information given in above Case Scenario, answer the following Question

(i) Based on the quantitative threshold which of the above segment K to O would be considered as reportable segment?

(a) Segment M

(b) Segment M, N & L

(c) Segment L, M, N & O

(d) All Segment

(ii) What will be the tax effect on the financial statement for the year 2023-24 in respect of machinery purchased on 1st April 2023?

(a) Create DTA ₹ 75,000

(b) Reverse DTA ₹ 75,000

(c) Create DTL ₹ 75,000

(d) Reverse DTL ₹ 75,000

(iii) What is the total cost that should be capitalized for a trademark related to the new process?

(a) ₹ 75,00,000

(b) ₹ 73,00,000

(c) ₹ 72,00,000

(d) ₹ 70,00,000

(iv) How should subsidy received be accounted in the books of the company?

(a) Credit into capital reserve

(b) Credit it as "Other income" in the statement of profit & Loss A/c in the year of commencement of commercial operation.

(c) Both A & B are permitted

(d) Credit it to General Reserve.

Case Scenario 2

G Ltd. is an automotive supplier and is in the business of manufacturing components & parts to be used by various automotive companies. The company has its registered office in North Delhi and is listed in a stock exchange. Following are some outstanding issues not yet solved towards the finalization of the financial statement for the year ending on 31.3.2024.

G Ltd. installed new machinery in its plant during 2023-2024.

G Ltd. incurred the following costs:

The basic price of machinery	₹ 50,00,000
Initial delivery & handling cost	₹10,00,000
Cost of site preparation	₹5,00,000

The interest charge for deferred credit paid to the supplier ₹1,00,000.

The present value of estimated dismantling costs to be incurred after 15 years is ₹ 5,00,000.

Operating losses after commercial production ₹ 4,00,000. The plant was ready for its intended use on 1st July 2023 but commercial production started on 1st August 2023. The estimated life of the machine is 10 years with no residual value.

To acquire the above machinery G Ltd. is to borrow US $ 62,500 on 1.4.2023 which will be repaid on 1.7.2024. Rate of exchange between reporting currency (INR) and foreign currency (USD) on different dates are as under:

On 1.4.2023 1 US $ = ₹ 80

31.03.2024 1 US$ = ₹ 82.50

G Ltd., acquired a machine on 1st April, 2018 for ₹ 25 lakhs that had an estimated useful life of 8 years. The machine is depreciated on straight line basis and does not carry any residual value. On 31.3.2022 assets was revalued 18 lakhs with revised useful life of 5 years. The surplus arising on revaluation was credited to Revaluation Reserve A/c.

G Ltd., had followed the policy of writing down the revaluation surplus by the increased charge of depreciation resulting from the revaluation.

As on 31.3.2024 the condition indicating impairment of the asset existed & its recoverable value came down to ₹ 6 lakhs. The company sold the asset as on 1 May 2024 for ₹ 2.8 lakh. G Ltd. acquired 35% shares of Build Ltd. as on 1.7.2023 for ₹ 14,00,000. By such acquisition, it can exercise significant influence over Build Ltd. the following balance of Build Ltd. as on the date of acquisition:

Particular	
Share capital	15,00,000
Reserve & Surplus (includes current year profit for 3 months)	8,50,000

Build ltd. paid a dividend of ₹ 1,50,000 on 15.7.2023 for the year ending 31.3.2023. The profit earned by Build Ltd. during the year ending 31.3.2024 amounts to ₹ 4,80,000 (assume profit to be accure evenly)

Based on the information given in above Case Scenario, answer the following Question

(i) What is the carrying value of machinery on 31.3.2024 installed in the plant?

(a) ₹ 65,33,333

(b) ₹ 64,75,000

(c) ₹ 69,06,667

(d) ₹ 68,45,000

(ii) What is the amount of exchange loss/gain to be recognized and what will be the amount of foreign loan to be shown in the financial statement on 31.3.2024?

(a) ₹ 1,56,250 exchange loss and ₹ 50,00,000 of foreign loan.

(b) ₹ 1,56,250 exchange gain and ₹ 51,56,250 of foreign loan.

(c) ₹ 1,56,250 exchange gain and ₹ 50,00,000 of foreign loan.

(d) ₹ 1,56,250 exchange loss and ₹ 51,56,250 of foreign loan.

(iii) What is the amount of impairment loss on 31.3.2024?

(a) ₹ 5.5 lakh

(b) ₹ 7.2 lakh

(c) ₹ 4.8 lakh

(d) ₹ 3 lakh

(iv) What will be the carrying amount of investment in the separate financial statement of G Ltd. as on 31.3.2024?

(a) ₹ 14,00,000

(b) ₹ 8,22,500

(c) ₹ 13,47,500

(d) ₹ 14,52,500

Case Scenario 3

Perrotte Ltd. (a non-listed company) has the following Capital Structure as on 31.03.2024:

	Particulars		**(₹)**
(1)	Equity Share Capital (Shares of ₹ 10 each fully paid)	-	24,00,000
(2)	Reserves and Surplus		
	General Reserve	20,50,000	-
	Securities Premium Account	7,50,000	-
	Profit & Loss Account	2,00,000	-
	Infrastructure Development Reserve	20,00,000	
	Revaluation reserve	1,70,000	51,70,000
(3)	Loan Funds		52,00,000

The Shareholders of Perrotte Ltd., on the recommendation of their Board of Directors, have approved on 12.09.2024 a proposal to buy-back the maximum permissible number of Equity shares considering the large surplus funds available at the disposal of the company.

The in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price of buy back price per share is ₹ 25.

You are also informed that the Infrastructure Development Reserve is created to satisfy Income-tax Act requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under a situation where the loan funds of the company were either ₹ 1,200 crores or ₹ 1,500 crores.

Assuming that the entire buy-back is completed by 09.12.2024.

Based on the information given in above Case Scenario, answer the following Question

(i) What is the maximum number of shares to be bought back as per debt-equity ratio?

(a) 1,12,000 shares

(b) 80,000 shares

(c) 54,000 shares

(d) 60,000 shares

(ii) What is the maximum permitted equity as per debt- equity ratio test.

(a) 20,00,000 shares

(b) 28,00,000 shares

(c) 15,00,000 shares

(d) 13,50,000 shares

(iii) What will be the future equity shareholding fund if a company buys back shares as per the result of the debt-equity ratio test?

(a) 48,000

(b) 48,60,000

(c) 42,80,000

(d) 46,00,000

(iv) What is the maximum number of shares that can be buy back as per resource test?

(a) 54,000

(b) 75,700

(c) 55,700

(d) 74,000

4. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is

(a) Goodwill account.

(b) Liquidation expense account.

(c) Vendor company account.

(d) General reserve.

5. Declaration of dividends for current year is made after providing for

(a) Depreciation of past years only.

(b) Depreciation on assets for the current year and arrears of depreciation of past years (if any).

(c) Depreciation on current year only and by forgoing arrears of depreciation of past years.

(d) Excluding current year depreciation

6. Accounting Standards

(a) Harmonise accounting policies and eliminate the non-comparability of financial statements.

(b) Improve the reliability of financial statements.

(c) Both (a) and (b).

(d) manipulate the data for the management.

Part II- Descriptive questions (70 marks)

*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.

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 Apirl,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)**

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 1stApril, 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)**

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	1,18,800	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)

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	3,00,000	2,00,000
each	12,00,000	4,00,000
Trade Payables	3,00,000	2,00,000
Retirement Gratuity Fund (Long		
Term)	4,50,000	2,50,000
Profit and Loss Account	2,50,000	1,50,000
Opening balance	10,00,000	8,00,000
Profit for the current year	10,00,000	6,00,000
Land and Buildings	7,00,000	4,00,000
Plant and Machinery	6,00,000	3,00,000
Inventories	4,00,000	1,00,000
Trade Receivables		
Cash and Bank		

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)**

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	1,20,000	40,000
	Profit and Loss account	1,92,000	2,08,000
	Total	3,12,000	2,48,000
3.	Short term borrowings		-
	Bank Overdraft	70,000	
4.	Property Plant & Equipment		
	Land & Building	1,90,000	1,35,000
	Plant & Machinery	2,31,000	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)**

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)**

MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.

2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)

3. Part II comprises questions which require descriptive type answers.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Fly Ltd. made a sale of INR 7,00,000 to Wings International in May 2023 and recognised Trade Receivables which was initially recorded at the prevailing exchange rate on the date of sales, transaction recorded at US$ 1= ₹ 79.4. The Company also took a loan from U.S Company for ₹ 10,00000 in December 2023 which was initially recorded at the prevailing exchange rate on the date of transaction, transaction recorded at US$ 1= ₹ 81.1.

   On 31st March 2024, exchange rate was US$ 1 = ₹ 83.3

   a. What will be the closing balance of Trade Receivables on 31st March 2024:

      (i) ₹ 700,000

      (ii) ₹ 7,14,978 approx

      (iii) ₹ 7,34,383 approx

      (iv) ₹ 7,50,000 approx

   b. How much is the reporting difference (gain or loss) in case of Trade Receivable:

      (i) Gain of ₹ 34,383 approx

      (ii) Loss of ₹ 34,383 approx

      (iii) Gain of ₹ 19,395 approx

      (iv) Loss of ₹ 19,395 approx

   c. What will be the closing balance of Loan as on 31st March 2024:

      (i) ₹ 10,00,000

      (ii) ₹ 10,27,127 approx

      (iii) ₹ 9,79,002 approx

(iv) ₹ 10,79,002 approx

d. How much is the reporting difference (gain or loss) in case of Loan:

(i) Gain of ₹ 48,087 approx

(ii) Loss of ₹ 48,087 approx

(iii) Gain of ₹ 27,127 approx

(iv) Loss of ₹ 27,127 approx

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. X Ltd. purchased 3,000 shares of Amazing Ltd. in December 2023 @ ₹ 100 each and paid brokerage @ 1%. In May 2024, Amazing Ltd. issued bonus shares at one for every three shares held by shareholders.

X Ltd. sold 1000 shares in September 2024 at ₹ 110 each. After issue of bonus, shares were quoted at ₹ 95. In December 2024, the shares were quoted at ₹ 70.

a. What would be the carrying cost of investments in Amazing Ltd. after sale of shares as per AS 13:

(i) ₹ 3,03,000

(ii) ₹ 2,27,250

(iii) ₹ 3,00,000

(iv) ₹ 3,30,000

d. What is the cost of bonus shares:

(i) ₹ 1,00,000

(ii) ₹ 1,10,000

(iii) Nil

(iv) ₹ 1,01,000

c. What is the profit on sale of Bonus Shares:

(i) ₹ 100,000

(ii) ₹ 75,750

(iii) ₹ 34,250

(iv) ₹ 1,01,000

d. What would be the carrying cost of investments in Amazing Ltd. in quarter ending in December 2024 as per AS 13:

(i) ₹ 2,10,000

(ii) ₹ 2,27,250

(iii) ₹ 2,20,000

(iv) ₹ 3,00,000

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. Sun Limited has acquired 40% share in Moon Ltd. for ₹ 500,000 on 01.07.2023. Moon Ltd. is holding 40% stake in Star Limited. Now, sun limited can exercise significant influence on Moon Limited. Moon limited declared dividend of ₹ 80,000 for the Financial Year 2022-23 on 15.09.2023. For the year 2023-24, Moon Ltd. earned profit of ₹ 4,00,000 and declared dividend for ₹ 90,000 on 15.09.2024.

a. With respect to relationship between Companies, it can be said that:

(i) Star Ltd. is associate of Sun Ltd.

(ii) Moon Ltd. and Star Ltd. both are associates of Sun Ltd.

(iii) Moon Ltd. is an associate of Sun Ltd.

(iv) Sun Ltd. is Parent of both Moon Ltd. and Star Ltd.

b. What will be the carrying amount of investment in Separate Financial Statements of Sun Limited as on 31.03.2024?

(i) ₹ 5,00,000

(ii) ₹ 5,80,000

(iii) ₹ 4,68,000

(iv) ₹ 5,32,000

c. What will be the carrying amount of investment in Consolidated Financial Statements of Sun Limited as on 31.03.2024?

(i) ₹ 9,00,000

(ii) ₹ 5,88,000

(iii) ₹ 4,52,000

(iv) ₹ 6,20,000

d. As per AS 23, the existence of significant influence by an investor is usually evidenced in one or more of the following ways:

(a) participation in policy making processes

(b) interchange of managerial personnel

(c) right to receive dividend

(d) provision of essential technical information

(i) All the statements are correct

(ii) Statements (a), (b) and (c) are correct

(iii) Statements (b), (c) and (d) are correct

(iv) Statements (a), (b) and (d) are correct

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. Cost of current investment acquired was ₹ 1000 but the fair value was ₹ 800. The Investment was recorded at ₹ 800. Now the fair value of Investment is Rs 1200. At what value should it be recorded and how much gain will be credited to profit and loss account.

   (i) No change is required and it will continue at ₹ 800

   (ii) Current investment will be recorded at ₹ 1000 and gain of ₹ 200 will be credited to profit and loss account.

   (iii) Current investment will be recorded at ₹ 1200 and gain of ₹ 400 will be credited to profit and loss account.

   (iv) Current investment will be recorded at ₹ 1200 but no gain will be credited to profit and loss account. **(2 Marks)**

5. As per AS 20 an enterprise should present/disclose the following:

   (a) the amounts used as the numerators in calculating basic and diluted earnings per share, and a reconciliation of those amounts to the net profit or loss for the period.

   (b) the weighted average number of equity shares used as the denominator in calculating basic and diluted earnings per share, and a reconciliation of these denominators to each other.

   (c) basic and diluted earnings per share, even if the amounts disclosed are negative (a loss per share).

   (d) the nominal value of shares along with the earnings per share figures.

      (i) All the statements are correct

      (ii Statements (a), (b) and (c) are correct

      (iii) Statements (b), (c and (d) are correct

      (iv) Statements (a), (b and (c) are correct **(2 Marks)**

6. Accounting Standard 10, Property, Plant and Equipment is applicable to:

   (i) Biological Assets (other than Bearer Plants) related to agricultural activity

   (ii) Wasting Assets including Mineral rights, Expenditure on the exploration for and extraction of minerals, oil, natural gas and similar non regenerative resources

   (iii) Inventories

   (iv) Bearer Plant (except produce on Bearer Plants) **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) A Ltd. provides after sales warranty for two years to its customers. Based on past experience, the company has the following policy for making provision for warranties on the invoice amount, on the remaining balance warranty period.

Less than 1 year: 2% provision

More than 1 year: 3% provision

The company has raised invoices as under :

Invoice Date	Amount (₹)
11^{th} Feb, 2022	60,000
25th Dec, 2022	40,000
04^{th} Oct, 2023	1,35,000

Calculate the provision to be made for warranty under AS-29 as at 31^{st} March, 2023 and 31^{st} March, 2024. Also compute amount to be debited to P & L account for the year ended 31^{st} March, 2024.

(b) As per provisions of AS-26, how would you deal to the following situations:

(1) ₹ 23,00,000 paid by a manufacturing company to the legal advisor for defending the patent of a product is treated as a capital expenditure.

(2) During the year 2023-24, a company spent ₹ 7,00,000 for publicity and research expenses on one of its new consumer products which was marketed in the same accounting year but proved to be a failure.

(3) A company spent ₹ 25,00,000 in the past three years to develop a product, these expenses were charged to profit and loss account since they did not meet AS-26 criteria for capitalization. In the current year approval of the concerned authority has been received. The company wishes to capitalize ₹ 25,00,000 by disclosing it as a prior period item.

(4) A company with a turnover of ₹ 200 crores and an annual advertising budget of ₹ 50,00,000 had taken up for the marketing of a new product by a company. It was estimated that the company would have a turnover of ₹ 20 crore from the new product. The company had debited to its Profit & Loss Account the total expenditure of ₹ 50,00,000 incurred on extensive special initial advertisement campaign for the new product.

(c) Indicate in each case whether revenue can be recognized and when it will be recognized as per AS-9.

(1) Trade discount and volume rebate received.

(2) Where goods are sold to distributors or others for resale.

(3) Where seller concurrently agrees to repurchase the same goods at a later date.

(4) Insurance agency commission for rendering services.

(5) On 11-03-2024 cloths worth ₹ 50,000 were sold to X mart, but due to refurbishing of their showroom being underway, on their request, clothes were delivered on 12-04-2024. **(4 + 5 + 5 = 14 Marks)**

2. The following is the Trial Balance of MN Limited as on 31.3.2024:

(Figures in ₹ '000)

	Debit		Credit
Land at cost	220	Equity Capital (Shares of ₹ 10 each)	300
Plant & Machinery at cost	770	10% Debentures	200
Trade Receivables	96	General Reserve	130
Inventories (31.3.24)	86	Profit & Loss A/c	72
Bank	20	Securities Premium	40
Adjusted Purchases	320	Sales	700
Factory Expenses	60	Trade Payables	52
Administration Expenses	30	Provision for Depreciation	172
Selling Expenses	30	Suspense Account	4
Debenture Interest	20		
Interim Dividend Paid	18		
	1670		1670

Additional Information:

(i) The authorised share capital of the company is 40,000 shares of ₹ 10 each.

(ii) The company on the advice of independent valuer wish to revalue the land at ₹ 3,60,000.

(iii) Declared final dividend @ 10% on 2nd April, 2024.

(iv) Suspense account of ₹ 4,000 represents cash received for the sale of some of the machinery on 1.4.2024. The cost of the machinery was ₹ 10,000 and the accumulated depreciation thereon being ₹ 8,000.

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

You are required to prepare MN Limited's Balance Sheet as on 31.3.2024 and Statement of Profit and Loss with notes to accounts for the year ended 31.3.2024 as per Schedule III. Ignore previous years' figures & taxation.

(14 marks)

3. (a) Following information is supplied by K Ltd.:

Number of shares outstanding prior to right issue - 2,50,000 shares.

Right issue - two new share for each 5 outstanding shares (i.e. 1,00,000 new shares)

Right issue price - ₹ 98

Last date of exercising rights - 30-06-2023.

Fair value of one equity share immediately prior to exercise of right on 30-06-2023 is ₹ 102.

Net Profit to equity shareholders:

2022-2023 - ₹ 50,00,000

2023-2024 -₹ 75,00,000

You are required to calculate the basic earnings per share as per AS-20 Earnings per Share. **(4 Marks)**

(b) Following is the summarized Balance Sheet of Fortunate Ltd. as on 31st March, 2024.

Particulars	Amount (₹)
Liabilities	
Authorized and Issued Share Capital	
(a) 15,000 8% Preference shares of ₹ 50 each	7,50,000
(b) 18,750 Equity shares of ₹ 50 each	9,37,500
Profit and Loss Account	(5,63,750)
Loan	7,16,250
Trade Payables	2,58,750
Other Liabilities	43,750
Total	21,42,500
Assets	
Building at cost less depreciation	5,00,000
Plant at cost less depreciation	3,35,000
Trademarks and goodwill at cost	3,97,500
Inventory	5,00,000
Trade Receivables	4,10,000
Total	21,42,500

(Note: Preference shares dividend is in arrear for last five years).

The Company is running with the shortage of working capital and not earnings profits. A scheme of reconstruction has been approved by both the classes of shareholders. The summarized scheme of reconstruction is as follows:

(i) The equity shareholders have agreed that their ₹ 50 shares should be reduced to ₹ 5 by cancellation of ₹ 45.00 per share. They have also agreed to subscribe for three new equity shares of ₹ 5.00 each for each equity share held.

(ii) The preference shareholders have agreed to forego the arrears of dividends and to accept for each ₹ 50 preference share, 4 new 6% preference shares of ₹ 10 each, plus 3 new equity shares of ₹ 5.00 each, all credited as fully paid.

(iii) Lenders to the company for ₹ 1,87,500 have agreed to convert their loan into shares and for this purpose they will be allotted 15,000 new preference shares of ₹ 10 each and 7,500 new equity shares of ₹ 5.00 each.

(iv) The directors have agreed to subscribe in cash for 25,000 new equity shares of ₹ 5.00 each in addition to any shares to be subscribed by them under (i) above.

(v) Of the cash received by the issue of new shares, ₹ 2,50,000 is to be used to reduce the loan due by the company.

(vi) The equity share capital cancelled is to be applied:

(a) To write off the debit balance in the Profit and Loss A/c, and

(b) To write off ₹ 43,750 from the value of plant.

Any balance remaining is to be used to write down the value of trademarks and goodwill. The nominal capital, as reduced, is to be increased to ₹ 8,12,500 for preference share capital and ₹ 9,37,500 for equity share capital.

You are required to pass journal entries to show the effect of above scheme and prepare the Balance Sheet of the Company after reconstruction. **(10 Marks)**

4. The financial details of X Ltd. and Y Ltd. as on 31st March, 2024 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000

Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2022-23 : ₹ 90,000; 2021-22 : ₹ 78,000 and 2020-21: ₹ 72,000). The profits of 2020 -21 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2019-20 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2021 -22, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March,2024. **(14 Marks)**

5. Consider the following summarized Balance Sheets of subsidiary MNT Ltd.

Liabilities	2022-23	2023-24
	Amount in ₹	Amount in ₹
Share Capital		
Issued and subscribed 7500 Equity Shares of ₹ 100 each	7,50,000	7,50,000
Reserve and Surplus		
Revenue Reserve	2,14,000	5,05,000
Securities Premium	72,000	2,07,000
Current Liabilities and Provisions		
Trade Payables	2,90,000	2,46,000
Bank Overdraft	-	1,70,000

Provision for Taxation	2,62,000	4,30,000
	15,88,000	23,08,000
Assets		
Fixed Assets (Cost)	9,20,000	9,20,000
Less: Accumulated Depreciation	(1,70,000)	(2,82,500)
	7,50,000	6,37,500
Investment at Cost	-	5,30,000
Current Assets		
Inventory	4,12,300	6,90,000
Trade Receivable	2,95,000	3,43,000
Prepaid expenses	78,000	65,000
Cash at Bank	52,700	42,500
	15,88,000	23,08,000

Other Information:

(1) MNT Ltd. is a subsidiary of LTC Ltd.

(2) LTC Ltd. values inventory on FIFO basis, while MNT Ltd. used LIFO basis. To bring MNT Ltd.'s inventories values in line with those of LTC Ltd., its value of inventory is required to be reduced by ₹ 5,000 at the end of 2022-2023 and increased by ₹ 12,000 at the end of 2023-2024. (Inventory of 2022-23 has been sold out during the year 2023-24)

(3) MNT Ltd. deducts 2% from Trade Receivables as a general provision against doubtful debts.

(4) Prepaid expenses in MNT Ltd. include Sales Promotion expenditure carried forward of ₹ 25,000 in 2022-23 and ₹ 12,500 in 2023-24 being part of initial Sales Promotion expenditure of ₹ 37,500 in 2022-23, which is being written off over three years. Similar nature of Sales Promotion expenditure of LTC Ltd. has been fully written off in 2022-23.

Restate the balance sheet of MNT Ltd. as on 31st March, 2024 after considering the above information for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by LTC Ltd. and MNT Ltd. uniform. **(14 Marks)**

6. (a) Briefly explain the elements of financial statements.

Or

In the financial statements of the financial year 2023-2024, Alpha Ltd. has mentioned in the notes to accounts that during financial year, 24,000 equity shares of ₹ 10 each were issued as fully paid bonus shares. However, the source from which these bonus shares were issued has not been disclosed. Is such non-disclosure a violation of the Schedule III to the Companies Act? Comment. **(4 Marks)**

(b) A Ltd. sold JCB having WDV of ₹ 20 lakhs to B Ltd. for ₹ 24 lakhs and the same JCB was leased back by B Ltd. to A Ltd. The lease is operating lease. In context of Accounting Standard 19 "Leases" explain the accounting treatment of profit or loss in the books of A Ltd. if

(i) Sale price of ₹ 24 lakhs is equal to fair value.

(ii) Fair value is ₹ 20 lakhs and sale price is ₹ 24 lakhs.

(iii) Fair value is ₹ 22 lakhs and sale price is ₹ 25 lakhs.

(v) Fair value is ₹ 25 lakhs and sale price is ₹ 18 lakhs.

(v) Fair value is ₹ 18 lakhs and sale price is ₹ 19 lakhs. **(4 Marks)**

(c) Give Journal Entries in the books of Branch A to rectify or adjust the following:

(i) Head Office expenses ₹ 3,500 allocated to the Branch, but not recorded in the Branch Books.

(ii) Depreciation of branch assets, whose accounts are kept by the Head Office not provided earlier for ₹ 1,500.

(iii) Branch paid ₹ 2,000 as salary to a H.O. Inspector, but the amount paid has been debited by the Branch to Salaries account.

(iv) H.O. collected ₹ 10,000 directly from a customer on behalf of the Branch, but no intimation to this effect has been received by the Branch.

(v) A remittance of ₹ 15,000 sent by the Branch has not yet been received by the Head Office.

(vi) Branch A incurred advertisement expenses of ₹ 3,000 on behalf of Branch B.

(6 Marks)

MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario

1. Excellence Ltd. is a Real Estate Company which constructs residential and commercial projects for selling. The Company has commenced a new project and the expenses incurred are as follows:

   - The cost of land acquired for Project is ₹ 10 crore
   - Cost of construction incurred is ₹ 25 crores.
   - The Company also incurred cost of ₹ 10 lacs for various administrative meetings in relation to planning of the building.
   - The construction of building completed and at the end of the year 1, the net realisable value of the building was ₹ 40 crore.
   - At the beginning of the next year (year 2), the Company decided to use the building as its corporate office.
   - The Company further incurred ₹ 50 lacs for making necessary changes in the structure for using it as corporate office in accordance with government norms for commercial spaces. Without these changes the office cannot be set up.
   - Ignore the effect of depreciation, if any.

   In view of above information, answer the following issues:

   (i) At the end of Year 1, how the building should be classified:

   (a) Inventory

   (b) Investments

   (c) Property, Plant and Equipment

   (d) Intangible Asset

(ii) At the end of Year 1, at value Project should be recognised:

(a) ₹ 40 Crore

(b) ₹ 35 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

(iii) At the end of Year 2, when the intention is to use the building as corporate office, it should be classified as:

(a) Inventory

(b) Investments

(c) Property, Plant and Equipment

(d) Intangible Assets

(iv) At the end of Year 2, the Project should be valued at:

(a) ₹ 40 Crore

(b) ₹ 35.50 Crore

(c) ₹ 35.10 Crore

(d) ₹ 25 Crore

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

2. Supercool ltd. is a manufacturing company, engaged in manufacturing eco-friendly equipment. On April 1, 2023, the Company received a grant of ₹ 20 crore from the Government (which is 25% of the total capital of the Company) for various purposes that the company deems fit and no repayment is required to be made to Government.

The Company also borrowed ₹ 10 crore from financial Institutions and interest paid on the same during the year is ₹ 1 lac.

The Company acquired plant and machinery from the funds for ₹ 10 crore and ₹ 1 crore was spent on its installation and assembly.

₹ 10 lacs were spent on professional fees necessary for installation and operating of the machine. The Company also spent ₹ 50 lacs on revenue expenditure.

The Plant and Machinery was ready for its intended use on September 30, 2023)

The depreciation on plant and machinery is charged @10%.

(i) The grant of ₹ 20 crores received by the Company should be presented as:

(a) Grants related to Revenue

(b) Grants related to Specific Fixed Assets

(c) Capital Reserve

(d) Other Income

(ii) At what value the plant and machinery acquired should be recognised as at 31st March 2024:

(a) ₹ 11.10 Crore

(b) ₹ 11 Crore

(c) ₹ 10.54 Crore

(d) ₹ 11.60 Crore

(iii) The revenue expenditure of ₹ 50 lacs should be recognised as:

(a) Part of Plant and Machinery

(b) Part of Grant

(c) Revenue expenditure in the Profit and Loss

(d) Deducted from loan

(iv) Which of the following statement is true:

(a) Plant and Machinery has been acquired out of Government Grant so the same should be disclosed at Nil value.

(b) Plant and Machinery belongs to Financial Institution

(c) Plant and Machinery belong to the Company and should be recognised as its Property, Plant and Equipment

(d) Plant and Machinery should not be disclosed in the financial statements of the Company at all

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

3. Super Ltd., a manufacturing company, has the following summarized Balance Sheet as of March 31, 2024:

Equity Shares of ₹ 10 each fully paid up: ₹ 17,00,000

Reserves & Surplus:

Revenue Reserve: ₹ 23,50,000

Securities Premium: ₹ 2,50,000

Profit & Loss Account: ₹ 2,00,000

Infrastructure Development Reserve: ₹ 1,50,000

Secured Loan:

9% Debentures: ₹ 38,00,000

Unsecured Loan: ₹ 8,50,000

Property, Plant & Equipment: ₹ 58,50,000

Current Assets: ₹ 34,50,000

Super Ltd. plans to buy back 35,000 equity shares of ₹ 10 each fully paid up on April 1, 2024, at ₹ 30 per share. The buyback is authorized by its articles, and necessary resolutions have been passed. The payment for the buyback will be made using the company's bank balance, which is part of its current assets.

Answer the following questions based on the above information:

(i) As per The Companies Act, 2013 under Section 68 (2) the buy-back of shares in any financial year must not exceed

(a) 20% of its total paid-up capital and free reserves

(b) 25% of its total paid-up capital and free reserves

(c) 25% of its total paid-up capital

(d) 20% of its total paid-up capital

(ii) How many shares can Super Ltd. buy back according to the Shares Outstanding Test?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

(iii) What is the maximum number of shares that can be bought back according to the Resources Test?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

(iv) According to the Debt Equity Ratio Test, what is the maximum number of shares that can be bought back?

(a) 35,000 shares

(b) 42,500 shares

(c) 37,500 shares

(d) 54,375 shares

Multiple Choice Questions [4 MCQs of 2 Marks each: Total 8 Marks]

4. Accounting Standard 19, Lease is applicable on following Leases:

(a) Lease agreements to explore for or use of natural resources, such as oil, gas, timber metals and other mineral rights.

(b) Legal owner of an asset conveys to another party in return for a payment or series of periodic payments, the right to use an asset for an agreed period of time.

(c) licensing agreements for items such as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

(d) lease agreements to use lands **(2 Marks)**

5. How should the dividend paid by the Company should be disclosed in the Cash Flows Statement:

(a) Cash flows from Operating Activities

(b) Cash flows from Investing Activities

(c) Cash flows from Financing Activities

(d) No disclosure in Cash Flow Statement **(2 Marks)**

6. On 31st March 2024, Sri Radhey shyam Enterprise finds that the cost of a partly finished unit on that date is ₹ 530. The unit can be finished in 2024-25 by an additional expenditure of ₹ 310. The finished unit can be sold for ₹ 750 subject to payment of 8% brokerage on the selling price.

Sri Radhey shyam Enterprise seeks your advice regarding the amount at which the unfinished unit should be valued as at 31st March, 2024 for preparation of final accounts. the partly finished unit cannot be sold in semi-finished form and its NRV is zero without processing it further.

(a) ₹ 470

(b) ₹ 380

(c) ₹ 500

(d) ₹ 440 **(2 Marks)**

PART II – Descriptive Questions (70 Marks)

*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.

1. (a) State with reasons, how the following events would be dealt with in the financial statements of Hari Ltd. for the year ended 31st March, 2024 (accounts were approved on 25th July, 2024):

(1) Negotiations with another company for acquisition of its business was started on 21st January, 2024. Hari Ltd. invested ₹ 40 lakh on 22nd April, 2024.

(2) The company made a provision for bad debts @ 4% of its total debtors (as per trend followed from the previous years). In the second week of March 2024, a debtor for ₹ 2,50,000 had suffered heavy loss due to an earthquake; the loss was not covered by any insurance policy. In May, 2024 the debtor became bankrupt.

(3) During the year 2023-24, Hari Ltd. was sued by a competitor for ₹ 13 lakhs for infringement of a trademark. Based on the advice of the company's legal counsel, Hari Ltd. provided for a sum of ₹ 8 lakhs in its financial statements for the year ended 31st March, 2024. On 26th May, 2024, the Court decided in favour of the party alleging infringement of the trademark and ordered Hari Ltd. to pay the aggrieved party a sum of ₹ 12 lakhs.

(4) Cashier of Hari Ltd. embezzled cash amounting to ₹ 3,00,000 during March, 2024. However the same comes to the notice of Company management during August, 2024.

(5) Cheques dated 31st March, 2024 collected in the month of April, 2024. All cheques are presented to the bank in the month of April, 2024 and are also realized in the same month in the normal course after deposit in the bank.

(b) Honey Ltd. is in the process of developing a new production method. During the financial year ended 31st March, 2023, total expenditure incurred on development of this production method was ₹ 98,00,000. On 1st Jan, 2023, the production method met the criteria as an intangible asset and expenditure incurred till this date was ₹ 68,00,000. Further expenditure incurred on the new method was ₹ 72,00,000 for the year ended 31st March, 2024 and recoverable amount of the know how embodied in the new method for this financial year is ₹ 52,00,000.

You are required to calculate:

(1) The carrying amount of the Intangible asset on 31st March, 2023.

(2) The expenditure to be shown in Statement of Profit and Loss for the year ended 31st March, 2024.

(3) The carrying amount of the Intangible asset on 31st March, 2024.

(7 + 7 = 14 Marks)

2. (a) Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 2024 at a cost of ₹70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 2024:

Particulars	**₹ in lakhs**
Property, plant and equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Property, plant and equipment	Up by 20%
Investments	Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 2024 (Face value – ₹10 per share). Exe Ltd. purchased the shares of Zed Ltd. @ ₹ 20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

(b) From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2024		31-12-2024	
				Share Capital	Profit and Loss A/c	Share Capital	Profit and Loss A/c
				₹	₹	₹	₹
Case-i	X	85%	1,85,000	1,35,000	60,000	1,35,000	70,000
Case-ii	Y	70%	1,60,000	1,25,000	45,000	1,25,000	5,000
Case-iii	Z	65%	83,000	25,000	5,000	25,000	5,000
Case-iv	M	90%	60,000	45,000	20,000	45,000	40,000
Case-v	N	100%	85,000	25,000	25,000	25,000	50,000

(7+7=14 Marks)

3. (a) Given the following information of Rainbow Ltd.

(i) On 15th November, goods worth ₹ 5,00,000 were sold on approval basis. The period of approval was 4 months after which they were considered sold. Buyer sent approval for 75% goods sold upto 31st January and no approval or disapproval received for the remaining goods till 31st March.

(ii) On 31st March, goods worth ₹ 2,40,000 were sold to Bright Ltd. but due to refurnishing of their show-room being underway, on their request, goods were delivered on 10th April.

(iii) Rainbow Ltd. supplied goods worth ₹ 6,00,000 to Shyam Ltd. and concurrently agrees to re-purchase the same goods on 14th April.

(iv) Dew Ltd, used certain assets of Rainbow Ltd. Rainbow Ltd. received ₹ 7.5 lakhs and ₹ 12 as interest and royalties respectively from Dew Ltd. during the year 2023-24.

(v) On 25th December, goods of ₹ 4,00,000 were sent on consignment basis of which 40% of the goods unsold are lying with the consignee at the year-end on 31st March.

In each of the above cases, you are required to advise, with valid reasons, the amount to be recognized as revenue under the provisions of AS-9. **(4 Marks)**

(b) The following information of Rocky Ltd. as at March 31, 2024:

	₹ in lacs
Fully paid equity shares of ₹ 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade payables	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Inventory	142
Trade receivables	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390

The following scheme of internal reconstruction was framed, approved by the Tribunal all the concerned parties and implemented:

(i) All the equity shares be converted into the same number of fully-paid equity shares of ₹ 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of ₹ 2.50 each for ₹ 125 lacs.

(v) Trade payables are given the option of either to accept fully-paid equity shares of ₹ 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Trade payables for ₹ 65 lacs accept equity shares whereas those for ₹ 100 lacs accept ₹ 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under:

	₹ in lacs
Land and building	230
Plant and Machinery	220
Inventory	120
Trade receivables	76

Pass Journal Entries for all the above mentioned transactions immediately after the reconstruction. **(10 Marks)**

4. From the following particulars furnished by Hello Ltd., prepare the Balance Sheet as on 31st March 2024 as required by Part I, Schedule III of the Companies Act, 2013.

Particulars		Debit ₹	Credit ₹
Equity Share Capital (Face value of ₹ 100 each)			50,00,000
Building		27,50,000	
Plant & Machinery		26,25,000	
Furniture		2,50,000	
General Reserve			10,50,000
Loan from State Financial Corporation			7,50,000
Inventory:			
Raw Materials	2,55,000		
Finished Goods	10,00,000	12,55,000	
Provision for Taxation			6,40,000
Trade receivables		10,00,000	
Short term Advances		2,13,500	
Profit & Loss Account			4,33,500
Cash in Hand		1,50,000	
Cash at Bank		12,35,000	
Unsecured Loan			6,05,000
Trade payables (for Goods and Expenses)			10,00,000

The following additional information is also provided:

(i) 10,000 Equity shares were issued for consideration other than cash.

(ii) Trade receivables of ₹ 2,60,000 are due for more than 6 months.

(iii) The cost of the Assets were:

Building ₹ 30,00,000, Plant & Machinery ₹ 35,00,000 and Furniture ₹ 3,12,500

(iv) The balance of ₹ 7,50,000 in the Loan Account with State Finance Corporation is secured by hypothecation of Plant & Machinery.

(v) Balance at Bank includes ₹ 10,000 with Omega Bank Ltd., which is not a Scheduled Bank.

(vi) Transfer ₹ 20,000 to general reserve as proposed by Board of directors.

(14 Marks)

5. A Limited and B Limited are carrying on business of same nature. On 31st March, 2024 the information given by both these companies is as follows:

	A Ltd. (₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000
Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Inventory	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.

(d) All the Bills Receivable of A Limited were accepted by B Limited.

(e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2024 after amalgamation, assuming that the amalgamation is in the nature of Merger.

(14 Marks)

6. (a) "One of the characteristics of financial statements is neutrality"- Do you agree with this statement?

Or

What do you mean by Carve outs/ins in Ind AS? Explain. **(4 Marks)**

(b) "The company has not made provision for warrantee in respect of certain goods considering that the company can claim the warranty cost from the original supplier".

You are required to comment in line with the provisions of AS 29.

(6 Marks)

(c) Why goods are marked on invoice price by the head office while sending goods to the branch? **(4 Marks)**

MODEL TEST PAPER 8

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Time Allowed – 3 Hours **Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

Mr. Vikram took a loan of ₹ 6,00,000 carrying interest @ 10% p.a. on 1st August, 2023 to purchase raw material. He purchased 4000 units of raw material @ 125 per unit. Replacement cost of raw material as on 31 March, 2024 is 100 per unit. Labour charges and variable overheads incurred are ₹ 1,00,000 to produce 1000 units of finished goods.

1000 units of Finished goods are produced with raw material (for every unit of finished goods produced, 2 units of raw material are required). Net realizable value of finished good is ₹ 300 per unit. All the finished goods produced are lying in stock as on 31 March, 2024.

There is no opening stock of raw material and finished goods.

Mr. Vikram used 1500 units of raw material to construct an Asset (Qualifying Asset). Labour and other overhead charges incurred on construction of asset are ₹ 90,000. Mr. Vikram also paid ₹15,000 to install the asset at Factory premises. Mr. Vikram used Balance of loan proceeds of ₹ 1,00,000 to invest in Equity Shares of P. Ltd. He purchased 9,000 Equity shares (Face Value ₹ 10 each) for ₹ 1,00,000 on 25th March, 2024.

The P. Ltd declared and paid dividend @ 20% on 30th March for the year 2023-24.

Based on the information given in above Case Scenario, answer the following Question No. 1-4:

(i) What would be the value of closing stock of Raw Material X and Finished Goods as on 31st March 2024?

(a) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods ₹ 3,50,000

(b) Closing Stock of Raw Material X ₹ 50,000 and closing stock of Finished Goods₹ 3,00,000

(c) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,50,000

(d) Closing Stock of Raw Material X ₹ 62,500 and closing stock of Finished Goods ₹ 3,00,000

(ii) Cost of Self Constructed Asset as per AS 10 will be ?

  (a) ₹ 2,92,500

  (b) ₹ 2,77,500

  (c) ₹ 3,05,000

  (d) ₹ 2,90,000

(iii) As per AS 16 what will be the amount of interest to be capitalized and amount of interest to be charged to Profit & Loss A/c ?

  (a) ₹ 12,500 interest to be capitalised and Profit & Loss A/c. ₹ 27,500 interest to be charged to Profit & Loss A/c

  (b) ₹ 12,500 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.

  (c) ₹ 19,167 interest to be capitalised and ₹ 20,833 interest to be charged to Profit & Loss A/c.

  (d) Whole of ₹40,000 interest to be charged to Profit & Loss A/c.

(iv) What is the carrying amount of investment as on 31st March, 2024 as per AS 13 and suggest the treatment of dividend received from P. Ltd.?

  (a) Carrying amount of Investment as on 31st March, 2024 is ₹ 72,000 and the dividend is deducted from the nominal value of investment.

  (b) Carrying amount of Investment as on 31st March, 2024 is ₹90,000 and the dividend is credited to Profit & Loss A/c.

  (c) Carrying amount of Investment as on 31st March, 2024 is₹ 1,00,000 and the dividend is credited to Profit & Loss A/c.

  (d) Carrying amount of Investment as on 31st March, 2024 is 82,000 and the dividend is deducted from the cost of investment.

Case Scenario 2

Kay Ltd. sold goods of ₹ 22,00,000 to Mr. Ravi Kumar on 1st February, 2024 but at the request of the buyer, these goods were delivered on 10th April 2024.

Kay Ltd. also sold ₹ 2,00,000 goods on approval basis on 1st January, 2024 to Sheetal Enterprises. The period of approvals 3 months after which they were considered sold. Buyer sent disapproval for 25% of goods and approval for 50% of goods till 31 March, 2024.

Mr. Ravi Kumar has commenced legal action against Kay Ltd. for supply of faulty goods to claim damages. The lawyers of Kay Ltd. have advised that it is not remote yet that resources may be required to settle the claim. Legal cost to be incurred irrespective of the outcome of the case is ₹ 45,000. Settlement amount if the claim is required to be paid ₹ 5,00,000,

Sheetal Enterprises, a trade receivable of Kay Ltd. suffered a heavy loss due to an earthquake that occurred on 30th March, 2024. The loss was not covered by any insurance policy. In April, 2024, Sheetal Enterprises became bankrupt. The Balance due from Sheetal Enterprises as on 31 March, 2024 is ₹ 75,000.

Kay Ltd. makes provision for doubtful debts @ 5%.

Based on the information given in above Case Scenario, answer the following Question

(i) What is the amount to be recognized as Revenue as per AS 9 in the books of Kay Ltd. as on 31 March, 2024?

(a) ₹ 23,50,000

(b) ₹ 1,50,000

(c) ₹ 23,00,000

(d) ₹ 1,00,000

(ii) What will be the treatment of legal cost and claim for legal action commenced by Mr. Ravi Kumar in the Books of Kay Ltd. as on 31 March, 2024 as per AS 29?

(a) Create a Provision for ₹ 5,45,000

(b) Create a Provision for ₹ 5,00,000

(c) Create a Provision for₹ 45,000 and make a disclosure of contingent liability of ₹ 5,00,000

(d) Make a disclosure of contingent liability of ₹ 5,45,000

(iii) What is the treatment of insolvency of Sheetal Enterprises in the Books of Kay Ltd. as on 31^{st} March, 2024 as per AS 4?

(a) An Adjusting Event, full provision of ₹ 75,000 should be made in the Final Accounts for the year ended 31 March, 2024.

(b) An Adjusting Event, provision of ₹ 3,750 should be made in the Final Accounts for the year ended 31 March, 2024.

(c) A Non-adjusting event, no provision is required to be made as Sheetal Enterprises became bankrupt in April, 2024.

(d) A Non-adjusting event, only disclosure is required in the Final Accounts for the year ended 31st March, 2024.

3 P Ltd. has 60% voting right in Q Ltd. Q Ltd. has 20% voting right in R Ltd. Also, P Ltd. directly enjoys voting right of 14% in R Ltd. R Ltd. is a Listed Company and regularly supplies goods to P Ltd. The Management of R Ltd. has not disclosed its relationship with P Ltd. While preparing Financial Statements of P Ltd., which entities would you disclose as related parties with reference to AS-18?

(a) Q Ltd.

(b) R Ltd.

(c) Q Ltd. and R Ltd.

(d) Neither of Q Ltd. or R Ltd.

4 A Machinery was giver on 3 years lease by a dealer of the machinery for equal annual lease rentals to yield 20% profit margin on cost of the machinery, which is Rs.3,00,000. Economic life of the machinery is 5 years, and estimated output from the machinery in 5 years is as follows:

Year I 50,000 units

Year II 60,000 units

Year III 40,000 units

Year IV 65,000 units

Year V 85,000 units.

Compute Annual Lease Rent.

(a) ₹ 30,000

(b) ₹ 60,000

(c) ₹ 50,000

(d) ₹ 36,000

5 A Ltd. had 1,50,000 shares of common stock outstanding on 1 April, 2023. Additional 50,000 shares were issued on 1 November, 2023 and 32,000 shares were bought back on 1 February, 2024. Calculate the weighted average number of shares outstanding at the year ended on 31 March, 2024 is:

(a) 1,34,500 shares

(b) 1,65,500 shares

(c) 1,76,167 shares

(d) 1,23,833 shares

Case Scenario 3

6. Jay Ltd. submits the following data extracted from the Final Accounts as on 31 March, 2023:

Equity Share Capital Equity shares of ₹ 10 each	50,000
Profit & Loss (Dr. balance)	(50,000)
9% Debentures	2,00,000
Loan from Bank	3,00,000
Advance given to suppliers of goods	45,000
Provision for tax	14,000
Plant & Machinery	4,50,000
Furniture & Fixtures	85,000
Investment in Star Ltd. 10,000 equity shares of 10 each	1,25,000
Sundry Debtors	70,000
Cash & Bank Balance	65,500

Additional information given by Jay Ltd.:

On 31 March, 2023 Jay Ltd. decided to reconstruct the company for which necessary resolution was passed. Accordingly, it was decided that:

(a) 9% Debentures to be settled in full by issuing them 15,000 Equity shares of 10 each.

(b) Equity shareholders will give up 40% of their capital in exchange for allotment of new 11% Debentures of ₹ 1,00,000.

(c) Balance of Profit & Loss to be written off.

(d) Equity shares issued for ₹ 1,00,000.

In addition to above, following information was also presented by Jay Ltd. on 1st April, 2023:

(a) Interest is received on advances given to suppliers of goods ₹ 3,000.

(b) Taxation liability is settled at ₹ 14,000.

(c) A debtor of ₹ 40,000 is insolvent, only 40% of his dues are recovered from his estate.

(d) Dividend is received on Investment in Star Ltd. ₹ 1 per equity share invested.

(e) Part of Plant and Machinery is sold at a loss of₹ 3,000 (book value ₹ 15,000)

Based on the information given in above Case Scenario, answer the following Question :

(i) The amount of Cash Flow from operating activity is:

- (a) ₹ 2,000
- (b) ₹ 5,000
- (c) ₹ 12,000
- (d) ₹ 15,000

(ii) The amount of Cash Flow from investing Activity is

- (a) ₹ 28,000
- (b) ₹ 25,000
- (c) ₹ 15,000
- (d) ₹ 22,000

(iii). What is the amount of closing Cash and Cash equivalents as on 1 April, 2023 ?

- (a) ₹1,92,500
- (b) ₹ 92,500
- (c) ₹ 1,27,000
- (d) ₹ 1,98,500

(iv) The Balance of Equity Share Capital after internal reconstruction is :

(a) ₹ 6,50,000

(b) ₹ 4,50,000

(c) ₹ 5,50,000

(d) ₹ 7,50,000

7. "Fixed Asset held for sale" will be classified in the Balance Sheet as per Schedule III of the Companies Act as:

(a) Deferred Tax Assets

(b) Current Asset

(c) Non-Current Asset

(d) Long term Investments

Part II- Descriptive questions (70 marks)

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.

1. (a) In the following cases, record Journal Entries for amortization in the books of Huge Ltd. for the year ended 31st March, 2024 with reference to AS-26:

(i) The company had acquired Patent Rights for ₹ 340 lakhs on 01.04.2022. The estimated product life is 4 years. Amortization was decided in the ratio of estimated future cash flows which are as under:

1st Year ₹ 140 Lakhs

2nd Year ₹ 350 Lakhs

3rd Year ₹ 280 Lakhs

4th Year ₹ 420 Lakhs

(ii) The company had developed know-how by incurring expenditure of ₹ 80 lakhs. The know-how has been used by the company since 01.04.2018. Its useful life is 8 years from the year of commencement of its use. The company has not amortised the asset until 31.03.2024.

(b) Pendora Ltd. has given the following details in respect of employee benefit pension plan:

Particulars	**Amount ₹**
The fair value of plan assets as on 01-04-2023	5,00,000
The benefits paid out on 30-11-2023	63,000

Inward contributions received on 30-09-2023	1,42,000
The fair value of plan assets as on 31-03-2024	7,50,000

On 01.04.2023, the company made following estimates, based on its market studies and prevailing prices :

Particulars	**%**
Interest and dividend income (after tax) payable by fund	10.50
Realised gains on plan assets (after tax)	2.00
Fund administrative costs	-2.00
Expected rate of annual return (Interest is compounded annually)	10.50

You are required to find the expected and actual returns on plan assets as on 31.03.2024 as per AS 15.

(c) Delta Ltd. is working on different projects those are likely to be completed within 3 years period. It recognizes revenue from these contracts on Percentage of Completion Method for Financial Statements for the years ending 2021, 2022 and 2023 for ₹ 34 Lakhs, ₹ 50 Lakhs and ₹ 65 Lakhs respectively.

However, for Income Tax purpose, it has adopted the Completed Contract Method under which it has recognized revenue of ₹ 30 Lakhs, ₹ 52 Lakhs and ₹ 67 Lakhs for the years ending 2021, 2022 and 2023 respectively.

Income Tax rate is 30%.

Compute the amount of Deferred Tax Asset / Liability and Total Tax Expenses for the years ending 31st March 2021, 2022 and 2023.

(4+5+5=14 Marks)

2. The following is the Trial Balance of Shivam Ltd as on 31st March, 2024 :

Particulars	Dr. (₹ 000)	Particulars	Cr. (₹ 000)
Land at Cost	148	Equity Share of ₹ 10 each	200
Plant & Machinery at Cost	520	10% Debenture of ₹ 100 each	135
Debtors	65	General Reserve	90
Closing Stock	58	Profit & Loss Ale	48
Bank	14	Security Premium	27
Adjusted Purchases	226	Sales	473
Factory Expenses	40	Creditors	35
Administration Expenses	22	Provision for Depreciation	116
Selling Expenses	20	Suspense A/c	3
Debenture Interest	14		
Total	1,127	Total	1,127

Additional Information:

- On 31st March, the Company issued Bonus Shares to the Shareholders on 1 : 2 basis (one equity share issued as bonus for every 2 equity shares held). No entry relating to this has yet been made.
- The Authorized Share Capital of the Company is 35,000 Equity Shares of ₹ 10 each.
- The Company, on the advice of an independent valuer, revalued the Land at ₹ 2,45,000.
- The Directors declared a Dividend of 10% on 5th April, 2024 and also transferred profit @ 10% to General Reserve.
- Suspense Account of ₹ 3,000 represents cash received for the Sale of some Machinery on the 1st day of the financial year 2023-24. Cost of this Machinery was ₹ 10,000 and Accumulated Depreciation thereon being ₹ 8,000.
- Depreciation is to be provided on Plant & Machinery at 10% on Cost.
- Provision for Income tax is required@ 30%.

You are required to prepare Shivam Ltd.'s Profit and Loss A/c for the year ended 31st March, 2024 and Balance Sheet as at that date as per the provisions of the Companies Act, 2013 after considering the above information. Ignore previous year figures. **(14 Marks)**

3. (a) On the basis of the following data, prepare Cash Flow Statement as per AS-3 for the year ended 31st March, 2024:

   - Total Sales for the year were ₹ 380 lakhs out of which Cash Sales amounted to ₹ 262 Lakhs.
   - Receipts from credit customers during the year, total ₹ 134 lakhs.
   - Total Purchases for the year amounted to ₹ 220 lakhs, out of which 80% were credit purchases.
   - Opening balance in creditors ₹ 84 lakhs and Closing balance in creditors ₹ 92 lakhs.
   - Suppliers of other consumables and services were paid ₹ 19 lakhs in cash.
   - Employees of the enterprise were paid ₹ 20 lakhs in cash.
   - Fully-paid preference shares of the face value of ₹ 32 lakhs were redeemed.
   - Issued equity shares of the face value of ₹ 20 lakhs at a premium of 20%.
   - Debenture of ₹ 20 lakhs at premium of 10% were redeemed by issuing equity shares in lieu of their claims.
   - ₹ 26 lakhs were paid by way of Income Tax.
   - A new machinery costing ₹ 20 lakhs was purchased in a part

exchange of an old machinery. The book value of the old machinery was ₹ 13 lakhs, but the vendor agreed to take over the old machinery at a higher value of ₹ 15 lakhs. The balance due to vendor was paid in cash.

- Dividend ₹ 15 lakhs (including dividend distribution tax)* of ₹ 2.7 lakhs was also paid on 30th March, 2024.
- Debenture interest ₹ 3 lakhs was paid.
- During the year ₹ 8 lakhs rent was received from property held as investment.
- ₹ 0.50 lakh interest was earned on the advance payments to suppliers of Goods.
- Cash and cash equivalents on 1st April 2023, ₹ 2 lakhs.

(7 Marks)

(b) Aerodots Ltd. has the following capital structure as on 31.03.2024 :

Particulars	**Amount (₹ in thousands)**
Equity Share Capital (shares of ₹ 10 each)	600
Reserves:	
General Reserve	540
Securities Premium	200
Profit & Loss	100
Revaluation Reserve	30
Investment Allowance Reserve (Statutory Reserve)	75
Infrastructure Development Reserve	25
Loan Funds	2000

On 1st April, 2024 the company wants to buy back 14,000 equity shares of ₹ 10 each at ₹ 30 per Equity share.

You are required to calculate maximum permissible number of equity shares that can be bought back.

Buy Back of shares is duly authorized by its articles and necessary resolution has been passed by the company. **(7 + 7 = 14 Marks)**

4. The following are the summarized Balance Sheets of Well Ltd. and Nice Ltd. as at 31st March, 2024 :

		Particulars	Notes	Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
		Equity and Liabilities			
1.		Shareholder's funds			
	a.	Share capital	1	41,000	14,300

*PS: As per IT Act, 1961 DDT is no more applicable

	b.	Reserves and Surplus	2	19,500	(7,350)
2.		Non-current liabilities			
	a.	Long-term borrowings	3	20,500	5,425
3.		Current Liabilities			
	a.	Trade Payables		15,740	4,850
	b.	Short-term Borrowings		-	1,975
		Total		96,740	19,200
		Assets			
1.		Non-current Assets			
	a.	Property, plant, and equipment	4	62,550	16,380
	b.	Non-current Investments		22,500	-
2.		Current assets			
	a.	Inventories		300	870
	b.	Trade Receivables		6,590	1,950
	c.	Cash and Cash equivalents		4,800	-
		Total		96,740	19,200

Notes to Accounts

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of ₹ 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of ₹ 100 each	9,500	
	10% Preference Shares of ₹ 100 each		1,800
	Total	41,000	14,300
2.	**Reserves and Surplus**		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	**Long-term borrowings**		
	9% Debentures of ₹ 100 each	11,200	
	10% Debentures of ₹ 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (₹ in '000)	Well Ltd. (₹ in '000)
1.	Trade receivables		
	Debtors	6,200	1,800
	Bills Receivables	390	150
		6,590	1,950
2.	Trade payables		
	Creditors	14,750	4,400
	Bills Payables	990	450
		15,740	4,850

On 31.03.2024, Nice Ltd. absorbs the business of Well Ltd. on the following terms:

- For every five equity shares held by the equity shareholders of Well Ltd., they receive three equity shares of Nice Ltd. issued at a premium of ₹ 20 per share.
- The 10% debenture-holders of Well Ltd. were to be allotted such 9% debentures in Nice Ltd. as would bring the same amount of interest.
- 10% Preference Shareholders of Well Ltd. are to be paid at 10% discount by issue of 9% Preference Shares at par in Nice Ltd.
- Banks agreed to waive off the loan of ₹ 270 thousand of Well Ltd.
- Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. ₹ 55 thousand.
- Inventory of Well Ltd. is taken over at 10% more than their book value by Nice Ltd.
- Debtors of Nice Ltd. include ₹ 215 thousand receivables from Well Ltd.
- Property, Plant, and Equipment of Well Ltd. are revalued at 20% abo their book value.
- The remaining Assets and Liabilities of Well Ltd. are taken over at book value by Nice Ltd.

You are required to :

1. Record Journal Entries in the books of Nice Ltd.
2. Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024. **(14 Marks)**

5. On 1st February, 2024, Best Ltd. acquired 80% Equity shares of Cool Ltd. for ₹ 14,80,000.

   On 31st March, 2024, Best Ltd. also acquired 25% Equity shares of Good Ltd. for ₹ 3,80,000.

The following are the balances extracted from the books of Best Ltd., Cool Ltd., and Good Ltd. as on 31st March, 2024 :

Particulars	Best Ltd. Amount in ₹	Cool Ltd. Amount in ₹	Good Ltd. Amount in ₹
Equity Shares of ₹ 100 each fully paid	30,00,000	20,00,000	10,00,000
Securities Premium	-	2,20,000	-
9% Debentures	6,30,000	-	2,40,000
General Reserve	2,69,000	84,000	1,20,000
Profit & Loss Account (Credit Balance)	3,26,000	2,70,000	50,000
Investments	17,50,000	6,10,000	-
Property, Plant, and Equipment	18,90,000	18,14,000	12,10,000
Current Assets	9,65,000	5,60,000	2,25,000
Trade Payable (Including Bills Payable)	3,80,000	4,10,000	25,000
Sales and other income	56,00,000	38,00,000	27,00,000
Raw material consumed	36,50,000	31,20,000	22,30,000
Wages and Salaries	5,07,000	4,01,000	2,69,000
Production expenses	1,35,000	1,06,000	98,000

Additional information :

- The Profit and Loss account of Cool Ltd. showed a credit balance of ₹ 30,000 on 1st April, 2023.
- The General Reserve balance is brought forward from the previous year.
- On 31st March, 2024, all the bills payable in Cool Ltd.'s balance sheet were acceptances in favour of Best Ltd. However, on the date, Best Ltd. held only ₹ 3,00,000 of these acceptances in hand, the rest having been endorsed in favour of its creditor.
- Best Ltd. purchased goods costing ₹ 5,00,000 from Cool Ltd. on 1st June, 2023 at a price of ₹ 6,50,000. The entire goods remain unsold with Best Ltd. at the end of the financial year.
- Best Ltd. is preparing Consolidated Financial Statements for the year ending 31.03.2024.

You are required to calculate :

(1) Trade Payable (Consolidated)

(2) Current Assets (Consolidated)

(3) Minority Interest

(4) Goodwill/Capital Reserve on the acquisition of Cool Ltd.'s shares

(5) Goodwill/Capital Reserve on the acquisition of Good Ltd.'s shares

(6) Profit & Loss Account (Consolidated)

(7) General Reserve (Consolidated)

(8) Revenue from Operations (Consolidated)

(9) Cost of material purchased/consumed (Consolidated)

(14 Marks)

6. (a) On 01.04.2023, Mr. Day has 25,000 shares of Squares Ltd. at a book value of ₹ 25 per share (nominal value of ₹ 10 each). Further information is as under:

   (i) On 31st July 2023, the Directors of Squares Ltd. issued one equity bonus share for every five shares held by the shareholders.

   (ii) On 30th September 2023, the Directors of Squares Ltd. announced a right issue which entitled the ·holders to subscribe three shares for every two shares at ₹ 20 per share. Shareholders can transfer their rights in full or in part.

   Mr. Day sold 1/4th of entitlement to Dhwani for a consideration of ₹ 5 per share and subscribed the rest on 5th October, 2023.

   You are required to prepare Investment A/c in the books of Mr. Day for the year ending 31.03.2024.

OR

(a) "In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred."

   Provide examples of such costs as per AS 2 (Revised) 'Valuation of Inventories.

(b) The following scheme of reconstruction has been approved for Equity shareholders and Debenture holders of TP Ltd.

   (i) The Equity shareholders to receive in lieu of their present holding of 1,50,000 shares of ₹ 10 each, the following :

      (1) For ₹ 50,000, equivalent cash

      (2) For ₹ 9,00,000, 10% debentures issued at premium of 20% (Face value of debenture is ₹ I00 each)

      (3) For balance ₹ 5,50,000, Equity shareholders agreed to accept 50,000 equity shares of ₹ 10 each in full settlement.

   (ii) 8% Debenture ₹ 5,00,000.

   Debenture holders agreed to accept Freehold property (Book value ₹ 3,50,000) at a valuation of ₹ 4,45,000 in full settlement of their claim. Pass necessary Journal Entries in the Books of TP Ltd. for the above reconstruction. Narration for Journal entries is not required to be given.

(c) Following is the information of Kullu Branch of M/s Best Enterprises of Shimla for the year ending 31st March 2023 :

(1) Goods are invoiced to the branch at cost plus 20%

(2) Branch sold goods at invoice price plus 25%.

(3) Other Information is as follows:

(i) Stock (at cost price) as on 1st April, 2022 is ₹ 2,25,000

(ii) Goods sent by Head office to branch during the year (at cost price) are ₹ 14,85,000

(iii) Goods returned by Branch to Head office during the year (at Invoice price) are ₹ 75,000

(iv) Sales by the branch during the year ₹ 19,50,000

(v) Expenses incurred at Branch ₹ 56,000.

You are required to ascertain the following:

(a) Profit earned by the Branch by Preparing Trading and profit and loss account for the year ended 31st March 2023

(b) Also find the stock reserve on Closing stock

(4 + 6 + 6 = 14 Marks)

MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory.

Case Scenario 1

Silver Private Limited was incorporated in 2016 having its registered office at Gurugram, Haryana. It is registered with an authorised share capital of ₹ 10 crore divided into 1 crore equity shares of ₹ 10/- each. The paid-up share capital of the company is ₹ 50 lakh divided into 5 lakh equity shares of ₹ 10/- each. The company is in manufacturing of rubber parts to be used in manufacturing of parts of passenger vehicles.

Mr. Raj and Mr. Pawan are directors of the company. Mr. Siddharth (son of Mr. Raj) on January 8, 2022 had advanced a loan of ₹ 50 lakh at an interest rate of 8% p.a. and the loan is expected to be repaid after a period of thirty six months.

Silver Private Limited intends to accept deposits of ₹ 60 lakh from its members for the purpose of expansion of its business. The financial particulars of the company are as below mentioned: -

S. No.	Particulars	Amount (₹)
1	Paid-up share capital	50 lakh
2	Free Reserves	20 lakh
3	Security premium	10 lakh
4	Borrowings from banks	65 lakh
5	Turnover	200 lakh

As on the date of acceptance of deposits, the company has not defaulted in repayment of borrowings along with interest thereon.

The Company Secretary of the company informed Board of Directors of the company that they need to appoint an internal auditor for audit of the company. The Board stated that statutory auditor is already performing audit function and there is no need to appoint internal auditor as it causes additional burden on the company.

The company require funds for the purpose of meeting working capital requirements. The company has approached the bank for meeting working capital requirements and has availed a loan of ₹ 65 lakh from bank. The loan is secured by the personal guarantee of the directors of the company.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under: -

1. With respect to loan advances by Mr. Siddharth to Silver Private Limited, whether the same can be classified as deposit or not?

   (a) It will be treated as deposit as the loan is advanced by Mr. Siddharth who is neither director nor shareholder of the company.

   (b) It will be treated as deposit as the loan is given by relative of the director.

   (c) It will not be treated as deposit as Mr. Siddharth has given loan to the company at an interest rate of 8% p.a.

   (d) It will not be treated as deposit if Mr. Siddharth gives a written declaration to the effect that loan is advanced by him from his own source of funds, not from borrowings or accepting loans or deposits from others and the company shall disclose the details of money so accepted in the Board's Report.

2. With respect to acceptance of deposits from members, which of the below mentioned statement is correct:

   (a) Silver Private Limited cannot accept deposits of more than paid-up share capital which is ₹ 50 lakh.

   (b) Silver Private Limited can accept deposits of ₹ 60 lakh from members, as it is less than twice of its paid up share capital or ₹ 50 crore, whichever is less.

   (c) Silver Private Limited cannot accept deposits of more than higher of aggregate of paid-up share capital and free reserves which is ₹ 70 lakh and borrowings which is ₹ 65 lakh.

   (d) Silver Private Limited cannot accept deposits of more than aggregate of paid-up share capital and free reserves, which is ₹ 70 lakh.

3. Is Silver Private Limited required to appoint internal auditor in accordance with the provisions of the Companies Act, 2013?

   (a) Silver Private Limited is not required to appoint internal auditor as private companies are not required to appoint internal auditor.

   (b) Silver Private Limited is required to appoint internal auditor as borrowings is below prescribed limited.

   (c) Silver Private Limited is required to appoint internal auditor as aggregate of paid-up share, free reserves and security premium is more than prescribed limited.

   (d) Silver Private Limited is not required to appoint internal auditor as turnover is less than prescribed limited.

4. Which of the following statement is correct in respect of loan of ₹ 65 lakh availed by the company?

   (a) Silver Private Limited needs to create and register charge within 30 days from the date of sanction of loan.

(b) Silver Private Limited is not required to create and register charge as the loan is against the personal guarantee of directors.

(c) Silver Private Limited needs to create and register charge within 15 days from the date of sanction of loan.

(d) Silver Private Limited needs to create and register charge within 60 days from the date of sanction of loan.

5. The management of Silver Private Limited for ease of doing business and reduce compliance burden, proposed, it to be registered as a small company. Within the provided information and the legal requirements under the Companies Act, 2013, recommend on the validity of the said proposal:

(a) Proposal is valid, as any private limited company can apply for the status of small company.

(b) Proposal is invalid, as the Silver Private Limited is not fulfilling the requirement of turnover of ₹ 400 crore.

(c) Proposal is valid, as the Silver Private Limited is fulfilling the requirement of paid up share capital and turnover which is within the prescribed limits.

(d) Proposal is invalid, as Silver Private Limited is fulfilling the requirement of paid up share capital.

6. The financial particulars of ABC Limited in respect of immediately preceding financial year are as under:

S. No.	Particulars	Amount in ₹ crore
1	Net worth	280
2	Turnover	550
3	Net Profit	5.50
4	Borrowings	60

Choose the correct option in terms that whether the provisions of Corporate Social Responsibility are applicable to ABC Limited.

(a) No, as ABC Limited is having net worth of more than ₹ 250 crore in the immediately preceding financial year.

(b) Yes, as ABC Limited is having turnover of more than ₹ 500 crore but less than ₹ 800 crore in the immediately preceding financial year.

(c) Yes, as ABC Limited is having net profit of more than ₹ 5 crore in the immediately preceding financial year.

(d) Yes, as ABC Limited is having loans and borrowings of more than ₹ 50 crore in the immediately preceding financial year.

7. Under what circumstances is the requirement for constituting a Corporate Social Responsibility (CSR) Committee waived, and who is responsible for discharging the functions of the CSR Committee in such cases?

(a) When the amount to be spent by a company does not exceed fifty lakh rupees; the Board of Directors assumes the responsibility of the CSR Committee's functions.

(b) When the amount to be spent by a company exceeds fifty lakh rupees; the Board of Directors assumes the responsibility of the CSR Committee's functions.

(c) When the amount to be spent by a company does not exceed fifty lakh rupees; the shareholders assume the responsibility of the CSR Committee's functions.

(d) When the amount to be spent by a company exceeds fifty lakh rupees; the shareholders assume the responsibility of the CSR Committee's functions.

Case Scenario 2

Vidhya Masterminds LLP was incorporated on 15th April, 2023. Sagar, Manthan, Vishnu and Vasuki were partners in the firm. Sagar and Manthan were also the designated partners in this firm. The firm was incorporated with the object of manufacturing and trading of cycles. The business was going too smoothly.

But on 30th April, 2023, some Mr. Vidhyaram Tolaramani filed an application to registrar that he has a registered trademark in the name of “Vidhya Masters” which he has got registered before 15.04.2023. Therefore, the LLP “Vidhya Masterminds LLP” should change its name. On the basis of basic investigation, registrar found that Mr. Vidhyaram Tolaramani was correct in contention. The registrar sent a direction to Vidhya Masterminds LLP to change its name as it too nearly resembles with the trademark of Mr. Vidhyaram Tolaramani i.e. “Vidhya Masters”. The notice was issued by the registrar on 5th May, 2023 by post but due to some internal problem of postal department, notice reached the LLP on 10th May, 2023. Vidhya Masterminds LLP ignored the notice and continued working under the same name. On 16th August, 2023 the registrar *suo-moto* allotted the LLP a new name “Sahitya Masterminds LLP” and entered this new name in the register of LLP and also issued a fresh certificate of incorporation to Vidhya Masterminds LLP with new name. Vidhya Masterminds LLP, now “Sahitya Masterminds LLP” was not comfortable with new name. It started the process to change the name allotted by the registrar.

Meanwhile, Vishnu was appointed as designated partner in Vidhya Masterminds LLP on 25th July, 2023 but this information was not sent to the registrar. On 20th June, 2023, Mr. Vasuki had given a written notice to the LLP that he could not continue as a partner in LLP with effect from 22nd July, 2023. This cessation from the LLP was also not informed by either LLP or Mr. Vasuki, to the Registrar.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following MCQs (8- 10) given herein under: -

8. When the registrar directed Vidhya Masterminds LLP to change its name, by which date the LLP should have changed the name of LLP?

   (a) By 5th August, 2023 i.e. within a period of 3 months from the date of issue of such direction by registrar.

   (b) By 10th August, 2023 i.e. within a period of 3 months from the date of receiving of such direction by the firm.

   (c) By any time according to the convenience of Vidhya Masterminds LLP.

(d) Vidhya Masterminds LLP is not liable to change its name.

9. Vishnu was appointed as designated partner in the Vidhya Masterminds LLP on 25th July, 2023. By what time limit the LLP should have informed the registrar?

   (a) 9th August, 2023 i.e. within 15 days of appointment

   (b) 24th August, 2023 i.e. within 30 days of appointment

   (c) 25th August, 2023 i.e. within 1 month of appointment

   (d) 25th October i.e. within 3 month of appointment.

10. Whether Mr. Vasuki will be liable for penalty for not intimating the registrar about the appointment of Mr. Vishnu as designated partner?

   (a) No, as he was not partner in LLP on the date of appointment of designated partner.

   (b) Yes, as former partner is to be regarded still being a partner of the LLP unless a notice has been delivered to the Registrar by former partner or LLP.

   (c) Yes, even if a notice has been delivered to the Registrar by LLP about his retirement.

   (d) No, in any case Mr. Vasuki will not be liable.

Case Scenario 3

Tech Inspiration Private Limited was incorporated on 30.06.2018. The main object of the company was to provide guidance classes for engineering aspirants. For this purpose, they opened a coaching center at Freedom Plaza, Near Bhagwan Talkies, Bye Pass Road, Agra. The premise was owned by the company. The company also made a "Employee Appointment Committee" for the systematic selection and appointment of employees including faculties for teaching. In the first slab, committee appointed nine teachers, 3 clerical staff and one peon. For the purpose of expansion of business, company decided to open a branch of the company at nearby city of Agra. After the due research, the company decided to open its branch at city "Bharatpur" which was just 50 kilometers far from Agra. The company approached Mr. Raghuram Meena owner of land at Bharatpur suitable for company. Mr. Raghuram Meena leased his land for ten years to Tech Inspiration Private Limited. The land had a small temple of lord Ganpati at its centre. The company constructed the classrooms on the land and many students joined the coaching classes. Besides it, the temple generated some income in the form of "Chadhava" (donation). Mr. Raghuram Meena claimed the income of temple with the contention that he had leased only the land and not the temple.

Further one more problem arose in the company. "Employee Appointment Committee" found that one of the faculties, Mr. Nitesh Gupta was not performing well. He was not justifying his duties. Therefore, "Employee Appointment Committee" decided to terminate him with effect from 31.01.2024 and send him notice of termination by properly addressing and by registered post to Mr. Nitesh Gupta. Mr. Nitesh Gupta refused to accept the notice and returned back it to the postman. After two months, on 01.04.2024, Mr. Nitesh Gupta filed a suit against the company for claiming the salary for the period from 01.01.2024 to 31.03.2024 with the view that his appointment cannot be terminated because of two reasons:

(i) "Employee Appointment Committee" was established just to appoint the employees. They are not authorised for their termination.

(ii) Mr. Nitesh Gupta's refused to accept the notice of termination with the contention that it was not properly served to him.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following MCQs (11-13) given herein under: -

11. Whether Mr. Raghuram Meena is correct in his claim? Whether he may claim the income of temple:

    (a) Yes, Mr. Raghuram Meena was correct in his views as he leased only land not the temple, situated on such land.

    (b) Yes, as temple is a constructed building, not land.

    (c) No. 'Immovable Property' in terms of the General Clauses Act, 1897 includes land, benefits to arise out of land, and things attached to the earth, or permanently fastened to anything attached to the earth. So, benefits attached to land and income from temple will be of Tech Inspiration Private Limited.

    (d) No. It is the right of Tech Inspiration Private Limited to decide that who will claim the income of temple.

12. Whether "Employee Appointment Committee" may terminate Mr. Nitesh Gupta even the authority letter given to "Employee Appointment Committee" has no specific clause authorizing it for termination of employees?

    (a) No, as "Employee Appointment Committee" was authorised only for appointment and not for termination of employees.

    (b) Yes, because section 16 of the General Clauses Act, 1897, provides that unless a different intention appears, power to appoint to include power to suspend or dismiss.

    (c) No, because section 16 of the General Clauses Act, 1897, provides that power to appoint does not include power to suspend or dismiss.

    (d) No, It's only board of directors of Tech Inspiration Private Limited who has the right to terminate its employees in board meeting.

13. Whether the refusal to accept the notice sent by post, by Mr. Nitesh Gupta would be termed as not serving of notice of termination?

    (a) Yes, as Mr. Nitesh Gupta had not accepted the notice.

    (b) Yes, refusal to accept the post will always be considered as not served.

    (c) No, because as per section 27 of the General Clauses Act, 1897 the service by post shall be deemed to be effected by properly addressing, pre-paying, and posting by registered post.

(d) No, Mr. Nitesh Gupta had the information of sending of notice.

14. Mr. Amar (a resident individual) want to remit US$ 60,000 to his son in the USA after winning a big lottery. Considering the provisions of the Foreign Exchange Management Act, 1999, choose the correct action which Mr. Amar would take to remit the said amount to his son in the USA.

    (a) Visit a local bank and request a direct transfer to his son's US bank account.

    (b) Cannot remit the said amount as remittance out of lottery winnings is prohibited.

    (c) Travel to the USA personally with the cash winnings, to give it to his son.

    (d) Convert the US Dollar winnings into a different currency before sending it to his son.

15. Mr. Prakhar, an Indian Resident individual, wishes to obtain Foreign Exchange for a gift remittance totaling US$ 50,000. Which of the following statements accurately reflects the regulatory requirement under the Foreign Exchange Management Act, 1999 (FEMA)?

    (a) Mr. Prakhar can freely remit US$ 50,000 for the gift as it is a current account transaction and the amount of gift remittance is less than US$ 2,50,000.

    (b) Mr. Prakhar must seek prior approval from the RBI for the remittance exceeding US$ 50,000.

    (c) Mr. Prakhar must seek prior approval from the RBI for any gift remittance, regardless of the amount.

    (d) Mr. Prakhar does not need to comply with any FEMA requirements as gift remittance does not fall under the purview of the FEMA 1999.

PART – II DESCRIPTIVE QUESTIONS

Question No.1 is compulsory. Candidates are required to answer any four questions from the remaining five questions.

Wherever necessary, suitable assumptions may be made and disclosed by way of a note.

Working notes should form part of the answers.

Maximum Marks – 70 Marks

PART II- Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) The information extracted from the audited Financial Statement of Resolution Private Limited as on 31st March, 2023 is as below:

(1) Paid-up equity share capital ₹ 50,00,000 divided into 5,00,000 equity shares (carrying voting rights) of ₹ 10 each. There is no change in the paid-up share capital thereafter.

(2) The turnover is ₹ 2,00,00,000.

It is further understood that Yellow Private Limited, which is a public limited company is holding 2,00,000 equity shares, fully paid-up, of Resolution Private Limited. Resolution Private Limited has filed its Financial Statement for the said year with the Registrar of Companies (ROC) excluding the Cash Flow Statement within the prescribed time line during the financial year 2023-24. The ROC has issued a notice to Resolution Private Limited as it has failed to file the cash flow statement along with the Balance Sheet and Profit and Loss Account. You are to advise on the following points explaining the provisions of the Companies Act, 2013:

(i) Whether Resolution Private Limited shall be deemed to be a small company whose significant equity shares are held by a public company?

(ii) Whether Resolution Private Limited has defaulted in filing its financial statement? **(5 Marks)**

(b) The balances extracted from the financial statement of Pacific Limited are as below:

Sr. No.	Particulars	Balances as on 31-03-2023 as per Audited Financial Statement (₹ in crore)	Balances as on 30-09-2023 (Provisional ₹ in crore)
1.	Net Worth	100.00	100.00
2.	Turnover	500.00	1000.00
3.	Net Profit	1.00	5.00

Explaining the provisions of the Companies Act, 2013, you are requested to examine whether Pacific Limited is required to constitute 'Corporate Social Responsibility Committee' (CSR Committee) during the second half of the financial year 2023-24. **(3 Marks)**

(c) Smart Limited declared dividend at its Annual General Meeting held on 31-07-2023. The dividend warrant to Mr. A, a shareholder was posted on 22nd August, 2023. Due to postal delay Mr. A received the warrant on 5th September, 2023 and encashed it subsequently. Can Mr. A initiate action against the company for failure to distribute the dividend within 30 days of declaration under the provisions of the Companies Act, 2013? **(2 Marks)**

(d) Mr. Pravesh, an Indian National desires to obtain Foreign Exchange for the following purposes:

(i) US$ 140,000 for studies abroad on the basis of estimates given by the foreign university.

(ii) U.S. $ 10,000 for remittance towards hiring charges of transponders.

Advise him whether he can get Foreign Exchange, as per the provisions of the Foreign Exchange Management Act, 1999. **(4 Marks)**

2. (a) Samayak Limited is a company engaged in the business of manufacturing papers. Kindly explain the provisions related to quorum in meeting as per the provisions of the Companies Act, 2013.

(5 Marks)

(b) "The offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy-back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions." Examine the validity of this statement by explaining the provisions of the Companies Act, 2013 in this regard. **(5 Marks)**

(c) Mr. Rachit purchased a new house and after some time he shifted to his new house. He was regularly filing his Income Tax Return but he did not update his address with the Income Tax Department. The Income Tax department sent a show cause notice to Mr. Rachit whereby the time limit for reply was 15 days from service of notice. The notice was properly sent by registered post to his address which was in the records of the Income Tax Department. The notice reached at old house and present owner of that house refused to accept that notice. After a certain period, the Income Tax Department took a penal action against Mr. Rachit. He requested the department, that he should not be charged as he did not receive the said notice. Advise in terms of the provisions of the General Clauses Act, 1897, whether sending of the show cause notice by the Income Tax Department would be considered proper service of notice? Give your answer with reference to the provisions of the General Clauses Act, 1897. **(4 Marks)**

3. (a) Explain the provisions of the Companies Act, 2013 relating to the 'Service of Documents' on a company and the members of the company? **(5 Marks)**

(b) The Promoters of J Limited contributed in the shape of unsecured loan to the company in fulfilment of the margin money requirements stipulated by State Industries Development Corporation Ltd. (SIDCL) for granting loan. In the light of the provisions of the Companies Act, 2013 and Rules made thereunder whether the unsecured loan will be regarded as Deposit or not. What will be your answer in case the entire loan obtained from SIDCL is repaid? **(5 Marks)**

(c) Explain the impact of the two words "means" and "includes" in a definition, while interpreting such definition. **(4 Marks)**

4. (a) The Companies Act, 2013 has prescribed an additional duty on the Board of directors to include in the Board's Report a 'Directors' Responsibility Statement'. Briefly mention any four matters to be furnished in the said statement. **(5 Marks)**

(b) Mohan and Rakul are college friends and intend to do trading in musical instruments. They have met Mr. John and Ms. Kate who are non-resident Indian and they all have decided to form a Limited Liability Partnership (LLP) under the name and style of Mohan John LLP with an initial capital contribution of ₹ 1,00,000 each. The LLP was incorporated on October 15, 2020. The LLP intends to appoint Mr. John and Ms. Kate as designated partners and consults same with its Company Secretary. You as the Company Secretary advise the LLP on the appointment of Mr. John and Ms. Kate as the only designated partners of the LLP.

(5 Marks)

(c) In what way are the following terms considered as external aid in the interpretation of statutes:

(i) Historical Setting

(ii) Use of Foreign Decisions **(4 Marks)**

5. (a) "LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership". Explain.

(5 Marks)

(b) ABC & Associates, a firm of Chartered Accountants was re-appointed as auditors at the Annual General Meeting of X Ltd. held on 30-09-2022. However, the Board of Directors recommended to remove them before expiry of their term by passing a resolution in the Board Meeting held on 31-03-2023. Subsequently, having given consideration to the Board recommendation, ABC & Associates were removed at the general meeting held on 25-05-2023 by passing a special resolution but without obtaining approval of the Central Government. Examine the validity of removal of ABC & Associates by X Ltd. under the provisions of the Companies Act, 2013. **(5 Marks)**

(c) A confusion regarding the meaning of 'financial year' arose among the financial executive and accountant of a company. Both were having different arguments regarding the meaning of financial year & calendar year. What is the correct meaning of the financial year under the provision of the General Clauses Act, 1897? How it is different from calendar year? **(4 Marks)**

6. (a) What is 'Floating Charge'? When does it get crystallised? **(5 Marks)**

OR

(a) Discuss the provisions of the Companies Act, 2013 regarding the time limit for holding the first annual general meeting of a company. Also, state the power of the Registrar to grant extension of time for the First Annual General Meeting. Explain with the help of an example.

(5 Marks)

(b) Gato Limited dealing in coloured contact lenses, is a company incorporated in Singapore. The said company is operating in India through its branch office in Kolkata. The company has approached its legal department to state the relevant provisions of the Companies Act, 2013 and rules made thereunder relating to preparation and filing of financial statements in case of such a company. **(5 Marks)**

(c) Ms. Prabha, a classical dancer of Bharatnatyam, wants to go to the USA for a performance. In this connection she requires foreign exchange drawal of US$ 50,000. Explain Ms. Prabha, the provision of the Foreign Exchange Management Act, 1999, in respect of permission required for such drawal of foreign exchange. **(4 Marks)**

MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

ACC Private Limited was incorporated in July 2001. It is registered with an authorised share capital of ₹ 20 crore divided into 2 crore equity shares of ₹ 10/- each. The paid-up share capital of the company is ₹ 10 crore divided into 1 crore equity shares of ₹ 10/- each.

The Board of Directors of the company in their meeting held on 11th August, 2023 declared interim dividend. The Annual General Meeting of the company was held on 1st September, 2023. The company had incurred losses in the previous financial year as well as in the current financial year upto the period ended June 30, 2023. In the previous five financial years, the company had declared the dividend as under:

Financial Year Ended	Dividend declared per share (₹)	Dividend declared rate (%)
March 31, 2023	Nil	Nil
March 31, 2022	1.00	10%
March 31, 2021	1.10	11%
March 31, 2020	1.30	13%
March 31, 2019	1.20	12%

The company has deposited the amount of dividend declared in a separate account with ABC Bank on August 14, 2023. Out of the total dividend declared, ₹ 60,000 payable to few equity shareholders remains unclaimed even after the expiry of statutory period within which dividend was required to be paid and had been transferred to a separate bank account Unpaid Dividend Account on 20th September 2023. The company prepares a statement containing the names of shareholders, their last known address and the unpaid dividend amount to such each shareholder and place on its website.

Meanwhile, the company obtained a term loan of ₹ 15 crore from Laxmi Bank Limited on August 20, 2023, securing it with a charge on the company's assets, including its own buildings (in India and Germany) and intangible assets (trademark right over the company's logo). According to the Companies Act, 2013, the company was required to register this charge with the Registrar within a specified timeframe. However, the company failed to complete the registration process within the prescribed timeline.

The Board of Directors has requested their Company Secretary to confirm them whether they are required to incur expenditure towards Corporate Social Responsibility during the financial year 2023-2024 and is required to constitute CSR committee.

The financial particulars in respect of immediately preceding financial year are as under:

S. No.	Particulars	Amount (₹ in crore)
1	Net worth	100
2	Turnover	1010
3	Net Profit	4.9
4	Borrowings	60

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under: -

1. The company can create charge in favour of the lender on the assets which are:

   (a) Tangible Assets and situated in India only

   (b) Intangible Assets and situated in India only

   (c) Assets that are tangible or otherwise and situated in India or Germany

   (d) Assets that are tangible or otherwise and situated in India only

2. The maximum rate at which interim dividend can be declared by the Board during the current financial year is as under: -

   (a) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding two financial years, i.e. 5%.

   (b) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding three financial years, i.e. 7%.

   (c) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding four financial years, i.e. 8.5%.

   (d) The board cannot declare the interim dividend at a rate higher than the average dividend declared by the company immediately during preceding five financial years, i.e. 9.2%.

3. In respect of dividend declared which of the Statement is not correct?

   (a) The company has transferred the dividend amount to separate bank account within 5 days from the date of declaration of dividend.

(b) The company is required to pay dividend within 30 days from the date of declaration of dividend.

(c) The company is required to transfer the Unpaid dividend to a separate bank account within 10 days from the date of expiry of statutory period from the date of declaration of dividend.

(d) The company is required to prepare a statement containing the names of shareholders, their last known address and the unpaid dividend amount to such each shareholder and place on its website within 90 days from the date of transferring the amount to Unpaid Dividend Account.

4. Choose the correct option in terms that whether the provisions of Corporate Social Responsibility are applicable to ACC Private Limited.

(a) The provisions of Corporate Social Responsibility are not applicable to ACC Private Limited as it is a private limited company.

(b) Yes, as ACC Private Limited is having turnover of more than ₹ 1000 crore.

(c) Yes, as ACC Private Limited is having net profit of more than ₹ 2.5 crore in the immediately preceding financial year.

(d) Yes, as ACC Private Limited is having net worth of more than ₹ 50 crore in the immediately preceding financial year.

5. The notice for the Annual General Meeting should be served by:

(a) 6th August 2023

(b) 7th August 2023

(c) 8th August 2023

(d) 10th August 2023

Case Scenario 2

Sudeep and Ankit are very fast friend since long. They decided to run a service unit which will provide "Financial and Investment Consultancy Services". For this purpose they formed a limited liability partnership under the name M/s Etharkkum Advisors LLP on 17th April 2020. For this purpose, they prepared a Limited Liability Partnership Deed of which one of the clauses provides that a new partner may be admitted in the LLP with capital contribution which may be in kind or cash. Further new partner is also required to deposit the agreed amount of capital contribution within six months from the date of his admission.

After some time, office of the firm was destroyed due to an earthquake and the LLP was in urgent need of an office premises and some funds for some renovation work.

It is also informed that M/s Etharkkum Advisors LLP approached Manoj on 1st January 2023 to join the firm as third partner. Manoj was out of India for the period from 1st September 2021 to 23rd December 2022. He agreed to join the LLP and also agreed to contribute his office premises at Sanjay Place, Palwal and funds of ₹ 5,00,000 as Capital Contribution in the firm. Manoj joined the firm on 25th January 2023 as limited liability partner. The above said office premises was purchased by Manoj five years ago for ₹ 25,00,000 but the fair market value of this office on 25th January 2023 was ₹ 32,25,000 and on 1st January 2023 was ₹ 30,00,000. Manoj has provided his office to the firm with effect from his admission and promised to deposit the agreed amount of ₹ 5,00,000 within six months as provided in the partnership deed. Before Manoj could deposit the amount with the firm, it was dissolved. Manoj denied to deposit the amount of ₹ 5,00,000 with the contention that he is liable only upto the amount contributed in the firm on the date of dissolution. A creditor of the firm sued Manoj to deposit the said amount so that the firm may pay off his liability.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-8) given herein under: -

6. Whether Manoj could be considered as resident or not as per the Limited Liability Act, 2008?

   (a) Manoj could not be considered resident in India as he was not in India for 182 days in preceding one year

   (b) Manoj could not be considered resident in India as he was not in India for 120 days in preceding one year i.e. only for 33 days from 24th December 2022 to 25th January 2023

   (c) Manoj could not be considered as he was not in India for 182 days during the financial year

   (d) Manoj will be considered as resident in India as he was in India for 120 days during the financial year (2021- 2022)

7. What would be the worth of Capital Contribution by Manoj?

   (a) ₹ 25,00,000

   (b) ₹ 32,25,000

   (c) ₹ 37,25,000

   (d) ₹ 35,00,000

8. Whether Manoj will be liable to contribute ₹ 5,00,000 after dissolution of the firm?

   (a) Yes, because a partner is personally liable for the deficiency arising at the time of dissolution of LLP.

   (b) No, because a partner is never personally liable for the deficiency arose at the time of dissolution of LLP.

   (c) Yes, the partner is under obligation to contribute money also to LLP as per the agreement.

   (d) No, because a partner is personally liable only upto the amount contributed to the LLP on the date of dissolution of LLP.

9. Finload Limited wants to raise funds for its upcoming project. Accordingly, it has issued private placement offer letters for issuing equity shares to 57 persons, of which six are qualified institutional buyers and remaining are individuals.

Choose the correct statement as per the provisions of the Companies Act, 2013:

(a) Finload Limited company is a public limited company hence it can not issue shares through private placement.

(b) Since, Finload Limited has made an offer or invitation to more than the prescribed number of persons, it shall be deemed to be an offer to the public and accordingly, it shall be governed by the provisions relating to prospectus.

(c) Finload Limited has made an offer or invitation to less than the prescribed number of persons as qualified institutional buyers are not counted to calculate the prescribed limit.

(d) Finload Limited cannot issue shares to qualified institutional buyers, as under private placement shares cannot be issued to qualified institutional buyers.

10. Company X, a leading automobile manufacturer, has invested in Company Y, a start-up specializing in electric vehicle technology. Company X holds a 25% stake in Company Y and actively participates in its strategic decisions. Based on the provisions of the Companies Act 2013 regarding associate companies, which of the following statements is correct?

(a) Company X's investment in Company Y does not qualify as an associate company because Company X does not have control of at least 50% of the total voting power.

(b) Company Y qualifies as an associate company of Company X since Company X holds a 25% stake in Company Y and actively participates in its strategic decisions.

(c) Company Y cannot be considered an associate company of Company X because it is a start-up and does not meet the minimum criteria for significant influence.

(d) Company X's investment in Company Y falls under the category of joint venture and does not qualify as an associate company according to the Companies Act 2013.

Case Scenario 3

M/s Aryan & Aryan LLP was registered on 2nd July 2019. Sudeep and Ankit were partners in the firm. Both Sudeep and Ankit were also the designated partners in this firm. The LLP deals in manufacturing and trading of electric ceiling fans. One day Sudeep met with Mr. Kishore, a director of Krtiken Electronics Private Limited. After discussion, Mr. Kishore showed interest that Krtiken Electronics Private Limited may work with M/s Aryan & Aryan LLP as partner.

Krtiken Electronics Private Limited was incorporated on 1st June 2017 with the object to deal in electronics. The memorandum and articles of association of Krtiken Electronics Private Limited also authorised it to work as partner in a LLP.

The partners of M/s Aryan & Aryan LLP and directors of Krtiken Electronics Private Limited approached a professional consultant Mrs. Archika Jain for providing the procedure for adding Krtiken Electronics Private Limited as a partner in M/s Aryan

& Aryan LLP. She advised that Krtiken Electronics Private Limited could not be the partner in M/s Aryan & Aryan LLP because as per Limited Liability Partnership Act 2008, an individual or a body corporate can be a partner in LLP. She informed that the term ‘body corporate’ was defined in the Limited Liability Partnership Act, 2008 as a company which is defined in section 3 of the Companies Act, 1956. As Krtiken Electronics Private Limited is registered under Companies Act 2013, it cannot be termed as body corporate. On the advice of Mrs. Archika Jain, M/s Aryan & Aryan LLP dropped the idea to add Krtiken Electronics Private Limited.

It is further informed that Ms. Shanaya was admitted as a new partner in the firm on 17th January 2024. The firm intimated the registrar about her admission on 31st January 2024. On 3rd February 2024, while going to office Ms. Shanaya met with an accident and lost her memory. The doctor declared her of unsound mind to work as partner in M/s Aryan & Aryan LLP. It was also confirmed by a competent court.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 therein, choose the correct answer (one out of four) of the following MCQs (11-13) given herein under:-

11. Whether Krtiken Electronics Private Limited could be partner in M/s Aryan & Aryan LLP?

    (a) No, as Krtiken Electronics Private Limited is not a body corporate as per the definition of “Body Corporate” given in Limited Liability Partnership Act, 2008.

    (b) Yes, because section 8 of the General Clauses Act, 1897 provides where any Act or Regulation made after the commencement of this Act, repeals and re-enacts, with or without modification, any provision of a former enactment, then references in any other enactment or in any instrument to the provision so repealed shall, unless a different intention appears, be construed as references to the provision so re-enacted. Therefore, after the enactment of Companies Act, 2013, the definition of “Body Corporate” should be construed as a company which is defined in section 2(20) of the Companies Act, 2013.

    (c) No, as provisions of section 8 of the General Clauses Act, 1897 will not be applicable because the Limited Liability Partnership (Amendment) Act, 2021, which amended the definition of “Body Corporate” considering the company registered under Companies Act, 2013, come to effect from 01.04.2022.

    (d) Yes, as the provisions of the General Clauses Act, 1897 are not applicable while interpreting the provisions of the Limited Liability Partnership Act, 2008.

12. Following the provisions of Limited Liability Act, 2008 read with the General Clauses Act, 1897, what should be the last date to inform the registrar about the admission of Ms. Shanaya.

    (a) 15th February 2024

    (b) 16th February 2024

    (c) 17th February 2024

(d) 18th February 2024

13. What would be the status of Ms. Shanaya in the firm, M/s Aryan & Aryan LLP after the accident?

    (a) She would continue as a partner in M/s Aryan & Aryan LLP even after being declared as of unsound mind.

    (b) Section 24(2) of the Limited Liability Partnership Act, 2008 provides that a person shall cease to be a partner of a LLP if he is declared to be of unsound mind by a competent court. As this sub – section provides only for male person ("he"), she would continue as a partner in M/s Aryan & Aryan LLP.

    (c) Following the provisions of the General Clauses Act, 1897 which provides that in all legislations and regulations, unless there is anything repugnant in the subject or context words importing the masculine gender shall be taken to include females. Hence, Ms. Shanaya will cease to be a partner M/s Aryan & Aryan LLP.

    (d) She can continue as partner if all other partners agree for that.

14. HBL Private Limited is a project engineering, procurement and construction company. The company has bagged a contract from the Government of State of Tamil Nadu for construction of Water Dam. The company has involved a project consultancy firm situated in Netherlands for preparing techno-economic feasibility report to enable it to start construction work of dam. The company had paid USD 7,000,000 to vendor of Netherlands.

    The company also availed the services of Software Company situated in UK for the migration of its accounting software from SAP to Oracle for which the Company had paid USD 2,000,000 to the software company.

    Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned statement is correct:

    (a) The company can make payment of USD 7,000,000 and USD 2,000,000 without any approval.

    (b) The company can make payment of USD 7,000,000 without any approval and USD 2,000,000 after obtaining prior approval of the Reserve Bank of India (RBI).

    (c) The company can make payment of USD 7,000,000 and USD 2,000,000 after obtaining prior approval of RBI.

    (d) The company can make payment of USD 7,000,000 after obtaining prior approval of RBI and USD 2,000,000 without any approval.

15. Ms. Shalini Gupta had enrolled her for management course of three years with IIM, Ahmedabad. Out of three years, two years of educational course would be provided at the campus of IIM, Ahmedabad and one year of educational course would be provided at University of Auckland under student exchange program. Ms. Shalini Gupta is required to pay tuition fee of ₹10 lakh directly to IIM, Ahmedabad for two years course and USD 200,000 to University of Auckland.

Ms. Shalini had left India on 20th August 2022 to complete her degree from University of Auckland. In the last month of final year of the course, she got an offer from one of the reputed company situated in Auckland and had accepted the offer and she decided to work there. On 1st September 2023, Ms. Shalini had visited India for 30 days to meet her family and on 1st October 2023 had left India to carry on her employment.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned options correctly determined the residential status of Ms. Shalini Gupta:

(a) Ms. Shalini Gupta to be treated as resident in India for Financial Year (FY) 2023-2024 and FY 2024-2025.

(b) Ms. Shalini Gupta to be treated as resident in India for FY 2022-2023 and FY 2023-2024.

(c) Ms. Shalini Gupta to be treated as non-resident for FY 2023-2024 and FY 2024-2025 as she left India for higher studies.

(d) Ms. Shalini Gupta to be treated as resident in India for FY 2023-2024 since she stays in India for more than 182 days and non-resident for FY 2024-2025.

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) Cross Limited is a company incorporated under the erstwhile the Companies Act, 1956 while XYZ Private Limited is a company registered under the Companies Act, 2013. XYZ Private Limited has issued ₹ 1,00,000 convertible preference shares (carrying right to vote) of ₹ 100 each and 10,00,000 equity shares of ₹ 10 each fully paid. Cross Limited is holding all the preference share and 1,00,000 equity shares of XYZ Private Limited. Examine whether:

   (i) The provisions of the Companies Act, 2013 are applicable on Cross Limited?

   (ii) XYZ Private Limited is a public company as per the Companies Act, 2013? **(5 Marks)**

   (b) HelpIndia Limited was incorporated on 1st April 2022. The balances extracted from its audited financial statement are as given below:

Financial Year (FY)	**Net Profit before tax**	**Net Profit after tax** (Ignore Income Tax computation)
2022-23	₹ 11.00 crore	₹ 4 crore
2023-24	₹ 10.00 crore	₹ 5 crore

HelpIndia Limited is considering allocating the minimum required amount for Corporate Social Responsibility (CSR) activities to be undertaken during the financial year 2024-25, provided it is mandatory to do so. They seek advice on this matter.

Furthermore, HelpIndia Limited requests assistance in calculating the minimum amount to be allocated, if necessary, considering the relevant provisions outlined in the Companies Act, 2013. **(5 Marks)**

(c) Mr. Rohan Sharma, an international cricket player has started its cricket academy, namely, Rohan Sharma Cricket Academy, a private coaching club, which provides coaching for cricket. The Academy has a cricket team which participates in cricket matches all over India as well as outside India.

Rohan Sharma Cricket Academy in a collaboration with Melbourne Cricket Academy is organizing a cricket event in Melbourne, Australia in the month of May 2024 and June 2024. Rohan Sharma Academy is required to remit USD 200,000 to Melbourne Cricket academy as a part of its share for organizing the cricket event in Melbourne. Advise whether it can get Foreign Exchange and if so, under what conditions?

(4 Marks)

2. (a) Explain the following as per the provisions of the Companies Act, 2013:

(i) Abridged Form of Annual Return

(ii) Signing of Annual Return **(5 Marks)**

(b) APR Limited, a company renowned for manufacturing various types of mats, has established a strong brand presence and garnered a commendable reputation over the years. As of March 31, 2023, its Balance Sheet reflects the following financial position:

1. Authorized Share Capital (25,00,000 equity shares of ₹ 10/- each) ₹ 2,50,00,000
2. Issued, subscribed and paid-up Share Capital (10,00,000 equity shares of ₹ 10/- each, fully paid-up) ₹ 1,00,00,000
3. Free Reserves ₹ 3,00,00,000

The Board of Directors intends to propose a bonus issue wherein existing shareholders would receive 1 additional share for every 2 shares held. The Board wants to know the conditions and the manner of issuing bonus shares under the provisions of the Companies Act, 2013.

(5 Marks)

(c) Explain the following with reference to the provisions of the General Clauses Act, 1897:

(i) Movable Property

(ii) Oath **(4 Marks)**

3. (a) Explain the provisions of the Companies Act, 2013- who can get a licence to operate as a section 8 company (non profit organization)? **(5 Marks)**

(b) Wood Limited has received ₹ 4,00,000 as a non-interest bearing security deposit under a contract of employment, from its employee Mr. Cotton. Mr. Cotton draws an annual salary of ₹ 3,85,000.

Analyse under the provisions of the Companies Act, 2013, whether the said amount received by Wood Limited will be considered as deposits or not. **(5 Marks)**

(c) Explain interpretation of statute aid- 'Read the Statute as a Whole'.

(4 Marks)

4. (a) Crystal Limited recently received a communication from the Central Government requesting the preparation of periodical financial results along with the completion of either a full audit or a limited review of these financial results. The Board of Directors, however, has raised an objection, arguing that Crystal Limited, being an unlisted company, are not obligated to prepare periodical financial results.

Analyze the situation, citing relevant provisions of the Companies Act, 2013, with respect to the company's obligation regarding the preparation of periodical financial results. **(5 Marks)**

(b) Mr. Prateek (an individual) has started a Limited Liability Partnership firm along with Brown Limited and Picture Limited. As per the provisions of the Limited Liability Partnership Act, 2008, advise Limited Liability Partnership firm, about who can be the designated partners of the firm.

(5 Marks)

(c) In what way is 'Heading and Title of a Chapter' considered as internal aid in the interpretation of statutes. **(4 Marks)**

5. (a) Enumerate the circumstances in which a Limited Liability Partnership may be wound up by the Tribunal. Give your answer in respect of the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(b) Kesar Limited, an unlisted company furnishes the following data:

(a) Paid-up share capital as on 31st March 2024 ₹ 49 Crore.

(b) Turnover for the year ended 31st March 2024 ₹ 100 Crore

(c) Outstanding loan from bank as on 3rd March 2024 is ₹ 102 crore (₹ 105 Crore loan obtained from bank) and the outstanding balance as on 31st March 2024 ₹ 95 crore after repayment.

Considering the above scenario and in accordance with the provisions outlined in the Companies Act, 2013, determine whether Kesar Limited is required to appoint an Internal Auditor during the financial year 2024-2025. **(5 Marks)**

(c) Sheesham Limited is a company engaged in the business of manufacturing premium quality furniture in the state of Tamil Nadu. In light of the provisions outlined in the General Clauses Act, 1897, and the Companies Act, 2013, please advise on the specific timelines regarding the payment of dividends subsequent to its declaration at the Annual General Meeting (AGM) held on 8th August 2023. **(4 Marks)**

6. (a) Explain the provisions of the Companies Act, 2013, in respect of 'Inspection of Register of Charges and Instrument of Charges'.

(5 Marks)

OR

(a) Enumerate the provisions of the Companies Act, 2013 in respect to the following:

(i) Matters not to be included in the minute, as per the opinion of the Chairman.

(ii) Maximum time allowed for entering minutes of proceedings.

(5 Marks)

(b) What are the documents that must be annexed to a prospectus offering for subscription in securities of a company incorporated or to be incorporated outside India, as per the Companies (Registration of Foreign Companies) Rules, 2014? **(5 Marks)**

(c) University of Oxford is one of the leading institutes of UK. In the month of May 2024, they are planning a cultural event in UK. The University has invited Ms. Kanika Tripathi and her group, an Indian artist to perform in the event.

Ms. Kanika Tripathi needs to withdrawal foreign exchange of USD 75,000 for the purpose of visit to UK for performing at cultural event of University of Oxford in UK. Advise whether she can withdraw Foreign Exchange and if so, under what conditions? **(4 Marks)**

MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

In the busy city of Nagpur, there is a company "Transfiguration Industries Limited". As the Annual General Meeting (AGM) of the company approached, the Board of Directors of Transfiguration Industries Limited gathered to discuss the appointment and removal of auditors in accordance with the Companies Act, 2013.

Mr. Jack, the Chairman of the board, opened the meeting by addressing the importance of adhering to the provisions outlined in Sections 139, 140, and 141 of the Companies Act, 2013. He emphasized the significance of appointing auditors who would uphold integrity and transparency in the company's financial reporting.

As the discussion ensued, Ms. Sara, a diligent board member, raised a question regarding the tenure of auditors. She asked whether there were any restrictions on the duration for which an auditor could be appointed. The board referred to Section 139(2) of the Companies Act, 2013, and informed about maximum period for which auditors can be appointed.

Dr. Patel, a seasoned member of the board, then inquired about the procedure for appointing the first auditor of the company. Mr. Jack explained that according to Section 139(1) and (6) of the Companies Act, 2013, the first auditor would be appointed by the Board of Directors within thirty days from the date of registration of the company.

Amidst the discussion, Mr. CS, the Company Secretary, emphasized the importance of obtaining the auditor's written consent and certificate before their appointment.

Finally, Mr. Jack concluded the meeting by reiterating the company's commitment to corporate governance and regulatory compliance. He emphasized the role of the Audit Committee as outlined in the Companies Act, 2013.

Answer the following questions in the light of the given facts and the relevant legal provisions as per the Companies act, 2013:

1. State which is the correct statement as regards the maximum tenure for which an individual auditor and an auditor firm can be appointed under the Companies Act, 2013?

    (a) Both for five years

(b) Individual auditor for more than one term and an auditor firm for two terms

(c) Individual auditor for one term of five consecutive years and an auditor firm for two term of five consecutive years

(d) Individual auditor for more than two terms and an auditor firm for more two terms of five consecutive years

2. State on the correctness of the procedure explained for an appointment of the first auditor of a company by Mr. Jack?

(a) Incorrect. Requirement of Act specifies appointment of first auditor is to be made by the shareholders in an EGM within ninety days

(b) Correct. Requirement of Act specifies appointment of first auditor by the Board of Directors within 30 days from the date of registration of the company

(c) Incorrect. Requirement of Act specifies appointment of first auditor by the Board of Directors within 30 days on the advise of Company Secretary

(d) Incorrect. Requirement of Act specifies appointment of first auditor by the Registrar of Companies (ROC) within 15 days

3. What is the requirement before appointing an auditor as per Section 139(1) of the Companies Act, 2013?

(a) Auditor's written consent and certificate

(b) Approval from the Ministry of Corporate Affairs

(c) Appointment by the Registrar of Companies (ROC)

(d) Recommendation from the Audit Committee

4. During the meeting, Ms. Sara asks whether a relative of a director can be appointed as the company’s auditor. What does the Companies Act, 2013, state with regard to disqualification of auditors in this case?

(a) Relatives of directors can be appointed as auditors, without any restrictions if they are qualified Chartered Accountants.

(b) Relatives of directors cannot be appointed as auditors under any circumstances

(c) Relatives of directors can be appointed as auditors if their pecuniary relationship with the company is below the prescribed threshold

(d) Relatives of directors can only be appointed with Registrar of Companies approval.

5. If the Board of Directors of Transfiguration Industries Limited seeks to remove an auditor before the expiry of their term, what procedure must be followed as per the provisions of the Companies Act, 2013?

(a) The Board can remove the auditor by passing a resolution in a board meeting.

(b) The Board must obtain prior approval from the Audit Committee and inform the Registrar.

(c) The company must obtain prior approval from the Central Government and pass a special resolution in a general meeting.

(d) The Board must notify the Comptroller and Auditor General of India, even if Transfiguration Industries Limited is not a Government company.

Case Scenario 2

In the heart of Mumbai, two ambitious entrepreneurs, Ram and Preet, decided to establish a limited liability partnership (LLP) named "TechGenius LLP" to revolutionize the IT industry. As they delved into the legal requirements of forming an LLP, they stumbled upon the crucial provision of having designated partners.

Ram, a tech-savvy enthusiast, and Preet, a seasoned business strategist, understood the significance of complying with the regulations to ensure smooth operations of their venture. They gathered their legal team to discuss the implications of the designated partner requirement under the LLP Act.

With the assistance of their legal advisor, Ms. Alia, they navigated through the provisions of the LLP Act, particularly focusing on Sections 7 and 9, which outlined the obligations and penalties related to designated partners.

As they embarked on their journey to establish TechGenius LLP, they encountered various challenges and decisions regarding the appointment and responsibilities of designated partners.

Answer the following MCQs (6-8) in the light of the Limited Liability Partnership Act, 2008

6. Ram and Preet want to ensure compliance with the LLP Act regarding the number of designated partners. As per the Act what is the minimum requirement for designated partners that an LLP must have?

   (a) Maximum One

   (b) At least Two

   (c) At least Five

   (d) No mandatory requirement

7. What is the meaning of "resident in India" as per the LLP Act?

   (a) A person owning property in India

   (b) A person holding citizenship of India

   (c) A person who has stayed in India for a minimum of one hundred twenty days during the financial year

   (d) A person who has permanent residence in India

8. Suppose if Ram is declared insolvent during his tenure as a designated partner, what will happen under the LLP Act?

   (a) Ram can continue as a designated partner until the LLP appoints a replacement.

(b) Ram is immediately disqualified from being a designated partner.

(c) Ram's status as a designated partner must be reviewed by the LLP and till then he can continue as a partner in the LLP.

(d) The LLP must notify the Registrar, but Ram can continue in his role.

Case Scenario 3

XYZ Limited was required to file an appeal with the National Company Law Tribunal (NCLT) under a statutory regulation that prescribed a filing deadline of October 2, 2025. However, as October 2 was a public holiday, the company's legal counsel did not file the appeal on that day, unaware of the legal provisions concerning deadlines falling on holidays. The office reopened on October 3, 2025, and the legal counsel filed the appeal on the same day.

In a separate matter, XYZ Limited was involved in a property dispute where it needed to measure the distance between two boundary points for evidence submission. The applicable Regulation, governed by a Central Act enacted after 1950, required distances to be measured on a straight line along a horizontal plane unless otherwise specified. However, the company measured the distance by tracing the natural curvature of the land instead of adhering to the prescribed method.

Answer the following MCQs (9-11) in the light of the General Clauses Act, 1897.

9. According to the provisions of the General Clauses Act, 1897, was the filing of XYZ Limited's appeal on October 3, 2025, considered valid?

   (a) Yes, because the office was closed on October 2, 2025, and filing on the next open day is valid.

   (b) No, because the deadline was October 2, 2025, and it was not adhered to.

   (c) Yes, but only if the Tribunal provided an extension.

   (d) No, because the legal counsel failed to check whether holidays impact the deadline.

10. In the property dispute involving XYZ Limited, was the method of measuring the distance valid?

    (a) Yes, because it followed the natural curvature of the land.

    (b) No, because distances under Central Acts must be measured in a straight line on a horizontal plane unless specified otherwise.

    (c) Yes, if the parties mutually agreed to the method.

    (d) No, because measuring methods are irrelevant to the dispute.

11. If the Regulation explicitly required "measurement by natural terrain," would XYZ Private Limited's method of measuring the distance along the land's natural curvature be valid?

    (a) Yes, because the specific regulation would take precedence over the general rule.

(b) No, because Central Acts universally mandate straight-line measurement on a horizontal plane.

(c) Yes, provided the specific regulation was enacted only by a State Legislature.

(d) Yes, provided the specific regulation was approved by a Court.

12. "Associate company", in relation to another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company. Here, the words 'significant influence' means:

(a) Control of at least 10% of total voting power

(b) Control of at least 15% of total voting power

(c) Control of at least 20% of total voting power

(d) Control of at least 25% of total voting power **(2 Marks)**

13. Indus Labs Limited and Magica Biotec Limited issued preference shares with distinct dividend payment structures. Indus Pharma Labs Limited stipulates that the preferential dividend may be an amount, such as ₹ 5,00,000 in one year, payable to preference shareholders before any payments are made to ordinary shareholders. In contrast, Magica Biotec Limited specifies that the amount payable as a preferential dividend is calculated at a rate of 8 percent of the nominal value of each share.
How do Indus Labs Limited and Magica Biotec Limited differ in their payment of preferential dividends? Is it the valid mode of payment of dividend under the Companies Act, 2013.

(a) Indus Labs pays dividends at a fixed rate, while Magica Biotec pays a fixed amount. Yes, it's a valid mode of payment of dividend

(b) Indus Labs pays a fixed amount as dividends, while Magica Biotec pays dividends at a fixed rate. Yes, it's a valid mode of payment of dividend

(c) Both companies pay dividends at a fixed rate. No, it's not a valid mode of payment of dividend

(d) Both companies pay a fixed amount as dividends. Yes, it's a valid mode of payment of dividend **(2 Marks)**

14. TechWise Ltd., an Indian company, wishes to make a donation of USD 36,000 for the creation of a Chair in a reputed educational institute located abroad. The company's foreign exchange earnings during the previous three financial years amount to USD 3,500,000. What action should TechWise Ltd. take regarding this donation under the Foreign Exchange Management Act (FEMA), 1999?

(a) TechWise Ltd. can proceed with the donation without seeking prior approval.

(b) TechWise Ltd. should seek prior approval from the Reserve Bank of India before making the donation.

(c) TechWise Ltd. should limit the donation amount to USD 5,000,000 to avoid seeking prior approval.

(d) TechWise Ltd. should seek approval from the Ministry of Finance before making the donation. **(2 Marks)**

15. Mr. Ramit, an Indian resident, wants to send a gift of USD 150,000 to his friend in the USA and donate USD 90,000 to a charitable organization abroad in a financial year. He approaches his bank to remit the amount under the Liberalized Remittance Scheme (LRS).

Considering the provisions of the Foreign Exchange Management Act (FEMA), 1999, what will be the correct course of action?

(a) The bank can process both transactions since gifts and donations are permitted under LRS, and the total amount is within the USD 250,000 limit.

(b) The bank can process only one transaction since the combined amount exceeds the permissible limit under LRS.

(c) The bank cannot process the transactions as remittance for gifts and donations is not permitted under LRS.

(d) The bank must obtain prior approval from the Reserve Bank of India (RBI) before processing these remittances. **(2 Marks)**

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **four** questions out of the remaining **five** questions.*

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)**

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) 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. **(4 Marks)**

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. Mr. Mohan was counted as a single person in these 14 members present. 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)**

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

5. (a) Explain the protection available for the "whistleblowers" in the context of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(b) M/s Krishna & Associates is an audit firm having 2 partners namely Mr. Krishna and Mr. Shyam. Mr. Shyam is also a partner of another audit firm named M/s Kukreja & Associates. M/s Krishna & Associates was appointed as the auditors in the company Golden Smith Ltd. for two consecutive periods of 5 years i.e. from year 2016 to year 2026. Now, if Golden Smith Ltd. wants to appoint M/s Kukreja & Associates as its audit firm, it cannot do so because Mr. Shyam is the common partner between both the Audit firms. This prohibition is only for 5 years i.e. upto year 2031. After cooling period of 5 years, Golden Smith Ltd. may appoint M/s Kukreja & Associates or M/s. Krishna & Associates as its auditors.

Why is Golden Smith Ltd. prohibited from appointing M/s Kukreja & Associates as its audit firm, and for how long does this prohibition apply?

(5 Marks)

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

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? **(5 Marks)**

(b) ABC Corporation, a multinational conglomerate, plans to issue a prospectus in India for its upcoming public offering of securities. The prospectus includes statements made by various experts regarding the potential growth prospects and financial performance of the company.

What are the requirements under Section 388 of the Companies Act, 2013, regarding the inclusion of statements made by experts in a prospectus for securities issued by a company incorporated or to be incorporated outside India, and how do these requirements affect the validity of the prospectus? **(5 Marks)**

(c) Mr. Patel, a resident of India, wants to pay for his child's education fees in the United States. Decide whether the nature of transaction be classified as a current account transaction as per the FEMA, 1999?

(4 Marks)

MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

GlobalTech Pvt. Ltd., a technology giant with operations in software development, hardware manufacturing, and IT consulting, has recorded significant financial growth over the past few years. For the financial year 2023-2024, the company reported the following financial metrics:

- Net worth: ₹ 520 crore
- Turnover: ₹ 1,050 crore
- Net profit: ₹ 4.5 crore

In the financial year 2022-2023, GlobalTech Pvt. Ltd. had a net worth of ₹ 480 crore, a turnover of ₹ 1,020 crore, and a net profit of ₹ 4 crore. The company has a subsidiary, TechSubs Ltd., and a foreign subsidiary, GlobalTech International, which has a branch office in India.

GlobalTech Pvt. Ltd. spent ₹ 1.2 crore on various CSR activities during the financial year 2023-2024. However, ₹ 30 lakh remained unspent and was transferred to the Unspent Corporate Social Responsibility Account as per section 135(6) of the Companies Act, 2013.

The company's board comprises members from different parts of the country and they ensure that the administrative overheads do not exceed the prescribed limit of total CSR expenditure.

The company held its annual general meeting on 20th August, 2024 and filed the annual return in compliance with the provisions of the Companies Act, 2013.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5) given herein under: -

1. Based on the financial metrics of GlobalTech Pvt. Ltd., is the company required to constitute a Corporate Social Responsibility (CSR) Committee for the for the financial year 2023-2024?

   (a) Yes, because its net worth exceeds ₹ 500 crore.

   (b) No, because it has not met the required net profit criteria.

   (c) Yes, because its turnover exceeds ₹ 1,000 crore.

(d) No, because its net profit is less than ₹ 5 crore.

2. Given that GlobalTech Pvt. Ltd. has ₹ 30 lakh in its Unspent Corporate Social Responsibility Account, which of the following statements is true?

(a) The company is not required to constitute a CSR Committee if it has unspent CSR funds.

(b) The company must constitute a CSR Committee in Financial year 2024-2025, as it has balance in Unspent CSR account.

(c) The company can use the unspent funds for any other business activity.

(d) The company must transfer the unspent amount to the Prime Minister's National Relief Fund.

3. If GlobalTech Pvt. Ltd. had an average net profit of ₹ 5 crore over the past three immediately preceding financial years, what is the minimum amount it must spend on CSR activities in the financial year 2024-2025?

(a) ₹ 5 lakh

(b) ₹ 10 lakh

(c) ₹ 20 lakh

(d) ₹ 30 lakh

4. GlobalTech Pvt. Ltd. must ensure that the administrative overheads do not exceed a certain percentage of the total CSR expenditure. What is this percentage?

(a) 2%

(b) 5%

(c) 10%

(d) 15%

5. What is the latest date by which GlobalTech Pvt. Ltd. must it file its annual return with the Registrar of Companies (RoC)?

(a) 10^{th} September 2024

(b) 15^{th} September 2024

(c) 10^{th} October 2024

(d) 19^{th} October 2024

Case Scenario 2

GreenLeaf LLP is a limited liability partnership engaged in the business of eco-friendly product manufacturing. The LLP was initially established with three partners: Priya, Sameer, and EcoCorp Ltd., a corporate entity. Priya and Sameer are the designated partners, with Priya being a resident in India. EcoCorp Ltd. has appointed Anil, an individual, as its nominee to act on its behalf.

After a few years, Sameer decides to retire, leaving Priya and EcoCorp Ltd. as the remaining partners. Due to some administrative oversight, GreenLeaf LLP continues its operations without appointing a new partner. This situation persists for seven months, with Priya being aware of the reduced number of partners. During this period, GreenLeaf LLP enters into several contracts and incurs significant financial obligations.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008, and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-8) given herein under:

6. Given that Sameer retired and GreenLeaf LLP continued with only Priya and EcoCorp Ltd., what should GreenLeaf LLP have done within six months to comply with the LLP Act?

   (a) Dissolved the LLP

   (b) Continue operating with one designated partner

   (c) Appoint at least one body corporate which should be a foreign company

   (d) Appointed at least one more partner who should also be a designated partner, as every LLP should have at least two designated partners

7. According to the Limited Liability Partnership Act, 2008, choose the correct statement in relation to who must be a resident in India among the designated partners?

   (a) At least one individual designated partner shall be resident in India

   (b) All designated partners shall only be resident in India

   (c) It is mandatory for only corporate partners to be resident in India

   (d) At least four designated partners shall be resident in India

8. In the given case scenario suppose EcoCorp Ltd. also leaves the LLP and the LLP continues business for more than six months with only one partner, who is personally liable for the obligations incurred during that period?

   (a) Priya

   (b) Both Priya and EcoCorp Ltd.

   (c) EcoCorp Ltd.

   (d) Priya, Sameer and EcoCorp Ltd.

9. Lavender International Entertainment Inc., headquartered and registered in New York City and a prominent name in lifestyle audio innovations, professional audio and lighting solutions, and digital transformation, is present in more than seventy countries including India. Due to certain mis-happenings, the company was unable to file its financial statements along with necessary documents for the year 2023 with the Registrar of Companies (in India) within the stipulated time as permitted by the Companies Act, 2013. It is observed that the ROC may, for any special reason and on an application made in writing by Lavender International Entertainment, extend the ‘filing time’ maximum up to a certain period. From the following options, choose the correct one in this respect:

   (a) ‘Filing time’ in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by one month beyond the stipulated time period.

(b) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by two months beyond the stipulated time period.

(c) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by three months beyond the stipulated time period.

(d) 'Filing time' in respect of filing of financial statements along with necessary documents by Lavender International Entertainment Inc. can be extended by ROC maximum by six months beyond the stipulated time period.

10. The Board of Directors Vishvas Ltd. decide to pay 5% of the issue price of shares as underwriting commission to the underwriters. However, the Articles of Association of the company permit only 3% commission. What is the maximum amount of underwriting commission that can be paid to the underwriters.

(a) 2%

(b) 3%

(c) 5%

(d) No limit has prescribed under the Companies Act, 2013 in case underwriting commission is to be paid in case of issue of shares.

Case Scenario 3

Amit, an Indian resident during the Financial Year (FY) 2021-2022, decided to pursue higher studies in Biotechnology in Switzerland. On 15th July 2022, he left India to begin his two-year academic program. The determination of Amit's residential status under the Foreign Exchange Management Act (FEMA), 1999, for the Financial Years 2022-2023 and 2023-2024, is crucial to understand his obligations and entitlements concerning foreign exchange transactions.

In terms of financial requirements, Amit needs USD 25,000 annually to cover his tuition fees. Additionally, he requires USD 30,000 annually for incidental expenses and living costs while studying abroad. Thus, his total annual requirement amounts to USD 55,000, making it imperative to assess the provisions under the Foreign Exchange Management Act, 1999, that govern the remittance of foreign.

On the basis of above facts and by applying applicable provisions of the Foreign Exchange Management Act, 1999, therein, choose the correct answer (one out of four) of the following MCQs (11-13) given herein under:

11. What would be Amit's residential status for FY 2022-2023 under FEMA, 1999?

(a) Resident in India

(b) Non-Resident Indian (NRI)

(c) Person of Indian Origin (PIO)

(d) Overseas Citizen of India (OCI)

12. What would be Amit's residential status for FY 2023-2024 under FEMA, 1999?

    (a) Resident in India

    (b) Non-Resident Indian (NRI)

    (c) Person of Indian Origin (PIO)

    (d) Overseas Citizen of India (OCI)

13. Suppose now Amit wants more money for his living cost abroad. What is the maximum amount that can still be remitted abroad per financial year under the Liberalized Remittance Scheme (LRS)?

    (a) USD 100,000

    (b) USD 195,000

    (c) USD 200,000

    (d) USD 500,000

14. ABC Real Estate Ltd., a prominent real estate company, has recently acquired a piece of land in a suburban area. The land has a small lake that is expected to generate significant tourism revenue in the future. Additionally, the land has several old structures that are permanently fastened to the earth, such as a stone pavilion and a historical monument. ABC Real Estate Ltd. plans to develop the area by refurbishing the existing structures and enhancing the natural surroundings to attract tourists.

    Considering the above scenario, identify which of the following components are classified as "Immovable Property" under the General Clauses Act, 1897:

    (a) Only the land and the stone pavilion.

    (b) Only the land and the benefits arising from the lake.

    (c) The land, benefits arising from the lake, and the stone pavilion.

    (d) The land, the benefits arising from the lake, the stone pavilion, and the historical monument.

15. The Ministry of Transport is planning to construct a new highway that will connect City A and City B. According to the initial plan, the highway is expected to cover a distance of 150 kilometers. During the survey, the engineers measure the distance between the two cities as the crow flies, without considering the natural terrain and existing road curves. This method is in line with the provisions of the General Clauses Act, 1897 regarding the measurement of distance for the purposes of any Central Act or Regulation.

    Considering the above scenario, which statement is correct about the measurement of distance as per the General Clauses Act, 1897?

    (a) The distance should be measured along the existing roadways and curves.

(b) The distance should be measured considering the natural terrain and obstacles.

(c) The distance should be measured in a straight line on a horizontal plane unless otherwise specified.

(d) The distance should be measured as a combination of straight lines and natural curves.

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) ABC Limited is a registered public company having the following:

i	Directors and their Relatives	20
ii	Employees	15
iii	Ex-Employees (Shares were allotted during employment)	20
iv	Members holding shares jointly (10 shares x 2 joint-holders each)	20
v	Other Members	150

The Board of Directors of ABC Limited proposes to convert the company into a private limited company. Referring the provisions of the Companies Act, 2013, advise:

i. Whether the company can be converted into a private company?

ii. Whether existing number of members need to be reduced for the proposed conversion into a private company? **(5 Marks)**

(b) Sunday Ltd. is a listed entity engaged in the business of providing engineering solutions to clients across the country. The company followed consistent growth over the years. Rate of Declaration of dividend in immediately preceding three financial years were 15%, 20%, and 25%.

Unfortunately, due to obsolescence of a special part of machinery, company incurred losses in current financial year.

Even though, during the financial year 2023-24, the company declared interim dividend of 10% on the equity shares.

The Board of Directors of the company approved the financial result for the financial year 2023-24 in its meeting held on 5th August, 2024, and recommended a final dividend of @15% in this board meeting.

The general meeting of the shareholders was convened on 31st August, 2024. The shareholders of the company demanded that since interim dividend @10% was declared by the company, so the final dividend should not be less than 20%. It was also submitted that rate of declaration of dividend in immediately preceding three years were 15%, 20% and 25%, but the Company Secretary emphasised that final dividend cannot be increased.

Advise whether the decision of Company Secretary is correct? What should be correct rate of final dividend?

Justify your answer with reference to provisions of the Companies Act, 2013. **(5 Marks)**

(c) Analyse the below mentioned situation in the light of the provisions of the Foreign Exchange Management Act, 1999.

(i) Mr. Vinod has won a big lottery and wants to remit US Dollar 20,000 out of his winnings to his son who is in Singapore.

(ii) Mr. Shyam requires US Dollar 5,000 for remittance towards hiring charges of transponders. **(4 Marks)**

2. (a) Explain the meaning of Crystallization of a Floating Charge. **(5 Marks)**

(b) Define the term 'Book of account' as per the Companies Act, 2013.

(5 Marks)

(c) Define the following with reference to the provisions of the General Clauses Act, 1897:

(i) Measurement of Distances

(ii) Duty to be taken pro rata in enactments **(4 Marks)**

3. (a) Explain the exceptions to the Doctrine of Indoor Management.

(5 Marks)

(b) Prateek Limited, an unlisted company, registered in the State of Arunachal Pradesh with 42 shareholders, wants to organize the Annual General Meeting of the company on 13th August 2024 which happens to be Raksha Bandhan, a day declared as a holiday by the Government of Arunachal Pradesh.

Advise the company on the feasibility of the above with reference to the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Explain the Doctrine of *Contemporanea Expositio*. **(4 Marks)**

4. (a) Assess the eligibility of the following individuals for appointment as Auditors in accordance with the regulations outlined in the Companies Act, 2013:

(i) Chintamani is a practicing Chartered Accountant, and his spouse, Chitralekha, holds securities of Nagmani Ltd. valued at a face value amount of ₹ 80,000 (with a market value of ₹ 50,000). The directors of Nagmani Ltd. are considering the appointment of Chintamani as an auditor for the company.

(ii) Mani, the real sister of Mr. Priyanshu, a Chartered Accountant, holds the position of CFO at Parivar Ltd. The directors of Parivar

Ltd. are considering the appointment of Mr. Priyanshu as an auditor for the company. **(5 Marks)**

(b) Define the term 'Small limited liability partnership' as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(c) When can the Preamble be used as an aid to interpretation of a statute? **(4 Marks)**

5. (a) Priya, Smita, Shilpa, and Shefali were partners in Sharma & Associates LLP. Shilpa resigned from the firm effective 7th May 2024. However, neither Sharma & Associates LLP nor Shilpa informed the Registrar of Companies about her resignation. Is Shilpa still liable for any losses incurred by the firm from transactions entered into after 7th May 2024? Analyze this situation with reference to the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(b) Vishal Ltd., an unlisted company, has been directed by the Central Government to prepare periodical financial results and undergo a limited review of these results. The Board of Directors is objecting, arguing that, as an unlisted entity, they are not required to prepare periodical financial results. Analyze this situation with reference to the relevant provisions of the Companies Act, 2013. **(5 Marks)**

(c) In 2022, the Central Government enacted the "Digital Communications Act" to regulate and manage digital communications across the country. The Act provides specific duties and responsibilities for the Director of Digital Communications, including the oversight of digital infrastructure, enforcement of regulations, and ensuring compliance with data protection standards.

In 2023, the Director of Digital Communications, Mr. Arjun Patel, was appointed to lead the implementation of this Act. However, in January 2024, Mr. Patel took a medical leave of absence for six months. During his absence, Ms. Priya Sharma, the Deputy Director of Digital Communications, was lawfully assigned to perform the duties of the Director.

While Mr. Patel was on leave, a major data breach incident occurred involving a significant violation of the Digital Communications Act. Ms. Sharma took immediate action to investigate the breach, enforce penalties, and implement new compliance measures to prevent future incidents.

The actions taken by Ms. Sharma, while performing the duties of the Director, led to a legal challenge. The opposing party argued that only the Director, as specified in the Act, had the authority to enforce such penalties and measures, and that Ms. Sharma's actions were not valid.

Analyze the validity of Ms. Priya Sharma's actions in the context of the General Clauses Act, 1897, considering the provisions related to 'Official chiefs and subordinates'. **(4 Marks)**

6. (a) Enumerate the persons who are entitled to receive the Notice of the General Meeting, as per the provisions of the Companies Act, 2013.

(5 Marks)

OR

(a) Enumerate the provisions of the Companies Act, 2013 in respect to the following:

(i) Time limit for filing of annual return when Annual General Meeting is held.

(ii) Time limit for filing of annual return when Annual General Meeting is not held. **(5 Marks)**

(b) Explain the provisions of the Companies Act, 2013 [read along with the Companies (Registration of Foreign Companies) Rules, 2014] in respect of 'Audit of accounts of foreign company'. **(5 Marks)**

(c) Explain the meaning of term 'currency' as per the provisions of the Foreign Exchange Management Act, 1999. **(2 Marks)**

(d) Define the term 'Official Gazette' as per the provisions of the General Clauses Act, 1897. **(2 Marks)**

MODEL TEST PAPER 5

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

XYZ Ltd. was incorporated on April 1, 2023. The Board of Directors, within the required timeframe, appointed Mr. A as the first auditor of the company on April 20, 2023. Mr. A was tasked with auditing the company's financial statements for the financial year 2022-23, and he held office until the conclusion of the first Annual General Meeting (AGM), which was held on September 30, 2023.

During the AGM, the shareholders decided to appoint Mr. B, a partner in the audit firm MNO LLP, as the new auditor. MNO LLP is a limited liability partnership incorporated under the LLP Act, 2008. Mr. B and his firm were appointed to hold office from the conclusion of the 1st AGM until the conclusion of the 6th AGM in 2028.

Five years later, in 2028, the company is considering whether to reappoint Mr. B and MNO LLP for another term. The shareholders are discussing the provisions of the Companies Act, 2013, and the implications of reappointing the same auditor or audit firm for multiple terms.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5, of **2 marks each**) given herein under: -

1. Who was responsible for appointing the first auditor of XYZ Ltd., and within what timeframe should the appointment have been made?

   (a) Shareholders, within 60 days of registration of company

   (b) Board of Directors, within 30 days of registration of company

   (c) Board of Directors, within 60 days of registration of company

   (d) Shareholders, within 30 days of registration of company

2. How long can MNO LLP, as an audit firm, hold office as the auditor of XYZ Ltd. according to the Companies Act, 2013?

   (a) One term of five consecutive years

(b) Two terms of five consecutive years

(c) One term of six consecutive years

(d) Three terms of five consecutive years

3. If XYZ Ltd. wants to reappoint MNO LLP for another term after 2028, what does the Companies Act, 2013, mandate?

   (a) MNO LLP can be reappointed for another term of five years.

   (b) MNO LLP cannot be reappointed, as they have already served one term.

   (c) MNO LLP cannot be reappointed, as they have already served two terms.

   (d) MNO LLP can be reappointed, but the tenure must be reduced to three years.

4. What is the maximum tenure for which Mr. A as the first auditor of XYZ Pvt. Ltd., can hold office?

   (a) From the date of appointment until the conclusion of the first AGM i.e. 30th September 2023

   (b) From the date of appointment until the conclusion of the second AGM (in 2024)

   (c) From the date of appointment until the conclusion of the third AGM (in 2025)

   (d) From the date of registration of company until the conclusion of the first AGM i.e. 30th September 2023

5. By what date the copy of the annual return is to be filed with the Registrar of companies in case of first AGM of XYZ Ltd.?

   (a) 29th November 2023

   (b) 30th December 2023

   (c) 31st January 2024

   (d) 29th February 2024

Case Scenario 2

In 2023, Tech Innovations LLP was established as a Limited Liability Partnership under the Limited Liability Partnership Act, 2008. The LLP was formed with two partners: Alex and Jordan, who contributed equally to the capital. Alex contributed 5,00,000, while Jordan also contributed 5,00,000. The firm was registered with the Registrar of Companies on April 1, 2023.

Tech Innovations LLP's operations focused on software development and technology consulting. As per the LLP agreement, both partners shared profits and losses equally. The LLP agreement also stipulated that any changes in the partnership, such as the addition of a new partner or transfer of interest, required the consent of both existing partners.

In June 2024, Tech Innovations LLP decided to admit a new partner, Priya, who brought in ₹ 2,00,000 as her capital contribution. This change was duly recorded and filed with the Registrar of Companies. Furthermore, the LLP decided to hold an annual general meeting within six months from the end of the financial year to approve financial statements and discuss business matters.

On the basis of above facts and by applying applicable provisions of the Limited liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-7 of **2 marks each**) given herein under:

6. As per the LLP Act, 2008, what is required for admitting a new partner into the LLP?

   (a) The consent of one existing partner- Only Alex

   (b) A majority vote of existing partners- Either Alex or Jordan

   (c) The consent of all existing partners- Both Alex and Jordan

   (d) Approval from the Registrar of Companies

7. When is Tech Innovations LLP required to hold its annual general meeting?

   (a) By 30th April, 2024

   (b) By 30th June, 2024

   (c) By 31st July, 2024

   (d) By 30th September, 2024

Case Scenario 3

In 2024, Global Enterprises Ltd., a company specializing in international trade, needed to send an important notice to one of its clients, Mr. Rajiv Patel, regarding a contractual amendment. According to the company's internal regulations and the contract terms, the notice had to be served by post.

On April 15, 2024, the company's legal department prepared the notice and addressed it to Mr. Patel at his registered address. The notice was properly addressed, prepaid, and sent via registered post with acknowledgment due to ensure the highest level of confirmation for delivery.

A few days later, on April 20, 2024, the notice was returned with a stamp indicating that it was "not claimed" by Mr. Patel. The legal department recorded the return of the notice and noted the endorsement.

The company's legal advisor referred to past case laws for similar scenarios to ensure that the notice was considered legally served under Section 27 of the General Clauses Act, 1897. They reviewed the following precedents:

United Commercial Bank v. Bhim Sain Makhija: It was noted that merely sending a notice by registered post without the acknowledgment due did not provide sufficient legal protection for proving service.

Jagdish Singh v. Natthu Singh: This case demonstrated that if a notice sent by registered post was returned with a refusal endorsement, it was considered served.

Smt. Vandana Gulati v. Gurmeet Singh alias Mangal Singh: It was established that if a notice sent by registered post to a proper address was returned with an endorsement like "not claimed", it was deemed served unless proven otherwise.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 8-10 of **2 marks each**) given herein under:

8. According to Section 27 of the General Clauses Act, 1897, what three conditions must be fulfilled for a service by post to be deemed effective?

   (a) Properly addressed, Pre-paid, and Posting by ordinary post

   (b) Properly addressed, Pre-paid, and Posting by registered post

   (c) Properly addressed, Pre-paid, and Sending by courier

   (d) Properly addressed, Pre-paid, and Hand delivery

9. In the case of United Commercial Bank v. Bhim Sain Makhija, why was the presumption of service under registered post found to be insufficient?

   (a) Because the notice was sent by ordinary post

   (b) Because the notice was sent by registered post but not with acknowledgment due

   (c) Because the address was incorrect

   (d) Because the recipient did not respond

10. What does the case of Jagdish Singh v. Natthu Singh demonstrate about the service of notice?

   (a) Notice sent by registered post without return endorsement is invalid

   (b) Notice sent by registered post and returned with refusal endorsement is deemed served

   (c) Notice sent by ordinary post is deemed served if not returned

   (d) Notice served by hand delivery is always valid

Independent case scenarios

11. XYZ Ltd., a manufacturing company, had taken a loan from ABC Bank and registered a charge on its assets on January 1, 2022. On April 1, 2024, XYZ Ltd. paid off the entire loan to ABC Bank. According to Section 82 of the Companies Act, 2013, XYZ Ltd. was required to file an intimation with the Registrar of Companies (ROC) regarding the satisfaction of the charge within 30 days from the date of the payment.

    However, due to an oversight, the company did not submit the intimation until July 15, 2024. To rectify this, the company decided to take advantage of the extended period for intimation provided under the proviso to Section 82 (1), which allows for an extension up to 300 days with the payment of additional fees.

The additional fee for late intimation was `5,000, and the company's compliance officer needed to calculate the total fee to be paid for the delayed filing.

As per the given facts, examine by how many days XYZ Ltd. was late in submitting the intimation of satisfaction of charge? What additional fee should the company pay for this delay?

(a) 90 days , Fee = 1,000

(b) 76 days , Fee = 5,000

(c) 90 days , Fee = 5,000

(d) 300 days , Fee = 10,000 **(2 Marks)**

12. Athlete Rajiv Sharma, a professional tennis player from India, achieved remarkable success by winning a prestigious international tennis tournament held in Paris, France. As a result of his victory, he received a prize money of $150,000 from the event organizers. Rajiv was excited about his winnings and planned to use a portion of the prize money to fund his training and future tournaments abroad.

    Rajiv decided to remit $150,000 to his personal account in France to manage his finances and cover his training expenses. However, before proceeding, he needed to ensure that the remittance complied with the Foreign Exchange Management Act (FEMA), 1999, specifically concerning the remittance of prize money or sponsorship of sports activities abroad.

    Under FEMA regulations, individuals other than international, national, or state-level sports bodies are subject to specific guidelines when remitting amounts exceeding $100,000. Rajiv was aware that the amount involved in his case exceeded this threshold and sought advice on the necessary steps and compliance.

    Enumerate in the given instance, according to FEMA regulations, what must Rajiv Sharma do if he wishes to remit prize money exceeding US $100,000 abroad?

    (a) Remit the amount directly without any additional requirements.

    (b) Obtain approval from Paris Government before remitting the amount

    (c) Only provide proof of winning the prize

    (d) Require prior approval of Ministry of Human Resource Development (Department of Youth Affairs and Sports) **(2 Marks)**

13. Kite Sports Academy, a private coaching club, provides coaching for cricket, football and other similar sports. It coaches sports aspirants pan India. It also conducts various sports events and campaigns, across the country. In 2022, to mark the 25th year of its operation, a cricket tournament (akin to the format of T-20) is being organized by Kite Sports Academy in Lancashire, England, in the first half of April. The prize money for the 'winning team' is fixed at USD

40,000 whereas in case of 'runner-up', it is pegged at USD 11,000. You are required to choose the correct option from the four given below which signifies the steps to be taken by Kite Sports Academy for remittance of the prize money of USD 51,000 (i.e. USD 40,000+USD 11,000) to England keeping in view the relevant provisions of Foreign Exchange Management Act, 1999:

(a) For remittance of the prize money of USD 51,000, Kite Sports Academy is required to obtain prior permission from the Ministry of Human Resource Development (Department of Youth Affairs and Sports).

(b) For remittance of the prize money of USD 51,000, Kite Sports Academy is required to obtain prior permission from the Reserve Bank of India.

(c) For remittance of the prize money of USD 51,000, Kite Sports Academy is not required to obtain any prior permission from any authority, whatsoever, and it can proceed to make the remittance.

(d) For remittance of the prize money of USD 51,000, Kite Sports Academy is required to obtain prior permission from the Ministry of Finance (Department of Economic Affairs). **(2 Marks)**

14. A Ltd. is incorporated on 3rd January, 2023. As per the Companies Act, 2013, what will be the financial year for the company:

(a) 31st March, 2023

(b) 31st December, 2023

(c) 31st March, 2024

(d) 30th September, 2024 **(2 Marks)**

15. A charge was created by Cyprus Limited on its office premises to secure a term loan of ` 1 crore availed from ABM Bank Limited through an instrument of charge executed by both the parties on 16th February, 2023. Inadvertently, the company could not get the charge registered with the concerned Registrar of Companies (ROC) within the first statutory period permitted by law and the default was made known to it by the lending banker with a stern warning to take immediate steps for rectification. The latest date within which the company must register the charge with the ROC so as to avoid paying ad valorem fees for registration of the charge is:

(a) 27th April, 2023

(b) 17th April, 2023

(c) 2nd May, 2023

(d) 16th June 2023 **(2 Marks)**

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) New Ltd. is a company in which Old Ltd. is holding 65% of its paid up share capital. One of the shareholder of Old Ltd. made a charitable trust and donated his 10% shares in Old Ltd. and `50 crore to the trust. He appoints New Ltd. as the trustee. All the assets of the trust are held in the name of New Ltd. Can a subsidiary hold shares in its holding company in this way? **(5 Marks)**

(b) The Government of India is holding 51% of the paid-up equity share capital of Surya Ltd. The Audited financial statements of Surya Ltd. for the financial year 2023-24 were placed at its annual general meeting held on 1st August, 2024. However, pending the comments of the Comptroller and Auditor General of India (CAG) on the said accounts the meeting was adjourned without adoption of the accounts. On receipt of CAG comments on the accounts, the adjourned annual general meeting was held on 29th September, 2024 whereat the accounts were adopted. Thereafter, Surya Ltd. filed its financial statements relevant to the financial year 2023-24 with the Registrar of Companies on 20th October, 2024. Examine, with reference to the applicable provisions of the Companies Act, 2013, whether Surya Ltd. has complied with the statutory requirement regarding filing of accounts (unadopted and adopted) with the Registrar? **(5 Marks)**

(c) Mr. A, an Indian National desires to obtain Foreign Exchange for the following purposes:

(i) Remittance of US Dollar 50,000 out of winnings on a lottery ticket.

(ii) US Dollar 100,000 for sending a cultural troupe on a tour of U.S.A.

Advise him whether he can get Foreign Exchange and if so, under what conditions? **(4 Marks)**

2. (a) What are the powers of Registrar to make entries of satisfaction and release of charges in the absence of any intimation from the company. Discuss this matter in the light of provisions of the Companies Act, 2013.

(5 Marks)

(b) What is the mode of service of documents to Registrar or members, as per the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Explain various provisions applicable to rules or bye-laws being made after previous publications as enumerated in Section-23 of the General Clauses Act, 1897. **(4 Marks)**

3. (a) Navni Ltd. has accumulated a significant amount in its securities premium account. The company is considering different ways to utilize these funds. Advise the directors of the company on the application of the securities premium account as per the provisions of the Companies Act, 2013. **(5 Marks)**

(b) KMN Ltd. scheduled its annual general meeting to be held on 11th March, 2024 at 11:00 A.M. The company has 900 members. On 11th March, 2024 following persons were present by 11:30 A.M.

(1) P1, P2 & P3 shareholders

(2) P4 representing ABC Ltd.

(3) P5 representing DEF Ltd.

(4) P6 & P7 as proxies of the shareholders

(i) Examine with reference to relevant provisions of the Companies Act, 2013, whether quorum was present in the meeting.

(ii) What will be your answer if P4 representing ABC Ltd., reached in the meeting after 11:30 A.M.?

(iii) In case lack of Quorum, discuss the provisions as applicable for an adjourned meeting in terms of date, time & place.

(iv) What happens if there is no Quorum in the Adjourned meeting?

(5 Marks)

(c) Write short note on:

(i) Provisio

(ii) Explanation,

with reference to interpretation of Statutes, Deeds and Documents.

(4 Marks)

4. (a) The Board of Directors of Avni Ltd. requested its Statutory Auditor to accept the assignment of designing and implementation of suitable financial information system to strengthen the internal control mechanism of the Company. How will you approach to this proposal, as a Statutory Auditor of Avni Ltd., taking into account the consequences, if any, of accepting this proposal? **(5 Marks)**

(b) Define the term 'Body Corporate' as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(c) Differentiate Mandatory Provision from a Directory Provision. What factors decide whether a provision is directory or mandatory? **(4 Marks)**

5. (a) M/s Sulbha LLP was incorporated on 01.09.2022. On 01.01.2023, one partner of a partnership firm named M/s Sulbha which is registered with Indian Partnership Act, 1932 since 01.01.2000 requested ROC that as the name of LLP nearly resembles with the name of already registered partnership firm, the name of LLP should be changed. Explain whether M/s Sulbha LLP is liable to change its name under the provisions of Limited Liability Act, 2008? **(5 Marks)**

(b) CA. Mudit is a partner in SM & Company (Chartered Accountants) and ML & Company (Chartered Accountants). SM & Company are statutory auditors of Liberal Ltd. (a listed company) for past ten years as on 31st March, 2027. Advice under relevant provisions of the Companies Act, 2013, whether ML & Company be appointed as statutory auditor of Liberal Ltd. during cooling off period (after 31st March, 2027) for SM & Company? **(5 Marks)**

(c) A Ltd. declares a dividend for its shareholders in its AGM held on 27th September, 2024. Referring to provisions of the General Clauses Act, 1897 and Companies Act, 2013, advice, the dates during which A Ltd. is required to pay the dividend? **(4 Marks)**

6. (a) The Board of Directors of ABC Ltd. called an extra-ordinary general meeting upon the requisition of members. However, the meeting was adjourned on the ground that the quorum was not present at the meeting. In the light of the provisions of the Companies Act, 2013, the Board of directors on the decision to adjournment of the meeting. **(5 Marks)**

OR

(a) Zorab Garments Limited served a notice of General Meeting upon its members. The notice stated that a resolution to increase the share capital of the company would be considered at such meeting. Roshni, a shareholder of the company complained that the amount of the proposed increase was not specified in the notice. Is the notice valid? **(5 Marks)**

(b) Shaltom Ltd., an international corporation headquartered outside Japan, is interested in expanding its investor base and thus is planning to issue a prospectus for the subscription of its securities to potential investors in India. However, the company has not yet established a physical place of business within India.

As a consultant for Shaltom Ltd., you have been asked to provide guidance on the legal procedures and compliance requirements that the company must follow to issue this prospectus in India. **(5 Marks)**

(c) Explain the meaning of term 'Foreign Exchange' as per the provisions of the Foreign Exchange Management Act, 1999. **(4 Marks)**

MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

Prakash Limited and Vasudha Private Limited (VPL) were incorporated in January 1999 by Mr. Vicky Tripathi and his family members. Both the companies are engaged in the business of manufacturing machineries used in agricultural sector. Mr. Vicky Tripathi and his younger brother Vinay Tripathi actively participate in the daily operations of both the companies. Vasudha Private Limited is wholly owned by Tripathi family, while Tripathi family has a majority stake of 51% in Prakash Limited.

Due to the poor economic conditions in the agriculture sector and shifting of the farmers' focus to more advanced farming techniques, the sales of Prakash Limited is dipping and its bottom line has been in the red for the last couple of years. The unabsorbed loss of Prakash Limited for the current financial year is ₹ 9.8 crore. Prakash Limited didn't pay any dividends during the last four years. Prakash Limited has accumulated profit in the form of free reserves of ₹ 180 crore whereas paid-up share capital is ₹ 918 crore as per its latest audited financial statement and loss of ₹ 9.8 crore has not been deducted from such amount of free reserves. Since pressure from shareholders of the free float is mounting, management at Prakash Limited decided to pay dividend this year out of accumulated profit. Finally, the dividend was declared on 31st August 2024. Some of the dividend remained unpaid as on 30th September 2024, on account of operation of law; this was transferred to unpaid Dividend Account and a statement containing only the names of such beneficiaries was hosted on the website of the company on 9th November 2024.

Vasudha Private Limited is a mid-sized unlisted entity, with few branches abroad and is not required to appoint an independent director under section 149(4). During the immediately preceding F.Y., its net worth was ₹ 280 crore, turnover was ₹ 590 crore and net profit was ₹ 45.8 crore. The profits and other information for the immediately preceding three years are given below:

Particulars	**Year ended 31.3.2024 (₹ in crore)**	**Year ended 31.3.2023 (₹ in crore)**	**Year ended 31.3.2022 (₹ in crore)**
Net Profit for the year as per section 198 (in accordance with applicable provisions)	41.6	42.9	28

The Board of Directors of Vasudha Private Limited is not clear whether they have to compulsorily form a CSR committee. In order to avoid adverse legal consequences, Vasudha Private Limited constituted a CSR committee comprising of two (2) non-executive directors and one (1) executive director who was appointed as chairperson of the committee.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5, of **2 marks each**) given herein under:

1. In case of Prakash Limited, regarding the unpaid dividend, which of the following statements is correct?
   - (a) Prakash Limited is guilty, of non-payment of dividend, because some of the dividends remain unpaid even after 30 days of declaration.
   - (b) Prakash Limited is guilty, because the list of beneficiaries of unpaid dividend is hosted on the website after 30 days from the date it falls in the category of unpaid dividend.
   - (c) Prakash Limited is guilty, because the list of beneficiaries does not contain the latest known address of beneficiaries and the amount unpaid.
   - (d) Prakash Limited is not guilty, because it has full-filled all the provisions of law pertaining to unpaid dividend.
2. During the current year, is Vasudha Private Limited required to constitute CSR committee under the provisions of the Companies Act, 2013?
   - (a) No, because it is a private company
   - (b) No, because it is an unlisted company and it has net-worth less than ₹ 500 crore
   - (c) Yes, because despite being unlisted company its turnover is above ₹ 500 crore
   - (d) Yes, because the company meets the threshold criteria having net profits exceeding ₹5 crore in the immediately preceding financial year

3. What is the implication of the fact that Prakash Limited has not paid dividends for the last four years while having free reserves?

   (a) The company is in violation of the Companies Act, 2013, for not declaring dividends.

   (b) The shareholders can legally challenge the management for not utilizing free reserves for dividends.

   (c) There is no legal obligation to declare dividends even if the company has free reserves.

   (d) The company must now use all of its free reserves to pay dividends to satisfy shareholder demands.

4. Considering the legal provisions regarding the constitution of CSR committee and the one constituted by Vasudha Private Limited, state which of following the statements hold truth?

   (a) Constitution of the committee is invalid because it doesn't consist of an independent director.

   (b) Constitution of the committee is invalid because its chairperson is an executive director.

   (c) Constitution of the committee is valid because it depends purely upon the discretion of management.

   (d) Constitution of the committee is valid because company is not required to appoint an independent director.

5. What is the minimum amount to be spent by Vasudha Private Limited on CSR activities for F.Y. 2024-25?

   (a) ₹ 89.06 Lakh

   (b) ₹ 78.20 Lakh

   (c) ₹ 75.00 Lakh

   (d) ₹ 73.80 Lakh

Case Scenario 2

Rahul and Meenakshi, two young entrepreneurs, founded "Educom Innovators LLP" under the Limited Liability Partnership Act, 2008, with a focus on providing digital education solutions. Rahul brought technical expertise, while Meenakshi managed the business operations. According to the LLP Agreement, both contributed equally and shared profits equally. After two years of growth, they decided to admit Anshul, an industry expert, as a partner to expand their reach. Anshul agreed to contribute additional capital and bring industry contacts. However, shortly after joining, Anshul discovered that certain key compliance filings, including Form 11 (Annual Return) and Form 8 (Statement of Accounts and Solvency), were pending. Concerned, Anshul wanted to understand his liability and insisted that the LLP immediately address the compliance issues. Meanwhile, Rahul proposed to amend the LLP Agreement to reflect Anshul's new profit-sharing ratio and allocate specific decision-making powers to him. As they worked through these matters, they consulted a legal advisor to understand how the Limited Liability Partnership Act, 2008, impacted their responsibilities, liabilities, and compliance obligations.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-8, of **2 marks each**) given herein under:

6. When Anshul joined Educom Innovators LLP, he discovered that key compliance filings, including the Annual Return and Statement of Accounts and Solvency, were pending. What is Anshul’s liability as a newly admitted partner concerning these past compliance lapses?

   (a) Anshul has no liability for past compliance lapses since he was not a partner when they occurred.

   (b) Anshul shares equal liability for past compliance lapses because he is now a partner in the LLP.

   (c) Anshul is only liable if the LLP Agreement specifically assigns responsibility to him for compliance.

   (d) Anshul's liability for past compliance is limited to his capital contribution in the LLP.

7. In light of Anshul’s concern about the pending compliance filings, which of the following best describes the responsibilities of the partners in Educom Innovators LLP regarding compliance with the LLP Act, 2008?

   (a) Only the designated partners are responsible for ensuring compliance with filing obligations under the LLP Act.

   (b) All partners, including new partners like Anshul, are equally responsible for compliance, regardless of the LLP Agreement.

   (c) Compliance responsibilities can only be assigned to one partner, who will bear full accountability.

   (d) The legal advisor is responsible for handling compliance, and the partners have no liability once they hire legal counsel.

8. Suppose in the given scenario, Educom Innovators LLP fails to file the Statement of Account and Solvency or Annual Return for any five consecutive financial years, which of the following could occur?

   (a) Educom Innovators LLP may be wound up the Tribunal

   (b) Takeover of Educom Innovators LLP by the persons appointed by the Registrar of Companies

   (c) Revocation of all partner rights until filings are complete

   (d) The losses for these 5 consecutive years shall be shared equally by all the partners irrespective of the profit sharing ratio as decided in the LLP agreement.

Case Scenario 3

In 2024, New Limited, a company specializing in international trade, needed to send an important notice to one of its clients, Mr. A, regarding a contractual amendment. According to the company's internal regulations and the contract terms, the notice had to be served by post.

On April 15, 2024, the company's legal department prepared the notice and addressed it to Mr. A at his registered address. The notice was properly addressed, prepaid, and sent via registered post with acknowledgment due to ensure the highest level of confirmation for delivery.

A few days later, on April 20, 2024, the notice was returned with a stamp indicating that it was "not claimed" by Mr. A. The legal department recorded the return of the notice and noted the endorsement.

The company's legal advisor referred to past case laws for similar scenarios to ensure that the notice was considered legally served under section 27 of the General Clauses Act, 1897. They reviewed the following precedents:

United Commercial Bank v. Bhim Sain Makhija: It was noted that merely sending a notice by registered post without the acknowledgment due did not provide sufficient legal protection for proving service.

Jagdish Singh v. Natthu Singh: This case demonstrated that if a notice sent by registered post was returned with a refusal endorsement, it was considered served.

Smt. Vandana Gulati v. Gurmeet Singh alias Mangal Singh: It was established that if a notice sent by registered post to a proper address was returned with an endorsement like "not claimed", it was deemed served unless proven otherwise.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 9-11 of **2 marks each**) given herein under:

9. According to section 27 of the General Clauses Act, 1897, what three conditions must be fulfilled for a service by post to be deemed effective?

   (a) Properly addressed, Pre-paid, and Posting by ordinary post

   (b) Properly addressed, Pre-paid, and Posting by registered post

   (c) Properly addressed, Pre-paid, and Sending by courier

   (d) Properly addressed, Pre-paid, and Hand delivery

10. In the case of *United Commercial Bank v. Bhim Sain Makhija*, why was the presumption of service under registered post found to be insufficient?

    (a) Because the notice was sent by ordinary post

    (b) Because the notice was sent by registered post but not with acknowledgment due

    (c) Because the address was incorrect

    (d) Because the recipient did not respond

11. What does the case of *Jagdish Singh v. Natthu Singh* demonstrate about the service of notice?

    (a) Notice sent by registered post without return endorsement is invalid

    (b) Notice sent by registered post and returned with refusal endorsement is deemed served

    (c) Notice sent by ordinary post is deemed served if not returned

    (d) Notice served by hand delivery is always valid

Independent case scenarios

12. ABC Private Limited is a project engineering, procurement and construction company. The company has bagged a contract from the Government of State of Kerala for construction of Water Dam. The company has involved a project consultancy firm situated in Australia for preparing techno-economic feasibility report to enable it to start construction work of dam. The company had paid USD 7,000,000 to vendor of Australia.

    The company also availed the services of Software Company situated in Denmark for the migration of its accounting software from SAP to Oracle for which the company had paid USD 2,000,000 to the software company.

    Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned statement is correct:

    (a) The company can make payment of USD 7,000,000 and USD 2,000,000 without any approval.

    (b) The company can make payment of USD 7,000,000 without any approval and USD 2,000,000 after obtaining prior approval of the Reserve Bank of India (RBI).

    (c) The company can make payment of USD 7,000,000 and USD 2,000,000 after obtaining prior approval of RBI.

    (d) The company can make payment of USD 7,000,000 after obtaining prior approval of RBI and USD 2,000,000 without any approval. **(2 Marks)**

13. Mr. Narain Srinivas had enrolled himself for management course of three years with IOL, Mumbai. Out of three years, two years of educational course would be provided at the campus of IOL, Mumbai and one year of educational course would be provided at University of Auckland under student exchange program. Mr. Narain Srinivas is required to pay tuition fee of ₹10 lakh directly to IOL, Mumbai for two years course and USD 200,000 to University of Auckland.

    Mr. Narain had left India on 20th August 2022 to complete his degree from University of Auckland. In the last month of final year of the course, he got an offer from one of the reputed company situated in Auckland and had accepted the offer and he decided to work there. On 1st September 2023, Mr. Narain had visited India for 30 days to meet his family and on 1st October 2023 had left India to carry on his employment.

Considering the provisions of Foreign Exchange Management Act, 1999, which of the below mentioned options correctly determined the residential status of Mr. Narain Srinivas:

(a) Mr. Narain Srinivas to be treated as resident in India for Financial Year (FY) 2023-2024 and FY 2024-2025.

(b) Mr. Narain Srinivas to be treated as resident in India for FY 2022-2023 and FY 2023-2024.

(c) Mr. Narain Srinivas to be treated as non-resident for FY 2023-2024 and FY 2024-2025 as he left India for higher studies.

(d) Mr. Narain Srinivas to be treated as resident in India for FY 2023-2024 since he stays in India for more than 182 days and non-resident for FY 2024-2025. **(2 Marks)**

14. Green Tree Limited is planning to issue debentures to the public and, as per the legal requirements, must appoint a debenture trustee before making an offer. The company is considering several individuals for this role:

1. Mr. Sharma, who owns a small number of shares in Green Tree Limited as an investor.
2. Ms. Kapoor, who previously lent ₹ 5,000 to Green Tree Limited and is currently a lender.
3. Mr. Verma, who has provided a personal guarantee to ensure the repayment of the debentures issued by Green Tree Limited.

Based on the provisions of the Companies Act, 2013 and relevant rules, who among the following is eligible to be appointed as a Debenture Trustee for Green Tree Limited?

(a) Only Mr. Sharma.

(b) Only Ms. Kapoor

(c) Only Mr. Verma

(d) None of Mr. Sharma, Ms. Kapoor or Mr. Verma are eligible to be appointed as Debenture trustee of Green Tree Limited. **(2 Marks)**

15. Best Limited initially created a charge in favor of LKJ Bank for a financial facility. This charge was duly registered. A few months later, LKJ Bank enhanced the credit facility by an additional ₹ 40 crore. However, due to an oversight, Best Limited failed to register the modification to the original charge with the Registrar of Companies. The company has now realized this error and is concerned about the potential impact on its records and compliance.

As per the provisions of the Companies Act, 2013, what steps should Best Limited take to correct the situation regarding the unregistered modification of the charge?

(a) Ignore the oversight since the original charge was registered.

(b) Re-register only the original charge with the updated facility amount.

(c) File an application with the Central Government for rectification of the Register of Charges.

(d) Contact LKJ Bank to withdraw the enhanced facility until the registration is completed. **(2 Marks)**

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) Alpha Limited (listed on Stock Exchange) was incorporated on 1st October, 2019 with a paid- up share capital of ₹ 200 crore. Within this small time of 4 months, it has earned huge profits and has topped the charts for its high employee friendly environment. The company wants to issue sweat equity to its employees. A friend of the CEO of the company has told him that they cannot issue sweat equity shares as 5 years have not elapsed since the time company has commenced its business. The CEO of the company has approached you to advise them about the essential conditions to be fulfilled before the issue of sweat equity shares especially since their company is just a few months old?

(5 Marks)

(b) Examine the following situations in the light of the Companies Act, 2013:

(i) Mr. Prem, a Chartered Accountant, has been appointed as an auditor of A Limited in the Annual General Meeting of the company held in September 2023, in which he accepted the assignment. Subsequently, in January 2024 he joined as a partner in the consultancy firm where Mr. Ajay is also a partner. Mr. Ajay is also working as a Finance Executive of A Limited.

(ii) Mr. Tom, a practicing Chartered Accountant, holds securities in B Limited with a face value of ₹ 1,00,000. Considering this, can Mr. Tom be appointed as the auditor of B Limited, or does his holding disqualify him from the role? **(5 Marks)**

(c) Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for the following transactions:

(i) A requires U.S. $ 5,000 for remittance towards hiring charges of transponders.

(ii) B requires U.S. $ 2,000 for payment related to call back services of telephones. **(4 Marks)**

2. (a) Mr. Romit is an employee of PQR Trading Private Limited. As per his contract of employment, his annual salary is ₹ 5,00,000. Mr. Romit paid to the company ₹ 5,30,000 in the nature of non-interest bearing security deposit. Referring to the provisions of the Companies Act, 2013, decide whether this amount received from Mr. Romit will be considered as deposit as per rule 2(1)(c)? **(5 Marks)**

(b) MNO Limited are finalising its financial statements and found that the value of one of its properties has increased. The company came across certain other transactions also and got confused as to what should be included as ‘free reserves’.

The company has approached you to define to them the meaning of the term "free reserves" for dividend distribution as per the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Explain the following with reference to the provisions of the General Clauses Act, 1897:

(i) Movable Property

(ii) Oath **(4 Marks)**

3. (a) Explain the provisions of the Companies Act, 2013- who can get a licence to operate as a section 8 company (non profit organization)?

(5 Marks)

(b) Verma Limited has Equity Share Capital of 20,000 shares @ ₹10 each. The Company has received a requisition from Mr. Jai and Mr. Narayan each holding 3,000 equity shares to call an Extraordinary General Meeting to remove Managing Director of the company who has been found to be involved in some malpractices. The company failed to call the said meeting. The requisitionists desires to call the meeting by themselves to pass the resolution to remove the Managing Director. Explain the validity of such resolution passed in the said meeting referring the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Does an explanation added to a section widen the ambit of a section?

(4 Marks)

4. (a) Anoj Limited declared a final dividend to its shareholders at the Annual General Meeting on 1st August, 2024. As per the decision, the dividend payment was to be made within the stipulated 30-day period. However, due to internal financial constraints, the company failed to pay the declared dividend and did not dispatch the dividend warrants to the shareholders within the required timeframe. The default continued until 15th October, 2024, leading to shareholder complaints.

In light of this scenario, what specific punishments and liabilities could the company and the directors face due to this failure to pay the declared dividend within the 30-day period? Give your answer as per the provisions of the Companies Act, 2013. **(5 Marks)**

(b) Define the term ‘Financial Year’ as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(c) What is the effect of proviso? Does it qualify the main provisions of the enactment? Explain it with reference to Interpretation of Statutes.

(4 Marks)

5. (a) Kishore, Kanshik, Yuvan and Bhora were partners in ABC & Associates LLP. Yuvan resigned from the firm effective from 11th November, 2024 but this was not informed to the Registrar of Companies by the Limited Liability Partnership or Yuvan. Whether Yuvan will still be liable for the loss of firm of the transactions entered after 11th November, 2024? Give your answer as per the provisions of the Limited Liability Partnership Act, 2008. **(5 Marks)**

(b) The auditor of ABC Limited (not a government company) has resigned on 31st December, 2023, while the Financial year of the company ends on 31st March, 2024. Explain how such an auditor shall be appointed, as per the provisions of the Companies Act, 2013. **(5 Marks)**

(c) What do you understand by the term 'Good Faith'. Explain as per the provisions of the General Clauses Act, 1897. **(4 Marks)**

6. (a) Examine the validity of the following decision of the Board of Directors with reference to the provisions of the Companies Act, 2013:

In an Annual General Meeting of a company having share capital, 80 members present in person or by proxy holding more than 1/10th of the total voting power, demanded for poll. The chairman of the meeting rejected the request on the ground that only the members present in person can demand for poll. **(5 Marks)**

OR

(a) ABC Limited served a notice of General Meeting upon its members. The notice stated that a resolution to increase the share capital of the company would be considered at such meeting. Raj, a shareholder of the company complained that the amount of the proposed increase was not specified in the notice. Is the notice valid? **(5 Marks)**

(b) Explain the provisions of the Companies Act, 2013 [read along with the Companies (Registration of Foreign Companies) Rules, 2014] in respect of 'Audit of accounts of foreign company'. **(5 Marks)**

(c) Explain the meaning of term 'Current Account transactions' as defined under the Foreign Exchange Management Act, 1999. **(4 Marks)**

MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. *The question paper comprises two parts, Part I and Part II.*
2. *Part I comprises Case Scenario based Multiple Choice Questions (MCQs)*
3. *Part II comprises questions which require descriptive type answers.*

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

Mr. V started a new venture of on-line business of supply of grocery items at the door- step of consumers. Initially it was having the area of operations of Saharanpur city only. He employed some young boys having their own bikes and allocated the areas which they were accustomed of it, for making delivery of the grocery items as per their orders. He also got developed a website and Mobile App to receive the orders on-line. His friend Sundaram who is a Chartered Accountant, suggested him to corporatize this business form, from proprietorship business to a One Person Company (OPC). Mr. V agreed and a OPC was incorporated in the name of "Ask V Online Grocery (OPC) Pvt Ltd." (for short OPC-1). In this OPC Mr. V became the member and director and Sudha (the mother of Mr. V) was made as nominee.

After a year Mr. V got married with Vani. Since the business of on-line supply of grocery was on rising trend, day by day, he thought to start a new business of supply of Milk and Milk Products and another OPC in the name of "Vani Milk Products (OPC) Pvt Ltd" (for short OPC-2) was incorporated with the help of his professional friend Sundaram. In this OPC-2, Vani (his wife) became the member and director and Mr. V was named as Nominee.

To summarise the position, the information is tabulated as under:

Name of OPC	Ask Mr. V4Online Grocery (OPC) Pvt Ltd [OPC-1]	Vani Milk Products (OPC) Pvt Ltd [OPC-2]
Member and Director	Mr. V	Vani
Nominee	Sudha (Mother of Mr. V)	Mr. V (Husband of Vani)

After some time, Sudha (the mother of Mr. V) passed away. However, before the death, Sudha had made a WILL, in which she mentioned that after her demise, her another son Krishh be made nominee in the OPC-1. When Krishh came to know this fact, he argued with Mr. V to fulfil the wish of Sudha as per her WILL (Mother of Mr. V and Krishh), but Mr. V denied this and appointed Vani (his wife) as nominee.

Aggrieved from the decision of Mr. V for not nominating him (Krishh), Krishh threatened Mr. V to take appropriate legal action against him for not honouring the WILL of Sudha and consulted his lawyer. Meanwhile due to continuous threatening and unpleasant conversation between Krishh and Mr. V, Vani became mentally upset and became insane, as certified by the medical doctor, so lost her capacity to contract. In this situation, Mr. V being the nominee in OPC-2 became member and director of this OPC-2.

One of the friends of Mr. V advised him to do some charitable work of providing free education to the girl children of his native village near by Saharanpur. Mr. V thought about this proposal and asked his professional friend Sundaram to convert this OPC-2 into Section 8 company.

On the basis of above facts and by applying applicable provisions of the Companies Act, 2013 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 1-5, of **2 marks each**) given herein under:

1. Since Vani, being insane, lost the capacity to contract, Mr. V (who was nominee) became the member of OPC-2. Now who will make nomination for this OPC:
   (a) Mr. V in the capacity of husband of Vani can nominate any person as Nominee of OPC-2
   (b) Mr. V (who was nominee) of OPC-2 has now become member of this OPC and now as a member of this OPC he can nominate any person as per his choice as Nominee for this OPC.
   (c) When no person is nominated, the Central Govt. will make nomination of such OPC-2.
   (d) When no person is nominated the Registrar shall order the company to be wound up.
2. Whether conversion of OPC-2 into a company governed by Section 8 is permissible?
   (a) Yes, OPC can be converted into Section 8 company
   (b) No, OPC cannot be converted into Section 8 company
   (c) This OPC-2 can be converted into section 8 company, provided the Central Govt give license
   (d) Providing of free education to girl child do not come under the specified objects mentioned for eligibility incorporation of section 8 company

3. Mr. V is a member in OPC-1 and became a member in another OPC-2 (on 2nd April, 2024) by virtue of his being a nominee in that OPC-2. Mr. V shall, by what date, meet the eligibility criteria that an individual can be a member in only one OPC:

   (a) 17th May 2024

   (b) 25th August 2024

   (c) 26th August 2024

   (d) 29th September 2024

4. After the demise of Sudha (the mother of Mr. V), Vani was nominated by Mr. V for OPC-1 as Nominee. But now Vani has become insane, so what recourse you will suggest to Mr. V:

   (a) Mr. V is required to nominate another person as nominee

   (b) Mr. V should wait till Vani becomes good of her health and able to have the capacity to contract

   (c) Although Vani has become insane, but if she is able to sign, her nomination in OPC-1 may continue

   (d) Sundaram (the Chartered Accountant) who helped in incorporation of OPC-1, may act as legal consultant on behalf of Vani

5. Mr. V is preparing the financial statements for "Ask V Online Grocery (OPC) Pvt Ltd" for the financial year. Which of the following statements is correct regarding compliance with section 129 of the Companies Act, 2013?

   (a) Financial statements of OPC-1 must include a cash flow statement.

   (b) The financial statements must be presented and approved by a general meeting of members.

   (c) Mr. V, as the sole director, is responsible for approving the financial statements before filing with the RoC.

   (d) Consolidated financial statements must be prepared for OPC-1.

Case Scenario 2

DEF LLP is a well-established limited liability partnership engaged in providing consulting services. It has four partners: A, B, C, and D, each contributing equally to the capital and holding an equal share of the profits and losses, as detailed in the LLP agreement. The partnership operates smoothly until Partner A encounters significant financial difficulties due to personal business losses and decides to transfer his entire share of profits and losses in the LLP to Mr. X, an external investor, in exchange for financial assistance. The decision, although legal as per the LLP agreement, creates a ripple of concerns among the other partners.

After the transfer:

- Partner B argues that the LLP must be dissolved because Partner A’s transfer of rights effectively amounts to exiting the partnership, thus impacting the continuity of the LLP.

- Mr. X, being the transferee, demands active participation in DEF LLP's decision-making processes and insists on accessing financial records to monitor his investment, citing the substantial stake he now holds in the LLP.
- Partner C voices concerns about the potential disruption in the LLP's management structure and operations, questioning whether Mr. X's involvement aligns with the LLP's existing framework and the provisions of the Limited Liability Partnership Act, 2008.
- Partner D, on the other hand, adopts a neutral stance but raises the issue of whether the LLP agreement sufficiently addresses such transfers to avoid future disputes.

The situation creates a complex dynamic within DEF LLP, raising questions about the rights of the transferee, the implications for the partnership's operations, and the legal provisions governing such transfers under the Limited Liability Partnership (LLP) Act, 2008.

On the basis of above facts and by applying applicable provisions of the Limited Liability Partnership Act, 2008 and the applicable Rules therein, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 6-8, of 2 marks each) given herein under:

6. Can Partner A legally transfer their share of profits and losses to Mr. X?

   (a) No, Partner A cannot transfer their share without the consent of all other partners.

   (b) Yes, Partner A can transfer their share entirely in accordance with the LLP agreement.

   (c) No, such transfers are not allowed under the LLP Act.

   (d) Yes, but only if Mr. X becomes a partner in the LLP.

7. Does the transfer of Partner A's share to Mr. X result in the dissolution of DEF LLP?

   (a) Yes, because transferring all rights indicates Partner A's disassociation.

   (b) No, because the LLP Act, 2008 does not consider such transfers as grounds for dissolution.

   (c) Yes, because all partners must agree to such transfers to avoid dissolution.

   (d) No, unless it is explicitly stated in the LLP agreement.

8. Does Mr. X gain any right to participate in DEF LLP's management or access its financial records?

   (a) Yes, as he now holds Partner A's share in the LLP.

   (b) No, unless expressly allowed by the LLP agreement.

   (c) Yes, because it is essential to safeguard his investment.

   (d) Yes, as external transferees are automatically included in LLP management.

Case Scenario 3

Sunrise Technologies Private Limited ("STPL") was in process of establishing its new software development center in Pune. On 28th February, 2024, the Board of Directors passed a resolution to purchase a property consisting of:

- A three-storey building
- 25 acres of agricultural land adjacent to the building
- 100 motor cars
- An orchard with 100 fruit-bearing trees

The company received a government notification dated 15th March, 2024, requiring all new technology centers to obtain special clearance within 45 days of establishment. The notification mentioned that existing orders under the previous Technology Parks Act (which was repealed and replaced by new legislation) would continue to remain valid. The notification was to be served to all concerned parties through registered post.

The Managing Director has approached you to understand various legal aspects under the General Clauses Act, 1897.

On the basis of above facts and by applying applicable provisions of the General Clauses Act, 1897, choose the correct answer (one out of four) of the following Multiple Choice Questions (MCQs 9-11, of 2 marks each) given herein under:

9. With respect to the property being purchased by STPL, which of the following would not qualify as "immovable property" under the General Clauses Act, 1897?
   (a) The orchard with fruit-bearing trees
   (b) Motor Cars
   (c) The three-storey building
   (d) The agricultural land

10. The government notification requires clearance "within 45 days". If the notification was received on 20th March, 2024, and the 45th day falls on Sunday, May 4, 2024, what would be the last date for obtaining clearance?
    (a) 3rd May, 2024
    (b) 4th May, 2024
    (c) 5th May, 2024
    (d) 6th May, 2024

11. Concerning the previous orders under the repealed Technology Parks Act, which statement is correct?
    (a) All previous orders automatically become void
    (b) Previous orders continue to be valid unless explicitly cancelled
    (c) Previous orders require fresh validation under new law

(d) Previous orders are valid for only 6 months after repeal

Independent case scenarios

12. The Annual General Meeting (AGM) of Green Limited was held on 31.8.2024. Suppose the Chairman of the company after two days of AGM went abroad for next 31 days. Due to the unavailability of the Chairman, within time period prescribed for submission of copy of report of AGM with the registrar, the report as required was signed by two Directors of the company, of which one was additional Director of the company. Comment on the signing of this report of AGM.

    (a) Yes, the signing is in order as the report can be signed by any director in the absence of Chairman.

    (b) No, the signing is not in order as only the Chairman is authorised to sign the report

    (c) Yes, the signing is in order, as in the absence of Chairman at least two directors should sign the report.

    (d) No, the signing is not in order, since in case the Chairman is unable to sign, the report shall be signed by any two directors of the company, one of whom shall be the Managing director, if there is one and company secretary of the company. **(2 Marks)**

13. Sneha, a resident of India, wants to invest her savings. She considers buying shares of a US-based company to benefit from the growing tech market. She is unsure if such an investment is allowed under the Foreign Exchange Management Act, 1999.

    Advise whether Sneha can invest in shares of the US-based company?

    (a) Yes, such investments are allowed.

    (b) No, such investments are not allowed.

    (c) Yes, but only if the investment is for US$ 5000.

    (d) No, unless she is a non-resident Indian (NRI). **(2 Marks)**

14. Rahul, a resident of India and an avid horse-racing enthusiast, earns ₹ 5 lakh as prize money from an international horse-racing event held in Dubai. He wants to remit this amount to his personal foreign bank account for future international race entries and training. He consults his banker to confirm if this transaction is permissible under the Foreign Exchange Management Act (FEMA), 1999.

    Can Rahul remit his income from the international horse-racing event to his foreign bank account under FEMA, 1999?

    (a) Yes, as it is his earned income.

    (b) No, as remittance of income from racing, riding, or any other hobby is prohibited.

    (c) Yes, but only with prior approval from the Reserve Bank of India (RBI).

    (d) No, unless it is for charitable purposes. **(2 Marks)**

15. Mr. Mudit works as an employee at ABC Private Limited with an annual salary of ₹3,00,000, as specified in his employment contract. Mr. Mudit paid to the company ₹ 3,50,000 in the nature of non-interest bearing security deposit. Giving regard to the provisions of the Companies Act, 2013, choose the correct option out of the following:

    (a) The deposit is a valid transaction since it is a non-interest-bearing security deposit provided under the terms of his employment.

    (b) The deposit violates the Companies Act, 2013, because companies cannot accept deposits from their employees.

    (c) The deposit violates the Companies Act, 2013, as the amount exceeds Mr. Mudit's annual salary.

    (d) The deposit is invalid unless approved by the company's shareholders in a general meeting. **(2 Marks)**

PART – II Descriptive Questions (70 Marks)

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

*Attempt any **Four** questions out of the remaining **Five** questions.*

1. (a) Nath Private Limited is a start-up company. Mr. P has been appointed as Accounts Manager of Nath Private Limited. The Board meeting for approval of accounts is to held be on 01.08.2024. For this he has to prepare the financial statements for approval by the Board. Referring to section 2(40) of the Companies Act, 2013, advise Mr. P about the statements that are required to be prepared. **(5 Marks)**

    (b) Mr. Ramchandra is a partner and in- charge (and certifies financial statements) of A & Associates. The firm is appointed as an auditor firm of Badri Limited (listed company). Mr. Ramchandra retires from A & Associates and after some time join Gupta & Gupta firm as a partner, on 20/05/24. In the general meeting of Badri Limited held on 15/06/24, the company appointed Gupta & Gupta firm as next auditor of the company. Advise Badri Limited, whether the company has adhered to the provision of the Company Act, 2013, by appointing Gupta & Gupta as auditor for the company? **(5 Marks)**

    (c) Referring to the provisions of the Foreign Exchange Management Act, 1999, state the kind of approval required for Payment of commission of U.S. $ 20,000 on exports made towards equity investment in Joint Ventures/Wholly Owned Subsidiaries abroad of Indian companies.

    (4 Marks)

2. (a) Samay Publishing Limited facing acute cash crunch wants to utilise a portion of 'Deposit Repayment Reserve Account' to pay off its short-term creditors who are pressing hard for repayment of ` 20,00,000. Is it justified to use funds lying in 'Deposit Repayment Reserve Account' in this manner? Give your answer as per the provisions of the Companies Act, 2013. **(5 Marks)**

(b) Mr. Kaushal is a Chartered and an MBA by profession, has been appointed as an Executive Director on the Board of XYZ Limited. His job profile includes advising the Board of Directors of the company on various compliance matters, strategies, business plans, and risk matters relating to the company. Keeping in view of above position whether Mr. Kaushal can be classified as the Promoter of XYZ Limited? Examine the same under the provisions of the Companies Act, 2013. **(5 Marks)**

(c) Explain the following with reference to the provisions of the General Clauses Act, 1897:

(i) Person

(ii) Document **(4 Marks)**

3. (a) Trinity school started imparting education on 1st April, 2010, with the sole objective of providing education to children of weaker society either free of cost or at a very nominal fee depending upon the financial condition of their parents. However, on 30th March 2024, it came to the knowledge of the Central Government that the said school was operating by violating the objects of its objective clause due to which it was granted the status of a section 8 company under the Companies Act, 2013. Describe what powers can be exercised by the Central Government against the Trinity school, in such a case? **(5 Marks)**

(b) A General Meeting of ABC Private Ltd was scheduled to be held on 15thApril, 2024 at 3.00 P.M. As per the notice, the members who will be unable to attend the meeting in person can appoint a proxy and the proxy forms duly filled should be sent to the company, so that company can receive it within time. Mr. X, a member of the company appoints Mr. Y as his proxy and the proxy form dated 10-04-2024 was deposited by Mr. Y with the company at its registered office on 11-04-2024. Similarly, another member Mr. W also gives two separate proxies to two individuals named Mr. M and Mr. N. In the case of Mr. M, the proxy dated 12-04-2024 was deposited with the company on the same day and the proxy form in favour of Mr. N was deposited on 14-04-2024. All the proxies viz., Y, M and N were present before the meeting.

According to the provisions of the Companies Act, 2013, who would be the persons allowed to represent as proxies for members X and W respectively? **(5 Marks)**

(c) Write short notes on the following in understanding definitions while interpreting statutes:

(i) Ambiguous definitions

(ii) Definitions subject to a contrary context **(4 Marks)**

4. (a) State the persons responsible for complying with the provisions regarding maintenance of Books of Accounts of a company. Support with the help of relevant provisions of the Companies Act, 2013. **(5 Marks)**

(b) Define the term 'Small limited liability partnership' as per the provisions of the Limited Liability Partnership Act, 2008. **(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)**

5. (a) Kedar Limited, an unlisted company, registered in the state of Haryana with 100 shareholders want to organize the Annual General Meeting of the company for the financial year 2023-2024 as under:

    (i) The meeting shall be held on 28th September 2024 which happens to be Rakshanda, a declared as holiday by the Haryana Government.

    (ii) The venue for the meeting shall be Lonavala, a hill resort in Maharashtra. Out of 100 shareholders, 98 have given their consent in writing for conducting the meeting in Lonavala.

    Advise the company on the feasibility of the above with reference to the provisions of the Companies Act, 2013. **(5 Marks)**

(b) Form Limited is engaged in the business of manufacturing shoes for kids. It is required to hold its Annual General Meeting (AGM) for the financial year ending 31st March 2024 by 30th September 2024. However, due to internal disputes among the directors, the company was unable to convene the AGM by the due date.

Explain the relevant provisions of the Companies Act, 2013, with respect to the filing of the financial statements with the Registrar in this case.

(5 Marks)

(c) ABC Limited operates a factory situated near a river. As per a recent Central Act, factories must be located at least 5 kilometers away from any river. A dispute arises when an environmental agency claims that ABC Limited's factory is only 4.5 kilometers away from the river, while ABC Limited contends that the distance is 5.3 kilometers as per the road distance measured along the winding path leading to the river.

Based on the provisions of the General Clauses Act, 1897, advise whether the contention of ABC Limited is correct. **(4 Marks)**

6. (a) Mr. H acquired a property from PQR Limited which was mortgaged to ABC Bank. He settled the dues to ABC Bank in full and the same was registered with the sub-registrar who noted that the mortgage had been settled. But neither the company nor ABC Bank filed particulars of satisfaction of charge with the jurisdictional Registrar of Companies. Can Mr. H approach the Registrar and seek any relief in this regard? Discuss this matter in the light of provisions of the Companies Act, 2013.

(5 Marks)

OR

(a) Mr. Prakash purchased a commercial property in Mumbai belonging to PQR Limited after entering into an agreement with the company. At the time of registration, Mr. Prakash came to know that the title deed of the company was not free and the company expressed its inability to get the title deed transferred in Prakash's name contending that he ought to have the knowledge of charge created on the property of the company. In line with the provisions of the Companies Act, 2013, advise whether the contention of PQR Limited is correct? **(5 Marks)**

(b) XYZ Limited, a company incorporated outside India and to which provisions of Chapter XXII of the Companies Act, 2013 are applicable, entered into a contract with ABC Limited, an Indian company, for the supply of machinery. After the machinery was delivered, ABC Limited failed to make the payment citing defects in the machinery.

XYZ Limited discovered that it had failed to comply with certain provisions of Chapter XXII of the Companies Act, 2013, relating to the registration of foreign companies in India. Despite this, XYZ Limited intends to file a suit against ABC Limited for payment.

Discuss whether XYZ Limited can initiate legal proceedings against ABC Limited in light of the non-compliance with Chapter XXII of the Companies Act, 2013.

Give your answer as per the provisions of the Companies Act, 2013 [read along with the Companies (Registration of Foreign Companies) Rules, 2014]. **(5 Marks)**

(c) Explain the meaning of the followings terms as defined under the Foreign Exchange Management Act, 1999:

(i) Authorised person

(ii) Currency **(4 Marks)**

MODEL TEST PAPER 8

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

Time Allowed – 3 Hours **Maximum Marks – 100**

1. The question paper comprises two parts, Part I and Part II.
2. Part I comprises Case Scenario based Multiple Choice Questions (MCQs)
3. Part II comprises questions which require descriptive type answers.

PART I – Case Scenario based MCQs (30 Marks)

Part I is compulsory

Case Scenario 1

ABC Publications Limited accepted deposits from the public to the tune of ₹ 70 Lakh on 1st May 2021, for a period of 36 months at an interest rate of 10% per annum. The repayment would be made on 30th April, 2024. It has complied with all the statutory requirements for the acceptance of deposits by a Public Limited Company.

One of the depositors Mr. Y was in urgent need of money as his son wanted to pursue his higher education abroad. His total deposit with ABC Publications Limited was ₹10 lakh. On 1st June 2022, he sent his request to the company asking for premature repayment of his deposit along with interest.

Another depositor, Mr. U had deposited ₹ 6 lakh in his name. On 18th September 2022, he sent an application to the company to change the name on his deposit and make it a joint holding in the names of himself, his wife and two children. The company is contemplating the requests received from its depositors.

In addition to the deposits received form the public, the company had also raised funds by amount received from a Public Sector Bank, by issue of bonds and debentures and amounts against issue of commercial papers which were issued according to the guidelines issued by the Reserve Bank of India.

On the basis of the given facts, and by applying the applicable provisions of the Companies Act, 2013 and the Rules therein, choose the correct answer of the following Questions: (MCQs 1-3 of 2 marks each)

1. Advise ABC Publications Limited regarding the amount and the interest that can be repaid to Mr. Y:
   (a) The company cannot make premature repayment of the deposits.
   (b) The company can prematurely repay the deposit along with interest @ 10% for a period of 13 months (1st May 2021 to 31thMay 2022)
   (c) The company can prematurely repay the deposit along with interest @ 9% for a period of 13 months (1st May 2021 to 31st May 2022)
   (d) The company can prematurely repay the deposit along with interest @ 9% for a period of 11 months (1st May 2021 to 31st March 2022)

2. Advise ABC Publications Limited regarding the request of Mr. U:

   (a) Mr. U cannot change his deposit to joint holding.

   (b) The deposits can be held jointly only by Mr. U and his wife.

   (c) The deposits can be held jointly by Mr. U, his wife and two children.

   (d) The deposits can be held jointly by Mr. U and any two members only.

3. The Banker of ABC Publications Limited wanted a list of deposits accepted by the company. Advise the company on what among the following constitute deposit:

   (a) Amount raised through bonds and debentures

   (b) Any non-interest bearing amount received and held in trust

   (c) Amount received from Public

   (d) Amount raised through the issue of commercial paper as per the Reserve Bank of India guidelines and amount raised through bonds and debentures

Case Scenario 2

Combat Gaming Limited is a company incorporated outside India with a place of business in Rajasthan. To improve its gaming software, the company wanted to apply Artificial Intelligence technology. In order to raise more funds to meet out the investment cost, the company decided to issue shares. It issued prospectus of the company which was properly dated and signed according to the provisions of the Companies Act, 2013 and delivered them to the Registrar of Companies on 16th August 2023. The Registrar on verification of the documents found that the particulars in the prospectus was incomplete and issued a notice to the company saying that the prospectus is invalid. Hence, the directors scrutinized the documents and during the scrutiny it was observed by the CFO that there was a mistake in one of the documents delivered to the Registrar and hence altered that on 29th September 2023. Analyse, based on the above scenario and answer the following Questions: (MCQs 4-6 of 2 marks each)

4. According to the Companies (Registration of Foreign Companies) Rules, 2014, of the Companies Act, 2013, which of the following documents shall not be annexed to the prospectus?

   (a) Any consent to the issue of the prospectus required from any person as an expert;

   (b) Statement of preliminary expenses;

   (c) A copy of contracts for appointment of Managing Director or Manager and in case of a contract not reduced into writing, a memorandum giving full particulars thereof

   (d) A copy of underwriting agreement

5. Combat Gaming Limited has made alteration in documents delivered to the Registrar, they shall intimate to Registrar of Companies by ______

   (a) 29th October

(b) 13th November

(c) 28th November

(d) 9th October

6. Combat Gaming Limited has to deliver the required documents along with the appropriate fees to:

(a) The Registrar of Companies, Rajasthan

(b) The Comptroller and Auditor General Office, New Delhi

(c) The Registrar of Companies. New Delhi

(d) The Company Law Board, New Delhi

Case Scenario 3

Mr. S is a well experienced technocrat in the field of manufacturing of computer hard discs and motherboard. He resigned from his job and wished to form a Limited Liability Partnership (LLP) with the object of manufacturing and trading of computer hardware. He wanted to include his close friends Mr. A, Mr. B, and Mr. C who are very familiar in the same field and worked in the foreign companies also.

All three friends had accepted the invitation of Mr. S to be partners of the LLP. Mr. S wanted to ensure whether all the three friends are resident of India and requested them to provide the details of their stay in India. During the previous financial year, Mr. A has stayed in India for a period of 170 days, Mr. B stayed in India for 110 days and Mr. C stayed in India for 100 days. All the partners had given their consent to act as designated partners. He applied for the reservation of desired name to the Registrar and also paid the prescribed fees.

Based on the above facts, answer the following Questions: (MCQs 7-9 of 2 marks each)

7. The name applied for has been approved by the Registrar. The approved name of LLP shall be valid for a period of ______________ from the date of intimation by the Registrar.

(a) 2 months

(b) 1 month

(c) 3 months

(d) 6 months

8. Which of the following combinations of partners, if appointed as designated partners, will not be in accordance with the provisions laid down by Limited Liability Partnership Act, 2008?

(a) Mr. A, Mr. B and Mr. C

(b) Mr. B and Mr. C

(c) Mr. A and Mr. C

(d) Mr. A and Mr. B

9. In how many days, a Limited Liability Partnership shall file with the Registrar, the particulars of every individual who has given his consent to act as designated partner?

   (a) Within thirty days of incorporation of LLP

   (b) Within thirty days of his appointment

   (c) After forty five days of incorporation of LLP

   (d) After sixty days of his appointment

Case Scenario 4

Progressive Management College have introduced a Global Management Diploma Course which is of 12 months duration. Out of 12 months, 11 months studies are held in India and rest of 1 month is earmarked for foreign tour. Rudra Pratap is the Principal of the college. After taking requisite permission from the competent Ministry, the cultural tour programme was chalked out and the team visited Malaysia, Singapore, Australia and New Zealand.

Rudra Pratap's daughter Payal got admission in a medical college situated in California, United States of America. For fee and other expenses, Payal needs USD 2,25,000. Rudra Pratap contacted his banker to know the procedure for availing of foreign exchange and the authority to whom he shall apply. His banker properly guided all the relevant procedures for availing of the foreign exchange.

Rudra Pratap's brother Sourya Pratap went to UK some years ago, where he joined a company in managerial position. He intermittently visits to India and maintains a Non-Resident Special Rupee Scheme Account (NRSR) in Mumbai. He wanted to make remittance of interest earned in the NRSR Account and asked his bankers for the required formalities.

Based on the above facts, answer the following Questions: (MCQs 10-12 of 2 marks each).

10. For the purpose of cultural tours, approval of which Ministry is required to be obtained ?

    (a) Ministry of Human Resources Development

    (b) Ministry of External Affairs

    (c) Ministry of Home Affairs

    (d) Ministry of Commerce and Industry

11. For availing foreign exchange for studying abroad, which of the following option is correct:

    (a) The transaction of withdrawal of foreign exchange of USD 2,25,000 for studying abroad is prohibited.

    (b) The transaction of withdrawal of foreign exchange of USD 2,25,000 for studying abroad requires prior approval of Government of India.

    (c) The transaction of withdrawal of foreign exchange of USD 2,25,000 for studying abroad requires prior approval of RBI.

    (d) The transaction of withdrawal of foreign exchange of USD 2,25,000 for studying abroad do not require prior approval of RBI.

12. The remittance of foreign exchange for arranging of cultural tour for the students is an example of:
    (a) Capital Account Transactions
    (b) Current Account Transactions
    (c) Hybrid Transactions
    (d) Amortised Transactions

13. Super Brain Coaching Limited was engaged in offline coaching of students for various competitive examinations. It was one of the pioneer in its field. It suffered losses due to various social and government restrictions imposed on study centers. On account of this, it defaulted in the repayment of term loan for the first two quarters of the financial year 2023-24. However, Super Brain Coaching Limited adapted itself to the changing circumstances and shifted to online mode of coaching and revived its financial conditions. On 31st December 2023, it cleared all the dues and regularized the term loan. Super Brain Coaching Limited wants to issue equity shares with differential rights. When can the issue be made?
    (a) On or after January 1st 2029
    (b) On or after April 1st 2029
    (c) On or after April 1st 2027
    (d) On or after January 1st2027 **(2 Marks)**

14. An Act has been passed by the government and though sufficient time has elapsed since the Act was passed, it has not been brought into force by the Government.

    Which of the following is correct in the light of the provisions of the General Clauses Act, 1897?
    (a) The court can issue a mandamus with a view to compel the government to bring the Act into operation on a particular day.
    (b) The court can through a writ direct the Government to consider the question as to when the Act should begin to operate.
    (c) The court can publish a date in Official Gazette as an effective date for enforcement of the Act.
    (d) The court cannot direct the government to consider the question as to when Act should begin to operate. **(2 Marks)**

15. With reference to the provisions of the General Clauses Act, 1897, in all Legislations and Regulations, unless there is anything repugnant in the subject or context, words importing the masculine gender shall be taken:
    (a) To exclude female
    (b) To exclude boy child
    (C) To exclude girl child
    (d) To include females **(2 Marks)**

PART – II Descriptive Questions

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

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

(70 Marks)

1. (a) SAB Health Products Limited issued equity shares worth ₹ 5,00,00,000 (5,00,000 equity shares of ₹ 100 each) and it was fully subscribed and partly paid at ₹ 50 each. The company made a call to all its subscribers to pay a sum of ₹ 30 for each share held by them. Mr. GH, a subscriber to the shares of a company, holding 10,000 shares, paid all the money due on the shares held by him in advance. Later, Mr. GH claimed interest on the money advanced by him and also dividend in respect of the advance money paid. Is his claim justified? Another shareholder Mr. LK holding 15,000 shares did not pay the first call. So, the directors called upon him to pay the entire amount due by him in respect of the shares held by him. Referring to the provisions of the Companies Act, 2013 and Rules made there under, examine whether the directors of SAB Health Products Limited permitted to do so? **(5 Marks)**

(b) (i) Right Trading Limited is a company engaged in trading of automobile spare parts. During the current financial year 2024-25, Mr. J the CFO retired due to bad health. The company appointed Mr. C as the new CFO. On verification of the financial statements and statutory returns of the company, Mr. C advised the Board of Right Trading Limited to revise the financial statements for the year 2021-22.

Examine, with reference to the applicable provisions of the Companies Act, 2013, whether M/s Right Trading Limited can do so? **(3 Marks)**

(ii) M/s DEF is conducting the audit of Right Trading Limited for the past 9 years. Now due to the requirement of rotation of auditors, M/s DEF is going to retire at the upcoming Annual General Meeting and in its place M/s XYZ will be appointed as the Auditor of Right Trading Limited. One of the partner Mr. F, who was in charge of the certification of the financial statements of the company retired from the firm of M/s DEF and joined the firm of M/s XYZ.

Examine, considering the provisions of the Companies Act, 2013 about the validity of the appointment of M/s XYZ. **(2 Marks)**

(c) Ms. Rose was an Indian citizen who got a job in a software company in USA. She went to USA and stayed there for 12 years. During her stay, she purchased a house in USA for her residence. Then due to some personal issues she moved back to India and joined a software company in India. As she had moved back to India, she let out her house in USA and deposited the rent in her account in USA. Out of that amount, she purchased another house in USA.

Based on the above facts, answer the following referring to the provisions of the Foreign Exchange Management Act, 1999.

(i) Whether Ms. Rose can purchase the house in USA and continue to retain it even after returning to India?

(ii) Whether Ms. Rose can purchase another house in USA after returning to India? **(4 Marks)**

2. (a) Stuti Ceramic Pvt. Ltd. (SCPL) manufactures crockery items which are predominantly used only by the domestic household customers. Now the company wants to expand its area of operation to manufacture all types of crockery items and cutlery for the use of big hotels. For this expansion plan, the company needs funds of around ₹ 500 lakh. The company does not want to convert itself from private company to public company since the promoters do not want to dilute their equity stake otherwise the public company have the option to raise the funds through public issue. The company explored the other avenue of raising funds by issue of right shares to the existing shareholders, however only ₹ 100 lakh could be generated. The banks and financial institutions are also reluctant to increase their exposure in the company.

Referring to the provisions of the Companies Act, 2013, advise the SCPL, whether the company can raise further funds through private placement issue. If so, are there any limit for fresh offer and time limit of allotment of securities? **(5 Marks)**

(b) Dolls Toys Limited is having a net- worth of ₹ 310 crore, paid up share capital of ₹ 200 crore, free reserves and security premium of ₹ 110 crore and turnover of ₹ 300 crore. Dolls Toys Limited wants to accept deposits form public other than its members.

(i) Referring to the provisions of the Companies Act, 2013, state whether Dolls Toys Limited is permitted to accept the deposits from public other than its members.

(ii) It is further mentioned that Dolls Toys Limited is in urgent need of funds as one of its contract is on the verge of completion and it is promising to repay the deposits within a period of four months. Is Dolls Toys Limited permitted to accept deposits with repayment period of 4 months? **(5 Marks)**

(c) Referring to the provisions of the General Clauses Act, 1897, answer the following questions:

(i) Whenever a new law is enacted by the Government of India, what shall be its date of coming into force?

(ii) Whenever a new law is enacted to replace the existing law, it repeals the old enactment. Describe the points which shall not have any effect of repeal of the old enactment. **(4 Marks)**

3. (a) The paid up share capital of Star Furnishing Limited is ₹ 1,00,00,000 divided into 10,00,000 equity shares of ₹ 10 each as at 31st March, 2024. Out of this, Home Decor Limited is holding 6,00,000 equity shares and the remaining equity shares of 4,00,000 held by others.

Simultaneously, Star Furnishing Limited is holding 7% equity shares of Home Decor Limited out of which 2% equity shares are held as a legal representative of a deceased member of Home Decor Limited. On the basis of the given information, examine and answer the following queries with reference to the provisions of the Companies Act, 2013:

(i) Can Star Furnishing Limited make further investment in equity shares of Home Decor Limited during 2024-25?

(ii) Can Star Furnishing Limited exercise voting rights at the Annual General Meeting of Home Decor Limited? **(5 Marks)**

(b) Naveen Tools Ltd (NTL) mortgaged its factory land and building (by equitable mortgage) on 1st March, 2023 to Goodwill Bank and availed a credit limit of ₹ 200 lakh. Although the credit limit was sanctioned by the Bank, but the NTL actually availed such credit facility only in the month of August, 2023, when it issued a cheque in favour of a creditor towards the payment of raw material purchased from it.

During the course of statutory audit, the auditor pointed out before the management of the NTL about the non-compliance of registration of charge with the Registrar within the stipulated time. The company officials informed that although the mortgaged backed credit limit was sanctioned in March 2023, but the company had not availed the facility till the month of August, 2023.

So, the liability of registration of charge arises from the date of availment only when the company issued a cheque from the mortgaged backed credit limit account and not when the loan was sanctioned and credit limit was assigned.

Further, the company management pleaded that it is the responsibility of the financier i.e. Goodwill Bank to get the charges registered with the Registrar since the registration of charge is to be effected in favour of the Bank and for Bank's own benefit, so the NTL is in no way responsible for getting registration or for delayed registration.

In the light of above facts, referring to the provisions of the Companies Act, 2013, discuss:

(i) When trigger point for the registration of charge shall arise,

   (a) at the time of credit limit sanctioned by the Bank; or

   (b) at the time of availing of credit limit when cheque was issued by the company?

(ii) What are the consequences for non-registration of charge on the Naveen Tools Ltd? **(5 Marks)**

(c) Explain the rule which suggests that the 'Plain word requires no explanation' and 'Technical words be understood in technical sense only'. **(4 Marks)**

4. (a) XYZ Limited is a company having a paid up equity share capital of ₹ 75 crore. Though it was performing well in the recent years it suffered losses in the first and second quarter of the financial year 2023-2024.

In order to sustain its image, the Board of Directors declared an interim dividend at the rate of 30 percent on the paid-up equity share capital on 4/10/2023. The following are the additional information extracted from the books of account for the past 5 Financial Years:

Financial year ending 31st March	**Rate of Dividend declared**
2019	20%
2020	15%
2021	15%
2022	15%
2023	30%

Examining the provisions of the Companies Act, 2013, decide the validity of the Board's declaration of 30% interim dividend. **(5 Marks)**

(b) M/s Strong Steels Limited Liability Partnership firm was incorporated on 01st April 2010 with ten partners. The LLP had very good business and made considerable profits during the past years. Recently due to obsolete practices, M/s Strong Steels Limited LLP started making loss. Also, M/s Strong Steels LLP did not file its annual returns from 2020-21. Three partners decided that the LLP be wound up by the Tribunal. The remaining partners objected to it. Referring to section 64 of the Limited Liability Partnership Act, 2008, can the Tribunal pass an order to wound up M/s Strong Steels LLP? Also state the provisions and penalty for not filling annual return with the Registrar. **(5 Marks)**

(c) (i) What is the purpose of inclusion of 'definitions' of certain words and expressions in the body of any statute?

(ii) The definition sometimes includes the words 'mean', 'include', 'means and include' and 'to apply to and include'. What is the meaning of such words? **(4 Marks)**

5. (a) Sanjana joined a company named as Designers Cloths Ltd. as an Independent Director. In order to know more about the company, she wanted to inspect the books of account and minutes books of the Board Meetings held during the previous three years.

The company is keeping the books of account and other records at its Registered Office, which is at Mumbai whereas Sanjana resides in Kolkata. Therefore, through power of attorney, Sanjana authorised her friend Avantika, who is a Chartered Accountant and does practice in Mumbai, to make an inspection of the books of accounts and minutes books of the meetings of the Board.

Giving the relevant provisions of the Companies Act, 2013 and its Rules made thereunder, examine, whether Avantika can make inspection on behalf of Sanjana. **(5 Marks)**

(b) A, B, C and D are the partners of Alpha LLP and have equal share in the profits and losses of the LLP. A has made an agreement to transfer 70% of his share in the profits of Alpha LLP to his daughter X.

X wanted to access information about the trading transactions of Alpha LLP claiming that she is entitled to the information as she receives a percentage of profits from the LLP. The partners refused to grant her access. Does X have any remedy against the denial according to the provisions of the Limited Liability Partnership Act, 2008? Are the partners correct in denying access to X? **(5 Marks)**

(c) (i) In a contract of sale, Mr. A fraudulently sold certain unmarketable goods to Mr. B. Now Mr. A is liable for the fraudulent activity under both the Indian Contract Act, 1872 and the Sale of Goods Act, 1930. State the provision as per the General Clauses Act, 1897 as to whether his offence is punishable under the both the Acts?

(ii) Mr. P bought a car from Mr. G who was his friend. Mr. P did not check the car or test drive it. Whether the purchase made could be said to be made in good faith? Explain with reference to the provisions of the General Clauses Act, 1897. **(4 Marks)**

6. (a) Silk Textile Limited is a company which is incorporated in India. It holds two subsidiaries- Print Limited (in which it holds 80% of shares) and Stitch Limited (a wholly owned subsidiary). Both the subsidiaries are incorporated outside India. The Board of Directors of Silk Textile Limited intends to call an Extraordinary General Meeting (EGM) of Silk Textile Limited. During the same time, the Board of Print Limited also wanted to hold an EGM on urgent basis at Dubai. The Chairman with the consent of his Board wanted to hold the EGM of Silk Textile Limited at Dubai so that he can attend both the EGM. But the Company Secretary advised the Chairman that he cannot hold the EGM outside India.

Referring to the provisions of the Companies Act, 2013, advise the Board of Directors on the following:

(i) Whether the Board of Silk Textile Limited can hold its EGM at Dubai?

(ii) Whether the EGM of Print Limited can be held at Dubai? **(5 Marks)**

OR

(a) Creative Textiles Ltd. is an unlisted public company. The company's paid-up share capital is ₹ 50 lakh consisting of 5 lakh shares having face value of ₹ 10 each.

Raman is having 50,000 shares in the company. He is not happy with Somnath, who is a director in the company. He believed that Somnath is acting against the interest of the company. Raman wanted to remove Somnath from the directorship. Removal of a person from the directorship requires the approval of the shareholders in the general meeting. The Annual General Meeting (AGM) of the company has recently been concluded and the next AGM will be held in the next year. Considering the case and referring to the provisions of the Companies Act, 2013, advise:

(i) Can Raman as an individual shareholder make a requisition to the company for calling of the Extra-ordinary General Meeting for putting such resolution?

(ii) If the company does not call the EGM on the requisition of Raman, whether Raman can himself call the EGM? **(5 Marks)**

(b) Beauty Cosmetics, a company incorporated in Korea has established its branch office in Chennai for conducting its business in India. The structure of paid-up share capital of Beauty Cosmetics as at 31st March 2024 is as below:

The company does not have any Preference Share Capital.

Equity share capital held by Mr. L, an Indian citizen: 10%

Equity share capital held by Mr. R, an Indian Citizen: 20%

Equity share capital held by Fairness Cosmetics Limited, an Indian company: 20%

You being a Chartered Accountant are asked to explain with reference to the provisions of the Companies Act, 2013:

(i) Whether Beauty Cosmetics shall be deemed to be a Foreign Company or an Indian Company for the business carried on by it in India, and

(ii) for the business carried on by it in India, will it be required to comply with the relevant provisions of the Companies Act, 2013 as if it is an Indian Company? **(5 Marks)**

(c) Mitali Diamonds Limited is a company engaged in the business of cutting, polishing and trading of diamonds in and outside India. The company exports the diamonds to USA. For the last five financial years, the foreign exchange earned by the company in exporting diamonds is as under:

FY 2023-24	USD 1,25,000
FY 2022-23	USD 1,10,000
FY 2021-22	USD 95,000
FY 2020-21	USD 98,000
FY 2019-20	USD 93,000

The company wants to give donation of USD 10,000 to an institution situated in USA which provides technical support and training in the field of cutting and polishing of raw diamonds. This will help the company in guiding its own employees, posted in USA to get the requisite training.

Referring to the provisions of the Foreign Exchange Management Act, 1999, state whether the company can give donation to such institution in USA? **(4 Marks)**

MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Kamal, aged 45 years, commenced operations of the business of a new three-star hotel in Delhi on 1.4.2024. He incurred capital expenditure of ₹ 50 lakhs on land in March, 2024 exclusively for the above business, and capitalized the same in his books of account as on 1st April, 2024. Further, during the P.Y. 2024-25, he incurred capital expenditure of ₹ 2 crores (out of which ₹ 50 lakhs was for acquisition of land and ₹ 1.50 crore was for acquisition of building) exclusively for the above business. The payments in respect of the above expenditure were made by account payee cheque. The profits from the business of running this hotel (before claiming deduction under section 35AD) for the A.Y.2025-26 is ₹ 85 lakhs.

   He has employed 220 new employees during the P.Y.2024-25, the details of whom are as follows –

	No. of employees	Date of employment	Regular/ Casual	Total monthly emoluments per employee (₹)
(i)	40	1.6.2024	Regular	24,000
(ii)	80	1.7.2024	Regular	24,500
(iii)	50	1.7.2024	Casual	25,500
(iv)	30	1.9.2024	Regular	25,000
(v)	20	1.12.2024	Casual	24,000

   All regular employees participate in recognized provident fund and their emoluments are paid by account payee cheque. His gross revenue from the hotel is ₹ 11 crores. Mr. Kamal has opted out of the default tax regime under section 115BAC.

Mr. Kamal also has another existing business of running a four-star hotel in Ahmedabad, which commenced operations twenty years back, the profits from which are ₹ 140 lakhs for the A.Y.2025-26.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) Assuming that Mr. Kamal has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes", what would be the quantum of deduction under section 35AD, which he is eligible to claim as deduction for A.Y.2025-26?

(a) ₹ 250 lakhs

(b) ₹ 200 lakhs

(c) ₹ 100 lakhs

(d) ₹ 150 lakhs

(ii) What would be the income chargeable/loss under the head "Profits and gains of business or profession" for the A.Y.2025-26 in the hands of Mr. Kamal?

(a) ₹ 75 lakhs

(b) ₹ 140 lakhs

(c) ₹ 25 lakhs

(d) (₹ 10 lakhs)

(iii) Would Mr. Kamal be eligible for deduction under section 80JJAA in the A.Y.2025-26? If so, what is the quantum of deduction?

(a) No, he would not be eligible for deduction u/s 80JJAA

(b) Yes; ₹ 75,00,000

(c) Yes; ₹ 81,72,000

(d) Yes; ₹ 99,72,000 **(3 x 2 = 6 Marks)**

2. Mr. Arvind, an Indian citizen, wants to file his return of income for the previous year 2024-25. He required assistance for which he has approached you. He has shared the following details relevant to the P.Y. 2024-25.

Mr. Arvind owned a house property in Bangalore and the same was rented out for ₹ 65,000 p.m. to Mr. Arjun, a salaried employee. He claims that this was the only income which he earned during the P.Y. 2024-25. However, when you had sought for his bank statement, you observed the following information additionally.

There is a credit for ₹ 23,975 towards income-tax refund which includes ₹ 5,775 towards interest on income-tax refund. On 15th August, 2024, the bank statement showed a credit of ₹ 55,000 which he claimed to have received as a gift from his grandchildren on his 60th birthday. On further assessment you were able to understand that Mr. Arvind and his wife had travelled to Mauritius during the P.Y. 2024-25 to spend some time with their son, who is staying in Mauritius. On scrutiny of their passport and relevant documents you conclude that they had left India on 27th September, 2024 and retuned on 31st March, 2025. During the 4 years preceding previous year 2024-25, both had stayed in India for 320 days. Prior to that, they had been staying only in India.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) What is the residential status of Mr. Arvind for the P.Y. 2024-25?

(a) Resident and ordinarily resident

(b) Resident but not ordinarily resident

(c) Non-resident

(d) Deemed resident but not ordinarily resident

(ii) Is there any requirement to deduct tax at source under section 194-IB on such rent by Mr. Arjun? If yes, what would be the amount of TDS to be deducted?

(a) No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arjun is a salaried employee

(b) Yes, Mr. Arjun is required to deduct tax at source of ₹ 39,000 under section 194-IB

(c) Yes, Mr. Arjun is required to deduct tax at source of ₹ 15,600 under section 194-IB

(d) No, there is no requirement to deduct tax at source under section 194-IB, since Mr. Arvind is a non-resident

(iii) Which of the following statements is correct with respect to advance tax liability of Mr. Arvind for P.Y. 2024-25?

(a) Advance tax liability shall not arise to Mr. Arvind since he is a non-resident

(b) Advance tax liability shall not arise, since Mr. Arvind is a resident senior citizen and he has no income chargeable under the head "Profits and gains of business or profession

(c) Advance tax liability shall arise, since he is a non-resident

(d) Advance tax liability shall arise, since his tax liability is not less than ₹ 10,000 **(3 x 2 = 6 Marks)**

3. Roshini Ltd. has two units, one unit at Special Economic Zone (SEZ) and other unit at Domestic Tariff Area (DTA). The unit in SEZ was set up and started manufacturing from 12.5.2015 and unit in DTA from 15.6.2018. Total turnover of Roshini Ltd. and Unit in DTA is ₹ 12,50,00,000 and 4,50,00,000, respectively. Export sales of units in SEZ and DTA is ₹ 3,50,00,000 and ₹ 2,25,00,000, respectively and net profit of Unit in SEZ and DTA is ₹ 95,00,000 and ₹ 80,00,000, respectively. Out of the export sales of ₹ 3,50,00,000, ₹ 2,00,00,000 have been received in convertible foreign

exchange by 30.9.2025. Roshini Ltd. would be eligible for deduction under section 10AA for -

(a) ₹ 20,78,125

(b) ₹ 41,56,250

(c) ₹ 11,87,500

(d) ₹ 23,75,000 **(2 Marks)**

4. What would be the tax liability of Ms. Savita, a resident, who attained the age of 60 years on 01.04.2025 on the total income of ₹ 7,25,000, comprising of salary income and interest on fixed deposits under default tax regime under section 115BAC?

(a) ₹ 28,600

(b) ₹ 26,000

(c) ₹ 23,400

(d) ₹ 2,600 **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions*

1. Mr. Amit, having business of manufacturing of furniture, gives the following Trading and Profit & Loss Account for the year ended 31.03.2025:

Trading and Profit & Loss Account

Particulars	₹	Particulars	₹
Opening Stock	5,62,500	Sales	2,33,25,000
Purchases	1,88,62,500	Closing Stock	6,75,000
Freight & Cartage	1,89,000		
Gross profit	43,86,000		
	2,40,00,000		**2,40,00,000**
Bonus to staff	71,250	Gross profit	43,86,000
Rent of premises	80,250	Income-tax refund	30,000
Advertisement	7,500	Warehousing charges	22,50,000
Bad Debts	1,12,500		
Interest on loans	2,51,250		
Depreciation	1,07,250		
Goods and Services tax demand paid	1,62,525		

Salary	5,50,000		
Miscellaneous expenses	2,38,475		
Net profit	50,85,000		
	66,66,000		**66,66,000**

Following are the further information relating to the financial year 2024-25:

(i) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.

(ii) Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 5,000.

(iii) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.

(iv) Miscellaneous expenses include an amount of ₹ 1,00,000 paid to Political Party by cheque.

(v) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.

(vi) Mr. Amiit had purchased a warehouse building of ₹ 20 lakhs in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.07.2024 and the income from this activity is credited in the Profit and Loss account under the head “Warehousing charges”.

(vii) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000 excluding depreciation on warehouse building.

(viii) Interest on loans includes an amount of ₹ 80,000 paid to Mr. Mohit, a resident, on which tax was not deducted.

Compute the total income and tax liability of Mr. Amit for the A.Y. 2025-26 in a most beneficial manner. **(15 Marks)**

2. (a) Mr. Akash, an Indian citizen aged 45 years, worked in XYZ Ltd. in Delhi. He got a job offer from ABC Inc., California on 01.06.2023. He left India for the first time on 31.07.2023 and joined ABC Inc. on 08.08.2023. During the P.Y. 2024-25, Mr. Akash visited India from 25.05.2024 to 22.09.2024. He has received the following income for the previous year 2024-25:

Particulars	₹
Salary from ABC Inc., California received in California (Computed)	7,00,000
Dividend from Indian companies	5,00,000
Agricultural income from land situated in Nepal, received in Nepal	4,00,000

Rent received/receivable from house property in Delhi	5,50,000
Profits from a profession in California, which was set up in India, received there	6,00,000

Determine the residential status of Mr. Akash and compute his total income for the A.Y. 2025-26 under default tax regime. **(6 Marks)**

(b) Examine and compute the liability for deduction of tax at source, if any, in the cases stated hereunder, for the financial year ended 31st March, 2025.

(i) State Bank of India pays ₹ 70,000 per month and ₹ 60,000 per month as rent to the Central Government and Mr. Kunal, respectively for building in which its branches are situated.

(ii) Payment of ₹ 2,50,000 to Mr. Deepak, a transporter who owns 8 goods carriages throughout the previous year. He does not furnish his PAN. **(4 Marks)**

3. (a) Mr. Sahil, a resident individual, aged 40 years, is an assistant manager of Fox Ltd. He is getting a salary of ₹ 55,000 per month. During the previous year 2024-25, he received the following amounts from his employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus of ₹ 60,000.

(iii) Fixed Medical allowance of ₹ 50,000 for meeting medical expenditure.

(iv) He was also reimbursed the medical bill of his mother dependent on him amounting to ₹ 6,500.

(v) Mr. Sahil was provided;

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2022 at ₹ 35,000.
- a domestic servant at a monthly salary of ₹ 8,000 which was reimbursed by his employer.

(vi) Fox Ltd. allotted 700 equity shares in the month of October 2024 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Mr. Sahil. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Mr. Sahil for the assessment year 2025-26 if he is paying tax under default tax regime under section 115BAC. **(5 Marks)**

(b) Mr. Kushal is a resident but not ordinarily resident in India during the Assessment Year 2025-26. He furnishes the following information regarding his income/expenditure pertaining to his house properties for the previous year 2024-25:

- He owns two houses, one in New York and the other in Ahmedabad.
- The house in New York is let out there at a rent of $ 5,000 p.m. The entire rent is received in India. He paid Property tax of $ 1,250 and Sewerage Tax $ 750 there. ($ 1 = INR 81)
- The house in Ahmedabad is self-occupied. He had taken a loan of ₹ 30,00,000 to construct the house on 1st September, 2019 @10%. The construction was completed on 31st May, 2021 and he occupied the house on 1st June, 2021.

The entire loan is outstanding as on 31st March, 2025. Property tax paid in respect of the second house is ₹ 2,800.

Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kushal for the Assessment Year 2025-26 if he has opted out of the default tax regime under section 115BAC.

(5 Marks)

4. (a) Mr. Vishal, aged 33 years, submits the information of following transaction/income during the P.Y. 2024-25

(i) Mr. Vishal had a house in Delhi. During financial year 2023-24, he had transferred the said house to Ms. Deepika, daughter of his brother without any consideration. House would go back to Mr. Vishal after the life time of Ms. Deepika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Vishal. Rent received by Ms. Deepika during the previous year 2024-25 from such house property is ₹ 5,50,000.

(ii) Mr. Vishal holds preference shares in M/s A Pvt. Ltd. He instructed the company to pay dividend to Ms. Chandni, daughter of his servant. The transfer is irrevocable for the lifetime of Chandni. Dividend receivable by Ms. Chandni during the previous year 2024-25 is ₹ 4,50,000.

(iii) Mr. Vishal has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.

(iv) Other income/loss of Mr. Vishal includes

- Interest from saving bank account of ₹ 1,75,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
- Income from betting of ₹ 25,000
- Income from card games of ₹ 46,000
- Loss on maintenance of race horses of ₹ 14,600

Compute the total income of Mr. Vishal for the Assessment Year 2025-26 if he has opted out of the default tax regime and the losses to be carried forward. **(6 Marks)**

(b) Enumerate the cases where a return of loss has to be filed on or before the due date specified u/s 139(1) for carry forward of the losses. Also enumerate the cases where losses can be carried forward even though the return of loss has not been filed on or before the due date.

(4 Marks)

OR

(b) Mr. Vishnu has undertaken certain transactions during the F.Y.204-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents–

S. No.	Transaction
1.	Sale of scooter for ₹ 70,000
2.	Payment of life insurance premium of ₹ 67,000 to insurance company
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs
4.	Applied to PNB for issue of credit card.

(4 Marks)

MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Pankaj, an Indian resident, purchased a residential house property at Kanpur on 20.08.1998 for ₹ 20.5 lakhs. The fair market value and the stamp duty value of such house property as on 1.4.2001 was ₹ 28.5 lakhs and ₹ 25 lakhs, respectively. On 05.02.2016, Mr. Pankaj entered into an agreement with Mr. Gyan for the sale of such property for ₹ 61 lakhs and received an amount of ₹ 2.5 lakhs as advance. However, as Mr. Gyan did not pay the balance amount, Mr. Pankaj forfeited the advance.

   On 10.05.2024, Mr. Pankaj sold the house property to Mr. Rohan for ₹ 1.50 crores, when the stamp duty value of the property was ₹ 2 crores. Further, he purchased two residential house properties at Delhi and Mumbai for ₹ 57 lakhs each on 28.09.2025. Mr. Pankaj has no other income during the P.Y. 2024-25. The due date for filing return of income for Mr. Pankaj is 31st July, 2025.

   On 31.01.2026, Mr. Pankaj decided to sell the house property at Mumbai to his brother, Mr. Gaurav, for ₹ 58 lakhs, from whom ₹ 25,000 was received in cash on 15.01.2026 as advance for signing the agreement to sale. Sale deed was registered on 30.03.2026 on receipt of the balance amount through account payee cheque from Mr. Gaurav. The stamp duty value of house property at Mumbai on 31.01.2026 and 30.03.2026 was ₹ 61 lakhs and ₹ 64 lakhs, respectively.

   Cost inflation index –

   P.Y. 2024-25: 363; P.Y. 2015-16: 254; P.Y. 2001-02: 100

   Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

   (i) What shall be the indexed cost of acquisition of residential house property at Kanpur for computation of capital gains in the hands of Mr. Pankaj?

(a) ₹ 81,67,500

(b) ₹ 90,75,000

(c) ₹ 94,38,000

(d) ₹ 1,03,45,500

(ii) The amount of capital gains taxable for A.Y. 2025-26 in the hands of Mr. Pankaj for sale of residential house property at Kanpur is -

(a) Nil

(b) ₹ 81,67,500

(c) ₹ 52,25,000

(d) ₹ 1,09,25,000

(iii) The amount of capital gains taxable for A.Y. 2026-27 in the hands of Mr. Pankaj for sale of residential house property at Mumbai is -

(a) ₹ 8 lakhs

(b) ₹ 7 lakhs

(c) ₹ 64 lakhs

(d) ₹ 1 lakh

(iv) The amount taxable under section 56(2)(x) in the hands of Mr. Gaurav, if any, is -

(a) Nil

(b) ₹ 1 lakh

(c) ₹ 3 lakhs

(d) ₹ 6 lakhs

(v) What shall be the tax credit available with Mr. Pankaj with respect to sale of property at Kanpur during P.Y. 2024-25 assuming the tax was fully deducted by Mr. Rohan?

(a) ₹ 2,00,000

(b) ₹ 1,50,000

(c) ₹ 1,00,000

(d) ₹ 87,000

(vi) Is Mr. Pankaj required to file his return of income for A.Y. 2025-26?

(a) Yes, since his total income exceeds the basic exemption limit

(b) No, since his total income does not exceed the basic exemption limit

(c) Yes, since tax deducted in his case exceeds ₹ 25,000

(d) Yes, since his total income before exemption under section 54 exceeds the basic exemption limit **(6 x 2 = 12 Marks)**

2. Mrs. Deepika, wife of Mr. Santosh, started a business of trading in beauty products on 15.7.2024. She invested ₹ 5 lakhs in the business on 15.7.2024 out of gift received from her husband, Mr. Santosh. She invested ₹ 4 lakhs from her own savings on the same date. She earned profits of ₹ 9,00,000 from her business for the financial year 2024-25. Which of the following statements is correct?

   (a) Share of profit of ₹ 9,00,000 is includible in the hands of Mrs. Deepika

   (b) Share of profit of ₹ 5,00,00 is includible in the hands of Mr. Santosh and share of profit of ₹ 4,00,000 is includible in the hands of Mrs. Deepika

   (c) Share of profit of ₹ 4,00,000 is includible in the hands of Mr. Santosh and share of profit of ₹ 5,00,000 is includible in the hands of Mrs. Deepika

   (d) Share of profit of ₹ 9,00,000 is includible in the hands of Mr. Santosh

(2 Marks)

3. Mr. X, a resident 47 years, has salary income (computed) of ₹ 7,25,000 and agricultural income of ₹ 1,00,000 for the P.Y. 2024-25. Compute his tax liability for A.Y. 2025-26 if he has opted out of the default tax regime under section 115BAC.

   (a) ₹ 59,800

   (b) ₹ 72,500

   (c) ₹ 75,400

   (d) ₹ 80,600 **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions.*

1. Mr. Sunil, aged 48 years, a resident Indian has furnished the following particulars for the year ended 31.03.2025:

   (i) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,95,000. He has paid municipal taxes of ₹ 25,000 for the current financial year. Both these floors are of equal size.

   (ii) As per interest certificate from HDFC bank, he paid ₹ 1,50,000 as interest and ₹ 80,000 towards principal repayment of housing loan borrowed for the above residential building in the year 2018.

   (iii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2019-20. Total turnover of the undertaking was ₹ 400 lakhs, which includes ₹ 150 lakhs from export turnover. Out of ₹ 150 lakhs, only ₹ 120 lakhs have been received in India in convertible foreign exchange on or before

30.9.2025. This industrial undertaking fulfills all the conditions of section 10AA of the Income-tax Act, 1961. Profit from this industry is ₹ 40 lakhs.

(iv) He employed 20 new employees for the said industrial undertaking during the previous year 2024-25. Out of 20 employees, 12 were employed on 1st May 2024 for monthly emoluments of ₹ 18,000 and remaining were employed on 1st September 2024 on monthly emoluments of ₹ 12,000. All these employees participate in recognised provident fund and they are paid their emoluments directly to their bank accounts.

(v) He earned ₹ 30,000 and ₹ 40,000 as interest on saving bank deposits and fixed deposits, respectively.

(vi) He also sold his vacant land on 01.12.2024 for ₹ 15 lakhs. The stamp duty value of land at the time of transfer was ₹ 16 lakhs. This land was acquired by him on 15.10.1998 for ₹ 2.80 lakhs. The FMV of the land as on 1st April, 2001 was ₹ 4.8 lakhs and Stamp duty value on the said date was ₹ 4 lakhs. He had incurred registration expenses of ₹ 12,000 at that time.

The cost of inflation index for the financial year 2024-25 and 2001-02 are 363 and 100, respectively.

(vii) He paid insurance premium of ₹ 40,000 towards life insurance policy of his son, who is not dependent on him.

You are requested to compute total income and tax liability of Mr. Sunil for the Assessment Year 2025-26 under default tax regime.

(15 Marks)

2. (a) Mrs. Sia D'Souza is an American, got married to Mr. Kabir of India in New York on 14.02.2024 and came to India for the first time on 18.03.2024. She left for Australia on 16.08.2024. She returned to India again on 23.03.2025.

On 01.04.2024, she had purchased a Flat in Mumbai, which was let out to Mr. Sameer on a rent of ₹ 26,000 p.m. from 1.6.2024. She had taken loan from an Indian bank for purchase of this flat on which bank had charged interest of ₹ 2,05,000 upto 31.03.2025.

While in India, during the previous year 2024-25, she had received a gold chain from her in laws worth ₹ 1,50,000 and ₹ 1,65,000 from very close friends of her husband.

From the information given above, you are required to determine her the residential status and compute her total income chargeable to tax for the Assessment Year 2025-26 assuming she has shifted out of the default tax regime under section 115BAC. **(6 Marks)**

(b) Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

(i) Mr. Harish bought an overseas tour programme package for Switzerland for himself and his family of ₹ 10 lakhs on 01-11-2024 from an agent who is engaged in organising foreign tours in course of his business. He made the payment by an account payee cheque and provided the permanent account number to the seller.

(ii) Mr. Aditya pays ₹ 55,00,000 during April 2024 to Mr. Naresh, for supply of labour, for carrying out the construction work of his factory. During the P.Y. 2023-24, Mr. Aditya's turnover was ₹ 95 lakhs. **(4 Marks)**

3. (a) Ms. Priyanka, General Manager of ABC Ltd., Mumbai, furnishes the following particulars for the financial year 2024-25:

(i) Salary ₹ 40,000 per month

(ii) Value of medical facility in a hospital maintained by the company ₹ 10,000

(iii) Rent free accommodation owned by the company during P.Y. 2024-25

(iv) Housing loan of ₹ 7,00,000 given on 01.04.2024 at the interest rate of 6% p.a. (No repayment made during the year). The rate of interest charged by State Bank of India (SBI) as on 01.04.2024 in respect of housing loan is 9.5%.

(v) A dining table was provided to Ms. Priyanka at her residence. This was purchased on 1.6.2021 for ₹ 60,000 and sold to Ms. Priyanka on 1.5.2024 for ₹ 30,000.

(vi) Personal purchases through credit card provided by the company amounting to ₹ 10,000 was paid by the company. No part of the amount was recovered from Ms. Priyanka.

(vii) A Maruti Suzuki car which was purchased by the company on 16.7.2022 for ₹ 2,50,000 was sold to the assessee on 14.7.2024 for ₹ 1,60,000.

Other income received by the assessee during the previous year 2024-25:

	Particulars	**₹**
(a)	Interest on Fixed Deposits with a company	7,000
(b)	Income from specified mutual fund	3,000
(c)	Interest on bank fixed deposits of a minor married daughter	4,000

(viii) Deposit in PPF Account made during the year 2024-25 ₹40,000

Compute the gross total income of Ms. Priyanka for the Assessment year 2025-26 if she exercised the option to shift out of the default tax regime under section 115BAC. **(6 Marks)**

(b) M/s. Ravi & sons, a partnership firm consisting of two partners, reports a net profit of ₹ 7,50,000 before deduction of the following items:

- Salary of ₹ 25,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership)
- Depreciation on plant and machinery under section 32 is ₹ 2,50,000
- Interest on capital 15% per annum (as per the deed of partnership).

  The amount of capital eligible for interest is ₹ 6,00,000 for both partners
- Carry forward loss of P.Y. 2023-24 - ₹ 50,000

Compute for A.Y. 2025-26:

(i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961.

(ii) Amount of salary that can be paid to working partners as per section 40(b). **(4 Marks)**

4. (a) The following are the details relating to Mr. Roshan, a resident Indian, relating to the year ended 31.03.2025

Particulars	**Amount (₹)**
Short term capital gain	1,50,000
Loss from house property [let out property]	2,50,000
Loss from speculative business	50,000
Loss from card games	20,000
Brought forward long term capital loss of A.Y. 2022-23	86,000
Dividend from ABC Ltd.	11,00,000
Loss from tea business	1,06,000

Mr. Roshan's wife, Shamita is employed with Ray Ltd., at a monthly salary of ₹ 25,000, where Mr. Roshan holds 21% of the shares of the company. Shamita is not adequately qualified for the post held by her in Ray Ltd.

You are required to compute taxable income of Mr. Roshan for the A.Y. 2025-26 if he has exercised the option to shift out of the default tax regime under section 115BAC. Ascertain the amount of losses which can be carried forward. **(6 Marks)**

(b) In the following cases relating to P.Y.2024-25, the total income of the assessee or the total income of any other person in respect of which he/she is assessable under Income-tax Act does not exceed the basic exemption limit. You are required to state with reasons, whether the assessee is still required to file the return of income or loss for A.Y.2025-26 in each of the following independent situations:

(i) Manish & Sons (HUF) sold a residential house on which there arose a long term capital gain of ₹ 12 lakhs which was invested in Capital Gain Bonds u/s 54EC so that no long term capital gain was taxable.

(ii) Samarth has incurred an expenditure of ₹ 1,20,000 towards consumption of electricity, the entire payment of which was made through banking channels. **(4 Marks)**

OR

(b) Briefly mention the provisions of Income-tax Act, 1961 with regard to quoting Aadhaar Number under section 139AA of the Act. **(4 Marks)**

MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Rudra is engaged in the business of trading since 2018. His turnover for the P.Y. 2023-24 was ₹ 6 crores. His minor daughter's marriage is fixed in December, 2024. He planned destination wedding in Goa for his minor daughter. For the wedding, he withdrew ₹ 40,00,000 cash in the month of September, 2024 and ₹ 65,00,000 cash in the month of October, 2024 from Hamara Paisa Bank.

   He booked 30 rooms for 5 days for the accommodation of his relatives in Raho Hotel and paid ₹ 40,000 in cash as advance and balance by account payee cheque. He took the catering services of Tasty Caterers, a sole Proprietor, for the wedding for which he paid ₹ 10,20,000 on 15.10.2024. For her wedding, he gifted his daughter a house property, purchased from SK Builders on 10.10.2024 by account payee cheque for ₹ 15,00,000. The stamp duty value of the property on 10.10.2024 is ₹ 16,00,000 and on the date of transfer to minor daughter is ₹ 20,00,000.

   Mr. Rudra paid ₹ 45,000 in cash and balance in cheque to travel agent for the return ticket of some of his relatives to US. He regularly files his return of income.

   Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

   (i) The amount of tax to be deducted by Hamara Paisa Bank on cash withdrawals by Mr. Rudra is -

   (a) ₹ 10,000

   (b) ₹ 25,000

   (c) ₹ 1,70,000

   (d) ₹ 1,85,000

(ii) The amount of tax to be deducted by Mr. Rudra on payment made to Tasty Caterers is -

(a) ₹ 10,200

(b) ₹ 20,400

(c) ₹ 51,000

(d) Nil

(iii) What shall be the amount taxable and in whose hands with respect to purchase of immovable property by Mr. Rudra from SK Builders and gift of the same to his daughter?

(a) ₹ 1,00,000 in the hands of Mr. Rudra and ₹ 20,00,000 in the hands of minor daughter

(b) Nothing is taxable in the hands of Mr. Rudra and Minor daughter

(c) ₹ 1,00,000 in the hands of Mr. Rudra and nothing is taxable in the hands of minor daughter

(d) Nothing is taxable in the hands of Mr. Rudra but ₹ 20,00,000 is taxable in the hands of minor daughter **(3 x 2 = 6 Marks)**

2. Mr. Mayank had bought a residential house worth ₹ 2.5 crores at South Extension, Delhi in 2018 and let out the house on rent to Mr. Rihaan. The property was funded through loan from PNB. The interest due for F.Y. 2024-25 to PNB is ₹ 25 lakhs, out of which he paid only ₹ 20 lakhs during the year. Mr. Mayank then took a loan of ₹ 1.5 crores from SBI on 1.7.2024 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2025. Mr. Mayank started repaying EMIs due to SBI. During the P.Y. 2024-25, he repaid principal amount of ₹ 25 lakhs and ₹ 5 lakhs to PNB and SBI, respectively. He also paid interest of ₹ 8 lakhs to SBI out of ₹ 10 lakhs, being interest due for the period from 1.7.2024 to 31.3.2025.

Mr. Mayank owns another house in Haryana. He transferred that house to his minor daughter Miss Sia on her birthday as her birthday gift. Miss Sia gave the said house to the local Panchayat from September, 2024 at a rent of ₹ 5,000 per month. Mrs. Mayank's total income for A.Y.2025-26 is higher than that of Mr. Mayank. This is the first year when Miss Sia has any source of income.

Mr. Mayank bought electric vehicle worth ₹ 50 lakhs on loan from BSM Bank which it sanctioned on 1.4.2022. BSM Bank charged interest of ₹ 7 lakhs on electric vehicle for the P.Y.2024-25. Mr. Mayank has also taken loan from ABC Bank for his daughter's higher education. He paid ₹ 50,000 as interest to ABC Bank. He also paid mediclaim of ₹ 20,000 to New India Assurance Scheme for insuring his health.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) What is the amount of interest allowable as deduction u/s 24 to Mr. Mayank for A.Y.2025-26?

(a) ₹ 2 lakhs

(b) ₹ 25 lakhs

(c) ₹ 28 lakhs

(d) ₹ 35 lakhs

(ii) What is the amount of deduction permissible to Mr. Mayank under Chapter VI-A of Income-tax Act, 1961 for A.Y. 2025-26 if he has opted out of the default tax regime?

(a) ₹ 1,70,000

(b) ₹ 2,20,000

(c) ₹ 3,70,000

(d) ₹ 9,20,000

(iii) In whose hands would Sia's rental income from house property at Haryana be taxable and how much income would be taxable?

(a) In Sia's hands; ₹ 24,500

(b) In Mr. Mayank's hands; ₹ 24,500

(c) In Mrs. Mayank's hands; ₹ 23,000

(d) It would change every year depending on the parent whose income is higher in that year. **(3 x 2 = 6 Marks)**

3. Mr. Arpan (aged 35 years) submits the following particulars for the purpose of computing his total income:

Particulars	₹
Income from salary (computed)	4,00,000
Loss from let-out house property	(-) 2,20,000
Brought forward loss from let-out house property for the A.Y. 2024-25	(-)2,30,000
Business loss	(-)1,00,000
Bank interest (FD)	80,000

Compute the total income of Mr. Arpan for the A.Y.2025-26 and the amount of loss that can be carried forward for the subsequent assessment year under normal provisions of the Act?

(a) Total income ₹ 2,00,000 and loss from house property of ₹ 2,50,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.

(b) Total income ₹ 1,60,000 and loss from house property of ₹ 2,30,000 to be carried forward to subsequent assessment year.

(c) Total income ₹ 4,00,000 and business loss of ₹ 20,000 to be carried forward to subsequent assessment year.

(d) Total income is Nil and loss from house property of ₹ 70,000 to be carried forward to subsequent assessment year. **(2 Marks)**

4. Mr. Raja, aged 64 years, was not able to provide satisfactory explanation to the Assessing Officer for the investments of ₹ 7 lakhs not recorded in the books of accounts. What shall be the tax payable by him on the value of such investments considered to be deemed income as per section 69?

(a) ₹ 2,18,400

(b) ₹ 55,000

(c) ₹ 5,46,000

(d) ₹ 54,600 **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions.*

1. Mr. Ayush, a resident individual, aged 54 years, is engaged in the business of manufacturing textiles. He earned profit of ₹ 82,45,000 as per profit and loss account after debiting and crediting the following items:

(i) Depreciation ₹ 15,40,000

(ii) Short term capital gains on 01.05.2024 on transfer of listed equity shares in a company on which STT is paid ₹ 10,00,000

(iii) He received income-tax refund of ₹ 15,550 which includes interest on refund of ₹ 4,550.

(iv) Dividend income from Indian companies ₹ 15,00,000. Dividend received from each company is less than ₹ 5,000.

Additional information –

(i) Mr. Ayush installed new plant and machinery for ₹ 65 lakhs on 1.10.2024 which was put to use on 1.1.2025. Depreciation (including additional depreciation) on this amount of ₹ 65 lakhs is included in the depreciation debited to profit and loss account which has been computed as per Income-tax Rules, 1962.

(ii) Mr. Ayush took a loan from SBI of ₹ 50 lakhs on 1.9.2024 @10.5% p.a. to purchase such plant and machinery. Total interest upto 31.3.2025 has been paid on 31.3.2025 and the same has been debited to profit and loss account.

(iii) Advance tax paid during the year is ₹17,50,000

(iv) Ayush purchased goods for ₹ 40 lakhs from Mr. Ram, his brother. The market value of the goods is ₹ 35 lakhs.

(v) He paid ₹ 40,000 as life insurance premium taken on the life of his married daughter who is not dependent on him. The sum assured is ₹ 5,00,000 and the policy was taken on 1.4.2017.

(vi) He paid ₹ 45,000 by cheque towards health insurance policy covering himself, his spouse and his children.

(vii) On 1.7.2024, Mr. Ayush withdrew ₹ 1.5 crores in cash from three current accounts maintained by him with SBI. There are no other withdrawals during the year. He regularly files his return of income.

You are required to compute the total income and tax payable by Mr. Ayush for the A.Y. 2025-26 assuming that he has shifted out of the default tax regime under section 115BAC. **(15 Marks)**

2. (a) Miss Geeta, a citizen of India, got married to Mr. Peter of Australia and left India for the first time on 20.8.2024. She has not visited India again during the P.Y. 2024-25. She has derived the following income for the year ended 31-3-2025:

	Particulars	**₹**
(i)	Income from sale of centrifuged latex processed from rubber plants grown in kanyakumari.	1,50,000
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo. Sale consideration was received in Chennai.	5,00,000
(iii)	Income from sale of tea grown and manufactured in West Bengal.	12,00,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out by her on land.	2,00,000

You are required to determine the residential status of Miss Geeta and compute the business income and agricultural income of Miss. Geeta for the Assessment Year 2025-26. **(6 Marks)**

(b) Briefly discuss the provisions of tax deduction at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS in respect of the following payments:

(i) Mr. Vikas received a sum of ₹ 10,20,000 on 28.02.2025 as pre-mature withdrawal from Employees Provident Fund Scheme before continuous service of 5 years on account of termination of employment due to ill-health.

(ii) Indian Bank sanctioned and disbursed a loan of ₹ 12 crores to B Ltd. on 31-12-2024. B Ltd. paid a sum of ₹ 1,20,000 as service fee to Indian Bank for processing the loan application. **(4 Marks)**

3. (a) Mr. Jain and his wife Mrs. Jain are partners in a partnership firm holding 25% share each. During the F.Y. 2024-25, the firm paid ₹ 2,50,000 to each of them as remuneration. Apart from this, they provide you the following information in respect of F.Y. 2024-25:

(i) Salary received by Mr. Jain from his employer ₹ 12,50,000.

(ii) Interest on fixed deposit earned by Mrs. Jain ₹ 14,00,000. (The fixed deposit was opened by using her "Stridhan")

(iii) Income of their three minor children Neeta, Meeta and Seeta was ₹ 15,000; ₹ 10,000 and ₹ 2,000 respectively.

You are required to compute the gross total income of Mr. and Mrs. Jain as per the provisions of Income-tax Act for the A.Y. 2025-26 assuming that they have shifted out of the default tax regime.

(4 Marks)

(b) Mr. Ram, an employee of the Central Government is posted at New Delhi. He joined the service on 1st February, 2021. Details of his income for the previous year 2024-25, are as follows:

(i) Basic salary: ₹ 3,80,000

(ii) Dearness allowance: ₹ 1,20,000 (40% forms part of pay for retirement benefits)

(iii) Both Mr. Ram and Government contribute 20% of basic salary to the pension scheme referred to in section 80CCD.

(iv) Gift received by Ram's minor son on his birthday from friend: ₹ 70,000. (No other gift is received by him during the previous year 2024-25)

(v) On 25.03.2024, Mr. Ram gifted a sum of ₹ 6,00,000 to Mrs. Ram to start a business by introducing such amount as her capital. On 1st April, 2024, her total investments in business was ₹ 10,00,000 which includes ₹ 6,00,000 gifted by Mr. Ram. During the previous year 2024-25, she has loss from such business ₹ 1,30,000.

(vi) Mr. Ram deposited ₹ 70,000 in Sukanya Samridhi account on 23.01.2025. He also contributed ₹ 40,000 in an approved annuity plan of LIC to claim deduction u/s 80CCC.

(vii) He has taken an educational loan from SBI for his major son who is pursuing MBA course from Gujarat University. He has paid ₹ 15,000 as interest on such loan.

Determine the total income of Mr. Ram for the assessment year 2025-26. Ignore provisions under section 115BAC. **(6 Marks)**

4. (a) Determine the capital gains/loss on transfer of listed equity shares (STT paid both at the time of acquisition and transfer of shares) and units of equity oriented mutual fund (STT paid at the time of transfer of units) for the A.Y.2025-26 and tax, if any, payable thereon, in the following cases, assuming that these are the only transactions covered under section 112A during the P.Y.2024-25 in respect of these assessees:

(i) Mr. Shagun purchased 300 shares in A Ltd. on 20.5.2017 at a cost of ₹ 400 per share. He sold all the shares of A Ltd. on 31.5.2024 for ₹ 1200. The price at which these shares were traded in National Stock Exchange on 31.1.2018 is as follows –

Particulars	**Amount in ₹**
Highest Trading Price	700
Average Trading Price	680
Lowest Trading Price	660

(ii) Mr. Raj purchased 200 units of equity oriented fund, Fund A on 1.2.2017 at a cost of ₹ 550 per unit. The units were not listed at the time of purchase. Subsequently, units of Fund A were listed on 1.1.2018 on the National Stock Exchange. Mr. Raj sold all the units on 3.4.2024 for ₹ 900 each. The details relating to quoted price on National Stock Exchange and net asset value of the units are given hereunder:

Particulars	**Fund A**
	Amount in ₹
Highest Trading Price	750 (on 31.1.2018)
Average Trading Price	700 (on 31.1.2018)
Lowest Trading Price	650 (on 31.1.2018)
Net Asset Value on 31.1.2018	800

(4 Marks)

OR

(a) Mr. Aman has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

Sl. No.	**Particulars**	**₹ (in lakhs)**
(i)	Payment made to AB University, an approved University	15
(ii)	Payment made to Siya College	17
(iii)	Payment made to IIT, Bangalore (under an approved programme for scientific research)	12
(iv)	Machinery purchased for in-house scientific research	25

Compute the deduction available under section 35 of the Income-tax Act, 1961 for A.Y. 2025-26, while computing his income under the head "Profits and gains of business or profession" under default tax regime under section 115BAC. **(4 Marks)**

(b) Mr. Sailesh is a Marketing Manager in Smile Ltd. From the following information, you are required to compute his income chargeable under the head Salary for assessment year 2025-26. He has opted out of the section 115BAC.

(i) Basic salary is ₹ 70,000 per month.

(ii) Dearness allowance @ 40% of basic salary

(iii) He is provided health insurance scheme approved by IRDA for which ₹ 20,000 incurred by Smile Ltd.

(iv) Received ₹ 10,000 as gift voucher on the occasion of his marriage anniversary from Smile Ltd.

(v) Smile Ltd. allotted 800 sweat equity shares in August 2024. The shares were allotted at ₹ 450 per share and the fair market value on the date of exercising the option by Mr. Sailesh was ₹ 700 per share.

(vi) He was provided with furniture during September 2020. The furniture is used at his residence for personal purpose. The actual cost of the furniture was ₹ 1,10,000. On 31st March, 2025, the company offered the furniture to him at free of cost. No amount was recovered from him towards the furniture till date.

(vii) Received ₹ 10,000 towards entertainment allowance.

(viii) Housing Loan@ 4.5% p.a. provided by Smile Ltd., amount outstanding as on 01.04.2024 is ₹ 15 Lakhs. ₹ 50,000 is paid by Mr. Sailesh every quarter towards principal starting from June 2024. The lending rate of SBI for similar loan as on 01.04.2024 was 8%.

(ix) Facility of laptop costing ₹ 50,000 **(6 Marks)**

MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Sambhav (aged 48 years) furnishes the following particulars for the previous year 2024-25 in respect of an industrial undertaking established in "Special Economic Zone" in March 2018. It began manufacturing in April 2018.

Particulars	(₹)
Total sales	85,00,000
Export sales [proceeds received in India by 30.9.2025]	45,00,000
Domestic sales	40,00,000
Profit from the above undertaking	20,00,000

Export Sales of F.Y. of 2024-25 include freight and insurance of ₹ 5 lakhs for delivery of goods outside India.

He received rent of ₹ 30,000 per month for a commercial property let out to Mr. Akash, a salaried individual. He earned interest on savings bank A/c of ₹ 15,000 and interest on Post Office savings A/c of ₹ 7,000 during the P.Y. 2024-25.

Mr. Sambhav has shifted out of the default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) Compute the amount of export turnover and total turnover for purpose of computing deduction under section 10AA for A.Y. 2025-26.

(a) ₹ 45,00,000 and ₹ 85,00,000, respectively

(b) ₹ 40,00,000 and ₹ 80,00,000, respectively

(c) ₹ 45,00,000 and ₹ 80,00,000, respectively

(d) ₹ 40,00,000 and ₹ 85,00,000, respectively

(ii) Compute the amount of deduction available to Mr. Sambhav under section 10AA for A.Y. 2025-26.

(a) ₹ 10,00,000

(b) ₹ 4,70,577

(c) ₹ 5,62,500

(d) ₹ 5,00,000

(iii) Compute the total income of Mr. Sambhav for A.Y. 2025-26.

(a) ₹ 17,60,500

(b) ₹ 12,60,500

(c) ₹ 18,72,000

(d) ₹ 17,64,000 **(3 x 2 = 6 Marks)**

2. Mr. Anshul, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of ₹ 58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th October, 2024 and returned to India on 2nd April, 2025.

For previous year 2024-25, following information are relevant;

(a) Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)

(b) Bonus - ₹ 98,000

(c) Medical allowance paid during P.Y. 2024-25 amounting to ₹ 60,000

(d) He was also reimbursed medical bill of his mother amounting to ₹ 15,000.

(e) He was also reimbursed salary of house servant of ₹ 4,000 per month.

(f) Professional tax paid by employer amounting to ₹ 2,400.

(g) 400 equity shares allotted by ABC India Ltd. at the rate of ₹ 250 per share against fair market value of share of ₹ 350 on the date of exercise of option.

(h) Mr. Anshul has exercised the option to shift out of the default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) What is Mr. Anshul's residential status for the A.Y. 2025-26?

(a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information

(b) Non-Resident

(c) Resident but not ordinarily resident

(d) Resident and ordinarily resident

(ii) What are his taxable perquisites for A.Y. 2025-26?

(a) ₹ 55,000

(b) ₹ 90,400

(c) ₹ 1,05,400

(d) ₹ 1,03,000

(iii) What is the income chargeable under the head "Salaries" in the hands of Mr. Anshul for A.Y. 2025-26?

(a) ₹ 9,76,600

(b) ₹ 9,86,600

(c) ₹ 9,71,600

(d) ₹ 9,61,600 **(3 x 2 = 6 Marks)**

3. Mr. Ross, an Australian citizen, is employed in the Indian embassy in Australia. He is a non-resident in India for A.Y. 2025-26. He received salary and allowances in Australia from the Government of India for the year ended 31.03.2025 for services rendered by him in Australia. In addition, he was allowed perquisites by the Government. Which of the following statements are correct?

(a) Salary, allowances and perquisites received outside India are not taxable in the hands of Mr. Ross, since he is non-resident

(b) Salary, allowances and perquisites received outside India by Mr. Ross are taxable in India since they are deemed to accrue or arise in India

(c) Salary received by Mr. Ross is taxable in India but allowances and perquisites are exempt

(d) Salary received by Mr. Ross is exempt in India but allowances and perquisites are taxable **(2 Marks)**

4. Which of the following returns can be revised under section 139(5)?

(i) A return of income filed u/s 139(1)

(ii) A belated return of income filed u/s 139(4)

(iii) A return of loss filed u/s 139(3)

Choose the correct answer:

(a) Only (i)

(b) Only (i) and (ii)

(c) Only (i) and (iii)

(d) (i), (ii) and (iii) **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions.*

1. Ms. Farah, aged 40 years, is an advocate (Taxation). She keeps her books of accounts on accrual basis. Her profit & loss account for the year ended on March 31, 2025 is as follows:

Profit & Loss Account for the year ending March 31, 2025

	Amount (₹)			Amount (₹)
Staff salary	40,10,000	Fees Earned from:		
Rent	9,00,000	Taxation services	50,00,000	
Administrative expenses	6,50,000	Appeals	16,00,000	
Incentives to office staff	2,00,000	Consultancy	15,00,000	81,00,000
Meetings, Seminars and conferences	1,70,000	Dividend from an Indian company (gross)		11,00,000
Purchase of car (for official use) on 01.07.2024	3,00,000	Interest on deposit certificates issued under gold monetization scheme, 2015		25,000
Repairs and Maintenance of car	35,000	Honorarium received for valuation of answer papers		50,000
Travelling Expenses	5,00,000	Rent received in respect of house property		90,000
Municipal tax paid in respect of house property	9,000			
Net profit	25,91,000			
	93,65,000			**93,65,000**

Other information:

(i) Administrative expenses include ₹ 50,000 paid to a tax consultant in cash for assisting Ms. Farah in one of the professional assignments.

(ii) The traveling expenses include expenditure incurred on foreign professional tour of ₹ 50,000 which was within the RBI norms.

(iii) Ms. Farah paid medical insurance premium for her parents (senior citizens and not dependent on her) online amounting ₹ 47,000. She also paid ₹ 8,500 by cash towards preventive health check-up for herself and her spouse.

(iv) Repairs and maintenance of car is for the period from 1-10-2024 to 30-09-2025.

(v) She has paid ₹ 1,00,000 towards advance tax during the P.Y. 2024-25.

Compute Total Income and Net tax payable as per the most beneficial taxation scheme for Ms. Farah for the A.Y. 2025-26. **(15 Marks)**

2. (a) Sagar, a Chartered Accountant, is presently working in a firm in India. He has received an offer for the post of Chief Financial Officer from a company at New York. As per the offer letter, he should join the company at any time between 1st September, 2024 and 31st October, 2024. He approaches you for your advice on the following issues to mitigate his tax liability in India:

   (i) Date by which he should leave India to join the company;

   (ii) Direct credit of part of his salary to his bank account in Delhi maintained jointly with his mother to meet requirement of his family. **(6 Marks)**

   (b) Briefly discuss the provisions of tax deduction/collection at source under the Income-tax Act, 1961 and determine the amount, if any, of TDS and TCS in respect of the following payments:

   (i) Mr. Deepak wishes to purchase a residential house costing ₹ 60 lakhs from Ms. Priya. The house is situated at Chennai and its stamp duty value is ₹ 65 lakhs. He also wants to purchase agricultural lands in a rural area for ₹ 65 lakhs. Both the buyer as well as the sellers are residents in India.

   (ii) ABC & Co., a partnership firm is having a car dealership show-room – 2. They have purchased cars for ₹ 2 crores from XYZ Ltd., car manufacturers, the cost of each car being more than ₹12 lakhs. They sell the cars to individual buyers at a price yielding 10% margin on cost. Turnover of ABC & Co. and XYZ Ltd. was less than ₹ 10 crores during the P.Y. 2023-24. **(4 Marks)**

3. (a) Mr. Kamal, a resident but not ordinarily resident in India during the Assessment Year 2025-26. He owns two houses, one in Dubai and the other in Mumbai. The house in Dubai is let out there at a rent of DHS 20,000 p.m. (1DHS=INR 22). The entire rent is received in India. He paid property tax of DHS 2,500 and Sewerage Tax DHS 1,500 there, for the Financial Year 2024-25. The house in Mumbai is self-occupied. He had taken a loan of ₹ 10,00,000 to construct the house on 1st June, 2021 @12%. The construction was completed on 31st May, 2023 and he occupied the house on 1st June, 2023. The entire loan is outstanding as on 31st March, 2025. Property tax paid in respect of the second house is ₹ 2,400 for the Financial Year 2024-25. Compute the income chargeable under the head "Income from House property" in the hands of Mr. Kamal for the Assessment Year 2025-26 under regular provisions of the Act. **(5 Marks)**

   (b) Mr. Ashish entered into an agreement with Mr. Dhaval to sell his residential house located at Navi Mumbai on 16.08.2024 for ₹ 80,00,000.

The sale proceeds was to be paid in the following manner;

(i) 20% through account payee bank draft on the date of agreement.

(ii) 60% on the date of the possession of the property.

(iii) Balance after the completion of the registration of the title of the property.

Mr. Dhaval was handed over the possession of the property on 15.12.2024 and the registration process was completed on 14.01.2025. He paid the sale proceeds as per the sale agreement.

The value determined by the Stamp Duty Authority on 16.08.2024 was ₹ 90,00,000 whereas on 14.01.2025 it was ₹ 91,50,000.

Mr. Ashish had acquired the property on 01.04.2001 for ₹ 20,00,000. After recovering the sale proceeds from Dhaval, he purchased another residential house property in Kanpur for ₹ 15,00,000 during April, 2025.

Compute the income under the head "Capital Gains" for the Assessment Year 2025-26.

Cost Inflation Index for Financial Year(s)

2001-02 - 100

2024-25 - 363 **(5 Marks)**

4. (a) Mr. Mohit submits the following information for the previous year 2024-25:

		(Amount in ₹)
(i)	Income from salary	6,50,000
(ii)	Income from House-I	55,000
(iii)	Loss from House-II (self-occupied property)	1,25,000
(iv)	Loss from House-III	190,000
(v)	Loss from leather business	68,000
(vi)	Profit from cloth business	1,70,000
(vii)	Short term capital loss in equity-oriented funds on which STT was paid	35,000
(viii)	Income from crossword puzzles	12,000
(ix)	Dividend from foreign company (Gross)	8,500
(x)	Loss on owning and maintenance of race horses	7,500
(xi)	Income from owning and maintenance of race bulls	9,000

Compute the gross total income and losses to be carried forward of Mr. Mohit for assessment year 2025-26 under regular provisions of the Act. Mr. Mohit has filed his return of income on 25.07.2025. **(6 Marks)**

(b) What are the consequences of failure to intimate Aadhar Number. Is there any fee for such default? **(4 Marks)**

OR

(b) (i) What is the fee for default in furnishing return of income u/s 234F?

(ii) To whom the provisions of section 139AA relating to quoting of Aadhar Number do not apply? **(4 Marks)**

MODEL TEST PAPER 5

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Raja, an Indian citizen, aged 61 years, has set-up his business in Canada and is residing in Canada since 2009. He owns a house property in Canada, half of which is used by him for his residence and half is given on rent (converted into INR is ₹ 12,00,000 p.a.).

   He purchased a flat in Delhi on 13.10.2019. He has taken a loan from Canara Bank in India of ₹ 34,00,000 for purchase of this flat. The interest on such loan for the F.Y. 2024-25 was ₹ 3,14,000 and principal repayment was ₹ 80,000. Mr. Raja has given this flat on monthly rent of ₹ 32,500 since April, 2024. The annual property tax of Delhi flat is ₹ 40,000 which is paid by Mr. Raja, whenever he comes to India to meet his parents. Mr. Raja visited India for 124 days during the previous year 2024-25. Before that he visited India in total for 366 days during the period 1.4.2020 to 31.3.2024.

   He had a house in Ranchi which was sold in May 2021. In respect of this house, he received arrears of rent of ₹ 2,96,000 in February 2025 (not taxed earlier).

   Mr. Raja has sold 10,000 listed shares @ ₹ 480 per share of A Ltd., an Indian company, on 15.9.2024, which he acquired on 05-04-2017 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.

   On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

   Highest price - ₹ 300 per share

   Average price - ₹ 290 per share

   Lowest price - ₹ 280 per share

   Mr. Raja wants to pay tax under default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

(i) What would be the residential status of Mr. Raja for the A.Y. 2025-26?

(a) Resident and ordinarily resident in India

(b) Resident but not ordinarily resident in India

(c) Non-resident

(d) Deemed resident

(ii) What would be amount of income taxable under the head "Income from house property" in the hands of Mr. Raja for the A.Y. 2025-26?

(a) ₹ 2,52,200

(b) ₹ 1,38,200

(c) ₹ 9,78,200

(d) ₹ 10,92,200

(iii) What amount of capital gain would arise in the hands of Mr. Raja on transfer of shares of A Ltd?

(a) ₹ 18,00,000

(b) ₹ 19,00,000

(c) ₹ 20,00,000

(d) ₹ 38,00,000 **(3 x 2 = 6 Marks)**

2. Mr. Anay (aged 52 years), is a CEO of XYZ Enterprise Limited. During the previous year 2024-25, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares (STT paid) amounting to ₹ 1,06,500. He earned interest of ₹ 4,82,778 on saving bank account.

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

He does not receive house rent allowance from his employer. Mr. Anay took a loan from State Bank of India on 27th October 2021 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹ 1,50,000 towards principal amount during the previous year 2024-25.

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

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

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

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

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

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion that the balance amount of tax, if any, he will pay on 27th July 2025.

Mr. Anay shift out of the default tax regime under section 115BAC.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

(i) What would be the amount of deduction available to Mr. Anay under Chapter VI-A for the assessment year 2025-26?

(a) ₹ 2,04,070

(b) ₹ 2,42,670

(c) ₹ 2,52,670

(d) ₹ 2,02,670

(ii) Assume that, for the purpose of answering this question alone, that Mr. Anay pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual. Is Mr. Anay liable to deduct TDS on such rent? If so, what would be the rate and amount of TDS?

(a) Yes, Mr. Anay is liable to deduct TDS @ 3.75% amounting to ₹ 2,438 every month i.e., at the time of payment of such rent

(b) Yes, Mr. Anay is liable to deduct TDS @2% amounting to ₹ 15,600 in the month of March 2025

(c) Yes, Mr. Anay is liable to deduct TDS @5% amounting to ₹ 39,000 in the month of March 2025

(d) No, Mr. Anay is not liable to deduct TDS, since he is a salaried person

(iii) What would be the amount of interest chargeable under section 234B on account of short payment of advance tax?

(a) ₹ 1,980

(b) Nil

(c) ₹ 3,130

(d) ₹ 2,410 **(3 x 2 = 6 Marks)**

3. On 20.10.2024, Piya (minor child) gets a gift of ₹ 20,00,000 from her father's friend. On the same day, the amount is deposited as fixed deposit in Piya's bank account. On the said deposit, interest of ₹ 13,000 was earned during the P.Y. 2024-25. In whose hands the income of Piya shall be taxable? Also, compute the amount of income that shall be taxable if both parents pay tax under default tax regime.

(a) Income of ₹ 20,11,500 shall be taxable in the hands of Piya's father.

(b) Income of ₹ 20,13,000 shall be taxable in the hands of Piya's father.

(c) Income of ₹ 20,11,500 shall be taxable in the hands of Piya's father or mother, whose income before this clubbing is higher.

(d) Income of ₹ 20,13,000 shall be taxable in the hands of Piya's father or mother, whose income before this clubbing is higher. **(2 Marks)**

4. Rohit, a resident Indian, has incurred ₹ 15,000 for medical treatment of his dependent brother, who is a person with severe disability and has deposited ₹ 20,000 with LIC for his maintenance. Rohit shifts out of the default tax regime for A.Y. 2025-26. Rohit would be eligible for deduction under section 80DD of an amount equal to –

   (a) ₹ 15,000

   (b) ₹ 35,000

   (c) ₹ 75,000

   (d) ₹ 1,25,000 **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions.*

1. Mr. Amit, aged 45 years, a resident Indian has provided you the following information for the previous year ended 31.03.2025

   (i) He received royalty of ₹ 2,88,000 from abroad for a book authored by him in the nature of artistic. The rate of royalty as 18% of value of books and expenditure made for earning this royalty was ₹ 40,000. The amount remitted to India till 30th September, 2025 is ₹ 2,30,000.

   (ii) He owns an industrial undertaking established in a SEZ and which had commenced operation during the financial year 2021-22. Total turnover of the undertaking was ₹ 200 lakhs, which includes ₹140 lakhs from export turnover which have been received in India in convertible foreign exchange on or before 30.9.2025. Profit from this industry is ₹ 20 lakhs.

   (iii) He was holding 30% equity shares in TSP (P) Ltd., an Indian company. Company allotted shares to shareholders on 1st October, 2020. The paid up share capital of company is ₹ 20 lakh divided into 2 lakh shares of ₹ 10 each which were issued at a premium of ₹ 30 each.

   He sold all these shares on 30th April, 2024 for ₹ 60 per share. Equity shares of TSP (P) Ltd. are listed on National Stock Exchange and Mr. Amit has paid STT both at the time of acquisition and transfer of such shares. FMV on 31.1.2018 was ₹ 50 per share.

   (iv) Received ₹ 30,000 as savings bank deposits.

   (v) He occupies ground floor of his residential building and has let out first floor for residential use at an annual rent of ₹ 2,28,000. He has paid municipal taxes of ₹ 60,000 for the current financial year. Both floor are of equal size.

(vi) He paid insurance premium of ₹ 39,000 on life insurance policy of son, who is not dependent on him and ₹ 48,000 on life insurance policy of his dependent father.

(vii) He paid tuition fees of ₹ 42,000 for his three children to a school. The fees being ₹ 14,000 p.a. per child.

You are required to compute the total income and tax liability of Mr. Amit under normal provisions for the A.Y. 2025-26. **(15 Marks)**

2. (a) Mrs. Riya, aged 62 years, was born and brought up in New Delhi. She got married in Russia in 1996 and settled there since then. Since her marriage, she visits India for 60 days each year during her summer break. The following are the details of her income for the previous year ended 31.03.2025:

S. No.	Particulars	Amount (in ₹)
1.	Pension received from Russian Government	65,000
2.	Long-term capital gain on sale of land at New Delhi (computed)	3,00,000
3.	Short-term capital gain on sale of shares of Indian listed companies in respect of which STT was paid both at the time of acquisition as well as at the time of sale (computed)	60,000
4.	Premium paid for self to Russian Life Insurance Corporation at Russia	75,000
5.	Rent received (equivalent to Annual Value) in respect of house property in New Delhi	90,000

You are required to ascertain the residential status of Mrs. Riya and compute her total income in India for Assessment Year 2025-26 under default tax regime. **(6 Marks)**

(b) Mr. Sameer, aged 52 years, provides you the following information and requests you to determine his advance tax liability with due dates for the financial year 2024-25.

Estimated tax liability for the financial year 2024-25	₹ 80,000
Tax deducted at source for this year	₹ 12,000

(4 Marks)

3. (a) Mr. Piyush runs a sole proprietorship firm and owns four machines which was put in use for business in March, 2023. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2024 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2024 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2024.

Further, Mr. Piyush has furnished the following particulars relating to payments made and expenditure incurred towards scientific research for the year ended 31.3.2025:

Sl. No.	Particulars	₹ (in lakhs)
(i)	Payment made to UV University, an approved University	15
(ii)	Payment made to Satywati College	17

Compute the following for Assessment Year 2025-26

(i) Claim of depreciation

(ii) Capital gains liable to tax

(iii) Deduction available under section 35 if he has shifted out of the default tax regime **(6 Marks)**

(b) Mr. Asif bought a vacant land for ₹ 80 lakhs in March 2005. Registration and other expenses were 10% of the cost of land. He constructed a residential building on the said land for ₹ 100 lakhs during the financial year 2006-07.

He entered into an agreement for sale of the above said residential house with Mr. Hari (not a relative) in July 2024. The sale consideration was fixed at ₹ 600 lakhs and on the date of agreement, Mr. Asif received ₹ 20 lakhs as advance in cash. The stamp duty value on that date was ₹ 620 lakhs.

The sale deed was executed and registered on 10-2-2025 for the agreed consideration. However, the State stamp valuation authority had revised the values, hence, the value of property for stamp duty purposes was ₹ 670 lakhs. Mr. Asif paid 1% as brokerage on sale consideration received.

Subsequent to sale, Mr. Asif made investments in NHAI bond: ₹ 45 lakhs on 29-5-2025 and ₹ 15 lakhs on 12-7-2025.

Compute the Capital Gain chargeable to tax for A.Y. 2025-26.

Cost Inflation Index:	F.Y. 2004-05	113	
	F.Y. 2006-07	122	
	F.Y. 2024-25	363	**(4 Marks)**

4. (a) Vijay Prasad, a non resident aged 50 years furnishes the following information of the income from India for the year ended on 31-03-2025:

Income by way of salary (computed)	2,75,000
Short term capital loss	(1,85,000)
Business income - Retail business	1,20,000
Business income - whole sale business	(1,00,000)
Brought forward business loss (A.Y. 2022-23)	(1,35,000)
Long term capital gain from sale of building in April 2024	2,00,000
Lottery winnings (gross)	45,000

Contribution to provident fund and NSC	1,50,000
Income of minor daughter Manisha from special talent	2,00,000

Compute his income tax liability assuming that he opts out of the default tax regime under section 115BAC. **(6 Marks)**

(b) Mr. Kailash, a resident and ordinarily resident in India, could not file his return of Income for the assessment year 2025-26 before due date prescribed under section 139(1). Advise Mr. Kailash as a tax consultant.

What are the consequences for non-filing of return of Income within the due date under section 139(1)?

OR

(b) Mr. Naksh has undertaken certain transactions during the F.Y.2024-25, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents–

S. No.	Transaction
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

(4 Marks)

MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Ashish born on 1.4.1964 furnished his return of income for Assessment Year 2025-26 on 10.07.2025. He has paid tax under default tax regime. He had shown the following income in his original return of income -

   - Salary of ₹ 10.50 lakhs from PQR (P) Ltd (Computed)
   - Interest from savings bank account of ₹ 15,700
   - Interest from fixed deposits with SBI of ₹ 50,000.

   During the P.Y. 2024-25, he paid interest on loan of ₹ 2,50,000 for purchase of self-occupied property. He contributed ₹ 1,50,000 towards the PPF. He paid health insurance premium of ₹ 40,000 by account payee cheque for self and wife. He paid ₹ 2,200 in cash for his health check-up and ₹ 4,000 by cheque for preventive health check-up of his parents. He also paid medical insurance premium of ₹ 29,000 during the year to insure the health of his mother, aged 80 years. He further incurred medical expenditure of ₹ 18,000 on his father, aged 81 years, who is staying with him. His father is not covered under any mediclaim policy.

   He met one of his friends, CA. Ashwin on 01.02.2026. While discussing with his friend, his friend told him that the default tax regime under section 115BAC is not beneficial to him. He advised him to revise his return of income and shift out of the default tax regime. However, Mr. Ashish's son, who is employed in the accounts department of TQM (P) Ltd., is of the view that once tax is paid under section 115BAC in original return, it cannot be changed in revised return.

   Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

   (i) What is the total deduction under Chapter VI-A allowable to Mr. Ashish if he shifts out of the default tax regime under section 115BAC?

   (a) ₹ 2,34,800

   (b) ₹ 2,35,000

(c) ₹ 2,92,000

(d) ₹ 2,92,200

(ii) What is total income of Mr. Ashish under normal provisions of the Act for A.Y. 2025-26?

(a) ₹ 5,73,700

(b) ₹ 6,23,700

(c) ₹ 6,48,700

(d) ₹ 6,30,700

(iii) Can Mr. Ashish file his revise return of income for A.Y. 2025-26 and declare income under the regular provisions of the Act?

(a) Yes, Mr. Ashish can revise his return of income and declare income under the regular provisions of the Act

(b) No, though he can file a revised return of income, option to shift out from section 115BAC once not opted in original return of income cannot be opted in revised return of income if he is filing revised return after due date.

(c) No, Mr. Ashish cannot revise his return of income for A.Y. 2025-26

(d) No, he cannot do so since he is a salaried employee. He would have made a declaration to pay tax under section 115BAC to his employer, which cannot be changed subsequently at the time of fling of return of income **(3 x 2 = 6 Marks)**

2. Mr. Rajiv, an Indian resident, purchased a residential house property at Gwalior on 28.05.1999 for ₹ 28.5 lakhs. The fair market value and the stamp duty value of such house property as on 1.4.2001 was ₹ 33.5 lakhs and ₹ 32.4 lakhs, respectively. On 25.03.2014, Mr. Rajiv entered into an agreement with Mr. Virat for sale of such property for ₹ 74 lakhs and received an amount of ₹ 3.9 lakhs as advance. However, as Mr. Virat did not pay the balance amount, Mr. Rajiv forfeited the advance.

On 15.04.2024, Mr. Rajiv sold the house property to Mr. Suraj for ₹ 2.10 crores, when the stamp duty value of the property was ₹ 2.33 crores.

Cost inflation index –

P.Y. 2024-25: 363; P.Y. 2013-14: 220; P.Y. 2001-02: 100

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

(i) What shall be the indexed cost of acquisition of residential house property at Gwalior for computation of capital gains in the hands of Mr. Rajiv?

(a) ₹ 1,17,61,200

(b) ₹ 1,03,45,500

(c) ₹ 1,07,44,800

(d) ₹ 1,05,27,200

(ii) The amount of capital gains for A.Y. 2025-26 in the hands of Mr. Rajiv for sale of residential house property at Gwalior is -

(a) ₹ 1,13,38,800

(b ₹ 1,15,38,800

(c) ₹ 1,29,54,500

(d) ₹ 1,25,55,200

(iii) The amount required to be deducted as TDS by Mr. Suraj under section 194-IA, is -

(a) ₹ 2,33,000

(b) Nil

(c) ₹ 2,10,000

(d) ₹ 23,000 **(3 x 2 = 6 Marks)**

3. Mr. Sushil is a person of Indian origin, residing in Canada. During P.Y. 2024-25, he visited India on several occasions and his period of stay, in total, amounted to 129 days during P.Y. 2024-25 and his period of stay in India during P.Y. 2023-24, P.Y. 2022-23, P.Y.2021-22, P.Y. 2020-21 was 135 days, 115 days, 95 days and 125 days, respectively. He earned the following incomes during the P.Y. 2024-25:

Source of Income	Amount (₹)
Income received or deemed to be received in India	2,50,000
Income accruing or arising or which is deemed to accrue or arise in India	3,75,000
Income accruing or arising and received outside India from business controlled from India	5,50,000
Income accruing or arising and received outside India from business controlled outside India	6,50,000

What is the residential status of Mr. Sushil for A.Y. 2025-26 and his income liable to tax in India during A.Y. 2025-26?

(a) Non-Resident; ₹ 6,25,000 is liable to tax in India

(b) Resident and ordinary resident; ₹ 18,25,000 is liable to tax in India

(c) Resident but not ordinarily resident; ₹ 11,75,000 is liable to tax in India

(d) Non-Resident; ₹ 11,75,000 is liable to tax in India **(2 Marks)**

4. Mr. Arora made the following cash withdrawals during the P.Y.2024-25 -

Date	Amount	From
1.6.2024	₹ 70 lakhs	Canara Bank
1.8.2024	₹ 50 lakhs	Canara Bank
1.10.2024	₹ 60 lakhs	Repco Bank (Co-operative Bank)

1.11.2024	₹ 10 lakhs	SBI
1.12.2024	₹ 10 lakhs	Repco Bank (Co-operative Bank)
20.1.2025	₹ 20 lakhs	Repco Bank (Co-operative Bank)
1.2.2025	₹ 15 lakhs	Repco Bank (Co-operative Bank)
10.2.2025	₹ 75 lakhs	SBI
1.3.2025	₹ 15 lakhs	SBI

Which of the above banks are required to deduct tax at source on cash withdrawals made by Mr. Arora in the P.Y.2024-25 if he regularly files his return of income?

(a) Canara Bank

(b) SBI & Repco

(c) Repco & Canara Bank

(d) Repco **(1 Mark)**

Division B – Descriptive Questions

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

Attempt any ***two*** *questions from the remaining* ***three*** *questions*

1. Mr. Ashok, aged 61 years, a resident individual, engaged in a wholesale business of stationary products provides you the following information for the year ended 31.3.2025. He is also a partner in UVW & Co., a partnership firm.

Sl. No.	**Particulars**	**₹**	**₹**
(i)	Interest on capital received from UVW & Co., at 14% [in accordance with the partnership deed]		1,40,000
(ii)	Share of profit from the firm		44,000
(iii)	Salary as working partner (fully allowed in the hands of the firm)		1,00,000
(iv)	Interest from bank on fixed deposit (Net of TDS)		49,500
(v)	Interest on saving bank account		13,300
(vi)	Income-tax refund received relating to assessment year 2024-25 including interest of ₹ 1,400		34,500
(vii)	Net profit from wholesale business		6,60,000
	Amounts debited include the following:		
	- Depreciation as per books	34,000	
	- Motor car expenses	40,000	
	- Municipal taxes for the shop	7,000	

	(For two half years; payment for one half year made on 12.7.2024 and for the other on 31.12.2025)		
	- Salary to manager by way of a single cash payment	22,000	
(viii)	The WDV of the assets (as on 1.4.2024) used in above wholesale business is as under:		
	- Computers	2,40,000	
	- Computer printer	1,50,000	
(ix)	Motor car acquired on 31.12.2024 (20% used for personal use)	6,80,000	
(x)	He owned a house property in Mumbai which was sold in January, 2021. He received arrears of rent in respect of the said property in October, 2024.		1,35,000
(x)	LIP paid for independent son	60,000	
(xi)	PPF of his wife	70,000	
(xii)	Health insurance premium paid by way of A/c payee cheque for self	35,000	
(xiii)	Contribution toward Prime Minister National Relief Fund	50,000	

You are required to compute the total income and tax liability of Mr. Ashok for the A.Y. 2025-26 assuming he opts out from the provisions of section 115BAC. **(15 Marks)**

2. (a) Mr. Sudesh (aged 58 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in UK on 15th March 2024. His income during the financial year 2024-25 is given hereunder:

Particulars	**₹**
Rent from a house situated at UK, received in UK. Thereafter, remitted to Indian bank account.	5,25,000
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Sudesh did not come to India during the financial year 2024-25. Compute his total income for the Assessment year 2025-26. **(3 Marks)**

(b) Mr. Sumit has submitted his income-tax return containing certain losses/deductions in respect of the P.Y. 2024-25 on 22.10.2025. The due date for filing the return for Mr. Sumit was 31st July, 2025 under section 139(1). You are required to examine with reference to the relevant provisions of Income-tax Act, 1961 whether the following losses/deductions can be carried forward/claimed in subsequent years by Mr. Sumit if he pays tax under default tax provisions of the Act.

(i) Loss from the business carried on by him as a proprietor: ₹ 10,80,000 (computed)

(ii) Unabsorbed Depreciation: ₹ 2,00,000 (computed)

(iii) Loss from let out house property: ₹ 2,50,000 (computed)

(3 Marks)

(c) Briefly discuss the provisions of tax deducted at source under the Income-tax Act, 1961 in respect of the following payments:

(i) Mr. Shamsher (a resident individual aged 65 years) has maintained two fixed deposits in two different branches of HFC Bank of India (working on core banking solution). During the year 2024-25, the bank paid ₹ 32,000 and ₹ 17,000 as interest on these fixed deposits.

(ii) Mr. Chetan, a pensioner, pays ₹ 55,00,000 in November 2024 to Mr. Gopi, for contract payment for reconstruction of his residential house. **(4 Marks)**

3. (a) Mr. Yogesh constructed a house in P.Y. 2017-18 with 3 independent units. During the P.Y. 2024-25, Unit - 1 (50% of floor area) is let out for residential purpose at monthly rent of ₹ 20,000. Rent of January, 2025 could not be collected from the tenant and a notice to vacate the unit was given to the tenant. No other property of Mr. Yogesh is occupied by the tenant. Unit - 1 remains vacant for February and March 2025 when it is not put to any use. Unit - 2 (25% of the floor area) is used by Mr. Yogesh for the purpose of his business, while Unit - 3 (the remaining 25%) is utilized for the purpose of his residence. Other particulars of the house are as follows:

Municipal valuation - ₹ 2,88,000

Fair rent - ₹ 2,98,000

Standard rent under the Rent Control Act - ₹ 2,78,000

Municipal taxes - ₹ 30,000 paid by Mr. Yogesh

Repairs - ₹ 7,000

Interest on capital borrowed for the construction of the property - ₹ 90,000,

Ground rent - ₹ 6,000 and

Fire insurance premium paid - ₹ 60,000.

Income of Yogesh from the business is ₹ 2,40,000 (without debiting house rent and other incidental expenditure).

Determine the taxable income of Mr. Yogesh for the assessment year 2025-26 if he pays tax under section 115BAC. **(5 Marks)**

(b) Mr. Soham, a builder, entered into an agreement on 1.4.2024 with Mr. Aman to transfer 4th Floor in Tower A of a new project for ₹ 1,50,00,000. He received ₹ 25 lakhs as advance in cash on 1.4.2024. The stamp duty value of such floor on that date was ₹ 1,70,00,000. The sale deed was executed and registered on 15.6.2024 for the agreed consideration. However, the stamp duty value on that date was ₹ 1,75,00,000.

Discuss the tax consequences of above, in the hands of Mr. Soham and Mr. Aman. **(5 Marks)**

4. (a) Mr. Mohan, aged 30 years, submits the information of following transaction/income during the P.Y. 2024-25

(i) Mr. Mohan had a house in Delhi. During financial year 2020-21, he had transferred the said house to Ms. Veena, daughter of his brother without any consideration. House would go back to Mr. Mohan after the life time of Ms. Veena. The transfer was made with a condition that 15% of rental income from such house shall be paid to Mrs. Mohan. Rent received by Ms. Veena during the previous year 2024-25 from such house property is ₹ 6,50,000.

(iii) Mr. and Mrs. Mohan forms a partnership firm with equal share in profits. Mr. Mohan transferred a fixed deposit of ₹ 50 lakhs to such firm. Firm had no income or expense other than the interest of ₹ 6,00,000 received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Mohan at the end of the year.

(iv) Mr. Mohan holds preference shares in M/s X Pvt. Ltd. He instructed the company to pay dividends to Ms. Roshni, daughter of his servant. The transfer is irrevocable for the life time of Roshni. Dividend received by Ms. Roshni during the previous year 2024-25 is ₹ 10,00,000.

(v) Mr. Mohan has a short term capital loss of ₹ 16,000 from sale of property and long term capital gain of ₹ 15,000 from sale of property.

(vi) Other income of Mr. Mohan includes

- Interest from saving bank account of ₹ 2,00,000
- Cash gift of ₹ 75,000 received from daughter of his sister on his birthday.
- Income from betting of ₹ 34,000
- Income from card games of ₹ 46,000
- Loss on maintenance of race horses of ₹ 14,600

Compute the total income of Mr. Mohan for the Assessment Year 2025-26 and the losses to be carried forward if he pays tax under default tax regime. **(7 Marks)**

(b) Mr. Prince, a senior citizen, has reported a Total Income ₹ 1,90,000. He has claimed exemption of ₹ 50,000 under section 54EC in respect of long term capital gain on sale of house property and deductions under Chapter VI-A amounting to ₹ 1,50,000 for the previous year

2024-25. Is he liable to file his return of income under section 139(1) for the Assessment year 2025-26? If so why? **(3 Marks)**

OR

(b) Examine with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:

(i) The Assessing Officer has the power, *inter alia*, to allot PAN to any person by whom no tax is payable.

(ii) Where the Karta of a HUF is absent from India, the return of income can be verified by any male member of the family.

(3 Marks)

MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Amit, an Indian citizen, aged 61 years, has set-up his business in France and is residing in France since 2010. He owns a house property in France, half of which is used by him for his residence and half is given on rent (converted into INR is ₹ 12,00,000 p.a.).

   Mr. Amit visited India for 65 days during the previous year 2024-25. Before that he visited India in total for 366 days during the period 1.4.2020 to 31.3.2024.

   He derived some other incomes during the F.Y. 2024-25 which are as follows:

   (i) Profit from business in France ₹ 2,75,000

   (ii) Interest on bonds of a Co. in France ₹ 6,20,000 out of which 50% was received in India.

   (iii) Income from Apple Orchid in Nepal given on contract and the yearly contract fee of ₹ 5,00,000 for F.Y. 2024-25, was received by Amit in Nepal.

   Mr. Amit has sold 10,000 listed shares @ ₹ 480 per share of ABC Ltd., an Indian company, on 15.9.2024, which he acquired on 05-04-2021 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares.

   On 31-01-2018, the shares of ABC Ltd. were traded on a recognized stock exchange as under:

   Highest price - ₹ 300 per share

   Average price - ₹ 290 per share

   Lowest price - ₹ 280 per share

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

(i) What would be the residential status of Mr. Amit for the A.Y. 2025-26?

(a) Resident and ordinarily resident in India

(b) Resident but not ordinarily resident in India

(c) Non-resident

(d) Deemed resident

(ii) What amount of capital gain would arise in the hands of Mr. Amit on transfer of shares of ABC Ltd?

(a) ₹ 18,00,000

(b) ₹ 19,00,000

(c) ₹ 20,00,000

(d) ₹ 38,00,000

(iii) What would be the total income of Mr. Amit for the A.Y. 2025-26?

(a) ₹ 41,10,000

(b) ₹ 38,00,000

(c) ₹ 21,10,000

(d) ₹ 49,50,000 **(3 x 2 = 6 Marks)**

2. Miss Himani transferred to his husband, Mr. Hemant, a residential property worth ₹ 45 lakhs located in Nagpur without any consideration. The expected rent of such property is ₹ 5 lakhs. Municipal tax of ₹ 5,000 paid by Miss Himani for this property during the previous year 2024-25. Miss Himani has three residential properties in Mumbai. The expected rent from the 3 properties situated in Mumbai is ₹ 10 lakhs, ₹ 11 lakhs and ₹ 12 lakhs respectively. She purchased the properties out of her own funds. Municipal taxes due are ₹ 15,000, ₹ 20,000 and ₹ 25,000. The same have, however, not been paid this year in respect of the three properties. The expected rent is lesser than the standard rent in case of all the aforementioned properties. Miss Himani does not have any income from any other source.

Miss Himani's father, aged 58 years had capital gains of ₹ 5 crores from sale of house property. He reinvested the proceeds from sale in another residential house of ₹ 4.98 crores and the remaining sale proceeds were deposited in his savings bank account. He has paid ₹ 1,50,000 towards LIC premium. He has no other source of income.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

(i) What is the amount of income liable to be taxed in the hands of Miss Himani under the head "Income from House Property" for A.Y.2025-26?

(a) ₹ 7,00,000

(b) ₹ 10,46,500

(c) ₹ 10,50,000

(d) ₹ 13,76,500

(ii) What would be tax liability of Miss Himanil for the A.Y. 2025-26? Compute in a manner so that her tax liability is minimum.

(a) ₹ 66,300

(b) ₹ 59,250

(c) ₹ 69,650

(d) ₹ 1,31,510

(iii) Is Himani's father required to furnish his return of income in India for the A.Y.2025-26?

(a) No, he is not required, since his income does not exceed basic exemption limit

(b) Yes, he is required to furnish return of income on or before 31st July, 2025

(c) Yes, he is required to furnish return of income on or before 30th September, 2025

(d) Yes, he is required to furnish return of income on or before 31st October, 2025

(3 x 2 = 6 Marks)

3. During the P.Y.2024-25, Mr. Ranjit has short-term capital gains of ₹ 95 lakhs taxable under section 111A, long-term capital gains of ₹ 110 lakhs taxable under section 112A and business income of ₹ 90 lakhs. Which of the following statements is correct if Mr. Ranjit is paying tax under default tax regime?

(a) Surcharge @15% is leviable on income-tax computed on total income of ₹ 2.95 crore.

(b) Surcharge @25% is leviable on income-tax computed on total income of ₹ 2.95 crore, since total income exceeds ₹ 2 crore.

(c) Surcharge @15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; in respect of business income, surcharge is leviable @25% on income-tax, since total income exceeds ₹ 2 crore.

(d) Surcharge @15% is leviable in respect of income-tax computed on capital gains of ₹ 2.05 crore; surcharge @10% is leviable on income-tax computed on business income, since the same exceeds ₹ 50 lakhs but is less than ₹ 1 crore. **(2 Marks)**

4. Mr. Raj incurred short-term capital loss of ₹ 10,000 on sale of shares through the National Stock Exchange. Such loss -

(a) can be set-off only against short-term capital gains

(b) can be set-off against both short-term capital gains and long-term capital gains.

(c) can be set-off against any head of income.

(d) not allowed to be set-off.

(1 Mark)

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions*

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 31.03.2025.

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2025

Particulars	₹	Particulars	₹
To Opening Stock	4,97,000	By Sales	3,04,50,000
To Purchase of Raw		By Closing Stock	14,00,000
Materials	1,20,43,500		
To Manufacturing			
Wages & Expenses	40,63,500		
To Gross Profit	1,52,46,000		
Total	**3,18,50,000**	**Total**	**3,18,50,000**
To Administrative		By Gross Profit	1,52,46,000
Charges	20,30,000	By Dividend From	
To SGST Penalty Paid		Domestic Companies	1,05,000
(It is not compensatory nature)	49,000	By Winning from	
To GST Paid	7,70,000	Lotteries (Net of TDS) (TDS 31,500)	73,500
To General Expenses	3,85,000	By Profit on Sale of	
To Miscellaneous Expenses	10,53,500	Shares	3,15,000
To Loss on Sale of Shares	1,40,000		
To Interest to Bank for term loan	4,20,000		
To Depreciation	14,00,000		
To Net Profit	94,92,000		
Total	**1,57,39,500**	**Total**	**1,57,39,500**

Following are the further information relating to Financial Year 2024-2025:

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

(ii) The assessee paid ₹ 33,000 in cash to a Transport Carrier on 26.12.2024. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable on this payment.)

(iii) Bank Term Loan Interest actually paid upto 31.03.2025 was ₹ 1,40,000 and the balance was paid in October 2025.

(iv) Miscellaneous Expenses include ₹ 10,000 contributed to Prime Minister's Relief Fund by account payee cheque.

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

(vi) Profit on Sale of Shares represents shares sold in December 2024 and held for 2 years & Securities Transaction Tax was paid on it.

(vii) 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 31.03.2020). These amounts were not dealt with in the Profit and Loss Account given above.

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

Plant & Machinery (Depreciation Rate @15%)	**₹**
Opening WDV (as on 01.04.2024)	84,00,000
Additions During the year (Used for more than 180 Days)	14,00,000
Total Additions during the year	28,00,000
Note: Ignore Additional Depreciation u/s 32(1)(iia)	

Compute the total income and tax liability of Mr. Sahil for the A.Y. 2025-26 if he has exercised the option of shifting out of the default tax regime provided under section 115BAC(1A). **(15 Marks)**

2. (a) Mr. Tilak aged 35 years, furnishes the following information regarding his income for the assessment year 2025-26. Compute the total income if he is:

(1) Resident and Ordinarily Resident.

(2) Resident but Not Ordinarily Resident

(Ignore the provisions of Section 115BAC).

(i) FTS of ₹ 50,000 for service rendered in Malaysia to a non-resident for business in Malaysia, credited to his bank account in Malaysia and immediately remitted to his bank account in India.

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

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

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

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

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

(vii) 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 2025-26 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 01.04.2024 to 31.03.2025. 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 01.05.2024 and 25.12 2024. Mrs. Anju has furnished her PAN and filed her return of income regularly before the due date. **(4 Marks)**

3. (a) (i) Mr. Ravi received an advance of ₹ 2,00,000 on 10.5.2024 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. Rajo has commenced business on 1.4.2024. He finished the following information regarding the payments made towards Scientific Research during the financial year 2024-25:

(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.2023-24 and certified by the prescribed authority.

Compute the deduction allowable u/s 35 for the assessment year 2025-26 assuming that he has opted out of default tax regime u/s 115BAC. **(4 Marks)**

(b) Mr. Surinder furnishes the following particulars for the previous year ending 31.03.2025. 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 10.05.2024, the House was sold for ₹ 85 Lakhs. Expenditure in connection with transfer is ₹ 50,000. On 20.12.2024, 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 2025-26.

(Cost Inflation Index: F.Y. 2013-14:220, F.Y.2024-25:363, F.Y. 2009-10:148 and F.Y. 2001-02:100) **(4 Marks)**

4. (a) Mr. Joshi, resident Indian, aged about 58 years, furnished the following details of his income for the previous year 2024-25:

(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 2023.

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

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

Following are the losses:

(a) Brought forward House property loss of assessment year 2022-23 ₹ 2,50,000.

(b) Business loss of Proprietary business from assessment year 2014-15 ₹ 50,000.

(c) Unabsorbed Depreciation relating to assessment year 2015-16 ₹ 1,00,000.

(d) Brought forward Long Term Capital Loss from assessment year 2019-20 ₹ 90,000.

Return of income for all the years were filed before the due date except for A.Y. 2019-20.

Compute the total income of Mr. Joshi for the assessment year 2025-26 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 2025-26:

(i) Mr. Aneesh aged 31 years, who pays tax under default tax regime u/s 115BAC(1A) had a total income of ₹ 2,90,000 for the previous year 2024-25.

(ii) Smt. Patel, aged 65 years, has a TDS credit of ₹ 55,000 during the previous year 2024-25.

(iii) The gross receipts of Mr. Ajit, aged 45 years, an architect for the previous year 2024-25 was ₹ 12,00,000, but his profit from profession was only ₹ 2,25,000 and he has no other income.

(4 Marks)

OR

(b) State the persons who are required to file their return of income in pursuance of the notification issued by the CBDT has vide Notification No. 37/2022 dated 21.04.2022. **(4 Marks)**

MODEL TEST PAPER 8

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

Time Allowed – 3 Hours **Maximum Marks – 100**

SECTION – A: INCOME TAX LAW (50 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2025-26.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Ms. Prerna is having a residential house property in Nagpur, of which 1/3rd is self- occupied and 2/3d is let out for commercial purposes at a monthly rent of ₹ 12,000. Fair rent (for let out portion only) was ₹ 30,000 p.m., Municipal value for the property was ₹ 2,40,000 and standard rent under the Rent Control Act was ₹ 3,00,000 for the entire property. Municipal taxes are 10% of municipal valuation and are paid by her on 30th July, 2024. She took a loan of ₹ 45,00,000 for the construction of this house from a scheduled bank on 1.4.2022. She repaid the entire loan along with interest on 30.6.2024. The interest rate for this loan was 10% p.a. The construction was completed on 30th June, 2023. She earns other income of ₹ 2,00,000 during the previous year 2024-25. She wishes to pay tax under default tax regime.

   Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

   (i) The Net Annual Value (NAV) of the house property for the A.Y. 2025-26 is:

   (a) ₹ 1,28,000

   (b) ₹ 1,44,000

   (c) ₹ 1,84,000

   (d) ₹ 2,00,000

   (ii) Deduction in respect of interest on loan for the P.Y. 2024-25 shall be:

   (a) ₹ 2,02,500

   (b) ₹ 1,35,000

   (c) ₹ 5,62,500

   (d) ₹ 1,12,500

(iii) Compute her total income for the assessment year 2025-26

(a) ₹ 1,93,800

(b) ₹ 2,00,000

(c) Nil

(d) ₹ 2,05,000 **(3 x 2 = 6 Marks)**

2. Mr. Desai (aged 52 years) is an Indian resident. He gives the following information to you relating to the P.Y. 2024-25:

(i) Profit from the business carried out in Dubai controlled from Dubai ₹ 13,10,000 (received in a bank account in Dubai).

(ii) Loss from a business in Delhi - ₹ 4,50,000

(iii) During the F.Y. 2024-25, he also played some online games on a particular Indian website Game.com. Game.com is a manufacturer of men's shirts. During the year, Mr. Desai won 6 such shirts. The cost to manufacture such shirts by Game.com is ₹ 3,000 per piece and it sells these shirts at ₹ 10,000 per piece (excluding GST @18%). However, to play such games, Mr. Desai had to deposit a sum of ₹ 50,000 with the website as a refundable deposit.

(iv) On 23rd May 2024, he gifted listed equity shares in an Indian company to his son's daughter, Ms. Shanaya. These shares were purchased by him on 1.4.2020 for ₹ 65,000. The market value as on the date of transfer was ₹ 1,00,000. Shanaya sold these shares for a consideration of ₹ 50,000 on 31.3.2025.

(v) He had taken a loan of ₹ 25,00,000 for the purchase of an electric vehicle (for his personal purposes) on 1.4.2022 from a scheduled bank. He paid ₹ 5,00,000 as interest on such loan during the P.Y. 2024-25.

(vi) He wants to pay tax under default tax regime.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:-

(i) What shall be the total income of Mr. Desai for the A.Y. 2025-26?

(a) ₹ 8,78,000

(b) ₹ 8,63,000

(c) ₹ 9,20,000

(d) ₹ 7,70,000

(ii) Which of the following statement is correct in respect of deductions available to him under Chapter VI-A?

(a) He shall be eligible for a deduction of ₹ 1,50,000 in respect of interest on loan irrespective of the tax regime opted by him.

(b) He shall not be eligible for any deduction under Chapter VI-A irrespective of the tax regime opted by him.

(c) He shall be eligible for a deduction of ₹ 1,50,000 in respect of interest on loan only if he opts out of the default tax regime.

(d) He shall be eligible for a deduction of ₹ 50,000 in respect of interest on loan only if he opts out of the default tax regime.

(iii) What is the requirement of deduction of tax at source by Game.com in respect of such winning by Mr. Desai?

(a) Game.com has to ensure, before releasing the winnings, that the tax amounting to ₹ 18,000 has been paid.

(b) Game.com has to ensure, before releasing the winnings, that the tax amounting to ₹ 5,400 has been paid.

(c) There is no requirement for deduction of tax at source. However, Mr. Desai need to collect tax at source from the security deposit.

(d) Game.com needs to deduct tax at source amounting to ₹ 18,000.

(3 x 2 = 6 Marks)

3. Mr. Sundaram owns two residential house properties in Chennai, one of which is used by him and his family for their residential purposes. Both the houses are exactly identical and their expected rent/municipal value etc. are also the same. He let out the other house for a rent of ₹ 1,15,000 p.m. He took two similar loans for the purchase of these two houses on 1.4.2023. The stamp duty value of these houses is ₹ 30 lakhs each. During the F.Y. 2024-25, he paid ₹ 4,00,000 as interest for each of the houses. He does not have any other income or investments during the year. He did not file his return of income within the due date under section 139(1). What shall be his total income chargeable to tax?

(a) ₹ 2,16,000

(b) ₹ 3,66,000

(c) ₹ 5,66,000

(d) ₹ 1,66,000 **(2 Marks)**

4. During the year 2024-25, Mrs. Kalis (aged 65 years), received ₹ 10,50,000 a family pension. She had to spend ₹ 26,000 to get such income towards documentation and processing charges. She does not have any other income. Assuming she pays tax under default tax regime, what shall be her total income chargeable to tax?

(a) ₹ 10,35,000

(b) ₹ 10,24,000

(c) ₹ 10,50,000

(d) ₹ 10,25,000 **(1 Mark)**

Division B – Descriptive Questions

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

*Attempt any **two** questions from the remaining **three** questions*

1. Mr. Raman, a resident individual aged 62 years, is engaged in the business of manufacturing and sales of spare parts for motor bikes, as a proprietor. He prepares his accounts on mercantile basis. This business is carried out on the ground floor of a two storied commercial building owned by him, the written down value of which is ₹ 8 lakhs as on April 1, 2024. The Statement of Profit and Loss for the previous year ended on March 31, 2025 shows a net profit of ₹ 9.25 lakhs (before taxation and depreciation) after debiting/crediting the following items:

   (i) Administrative expenses include ₹ 9,525 paid towards interest on delay in deposit of GST.

   (ii) General expenses include a sum of ₹ 3,88,000 paid to a non-resident as fee for technical services without deduction of tax at source.

   (iii) Fire insurance premium of ₹ 66,000 for the entire building remained unpaid till 31st March, 2025.

   (iv) Expenditure of ₹ 75,000, was paid to a scientific research association approved under section 35. Out of ₹ 75,000, ₹ 50,000 was utilised towards the purchase of land by the research association.

   (v) He let out first floor of his commercial building to Mr. Aman on April 1, 2024 and received rent of ₹ 35,000 per month. Municipal taxes ₹ 20,000 relating to the building were paid equally by both Mr. Raman and Mr. Aman. Rent received was credited and municipal taxes of ₹ 10,000 (relating to ground floor) was debited to the statement of profit and loss.

   (vi) He sold a piece of land for ₹ 44 lakhs on 12th April, 2024. He had acquired the land for 40 lakhs on 1st January, 2023. The gain of 4,00,000 is credited to the statement of profit and loss.

   (CII for F.Y. 2021-22:317; F.Y. 2024-25:363)

   Additional Information:

   (i) Mr. Raman purchased raw material from M/s. Paul Industries, a micro enterprise, for ₹ 49,000 on March 10, 2025. However, the payment to M/s. Paul Industries was made on April 5, 2025 by cheque. No written agreement for payment existed between M/s. Paul Industries and Mr. Raman. Another supplier M/s. Kal Industries, a small enterprise, with whom also no written agreement existed for payment, was paid ₹ 1,34,000 in cash on April 5, 2025 for purchase of raw material on March 31, 2025. Both M/s. Paul Industries and M/s. Kal Industries follow mercantile system of accounting.

   (ii) Mr. Raman acquired a registered trademark on July 15, 2024 for ₹ 2,00,000. Mr. Raman started using this trademark for his business from January 15, 2025. Mr. Raman omitted to enter any transaction relating to this trademark in his books of accounts.

(iii) Mr. Raman bought a car for personal use on 12th April, 2021 for ₹ 5,40,000. He started using this car for business purposes from 01.04.2024. As on that day, the market value of the car was ₹ 2,10,000. Assume the rate of depreciation to be 15%.

(iv) He incurred ₹ 2,50,000 on the purchase of a new machinery to be used in the production of spare parts for motor bikes on May 15, 2024.

(v) He has paid tuition fees of ₹ 25,000 for the education of his daughter to a college.

(vi) During the year, Mr. Raman has incurred ₹ 9,500 in cash for preventive health check-up where ₹ 5,000 was for himself and ₹ 4,500 was for his parents who are super senior citizens.

(vii) Donation paid to a registered political party by way of cheque ₹ 20,000.

Compute the total income and tax liability of assessment year 2025-26 of Mr. Raman under both the regimes. **(15 Marks)**

2. (a) Mr. Madan, a citizen of India and the Karta of an HUF, is employed in M/s. PCS Pvt. Ltd. He is drawing monthly salary of ₹ 65,500 in India. On June 1, 2024, he purchased one residential house property in Mumbai for ₹ 18,00,000 in his individual capacity. The market value of the property is ₹ 32,00,000 and value for the purpose of charging stamp duty is ₹ 23,00,000. On August 31st, 2024 he was transferred to the branch office of M/s. PCS Pvt. Ltd. in U.S.A. and he left India on September 1st, 2024. The overseas branch paid him a salary of $ 2,500 per month in USA. He managed business of HUF from USA when he was not in India.

He had also gone out of India for 99 days and 201 days in previous years 2023-24 and 2022-23, respectively. He had never gone out of India prior to that.

He visited India from January 1, 2025 to January 15, 2025 for training on a project and received 15 days salary in India as per his Indian monthly salary before being transferred.

Mr. Rajeev, one of his friends, gifted him a sculpture in India on August 10, 2024. The market value is ₹ 45,100.

Determine the residential status of Mr. Madan and his HUF and compute gross total income of Mr. Madan for the assessment year 2025-26 assuming he opted out of the default tax regime. The value of one USD ($) may be taken as ₹ 70. **(4 Marks)**

(b) Answer the following:

(i) M/s. PQR & Co., a proprietary firm of Mr. Yogesh, paid an amount of ₹ 30,500 to Mr. Amit, a resident individual aged 45 years, on June 1, 2024 towards fees for professional services. Subsequently, another payment of ₹ 60,000 was due to Mr. Amit on January 30, 2025. Tax was not deducted from both the transactions. Mr. Amit has filed his return of income for assessment year 2025-26 on May 2, 2025, taking into account professional fees from M/s. PQR & Co. and paid the taxes due on the income declared in the return of income. Firm's turnover for the P.Y. 2023-24 is ₹ 5 crores.

What are the TDS and interest obligations in the hands of M/s. PQR & Co.?

(ii) M/s. Fastest Ltd. is an Indian car manufacturer. During the F.Y. 2024- 25, it sold cars for ₹ 150 lakhs to M/s. Race LLP, a distributor of cars where the sale price of each car was ₹ 7.5 lakhs. The turnover for the F.Y. 2023-24 of M/s. Fastest Ltd. was ₹ 15 crores and M/s. Race LLP was 8 crores. What shall be the TCS/TDS implications on M/s. Fastest Ltd. and M/s. Race LLP?

(6 Marks)

3. (a) The particulars given below are of Mr. Radhey's income (age 47 years) posted in a private company in Delhi, for the previous year 2024-25:

(i) Basic Pay ₹ 35,000 per month till January 31, 2025, ₹ 40,000 p.m. from February 2025.

(ii) Dearness allowance 30% of basic salary (54% of DA forms part of retirement benefits)

(iii) His employer gave him a rent-free accommodation (fully furnished) in Delhi from 01.04.2024. This house is owned by his employer. The furniture and appliances provided with the house were bought by the employer at an aggregate cost of ₹ 1,50,000 on 01.04.2024. Electricity and water bills of ₹ 4,000 p.m. for the said house were paid by the employer.

(iv) The employer also spent ₹ 50,000 on a refresher course for upgrading Mr. Radhey's skills.

(v) During the previous year his wife had been admitted in a notified hospital for treatment of her kidney disease, the hospital bills amounting to ₹ 3,50,000 were paid by the employer.

You are required to compute the taxable salary income of Mr. Radhey for the Assessment Year 2025-26 under default tax regime under section 115BAC. **(6 Marks)**

(b) Mr. Raj a resident individual, aged 69 years sold an urban agricultural land for ₹ 75,00,000 to Mr. Vipul on December 15, 2024 when the stamp duty value of agricultural land was ₹ 95 lakhs. However, the "agreement to sell" the agricultural land was entered on July 15, 2024 and Mr. Vipul gave ₹ 4 lakhs as advance through IMPS. The stamp duty value at the time of agreement was ₹ 85 lakhs. Mr. Raj paid 1% of sale consideration as commission to a broker. The land was purchased by him on May 15, 2002 for ₹ 10.85 lakhs and it was being used for agricultural purposes by him since its purchase.

Mr. Raj purchased another rural land in rural area on January 1, 2025 for ₹ 40 lakhs and this land was sold by him on March 12, 2026 for ₹ 45 lakhs.

Compute capital gain for assessment year 2025-26 if Mr. Raj exercises the option of shifting out of the default tax regime provided under section 115BAC(1A).

Cost Inflation Index for: F.Y. 2002-03:105; F.Y. 2024-25:363.

(4 Marks)

4. (a) Mr. Suraj, (39 years), his wife Megha (35 years) and minor son Dev (12 years), provide the following details of their income/losses for the previous year 2024-25:

Mr. Suraj

(i) Salary received as a partner from a partnership firm - ₹ 6,15,000

He is a working partner in the firm and the salary is as per the limits prescribed under section 40(b).

(ii) Income (loss) from house property:

Brought forward loss from House -A (let out) - ₹ 96,000

Current year loss from House B (let out) - ₹ 2,30,000

(iii) Interest received on enhanced compensation - ₹ 2,00,000

It relates to transfer of a piece of land in the financial year 2018-19.

Out of the above ₹ 35,000 relates to previous year 2024-25 and the balance relate to preceding previous year.

(iv) Gift from grandfather's younger sister by cheque - ₹ 1,25,000

(v) Dividend on listed equity shares of domestic companies (Gross) - ₹ 50,000

(vi) On 1^{st} December 2024, Mr. Suraj received ₹ 75 lakhs as maturity proceeds from his life insurance policy which was taken on 1^{st} May 2013. He paid ₹ 6,00,000 as annual premium and the sum assured was ₹ 65 lakhs.

Mrs. Megha

(i) Current year loss from business. (She carried on this business with funds which Mr. Suraj gifted to her) - ₹ 8,10,000.

(ii) Mrs. Megha purchased a house property from her "Stridhan" and gifted the same to her minor son, Dev on 1^{st}April, 2024 out of love and affection. The FMV of the house on the date of transfer was ₹ 51 lakhs.

Master Dev

Rent received from house property received from Mrs. Megha - ₹ 35,000 p.m.

Compute gross total income of Mr. Suraj, Mrs. Megha and Dev for the assessment year 2025-26 assuming Mr. Suraj has decided to pay tax under default tax regime provided under section 115BAC, whereas Mrs. Megha and Dev have opted out of the default tax regime. Briefly explain the reasons for the treatment of each item. **(6 Marks)**

(b) Answer the following:

(i) Vegetable Ltd. filed its return of income for the A.Y. 2024-25, on 15th December 2024. On 2nd January 2025, the accountant of Vegetable Ltd. realised that he had forgotten to claim a genuine business expenditure amounting to ₹ 15 lakhs. He wants to file revised return to claim such expenditure as the assessment is not yet completed. Whether the action of the accountant of Vegetable Ltd. is valid?

(ii) Mahendra, a resident individual aged 45 years earned a salary income of ₹ 2 crores during the F.Y. 2024-25. He also earned dividend from unlisted shares amounting to ₹ 4 lakhs. He wants to file his return of income for the A.Y. 2025-26 through a Tax Return Preparer. Can he do so? **(4 Marks)**

OR

(b) Rani, an Indian resident aged 34 years did not file her return of income for the A.Y. 2022-23, 2023-24 and 2024-25. She gives the following information regarding each of the A.Y.-

A.Y. 2022-23

(i) Tax liability on the total income of Rani - ₹ 14,50,000

(ii) TDS deducted - ₹ 5,00,000

A.Y. 2023-24

(i) Tax liability on the total income of Rani - ₹ 5,60,000

(ii) TDS deducted - ₹ 10,00,000

A.Y. 2024-25

(i) Tax liability on the total income of Rani - ₹ 6,30,000

(ii) TDS deducted - ₹ 2,00,000

(iii) Interest payable under section 234A, 234B and 234C - ₹ 90,000 (calculated till 31st May 2025)

(iv) Self-assessment tax paid - ₹ 1,00,000

She approaches you to file updated return under section 139(8A) on 16.5.2025. You are required to advise her for which years she can file an updated return and also the amount of tax to be paid. **(4 Marks)**

MODEL TEST PAPER 1

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

XYZ Electronics Pvt. Ltd. is a leading electronic goods manufacturing company in Delhi. The company produces a wide range of products, including smartphones, laptops, and home appliances.

The sales by the Company are mainly through its distributors on the following credit terms:

For laptops – up to 15 days

For smartphones – up to 90 days

For other home appliances – up to 45 days

During the year, the Company purchased plant and machinery worth ₹ 1 crore exclusive of GST. The GST rate for such plant and machinery is 18%. The input tax credit on such plant and machinery is not blocked under any provision of the CGST Act, 2017.

The Company is planning to demerge its operations in relation to the laptops and other computer accessories from the next financial year. The demerged entity will be a separate legal entity of the Company in form of a wholly owned subsidiary of the Company having common Board of Directors.

The Company also participates in domestic and international level trade fairs to showcase its products and sale through those events. The Electronics Association of Rajasthan is organising a trade fair in Jaipur. The Company is keen to participate in the same. To ensure the GST compliances, the Company wants to obtain the GST registration as casual taxable person in the state of Rajasthan. The Company obtained the GST registration as casual taxable person in the state of Rajasthan with the validity period of 45 days.

The Company transferred the goods from one of its godown in Delhi to another godown in Gujarat wherein the Company has a registered place of business. The value of goods transferred is ₹ 5 crores and the rate of GST applicable on such transfer is 18%. The tax invoice was issued, and GST was deposited by the Company. However, the consideration was not paid by the Gujarat office of the Company to the Delhi office even after 180 days of the invoice date. Further, there was no reverse movement of such goods from Gujarat godown to Delhi Godown.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:

1. What shall be the time limit to issue invoice for supply of smartphones on credit:
   (a) Invoice shall be issued on 31st day from the date of removal of smartphones to distributors.
   (b) Invoice shall be issued before or at the time of removal of smartphones to distributors.
   (c) Invoice shall be issued at the time of receiving payment from distributors.
   (d) Invoice shall be issued upon completion of credit term, i.e. 90 days.

2. In relation to the plant and machinery purchased by the Company, select the correct alternative from the following:
   (a) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income- Tax Act, 1961 shall be ₹ 1.18 crore.
   (b) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income- Tax Act, 1961 shall be ₹ 1 crore.
   (c) ITC cannot be claimed in such transaction and value of asset on which depreciation can be claimed under the provisions of Income- Tax Act, 1961 shall be ₹ 1 crore.
   (d) ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income- Tax Act, 1961 shall be ₹ 82 lakh.

3. How shall the demerged entity be treated under the provisions of GST Law?
   (a) The demerged entity shall be treated as related party of the Company.
   (b) The demerged entity shall be treated as distinct entity of the Company.
   (c) The demerged entity shall be treated as additional place of business of the Company.
   (d) The demerged entity shall be treated as sole selling agent of the Company.

4. The period of retention of books of accounts related to period prior to demerger under GST Law is:
   (a) 36 months from the end of financial year
   (b) 60 months from the end of financial year
   (c) 72 months from the end of financial year

(d) 72 months from due date of furnishing annual return for the relevant financial year

5. The validity of GST registration as a casual taxable person in the state of Rajasthan is:

   (a) 45 days

   (b) 90 days

   (c) 180 days

   (d) 135 days

6. Which of the following statements is true in relation to the non-payment of consideration by the Gujarat godown to Delhi godown?

   (a) The Gujarat godown shall reverse the ITC availed on the goods received from Delhi and also required to pay interest computed from the date of invoice till the date of reversal of ITC.

   (b) The Gujarat godown shall reverse the ITC availed on the goods received from Delhi and no interest shall be applicable.

   (c) The restriction of 180 days for payment of consideration is not applicable in the present case.

   (d) The Delhi godown shall issue a credit note to Gujarat godown to reverse the supply. **(6 x 2 Marks = 12 Marks)**

7. Sanu Associates, Delhi dealing in garments has ordered ladies suits from Sahiba Garments in Ludhiana (Punjab) which is 350 km away from its warehouse. E-way bill is generated by Sahiba Garments and the order is coming by a normal cargo. For how many days will the e-way bill be valid from the time it is generated?

   (a) 24 hours

   (b) 2 days

   (c) 5 days

   (d) 7 days **(2 Marks)**

8. 'Pihu' Ltd. has its registered office, under the Companies Act, 2013, in the State of Maharashtra from where it ordinarily carries on its business of taxable goods. It also has a warehouse in the State of Telangana for storing said goods. What will be the place of business of 'Pihu' Ltd. under the GST law?

   (a) Telangana

   (b) Maharashtra

   (c) Both (a) and (b)

   (d) Neither (a) nor (b) **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks:35 Marks

1. (a) Vishnu Pvt. Ltd., a registered supplier of goods and services at Kolkata has furnished the following information for the month of February:

S. No.	Particulars	Amount (₹)
(i)	Intra-State supply of taxable goods including ₹ 1,00,000 received as advance in January, the invoice for the entire sale value is issued on 15th February	4,00,000
(ii)	Purchase of goods from a composition dealer, registered in Kolkata	5,50,000
(iii)	Services provided by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex (It is an intra-State transaction)	1,00,000
(iv)	Membership of a club availed for employees working in the factory (It is an intra-State transaction)	1,75,000
(v)	Goods transport services received from a GTA. GTA has exercised option to pay tax @12% (It is an inter-State transaction)	2,00,000
(vi)	Inter-State services provided by way of training in sports	10,000
(vii)	Inter-State security services provided to Bharat higher secondary school for their annual day function organised in Kaman Auditorium outside the School campus	15,000
(vii)	Inputs to be received in 4 lots, out of which 2nd lot was received during the month	40,000

The company has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	Nil
IGST	50,000

Note:

(i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

(ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

(iv) The turnover of Vishnu Pvt. Ltd. was ₹ 2.5 crore in the previous financial year.

Compute the minimum GST, payable in cash, by Vishnu Pvt. Ltd. for the month of February. Make suitable assumptions as required.

(10 Marks)

(b) Gulati Ltd., a registered supplier in Mumbai (Maharashtra), has supplied goods to Mridul Traders and Kalu Motors Ltd. located in Ahmedabad (Gujarat) and Pune (Maharashtra) respectively. Gulati Ltd. has furnished the following details for the current month:

S. No.	Particulars	Mridul Traders (₹)	Kalu Motors Ltd. (₹)
(i)	Price of the goods (excluding GST)	10,000	30,000
(ii)	Packing charges	500	
(iii)	Commission	500	
(iv)	Weighment charges		2,000
(v)	Discount for prompt payment (recorded in the invoice)		1,000

Items given in points (ii) to (v) have not been considered while arriving at price of the goods given in point (i) above.

Compute the GST liability [CGST & SGST or IGST, as the case may be] of Gulati Ltd. for the given month. Assume the rates of taxes to be as under:

Particulars	Rate of tax
Central tax (CGST)	9%
State Tax (SGST)	9%
Integrated tax (IGST)	18%

Make suitable assumptions, wherever necessary. **(5 Marks)**

2. (a) Nath Services Limited, registered under GST, is engaged in providing various services to Government. The company provides the following information in respect of services provided during the month of April:

S. No.	Description of Services provided
(i)	Supply of manpower for cleanliness of roads not involving any supply of goods.
(ii)	Service provided by Fair Price Shops owned by Nath Services Limited by way of sale of sugar under Public Distribution System against consideration in the form of commission.
(iii)	Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares

	alongwith maintenance. Generally replacement of defunct lights and other spares constitutes 35% of the supply of service.
(iv)	Service of brochure distribution provided under a training programme for which 70% of the total expenditure is borne by the Government.

Comment on the taxability or otherwise of the above transactions under GST law. Also state the correct legal provisions for the same. **(4 Marks)**

(b) Mr. Shubh, director of Star Company Private Limited, provided service to the company for remuneration of ₹ 1,25,000. Briefly answer whether GST is applicable in the below mentioned independent cases? If yes, who is liable to pay GST?

(i) Mr. Shubh is an independent director of Star Company Private Limited and not an employee of the company.

(ii) Mr. Shubh is an executive director, i.e. an employee of Star Company Private Limited. Out of total remuneration amounting to ₹ 1,25,000, ₹ 60,000 has been declared as salaries in the books of Star Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act). However, ₹ 65,000 has been declared separately other than salaries in the Star Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services. **(6 Marks)**

3. (a) Examine whether the supplier of goods is liable to get registered in the following independent cases:

(i) Om Sai Builders of Rohini, Delhi is exclusively engaged in intra-State taxable supply of building bricks. It's aggregate turnover in the current financial year is ₹ 23 lakh.

(ii) Hukum Chand of Himachal Pradesh is exclusively engaged in intra-State taxable supply of footwear. His turnover in the current financial year (FY) from Himachal Pradesh showroom is ₹ 32 lakh. He has another showroom in Nagaland with a turnover of ₹ 11 lakh in the current FY. **(5 Marks)**

(b) Mr. Mehta is engaged in the business of trading of books. He is eligible for composition scheme and has opted for the same. He seeks your advice for records which are not required to be maintained by him as composition taxable person. **(5 Marks)**

4. (a) An event management company provided services for organizing a sporting event for a Sports Federation which is held in multiple States? What would be the place of supply of services in this case? **(5 Marks)**

Or

(a) Discuss taxability of shares held in a subsidiary company by holding company? **(5 Marks)**

(b) How a return can be revised after filing of the same, if some changes are required to be made? **(5 Marks)**

MODEL TEST PAPER 2

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Ecotech Solutions Private Limited is engaged in manufacturing and supply of energy products and solutions across multiple States in India. The Company manufactures solar panels and also imports certain category of solar panels as per the customer orders. The company also provides installation services and annual maintenance contracts for its products.

The Company received an advance payment for a bulk order of goods in March 2024, but the delivery was completed in May 2024. The amount of advance received by the Company was ₹ 1 crore.

During the month of March 2024, the Company sold goods worth ₹ 5 crores and provided services amounting to ₹ 1 crore to its customers across India. The goods worth ₹ 1 crore sold under multiple invoices were returned by a customer due to defective quality in the month of March, 2024 which were originally sold by the Company in January, 2024. The Company issued a GST credit note against the returned goods in March, 2024.

The Company incurred an amount of ₹ 5 lakh on the repair of the returned goods to make them resalable in the market to customers other than a related party.

Further, the customers who returned the goods issued an invoice to Gujarat unit of the Company of ₹ 1 lakh for the expense related to return of goods. The goods were initially sold from the Gujarat unit of the Company but the same were returned to Maharashtra unit of the Company and subsequently moved by the Company from Maharashtra unit to Gujarat Unit i.e. the original place of supply. The Company is registered under GST in both the States i.e. Gujarat and Maharashtra.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:

1. At what point of time, tax will be payable in relation to the advance received by the Company of ₹ 1 crore?

(a) The tax is payable at the time of receipt of advance.

(b) The tax is payable at the time of supply of goods.

(c) 50% of tax is payable at the time of receipt of advance.

(d) Tax is payable at the time of issuance of receipt voucher.

2. The total amount of supply during the month of March, 2024 to be reported in GSTR -1 by the Company is ________.

(a) ₹ 1 crore

(b) ₹ 5 crores

(c) ₹ 6 crores

(d) ₹ 7 crores

3. Which of the following options is correct in relation to the returned goods of value ₹ 1 crore ?

(a) Company has an option to issue single credit note against multiple invoices.

(b) Company has to mandatorily issue separate credit note against each invoice.

(c) The Company cannot issue credit note in any subsequent period after the supply is made.

(d) The Company can only issue a commercial credit note and GST adjustment cannot be made.

4. In case returned goods are sold by the Company to customers other than the related parties, the value of supply of such goods under GST shall be _________.

(a) equivalent to original value of supply only.

(b) equivalent to original value of supply plus the cost incurred on making the goods reusable

(c) 110% of original value of supply plus the cost incurred on making the goods reusable.

(d) transaction value subject to the conditions mentioned in Section 15(2) of the CGST Act, 2017.

5. Which of the following option(s) is correct in relation to the invoice of ` 1 lakh issued by the customer for the expenses relating to returned goods?

(a) The Company shall be eligible to avail full input tax credit.

(b) The Company shall not be allowed to avail input tax credit.

(c) The Company shall not be allowed to avail input tax credit in excess of 50% of the tax amount charged on such invoice.

(d) The Company shall be allowed to claim input tax credit only if it has not issued any credit note to the customer against such returned goods.

6. While moving the goods from Maharashtra unit to Gujarat unit by the Company, goods shall be accompanied by ____________.

   (a) Original invoice issued in January, 2024

   (b) Invoice issued by the returning customer to the Gujarat unit of the Company

   (c) Invoice by Maharashtra unit to the Gujarat unit of the Company

   (d) Delivery challan issued by the Customer to the Company.

(6 x 2 Marks = 12 Marks)

7. Mr. Jambulal of Himachal Pradesh starts a new business and makes following supplies in the first month-

   (i) Intra-State supply of taxable goods amounting to ₹ 17 lakh

   (ii) Supply of exempted goods amounting to ₹ 1 lakh

   (iii) Inter-State supply of taxable goods amounting to ₹ 1 lakh

   Whether he is required to obtain registration?

   (a) Mr. Jambulal is liable to obtain registration as the threshold limit of ₹ 10 lakh is crossed.

   (b) Mr. Jambulal is not liable to obtain registration as he makes exempted supplies.

   (c) Mr. Jambulal is liable to obtain registration as he makes the inter-State supply of goods.

   (d) Mr. Jambulal is not liable to obtain registration as the threshold limit of ₹ 20 lakh is not crossed. **(2 Marks)**

8. Simmo Singh, a resident of Punjab, is having a residential property in Amritsar, Punjab which has been given on rent to a family for ₹ 72 lakh per annum for residence purposes. Determine whether Simmo Singh is liable to pay GST on such rent.

   (a) Yes, as services by way of renting is taxable supply under GST.

   (b) No, service by way of renting of residential property is exempt.

   (c) No, service by way of renting of residential property does not constitute supply.

   (d) Simmo Singh, being individual, is not liable to pay GST. **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks:35 Marks

1. (a) Mr. Nandan lal, registered under GST, is engaged in supplying services (as discussed in the table below) in Hyderabad. He has furnished the following information with respect to the services provided/ received by him, during the month of February:

S. No.	Particulars	Amount (₹)
(i)	Carnatic music performance given by Mr. Nandan lal to promote a brand of readymade garments	1,40,000
(ii)	Outdoor catering services availed for a marketing event organised for his prospective customers	50,000
(iii)	Services of transportation of students provided to HSMG College providing education as part of a curriculum for obtaining a recognised qualification	1,00,000
(iv)	Legal services availed for official purpose from an advocate located in Chennai (Inter-State transaction)	1,75,000
(v)	Services provided to IFMP Bank as a business correspondent with respect to accounts in a branch of the bank located in urban area	2,00,000
(vi)	Recovery agent's services provided to a car dealer	15,000
(vii)	General insurance taken on a car (seating capacity 5) used for official purposes	40,000

Note:

(i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.

(ii) All inward and outward supplies are exclusive of taxes, wherever applicable.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

(iv) The turnover of Mr. Nandan lal was ₹ 2.5 crore in the previous financial year.

(v) All the transactions mentioned above are intra-State unless otherwise specified.

Compute the net GST payable in cash, by Mr. Nandan lal for the month of February. **(10 Marks)**

(b) LSP Ltd., a registered supplier, sold a machine to Balwant Ltd. It provides the following information in this regard**: -**

S. No.	Particulars	Amount (₹)
(i)	Price of the machine [excluding taxes and other charges mentioned at S. Nos. (ii) and (iii)]	20,000
(ii)	Third party inspection charges [Such charges were payable by LSP Ltd. but the same have been directly paid by Balwant Ltd. to the inspection agency. These charges were not recorded in the invoice issued by LSP Ltd.]	6,000
(iii)	Freight charges for delivery of the machine [LSP Ltd. has agreed to deliver the goods at Balwant Ltd.'s premises]	1,000
(iv)	Subsidy received from the State Government on sale of machine under Skill Development Programme [Subsidy is directly linked to the price]	5,000
(v)	Discount of 2% is offered to Balwant Ltd. on the price mentioned at S. No. (i) above and recorded in the invoice	

Note: Price of the machine is net of the subsidy received.

Determine the value of taxable supply made by LSP Ltd. to Balwant Ltd.

(5 Marks)

2. (a) State the person liable to pay GST in the following independent services provided:

(i) Sapna Builders, registered in Haryana, rented out 20 residential units owned by it in Jain Society to Anant Technologies, an IT based company registered in the State of Haryana, for accommodation of its employees.

(ii) M/s. Verma Consultants, a partnership firm registered in Delhi as a regular tax payer, paid sponsorship fees of ₹ 1,50,000 at a seminar organized by a private NGO (a partnership firm) in Delhi. **(4 Marks)**

(b) "Little Smiles", a photography firm, has commenced providing photoshoot services in Delhi from the beginning of current financial year 2024-25. It has provided the following details of turnover for the various quarters till December, 2024 :-

S. No.	Quarter	Amount (₹ in lakh)
1	April,2024-June,2024	20
2	July,2024-September,2024	30
3	October,2024-December,2024	40

You may assume the applicable tax rate as 18%. Little Smiles wishes to pay tax at a lower rate and opts for the composition scheme. You are required to advise whether it can do so and calculate the amount of tax payable for each quarter? **(6 Marks)**

3. (a) Mr. Sohan, a trader registered under GST in Delhi is engaged in wholesale business of toys for kids. Mr. Roshan registered under GST in Patiala, a regular return filer supplies toys in bulk to Mr. Sohan for selling to end consumers.

   Mr. Sohan paying tax in regular scheme in Delhi, has not filed GSTR-3B for last 2 months. Mr. Roshan wants to generate e-way bill for toys amounting to ₹ 5,00,000 to be supplied to Mr. Sohan. Also Mr. Mohan from Jammu approached Mr. Sohan for purchasing toys amounting to ₹ 75,000 for the purpose of return gift on his son's first birthday party. Sohan wants to generate an e-way bill in respect of an outward supply of goods to Mr. Mohan.

   Examine with reference to the provisions under GST law, whether Mr. Roshan and Mr. Sohan can generate e-way bill? **(5 Marks)**

   (b) Mr. Raj of Rajasthan intends to start business of supply of building material to various construction sites in Rajasthan. He has taken voluntary registration under GST in the month of April. However, he has not commenced the business till December due to lack of working capital. The proper officer *suo-motu* cancelled the registration of Mr. Raj. You are required to examine whether the action taken by proper officer is valid in law?

   Mr. Raj has applied for revocation of cancellation of registration after 40 days from the date of service of the order of cancellation of registration. Department contends that application for revocation of cancellation of registration can only be made within 30 days from the date of service of the order of cancellation of registration. You are required to comment upon the validity of contentions raised by Department. **(5 Marks)**

4. (a) Discuss briefly the place of supply of goods purchased over the counter in one State and transported to another State by the buyer. **(5 Marks)**

   Or

   (a) What would be the place of supply of services provided by an event management company for organizing a sporting event for a Sports Federation which is held in multiple States? **(5 Marks)**

   (b) Discuss whether the amount available in the electronic credit ledger can be used for making payment of any tax under the GST Laws?

   (5 Marks)

MODEL TEST PAPER 3

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Himadri started providing a bouquet of goods and services in the month of April of the current financial year under the regular scheme in the State of Telangana and obtained voluntary registration under GST before starting the business.

In the month of April, she availed the services of construction of a godown for the business from her brother-in-law who was financially dependent on him. She also availed professional consultancy services in April for her business from her son who is a well settled Chartered Accountant in Telangana. Himadri did not pay any consideration for both these services as both of them were her relative/ family member respectively.

In April, she supplied 1,000 packages to Natraj Traders each consisting of a pen holder, a pen and a pencil box at a single price of ₹ 150. Rates of GST for pen holder, pen and pencil box are 5%, 12% and 18% respectively.

She received following payments during the month of May:

- earned ₹ 1,60,000 by providing services as business facilitator to YYZ Bank with respect to accounts in its urban area branch
- earned ₹ 50,000 by providing services by way of renting of residential dwelling for use as a boutique to Supriya, an unregistered person.
- received ₹ 70,000 for supply of manpower for cleanliness of roads, public places, architect services, etc., not involving any supply of goods, to Municipality.

Himadri made supply of taxable Product A during June, details of which are as follows-

- Basic price of Product A before TCS under Income-tax Act, 1961– ₹ 45,000

- Tax collected at source under Income-tax Act, 1961 – ₹ 2,500
- She received a subsidy of ₹ 55,000 from Habitat Foundation Pvt. Ltd. for usage of green energy and the subsidy was linked to the units of green energy and not the aforesaid product.

Himadri provides the following information regarding receipt of inward supplies during July-

- purchased buses (seating capacity of 24 persons) for transportation of her employees from their residence to office and back. Depreciation is claimed on the GST component under the Income tax Act, 1961.
- purchased a truck having GST component of ₹ 1,50,000 for transportation of finished goods. No depreciation claimed on the GST component under the Income tax Act, 1961.
- availed outdoor catering services for a marketing event organised for her prospective customers.

All the amounts given above are exclusive of taxes, wherever applicable. Further, all the supplies referred above are intra-State supplies unless specified otherwise. Conditions necessary for claiming input tax credit (ITC) have been fulfilled subject to the information given above. The opening balance of input tax credit for the relevant tax period of Himadri is Nil.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:-

1. Supply of package made by Himadri to Natraj Traders is a ______________ and is taxable under GST @ __________.
   (a) composite supply; 12%
   (b) mixed supply; 18%
   (c) composite supply; 18%
   (d) mixed supply; 12%
2. Out of payments received by Himadri in month of May, value of exempt supply is _____ .
   (a) ₹ 50,000
   (b) ₹ 70,000
   (c) ₹ 1,20,000
   (d) ₹ 1,60,000
3. Compute the value of supply under section 15 of the CGST Act, 2017 made by Himadri in the month of June.
   (a) ₹ 45,000
   (b) ₹ 47,500
   (c) ₹ 48,500

(d) ₹ 51,000

4. Compute the amount of input tax credit that can be claimed by Himadri in July.

   (a) ₹ 30,000

   (b) ₹ 37,000

   (c) ₹ 1,50,000

   (d) ₹ 1,57,000

5. In respect of services availed by Himadri in April, which of the following is a correct statement?

   (a) Godown construction service availed from her brother-in-law free of cost is considered as a deemed supply.

   (b) Professional service availed from her son free of cost is considered as a deemed supply.

   (c) Neither of the two services availed by her is a deemed supply.

   (d) Both services availed by her are deemed supply.

6. Out of payments received by Himadri in month of May, the value of supply on which tax payable by the recipient under reverse charge is _________.

   (a) ₹ 50,000

   (b) ₹ 70,000

   (c) ₹ 1,20,000

   (d) ₹ 1,60,000 **(6 x 2 Marks = 12 Marks)**

7. Suvidha Enterprises issued invoices pertaining to two independent outward supplies, where in one invoice value of supply was understated by ₹ 75,000 and in another invoice, value was overstated by ₹ 45,000. Which of the following is correct in respect of document to be issued by the firm for understatement and overstatement of invoice value?

   (i) Debit note is to be issued for ₹ 75,000.

   (ii) Credit note is to be issued for ₹ 75,000.

   (iii) Debit note is to be issued for ₹ 45,000.

   (iv) Credit note is to be issued for ₹ 45,000.

   (a) (i) & (iii)

   (b) (ii) & (iii)

   (c) (i) & (iv)

   (d) (ii) & (iv) **(2 Marks)**

8. Riya & Co., a partnership firm, is engaged in retail trade since 1st April. The firm became liable for registration on 1st October. However, it applied for registration on 10th October and was granted certificate of registration on 5th November.

Determine the effective date of registration of Riya & Co.?

(a) 1st April

(b) 1st October

(c) 10th October

(d) 5th November **(1 Mark)**

PART II - Descriptive Questions (35 Marks)

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

1. (a) M/s. ABC & Co., a chartered accountancy firm, has its office in Bengaluru. It is registered under GST in the State of Karnataka. In the month of April, it supplied statutory audit services to Dhruv Manufacturers of Karnataka for ₹ 1,20,000. Further, it charged ₹ 1,60,000 for the ITR filing services provided to the recipients located within Karnataka in said month. It also received ₹ 1,80,000 for internal audit services provided to a client registered in Mumbai, Maharashtra. All the amounts are exclusive of GST.

M/s. ABC & Co. has also provided following information regarding the expenses incurred in the month of April for the purpose of providing the taxable services:

Sr. No.	Particulars	CGST (₹)	SGST (₹)
1.	Membership fee of a club (located in Bengaluru) paid for a senior partner of the firm	2,000	2,000
2.	Rent paid to landlord, who is registered in State of Karnataka, for office located in Karnataka (Refer Note below)	3,850	3,850
3.	Professional fee paid to Mr. Jamnaprasad, a practicing Chartered Accountant, for professional services availed [TDS of ₹ 20,000 is deducted under section 194J of the Income-tax Act, 1961]	18,000	18,000
4.	Air conditioner purchased for office purpose	3,000	3,000

Note - Landlord did not upload his GSTR-1 within the prescribed time resulting in the GST amount not being reflected in GSTR-2B of M/s. ABC & Co.

Other suppliers have duly uploaded their GSTR-1 within the prescribed time and GST amount is reflected in GSTR-2B of M/s. ABC & Co.

Compute the net GST payable in cash by M/s. ABC & Co. for the month of April.

Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively assuming that all the remaining conditions of utilisation of ITC are fulfilled. **(10 Marks)**

(b) Guru Enterprises (Delhi), a registered taxpayer, made a taxable supply to Y Ltd. (Delhi) for a price of ₹ 10,00,000 (excluding any tax or discounts). It received a price linked subsidy of ₹ 1,10,000 from Jiva Enterprises Pvt Ltd. The price of ₹ 10,00,000 is after consideration of such subsidy amount. Further, after delivery of the goods to Y Ltd., Guru Enterprises arranged post-delivery inspection of goods and charged ₹ 10,000 for the same.

In respect of above supply, Guru Enterprises had procured some raw material from X Ltd., for which it owed ₹ 25,000. The said amount was directly paid by Y Ltd. to X Ltd. and was not included in the price of goods of ₹ 10,00,000 mentioned above.

The payment of consideration for above supply was delayed by Y Ltd. Hence, an interest amount of ₹ 20,000 (in lumpsum) was also charged by Guru Enterprises.

The applicable tax rates are - CGST - 6%, SGST - 6% and IGST - 12%. You are required to determine value of taxable supply as well as the applicable tax liability for the above supply transaction. **(5 Marks)**

2. (a) Keshav Ltd., a registered company of Chennai, Tamil Nadu has provided following education related services for the month of October:

Particulars	Amount (₹)
Services of transportation of students, faculty and staff from home to college and back to Galgotian College, (a private college) providing degree courses in BBA, MBA, B.Com., M.Com.	2,50,000
Online monthly magazine containing articles and updates in law to students of Pariksha Law College offering degree courses in LLB and LLM	1,00,000
Housekeeping services to Career Coaching Institute	50,000
Security services to Happy Higher Secondary School for security in school premises	3,25,000
Services of providing breakfast, lunch and dinner to students of Ayushmann Medical College offering degree courses recognized by law in medical field	5,80,000

All the above amounts are exclusive of GST.

Compute the value of taxable supplies of Keshav Ltd. for the month of October with necessary explanations. **(6 Marks)**

(b) Champak Ltd. avails legal services from a firm of advocates. The firm issues invoice for the services to Champak Ltd. on 17th Feb. However, Champak Ltd. was not happy with the services provided by the firm as its legal case was not handled by the firm in a professional manner and it resulted in the company losing the case. The company delayed the payment to the firm and finally made the payment on 3rd November.

Determine the time of supply of the legal services provided by the firm of advocates to Champak Ltd. **(4 Marks)**

3. (a) Answer the following questions:

(i) Mr. Jagmag is a registered dealer in Kerala paying tax under composition levy from 1st April. However, he opts to pay tax under regular scheme from 1st December. Is he liable to file GSTR-4 for the said financial year during which he opted out of composition scheme? **(3 Marks)**

(ii) Mrs. Gargi, a registered dealer in Rajasthan, did not file GSTR-3B for the month of June, but she wants to file GSTR-3B for the month of July. Is it possible? Answer with reference to section 39 of the CGST Act, 2017. **(2 Marks)**

(b) Can a chartered accountant become a GST practitioner (GSTP)? Discuss. **(5 Marks)**

4. (a) What would be the place of supply of services provided by an event management company for organizing an event which is held in multiple States? **(5 Marks)**

OR

(a) Services provided by an entity registered under section 12AB of the Income-tax Act, 1961 are exempt from GST if such services are provided by way of charitable activities. Elaborate the term 'charitable activities'.

(5 Marks)

(b) (i) List the details of outward supplies which can be furnished using Invoice Furnishing Facility (IFF). **(2 Marks)**

(ii) Which are the commodities which have been kept outside the purview of GST? Examine the status of taxation of such commodities after introduction of GST. **(3 Marks)**

MODEL TEST PAPER 4

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

M/s. Maahi & Co., a LLP registered dealer under GST, is engaged in various types of business activities.

It provided GTA services to Government Department, registered under GST for providing various services. Maahi & Co. did not exercise the option to pay GST.

The firm provided services of Direct Selling Agency (DSA Services) to a Banking Company located in Mumbai.

The firm provided free gift to each of its employees valuing ₹ 50,000 once in a financial year.

M/s Maahi & Co let out its warehouse to Mr. Shankar, who in turn let out to an agriculturist for warehousing of agricultural produce. The firm also undertakes catering service to “Vishwas” Anganwadi. The said Anganwadi has received fundings from Government.

The firm purchased following goods during the month of July:-

(a) Capital goods amounting to ₹ 45,000 purchased on which depreciation has been taken on full value including GST paid thereon.

(b) Raw materials purchased amounting to ₹ 55,000 for which invoice is missing but delivery challan is available.

Further, for the month of July, the GST liability of the firm was ₹ 20,000 IGST; ₹ 10,000 CGST; ₹ 10,000 SGST. The following credits were available in the said month-

IGST: ₹ 8,000

CGST: ₹ 12,000

SGST: ₹ 5,000

All the amounts given above are exclusive of taxes, wherever applicable. All the supply referred above is intra-State unless specified otherwise. Conditions for availing ITC are fulfilled subject to the information given above.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:-

1. Choose the correct statement(s).

   (i) For GTA services, Government is liable to pay GST under reverse charge

   (ii) For DSA services, Banking Company is liable to pay GST under reverse charge

   (iii) For GTA services, Maahi & Co is liable to pay GST under forward charge

   (iv) For DSA services, Maahi & Co is liable to pay GST under forward charge

   (a) i & ii

   (b) iii & iv

   (c) i & iv

   (d) ii & iii

2. Which of the following options is correct in respect of GTA services provided to Government Department?

   (a) GTA service is taxable @ 12% without restriction of availing input tax credit.

   (b) GTA service is taxable @ 12%, but input tax credit cannot be availed for the same.

   (c) GTA service is taxable @ 5% without restriction of availing input tax credit.

   (d) GTA service is taxable @ 5%, but input tax credit cannot be availed for the same.

3. Gift of ₹ 50,000 in value provided by Maahi & Co to each of its employee will be:

   (a) Supply of goods

   (b) Supply of services

   (c) Exempt supply

   (d) Not a supply

4. Which of the following statements is correct:-

   (i) Letting out of warehouse to Shankar is exempt

   (ii) Catering service to "Vishesh" Anganwadi is exempt

   (iii) Letting out of warehouse to Shankar is not exempt

   (iv) Catering service to "Vishesh" Anganwadi is not exempt

(a) i & ii

(b) iii & iv

(c) i & iv

(d) ii & iii

5. M/s Maahi & Co is eligible to claim input tax credit of _________

(a) ₹ 45,000

(b) ₹ 55,000

(c) ₹ 1,00,000

(d) Nil

6. Compute the GST liability of the firm for the month of July to be paid in cash, if rule 86B of the CGST Rules, 2017 is not applicable?

(a) IGST: ₹ 10,000; CGST: Nil, SGST: ₹ 5000

(b) IGST: ₹ 12,000; CGST: Nil; SGST: ₹ 5000

(c) IGST: Nil; CGST: ₹ 10,000, SGST: ₹ 5000

(d) IGST: 5,000; CGST: Nil, SGST: 10,000 **(6 x 2 Marks = 12 Marks)**

7. Kids Bazaar Pvt. Ltd., registered in Maharashtra sells kids clothing via an E-commerce operator Champ.com. Mr. Dhruv placed an order of 10 sets of Ethnic wear in different colours each costing ₹ 5,000 (GST @18% not included) on 20th October 2024. However, he returned 2 sets back after 2 days in accordance with the exchange policy of Champ.com. Determine the value of supply on which Champ.com should collect TCS from Kids Bazaar Pvt. Ltd.

(a) ₹ 40,000

(b) ₹ 59,000

(c) ₹ 50,000

(d) ₹ 47,200 **(2 Marks)**

8. Miss Gyati, a jeweller registered under GST in Mumbai, wants to sell her jewellery in a Trade Expo held in Delhi. Which of the following statements is false in his case?

(a) She needs to get registration in Delhi as casual taxable person.

(b) She needs to pay advance tax on estimated tax liability.

(c) She needs to mandatorily have a place of business in Delhi.

(d) She needs to file GSTR-1/ IFF and GSTR-3B for Delhi GSTIN for the month or quarter, as the case may be, when she gets registered in Delhi. **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks:35 Marks

1. (a) Vishwanath Ltd., a registered supplier in Karnataka has provided the following details for supply of one machine·:

	Particulars	**Amount in (₹)**
(1)	List price of machine supplied [exclusive of items given below from (2) to (4)]	80,000
(2)	Tax levied by Local Authority on sale of such machine	6,000
(3)	Discount of 2% on the list price of machine was provided (recorded in the invoice of machine)	
(4)	Packing expenses for safe transportation charged separately in the invoice	4,000

Vishwanath Ltd. received ₹ 5,000 as price linked subsidy from a NGO on sale of each such machine, The Price of ₹ 80,000 of the machine is after considering such subsidy.

During the month of February, Vishwanath Ltd. supplied three machines to Intra-State customers and one machine to Inter-State customer.

Vishwanath Ltd. purchased inputs (intra-State) for ₹ 1,20,000 exclusive of GST for supplying the above four machines during the month.

The Balance of ITC at the beginning of February was:

CGST	SGST	IGST
₹ 18,000	₹ 4,000	₹ 26,000

Note:

(i) Rate of CGST, SGST and IGST to be 9%,9% and 18% respectively for both inward and outward supplies.

(ii) All the amounts given above are exclusive of GST.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

Compute the minimum net GST payable in cash by Vishwanath Ltd. for the month of February. **(10 Marks)**

(b) Veda Ltd. procured the following goods in the month of August, 2024.

Inward Supplies	**GST (₹)**
(1) Goods used in constructing an additional floor of office building. The cost of construction of additional floor has been capitalized.	96,200

(2)	Trucks used for transportation of inputs in the factory	11,000
(3)	Inputs used in trial runs	8,350
(4)	Confectionery items for consumption of employees working in the factory	4,325
(5)	Cement used for making foundation and structural support to plant and machinery	9,550

Note: Depreciation has not been claimed on tax component in case of trucks.

Compute the amount of ITC available with Veda Ltd. for the month of August, 2024 by giving necessary explanations. Assume that all the other conditions necessary for availing ITC have been fulfilled. **(5 Marks)**

2. (a) Determine the place of supply in the following independent cases:-

(i) Harpreet (New Delhi) boards the New Delhi-Kota train at New Delhi. He sells the goods taken on board by him (at New Delhi), in the train, at Jaipur during the journey.

(ii) LP Refineries (Mumbai, Maharashtra) gives a contract to Bhansali Ltd. (Ranchi, Jharkhand) to supply a machine which is required to be assembled in a power plant in its refinery located in Kutch, Gujarat. **(5 Marks)**

(b) Green Agro Services, a registered person provides the following information relating to its activities during the month of October, 2024:

Gross Receipts from	(₹)
Services relating to rearing of goats	3,75,000
Services by way of artificial insemination of horses	5,00,000
Processing of sugarcane into jaggery	7,00,000
Milling of paddy into rice	8,00,000
Services by way of warehousing of agricultural produce	2,25,000

All the above receipts are exclusive of GST.

Compute the value of taxable supplies under GST laws for the month of October, 2024. **(5 Marks)**

3. (a) Sheen Ltd. a registered supplier wishes to transport cargo by road between two cities situated at a distance of 372 kilometres. Calculate the validity period of e-way bill under rule 138(10) of the CGST Rules, 2017 for transport of the said cargo, if it is over dimensional cargo or otherwise. **(5 Marks)**

(b) Apex Cinemas, a registered person engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens was issuing consolidated tax invoice for supplies at the close of each day in terms of section 31(3)(b) of the CGST Act, 2017 read with fourth proviso to rule 46 of the CGST Rules, 2017.

During the month of September, 2024, the Department raised objection for this practice and asked to issue separate tax invoices for each ticket.

Advise Apex Cinemas for the procedure to be followed in this regard.

(5 Marks)

4. (a) Who are not eligible to opt for composition scheme for goods under GST laws? **(5 Marks)**

Or

(a) Under the GST law, taxes on taxable services supplied by the Central Government or the State Government to a business entity in India are payable by recipient of services".

State the exceptions of the above statement. **(5 Marks)**

(b) Who can be registered as Goods and Service Tax Practitioners under Section 48 of the CGST Act, 2017? **(5 Marks)**

MODEL TEST PAPER 5

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*

(ii) *Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.*

(iii) *All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.*

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Case Scenario 1

FUTURE Insurance Ltd. is an insurance company providing life and general insurance services across India. The company has been carrying on its business for the past three years with the approval of IRDA.

FUTURE Insurance Ltd. secure its business through various insurance agents spread across India. Those agents include individuals, firm, LLP and private limited company also. However, all of them are licensed under the Insurance Act.

The company availed services of renting of motor vehicles for its employees in PAN India through 'RR Travels Private Limited', where cost of fuel is included in the consideration charged. The service provider charged 5% GST and informed the company that it is claiming ITC only in respect of the same line of business.

FUTURE Insurance Ltd. provided the following details of insurance business for the month of May-

Sl. No.	Nature of receipt	Amount in ₹
i.	Premium received on Pradhan Mantri Jan Dhan Yojana	5,00,000
ii.	Premium received on Aam Aadmi Bima Yojana	3,00,000
iii.	Premium received on Life micro-insurance product having a sum assured of ₹ 2.50 lakh	4,00,000
iv.	Premium received on reinsurance of Group Personal Accident Policy for Self-Employed Women	1,00,000
v.	Premium received on Fire and Special perils policy of various business units	7,00,000
vi.	Premium received on Money-back policies issued	12,00,000

FUTURE Insurance Ltd. received the following supplies in the month of May and the details of GST paid on such supplies are as follows-

i GST paid on purchase of car for use of Managing Director – ₹ 5,00,000

ii GST paid on bus (seating capacity for 14 persons) purchased by the company for transportation of its employees from their residence to office and back – ₹ 3,00,000

iii GST of ₹ 80,000 was paid on general insurance taken from Amity Insurance Ltd. for motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) which were used in transportation of staff of the company.

All the amounts given above are exclusive of taxes wherever applicable. All the supplies referred above are intra-State unless specified otherwise. Aggregate turnover of the company is not less than ₹ 10 crores for the past three years. Conditions necessary for availment of ITC are fulfilled subject to the information given.

Values given in the question, wherever required, are in accordance with the relevant CGST Rules, 2017.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

1. Determine the services on which the company is liable to pay tax under reverse charge?
   (a) Service availed from insurance agents
   (b) Service availed from RR Travels Private Limited
   (c) None of the services availed attracts RCM
   (d) Both (a) & (b)
2. Compute the total value of taxable supply made by FUTURE Insurance Ltd. for the month of May?
   (a) ₹ 4,00,000
   (b) ₹ 12,00,000
   (c) ₹ 23,00,000
   (d) ₹ 32,00,000
3. Determine the amount of ITC that can be claimed by FUTURE Insurance Ltd?
   (a) ₹ 80,000
   (b) ₹ 3,00,000
   (c) ₹ 3,80,000
   (d) ₹ 8,80,000 **(3 x 2 Marks = 6 Marks)**

Case Scenario 2

Madurai Impex Ltd. ('company') is engaged in supplying sports goods. The company did not opt for registration under GST. The proper officer under GST, based on enquiry, finds that the company is liable for registration and he registers the firm on temporary basis on 15th June, 2024.

Further, in the month of February 2025, the company also generated an e-way bill for inter-State transport of goods. However, immediately on generation of the e-way bill, the buyer cancelled the order before it was dispatched from the factory for delivery.

In the month of March 2025, since the company was incurring heavy losses, it applied for cancellation of GST registration on 15th March 2025. The order for cancellation was made on 30th March 2025, effecting cancelling the registration with effect from 15th March 2025.

On the basis of the facts given above, choose the most appropriate answer to Q.4 to Q.6 below:

4. After the grant of temporary registration, Madurai Impex Ltd. needs to apply for registration within __________ from the date of grant of temporary registration, if no extension of period is to be granted for such temporary registration.

   (a) 30 days

   (b) 90 days

   (c) 7 days

   (d) 15 days

5. The Company needs to file its Final return by __________.

   (a) 30th April, 2025

   (b) 30th August, 2025

   (c) 15th June, 2025

   (d) 30th June, 2025

6. Which of the following statements is correct in respect of e-way bill generated for goods in the month of February for which order was cancelled?

   (a) Once generated, E-way bill cannot be cancelled.

   (b) E-way bill can be cancelled within 24 hours of generation

   (c) E-way bill can be cancelled within 48 hours of generation

   (d) E-way bill can be cancelled within 72 hours of generation

(3 x 2 Marks= 6 Marks)

7. ABC Insurance Ltd. received a proposal for pandemic insurance for cricket tournament organised by Lion's Club. Sum assured for said insurance was ₹ 20 Crores with a premium of ₹ 5 lakh. The company issued the said policy on 1st July. The invoice for the same was issued on 5th August. Premium was received on 14th August.

Determine the time of supply of service provided to Lion's Club?

(a) 1st July

(b) 16th August

(c) 05th August

(d) 14th August **(2 Marks)**

8. Mr. Naresh, a supplier of readymade garments issued an invoice to a customer and erroneously charged a higher value by ₹ 42,000. Such an invoice was issued on 28th October. Which document is required to be issued by the company in respect of the invoice issued on 28th October?

(a) Debit note

(b) Credit note

(c) Bill of supply

(d) Revised Tax invoice **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks:35 Marks

1. (a) Miss Shreya, proprietor of M/s. Happy Enterprise, a registered supplier of taxable goods and services in the state of West Bengal, pays GST under regular scheme. It is not eligible for any threshold exemption. It provided the following information for the month of December:

S. No.	Particulars	Amount (₹)
	OUTWARD SUPPLY:	
i.	Intra-state supply of goods to M/s. Reliable & Sons	7,00,000
ii.	Intra-state transfer of goods to its branch office in the state of West Bengal. Both places are under the same GSTIN.	1,00,000
iii.	Permanent transfer of old computers to orphanage home without consideration. Input tax credit was not availed on the same.	80,000
iv.	Advance received for Future supply of management consultancy service to Mr. Shubam (Intra-state supply)	40,000
	INWARD SUPPLY: (Intra-state)	
i.	Purchase of taxable goods from registered suppliers.	8,00,000
ii.	Availed Works Contract service for repair of office building. Amount of repair was debited in the profit & loss account.	30,000

iii.	Availed legal service form an advocate to represent the matter in the Court relating to collection of disputed proceed from customers.	50,000

Notes:

(i) Rate of CGST, SGST and IGST on all supplies are as below:

Particulars	CGST	SGST	IGST
Goods	2.5%	2.5%	5%
Supply of services	9%	9%	18%

(ii) Both inward and outward supplies given above are exclusive of taxes.

(iii) All the conditions necessary for availing the ITC have been fulfilled.

(iv) The aggregate turnover of M/s Happy Enterprise in the preceding financial year exceeds the threshold limit for registration.

(v) Working note should form part of the answer.

Compute the net minimum GST payable in cash by M/s. Happy Enterprise for the month of December. **(10 Marks)**

(b) Renuka Sales, a registered supplier, receives 100 invoices (for inward supply of goods/ services) involving GST of ₹ 10 lakh, from various suppliers during the month of January. Out of 100 invoices, details of 80 invoices involving GST of ₹ 6 lakh have been furnished by the suppliers in their respective GSTR-1s filed on the prescribed due date therefor and such details have also been duly communicated to the recipients of such invoices in Form GSTR-2B.

Compute the ITC that can be claimed by Renuka Sales in its GSTR-3B for the month of January to be filed by 20th February assuming that GST of ₹ 10 lakh is otherwise eligible for ITC.

Make suitable assumptions, wherever necessary. **(5 Marks)**

2. (a) Comment on the taxability or otherwise of the following transactions under GST law. Also state the correct legal provisions for the same.

S. No.	Description of Services provided
(i)	Service provided by a private transport operator to Vintage Girls Higher Secondary School by way of transportation of students to and from the school.
(ii)	Services provided by way of vehicle parking to general public in a shopping complex.
(iii)	Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors.

(iv)	An RWA in a housing society, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member.

(4 Marks)

(b) State the person liable to pay GST in the following independent case:

(i) Legal Fees is received by Abhishek, an advocate, from M/s. Navya Trading Company, engaged in making taxable supplies and located in Maharashtra, having turnover of ₹ 50 lakh in preceding financial year.

(ii) Padam Srivastav, an independent director, appointed in accordance with the provisions of the Companies Act, 2013, of One Fourth Pvt. Ltd., has received sitting fee amounting to ₹ 1 lakh from One Fourth Pvt. Ltd. for attending the Board meetings. **(6 Marks)**

3. (a) Right Oils, an unregistered entity located in U.P. is engaged in supply of machine oil and high-speed diesel. During the month of April, it supplied machine oil in U.P. amounting to ₹ 15,00,000. Also, it supplied high speed diesel in U.P. amounting to ₹ 10,00,000. Further, it supplied machine oil in Punjab from its branch located in Punjab amounting to ₹ 10,00,000.

Note: All the amounts mentioned above are excluding GST.

(i) Determine whether Right Oils is liable for registration.

(ii) What will be your answer if, Right Oils supplies the high speed diesel in U.P. in the capacity of an agent of Center Oils Ltd., (non-registered), where invoices to customers are issued in name of Right oils? Would your answer be different in case if Center Oils Ltd. is registered entity? **(5 Marks)**

(b) Determine whether the suppliers in the following cases are eligible for composition levy, under section 10(1) & 10(2) of the CGST Act, 2017, provided their turnover in preceding year does not exceed ₹ 1.5 crore:

(i) Shyam Enterprises is engaged only in trading of pan masala in Rajasthan and is registered in the same State.

(ii) Sahaj Manufacturers has registered offices in Punjab and Haryana and sells goods manufactured by it in the neighbouring States. **(5 Marks)**

4. (a) An unregistered person Mr. Pappan from Faridabad travels by Air India flight from Pune to Delhi and gets his travel insurance done in Pune. What is the place of supply of insurance services? **(5 Marks)**

Or

(a) GST is payable on advance received for supply of goods and services taxable under forward charge.

Do you agree with the statement? Support your answer with legal provisions. **(5 Marks)**

(b) "All taxpayers are required to file GSTR-1 only after the end of the tax period." Examine the validity of the statement. **(5 Marks)**

MODEL TEST PAPER 6

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Case Scenario 1

Anushka, registered under GST in the State of Madhya Pradesh, is engaged in supplying multiple taxable goods and services. She has undertaken the following activities/transactions in the month of October in the current financial year:

(i) Donated some money to Netrajyoti Charitable Trust, Madhya Pradesh, in the memory of her late mother. The Netrajyoti Charitable Trust constructed a room in the school run by it from such donation and wrote “Donated by Miss. Anushka in the memory of her mother” on the door of the room so constructed.

(ii) Organized a seminar in Indore which was sponsored by WE-WIN Cricket Academy, an LLP. Anushka received a sponsorship fee of ₹1,50,000.

(iii) Ashoka Public School intended to distribute gift packages consisting of fountain pen, calculator and tape dispenser to its students on the occasion of Children’s Day. Therefore, it entered into a contract with Anushka on 28th October for supply of 2,000 packages at a single price of ₹ 250. Rates of GST for fountain pen, calculator and tape dispenser are 5%, 12% and 18% respectively.

(iv) Received the following payments during the month of October:

- earned ₹ 160,000 by performing at a western Indian cinematic concert in Indore
- earned ₹ 50,000 for renting of space for use as a Textile Emporium
- received ₹ 70,000 for supply of farm labour

(v) Supplied machinery with a basic price of ₹ 45,000 (before TCS under Income Tax Act, 1961). Tax collected at source under Income-tax Act, 1961 on said machinery is ₹ 2,500. Further, a subsidy of ₹50,000 is received from Prakarti

Foundation Pvt. Ltd for usage of green energy and the subsidy was linked to energy saved during the month.

Anushka needs to transport one consignment to the transporter and then to the consignee. The distance, within the same State, between her godown and the transporter is 20 kms and from the place of transporter to consignee is 99 kms, respectively.

All the amounts given above are exclusive of GST, wherever applicable.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 6 below:-

1. Donation made by Anushka to Netrajyoti Charitable Trust is _______.

   (a) exempted from GST by way of a notification

   (b) not a supply at all

   (c) liable to GST under forward charge

   (d) liable to GST under reverse charge

2. Which of the following statements is correct with respect to the sponsorship fee received by Anushka?

   (a) Tax on sponsorship services is payable by Anushka under forward charge.

   (b) Tax on sponsorship services is payable by WE-WIN Cricket Academy under reverse charge.

   (c) Sponsorship services are exempt from GST since services provided to a sports academy are exempt.

   (d) Tax on sponsorship services is payable by Anushka under reverse charge.

3. Determine the nature of supply and the applicable rate of GST for the packages supplied by Anushka to Ashoka Public School.

   (a) composite supply & applicable rate of GST is 12%

   (b) mixed supply & applicable rate of GST is 18%

   (c) composite supply & applicable rate of GST is 18%

   (d) mixed supply & applicable rate of GST is 12%

4. Out of all the payments received by Anushka in the month of October, value of exempt supply amounts to _____.

   (a) ₹ 4,30,000

   (b) ₹ 70,000

   (c) ₹ 1,20,000

(d) ₹ 2,20,000

5. The value of supply of machinery supplied by Anushka is________.

(a) ₹ 45,000

(b) ₹ 47,500

(c) ₹ 48,500

(d) ₹ 51,000

6. Which of the following statements is true in respect of furnishing of details of conveyance in Part B of e-way bill?

(a) Part B need not be filed in respect of transport of consignment from Godown of Anushka to transporter location.

(b) Part B need not be filed in respect of transport of consignment from transporter location to consignee's location.

(c) Information in Part-B is neither required in transport of consignment from Godown of Anushka to transporter location nor from transporter location to consignee's location.

(d) Information in Part-B is mandatory in transport of consignment from Godown of Anushka to transporter location and from transporter location to consignee's location. **(6 x 2 Marks = 12 Marks)**

7. While filing return for the month of November, a firm - Vedika & Co. - registered under GST generated E-Challan on 5th December for making payment of GST through RTGS of their bank. Determine the validity of E-Challan generated by Vedika & Co. for payment of taxes for the month of November?

(a) 5th December

(b) 15th December

(c) 20th December

(d) 31st December **(1 Mark)**

8. Vikas Nigam Limited (a Public Sector Undertaking) has placed an order to Bharti Steels registered in Bokaro, Orissa for supply of 70 Iron shields each costing ₹ 12000 (exclusive of GST). However, the supply will take place in 3 lots containing 10 shields, 20 shields, 40 shields on different days. Determine whether tax is required to be deducted under GST law by Vikas Nigam Limited on the above order?

(a) No TDS will be deducted

(b) TDS to be deducted on the third lot of 40 shields only as value exceeds Rs. 2,50,000

(c) TDS to be deducted on entire order of 70 shields

(d) TDS to be deducted on supply of 2nd order of 20 shields **(2 Marks)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks:35 Marks

1. (a) Aashima Limited, a registered dealer in Patna (Bihar), is engaged in various types of supplies. The company provided the following details for the month of January 2025:

Sl. No.	Particulars	Amount in ₹
(i)	Outward supply of goods made during the month to various non-related persons:	As given in particulars column
	a. in the State of Bihar (Intra-State) — Market value 3,00,000; Transaction Value (₹) 4,00,000	
	b. to other States (Inter-State) — Market value 2,00,000; Transaction Value (₹) 1,00,000	
(ii)	Services by way of warehousing of potato chips (Inter-State transaction)	5,00,000
(iii)	Stock transfer without consideration to its branch at Gaya (Bihar). Branch has separate GSTN for convenience of accounting and billing. Value under section 15 of the CGST Act, 2017 - ₹ 20,000 (Intra -State)	Nil
(iv)	Intra-State inward supply of various services for use in the course or furtherance of business (30 invoices)	6,50,000

Nested table under (i):

	Particulars	Market value	Transaction Value (₹)
a.	in the State of Bihar (Intra-State)	3,00,000	4,00,000
b.	to other States (Inter-State)	2,00,000	1,00,000

Additional Information:

(a) All the amounts given above are exclusive of taxes.

(b) During the course of arranging and filing documents, the accountant of Aashima Limited observed that an invoice for ₹ 30,000 (excluding tax) dated 02.12.2024 was omitted to be recorded in the books of accounts and no payment was made against the same till the end of January 2025. This invoice was issued by Mr. Suhaas of Patna, from whom Aashima Limited had taken cars on rental basis. Invoice included cost of fuel also. (Intra-State transaction).

(c) Rate of GST applicable on various supplies are as follows:

Nature of supply	CGST	SGST	IGST
Car rental service	2.5%	2.5%	5%
All other inward and outward supplies	9%	9%	18%

(d) No opening balance of input tax credit exists in the beginning of the month.

(e) Out of the 30 invoices of inward supply received, 6 invoices with taxable value amounting to ₹ 1,50,000 were e-invoices in which Invoice Reference Number (IRN) was not mentioned. However, all the invoices were duly reflected in GSTR 2B for the month of January 2025, since the suppliers had filed their GSTR-1.

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

(g) Aashima Ltd. is not engaged in renting of cars business.

You are required to calculate the amount of net GST liability payable in cash by Aashima Limited for the month of January 2025. Brief notes for treatment given for each item should form part of your answer.

(10 Marks)

(b) Shri Narayan Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Ram Pvt. Ltd.-

S. No.	Particulars	Amount (₹)
(i)	Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) and (vi)]	1,00,000
(ii)	Municipal tax	2,000
(iii)	Inspection charges	15,000
(iv)	Subsidy received from Shri Shyam Trust [Subsidy is directly linked to the goods supplied]	50,000
(v)	Late fees for delayed payment inclusive of GST [Shri Ram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Narayan Pvt. Ltd. and the amount was refunded to Shri Ram Pvt. Ltd. during the same month]	1,000
(vi)	Weighment charges [Such charges were paid by Shri Ram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Narayan Pvt. Ltd.]	2,000

Note: Price of the goods is net of the subsidy received.

Determine the value of taxable supply made by Shri Narayan Pvt. Ltd. to Shri Ram Pvt. Ltd. **(5 Marks)**

2. (a) Determine the time of supply from the given information in each of the following independent cases:

(i)

Particulars	Date
Supplier invoices goods taxable on reverse charge basis to Saroj & Co. (30 days from the date of issuance of invoice elapse on June 3)	May 4
Saroj & Co receives the goods	May 12
Saroj & Co makes the payment	May 30

(ii)

Particulars	Date
Supplier invoices goods taxable on reverse charge basis to Durable & Co. (30 days from the date of issuance of invoice elapse on June 3)	May 4
Durable & Co receives the goods, which were held up in transit	June 12
Payment made for the goods	July 3

(4 Marks)

(b) Examine whether the following activities would amount to supply under section 7 read with Schedule I:

(i) Rimjhim Manufacturers have a factory in Delhi and a depot in Mumbai. Both these establishments are registered in respective States. Finished goods are sent from factory in Delhi to the Mumbai depot without consideration so that the same can be sold from the depot.

(ii) Mohan is an architect in Chennai. His brother who is settled in London is a well-known lawyer. Mohan has taken legal advice from him free of cost with regard to his family dispute. **(6 Marks)**

3. (a) World Fashions, a registered supplier of designer outfits in Delhi, decides to exhibit its products in a Fashion Show being organised at Hotel Green India, Delhi on 4th January. For the occasion, it gets the service by way of makeover of its models from Glamour Beauty Services Ltd., Mayur Vihar, on 4th January, for which a consideration of ₹ 5,00,000 (excluding GST) has been charged. Glamour Beauty Services Ltd. issued a duly signed tax invoice on 10th February showing the lumpsum amount of ₹ 5,90,000 inclusive of CGST and SGST @ 9% each for the services provided. Answer the following questions:

(i) Examine whether the tax invoice has been issued within the time limit prescribed under law.

(ii) Tax consultant of World Fashions objected to the invoice raised suggesting that the amount of tax charged in respect of the taxable supply should be shown separately in the invoice raised by Glamour Beauty Services Ltd. However, Glamour Beauty Services Ltd. contended that there is no mandatory requirement of showing tax component separately in the invoice. You are required to examine the validity of the objection raised by tax consultant of World Fashions. **(5 Marks)**

(b) M/s Balaji Electronics, a registered dealer, is supplying all types of electronic appliances in the State of Karnataka. Its aggregate turnover in the preceding financial year by way of supply of appliances is ₹ 120 lakh.

The firm also expects to provide repair and maintenance service of such appliances from the current financial year.

With reference to the provisions of the CGST Act, 2017, examine:

(i) Whether the firm can opt for the composition scheme, under section 10(1) and 10(2), for the current financial year, as the turnover may include supply of both goods and services?

(ii) If yes, up to what amount, the services can be supplied?

(5 Marks)

4. (a) What is the place of supply for mobile connection? Can it be the location of supplier? **(5 Marks)**

Or

(a) What would be the place of supply of services provided by an event management company for organizing a sporting event for a Sports Federation which is held in multiple States? **(5 Marks)**

(b) What are the documents and devices to be carried by person-in-charge of conveyance under rule 138A of CGST Rules, 2017? Also explain the meaning of consignment value of goods. **(5 Marks)**

MODEL TEST PAPER 7

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) *Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.*

(ii) *Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.*

(iii) *All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.*

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Case Scenario 1

Poorva Logistics, a Goods Transport Agency, is registered under GST. It did not exercise the option to pay GST itself on the services supplied by it in the preceding financial year. It provided goods transport services to the following persons in February of preceding financial year-

(a) Kunal Traders, an unregistered partnership firm

(b) Mr. Amar, a casual taxable person, who is not registered under GST

(c) Small Traders Co-Operative Society registered under Societies Registration Act

In a particular consignment in March of preceding financial year, Poorva Logistics transported the following-

(a) Defence Equipments

(b) Railway Equipments

(c) Organic Manure

Poorva Logistics exercises the option to itself pay GST on services supplied by it @ 12% from April, of the current financial year. It provided goods transport services to Bama Steels Pvt. Ltd. on 1st April and issued an invoice dated 5th May. Payment was received on 6th May.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 1 to 3 below:

1. Which of the following persons are liable to pay GST under reverse charge in respect of the GTA services provided by Poorva Logistics in February of the preceding financial year?

(i) Kunal Traders

(ii) Mr. Amar

(iii) Small Traders Co-operative society

(a) i & ii

(b) ii & iii

(c) i & iii

(d) i, ii & iii

2. Transportation of _________ by Poorva Logistics is exempt from GST.

(i) Defence Equipments

(ii) Railway Equipments

(iii) Organic Manure

(a) i

(b) i & ii

(c) i & iii

(d) i , ii & iii

3. What will be the time of supply in respect of the services provided by Poorva Logistics to Bama Steels Pvt. Ltd.?

(a) 6th May

(b) 5th May

(c) 30th May

(d) 1stApril **(3 x 2 Marks = 6 Marks)**

Case Scenario 2

Ms. Chanchala, a doctor by profession, is a registered person under GST as a monthly return filer, having in-patient facility in her hospital wherein room charges are capped at ‘ 3000 per day.

Ms. Chanchala provided treatment of various diseases in her hospital and apart from that she also provided the following services in her hospital-

(a) Plastic surgery to enhance the beauty of the face

(b) Ambulance service for transportation of patients

(c) Renting of space to run medical store in hospital premises

She is also a consultant in other hospitals and received ₹ 40,00,000 as consultancy fee from the other hospitals.

Further, she also provides canteen facility and received ₹ 55,000 from in-patients for supply of food as per advise of nutritionist, ₹ 35,000 from patients who are not admitted and ₹ 25,000 from visitors for the same facility.

She filed GSTR-3B for the month of June with some errors. She filed the Annual return for the said financial year on 31st October of the next financial year, whereas due date for the said Annual return was 31st December of the next financial year.

All the amounts given above are exclusive of taxes, wherever applicable. All the supplies referred above are intra-State unless specified otherwise.

Based on the facts of the case scenario given above, choose the most appropriate answer to Q. Nos. 4 to 6 below:

4. Compute the taxable value of supply of canteen service provided by Ms. Chanchala?

   (a) ₹ 25,000

   (b) ₹ 35,000

   (c) ₹ 60,000

   (d) ₹ 80,000

5. Maximum time permissible for rectification of error committed in monthly return of June is ________

   (a) 30th November of the next year

   (b) 31st October of the next year

   (c) 20th October of the next year

   (d) 31st December of the next year

6. Determine which of the following services provided by Ms. Chanchala and her hospital is exempt from GST?

   (i) Plastic surgery to enhance the beauty of the face

   (ii) Ambulance service for transportation of patients

   (iii) Renting of space to run medical store in hospital premises

   (iv) Consultancy service by Ms. Chanchala in other hospitals

   (a) (i), (ii) & (iv)

   (b) (i), (ii)

   (c) (ii) & (iv)

   (d) (i) & (iii)

(3 x 2 Marks = 6 Marks)

7. Leno Ltd., registered under GST has the balance of Rs. 90,000 in its electronic credit ledger. It has the balance of Rs. 85,000 in its electronic cash ledger. The liability under GST law at the end of tax period is-Penalty Rs. 20,000 and output tax-Rs. 55,000. Which of the following statement(s) is correct in relation to utilisation of e-ledger balance?

   (i) Entire liability can be set off by using the balance of electronic credit ledger.

   (ii) Entire liability can be set off by using the balance of electronic cash ledger.

(iii) Electronic credit ledger balance can be used only for making payment of output tax.

(iv) Electronic cash ledger balance can be used only for making payment of penalty.

(a) (i) only

(b) (ii) only

(c) (ii) and (iii)

(d) (i) and (iv) **(2 Marks)**

8. Mint Ltd, registered under GST is engaged in providing warehousing service of rice. During the month of May, Mr. Ghanshyam from Fazilka undertook the warehousing service from Mint Ltd. Mint Ltd. charged Rs. 15,000 as consideration for the said service but it did not issue any document to Mr. Ghanshyam. Which is the most appropriate answer in the given case?

(a) Mint Ltd. is not required to issue any document.

(b) Mint Ltd. is required to issue tax invoice in the given case.

(c) Mint Ltd. is required to issue bill of supply in the given case.

(d) Mint Ltd. is required to issue payment voucher in the given case.

(1 Mark)

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

1. (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, 2024:

(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%. No depreciation has been claimed on said truck under the Income-tax Act, 1961.

(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. The amount has been capitalized in the books of Evershine Pvt. Ltd..

Opening balance of Input tax credit as on the beginning of September 2024-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, 2024 **(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:

(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) Income received from warehousing of sugarcane ₹ 75,000.

(4) Provided pure 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. All the amount stated above are exclusive of GST, wherever applicable.

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

2. (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	1,50,000

	(Rate of CGST and SGST @ 7.5 % each) being intra-State supply.	
5.	Inputs procured on 8th February 2024 lying in stock of finished goods. (Rate of IGST @ 18%) being inter-State supply.	60,000

The amounts mentioned above are exclusive of GST. 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)**

3. (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)**

4. (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. **(5 Marks)**

OR

(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 legal 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)**

MODEL TEST PAPER 8

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

QUESTIONS

(i) Working Notes should form part of the answers. However, in answers to Questions in Division A, working notes are not required.

(ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of notes.

(iii) All questions should be answered on the basis of the provisions of the CGST Act, 2017 and the IGST Act, 2017 as amended by the Finance (No. 2) Act, 2024 including significant notifications and circulars issued and other legislative amendments made, which have become effective up to 31.10.2024.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple-choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 15 Marks

Case Scenario 1

M/s. Veena & Co. of Jabalpur was registered under GST under composition scheme. Outward Supply of the firm for the month of July 2024 was ₹ 10 lakh, out of which ₹ 2 lakh was supply of services. In the preceding financial year, the firm was doing trading of taxable goods only. Turnover of the concern for the previous financial year was ₹ 100 lakh.

The firm imported the following services during August, 2024:

(a) Architect services from Mr. Vinod, a partner of the firm, who resides in France for ₹ 1,00,000. The said service was paid but not used for the furtherance of the business.

(b) Management consultancy services from Mr. Lal, a renowned lawyer in Sweden, who was an ex-employee of the firm. The value of the said service was ₹ 3,00,000. Even though it was used in the furtherance of the business, no consideration was paid by the firm.

Aggregate Turnover of the firm crossed the limit of ₹ 150 lakh on 25.09.2024 from which date the firm was liable to pay tax under regular scheme.

All the amounts given above are exclusive of taxes wherever applicable. All the supply referred above is intra-State unless specified otherwise.

From the information given above, choose the most appropriate answer for the 1-3 questions:

1. Tax liability of Veena & Co. for the month of July 2024 is ₹____________each under CGST and SGST.

   (A) 5,000

   (B) 9,000

(C) 10,000

(D) 14,000 **(2 Marks)**

2. Import of services by Veena & Co. that will be treated as supply is ₹ ________.

(A) Nil

(B) ₹ 1,00,000

(C) ₹ 3,00,000

(D) ₹ 4,00,000 **(2 Marks)**

3. Veena & Co. will be eligible to claim ITC held on Stock and Capital goods as on ____________.

(A) 01-09-2024

(B) 24-09-2024

(C) 25-09-2024

(D) 30-09-2024 **(2 Marks)**

Case Scenario 2

Pawan was engaged in providing various services within the State of Rajasthan since May 2024. His aggregate turnover crossed the threshold limit on 04.07.2024. He applied for registration under GST on 02.08.2024. He got his GST registration on 10.08.2024.

After taking registration, Pawan started a business across India including supply of goods also. He dispatched goods pan India based on orders he got for the goods dealt by him.

He received an order from Delhi for which he supplied taxable goods valuing ₹ 45,000. Applicable rate of IGST was 12%. He also supplied certain exempted goods valuing ₹ 4,000. He made one invoice for both taxable as well as exempted supply made to Delhi.

He asked his tax consultant for the requirement of generation of e-way bill for this order. Tax consultant informed him that the requirement of e-way bill is based on consignment value of goods supplied.

Even being a micro enterprise, Pawan did not receive timely payment from his customers as a result of which he ran into severe cash crunch and eventually could not make on-time payment to his suppliers. As a result, he decided to shut down his business and got placed in a software company as a senior programmer executive.

While shutting down his business, he informed his tax consultant to cancel the GST rregistration. Tax consultant surrendered his registration online in GST Portal on 25.10.2024 and his application for cancellation was approved by the Proper Officer on 31.10.2024.

All the amounts given above are exclusive of taxes wherever applicable.

From the information given above, choose the most appropriate answer for the 4-6 questions:

4. Effective date of registration of Pawan is ____________.

   (A) 04.07.2024

   (B) 02.08.2024

   (C) 03.08.2024

   (D) 10.08.2024 **(2 Marks)**

5.. Consignment value of goods supplied to Delhi by Pawan is ₹___________.

   (A) 45,000

   (B) 49,000

   (C) 50,400

   (D) 54,400 **(2 Marks)**

6. Due date by which Pawan is supposed to file Final return under GST is ____________.

   (A) 25.11.2024

   (B) 30.11.2024

   (C) 25.01.2025

   (D) 31.01.2025 **(2 Marks)**

7. Smita Limited made an outward supply of garments at an agreed price of ₹ 5,00,000. The company charged 'Go Green Cess' levied by Local municipal corporation amounting to ₹ 10,000 for this supply. As the customer made payment within 3 days from the date of delivery, Smita Limited provide a discount of ₹ 5,000 separately as a customer friendly measure, even though no prior agreement was made on discount. Value of Supply made by Smita Limited u/s 15 is ₹ ______________

   (A) 5,05,000

   (B) 5,10,000

   (C) 5,00,000

   (d) 5,15,000 **(2 Marks)**

8. 'Truth is God', a religious trust u/s 12AA of the Income-tax Act, 1961, provides service by way of renting of premises within the precincts of a religious place which is exempt upto ₹ ___________.

   (A) ₹ 999 per day

   (B) ₹ 1,000 per day

   (C) ₹ 9,999 per day

   (D) ₹ 10,000 per day **(1 Mark)**

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Question 1

1. (a) DEF Pvt. Ltd., a registered supplier of goods and services in Pune, Maharashtra, has furnished the following details for the month of January, 2025. The turnover of DEF Pvt. Ltd. was ₹ 3.2 crores in last financial year.

Sr. No.	Particulars	Amount (₹)
1.	Intra State outward supply of taxable goods	5,00,000
2.	DEF Pvt. Ltd. had provided service of booking of flight tickets for employee of H Enterprise (registered in Delhi) in the economy class from Bagdogra (West Bengal) to Pune Maharashtra.	20,000 (service fee charged)
3.	DEF Pvt. had purchased goods worth ₹ 5,00,000 from R Ltd. (registered in Gujarat) on 15.03.2024. Now R Ltd. issued debit note on 15.01.2025 for post delivery service to DEF Pvt. Ltd. as per part of terms of sales.	25,000
4.	DEF Pvt. Ltd. had sold one of its unit in Pune as a going concern (with all goods and unexecuted orders) to H Ltd. (registered in New Delhi)	10,00,000
5.	DEF Pvt. Ltd. had provided service to Mr. Y (registered in Punjab) to organise business exhibition in Dubai.	5,00,000
6.	Inter-State outward supply of service	10,00,000
7.	Amount towards receipt of intra State services	6,00,000
8.	Purchase of confectionery items which are to be used to supply free of cost to customers in a customer meet organised by DEF Pvt. Ltd.	1,00,000

Opening balance of Input Tax credit at the beginning of Jan 2025.

CGST ₹ 25,000

SGST ₹ 25,000

IGST ₹ 30,000

Additional Information:

(1) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively unless otherwise mentioned.

(2) Both inward and outward supplies are exclusive of taxes, wherever applicable.

(3) All the conditions necessary for availing the ITC have been fulfilled.

From the information given above, compute the output tax liability and input tax credit available to DEF Pvt. Ltd., for the month of January, 2025. Make suitable assumptions wherever required. **(10 Marks)**

(b) ABC Infra, is a partnership firm registered under GST. It furnishes the following details about services provided during the month of February:

	Particulars	**Amount (exclusive of GST)**
(i)	Consideration received from neighbouring Housing Cooperative Society as ABC Infra agrees to install effluent plant for treatment of wastewater even though is no legal requirement to do so.	5,50,000
(ii)	Consideration received from distribution of passes for cricket match organized as firm's annual event. Total 500 passes have been distributed.	2,42,500
(iii)	Services given of booking air tickets in economy class for flight between Mumbai to Manipur.	1,20,000 (service fee charged)
(iv)	Services given for construction of buildings to State Government in relation to function entrusted to Municipality under article 243W of the Constitution. Construction material used of ₹ 2,79,375 is included in the given figure.	8,20,000

All supplies mentioned above are intra-State supplies. GST rates for CGST, SGST, IGST are 9%, 9%, 18% respectively. Compute the GST payable by the ABC Infra for the month of February. **(5 Marks)**

2. (a) M/s. T is a registered dealer of Andhra Pradesh trading in different types of machinery and its related different types of services. Their aggregate turnover for the preceding financial year 2023-24 for sale of machinery was ₹ 1.32 crores, it was first year so they had not started for providing service related to machinery. From FY 2024-25 they are planning to provide repair and maintenance service of ₹ 6.25 lakh for which they have to purchase some raw material of ₹ 5 lakh from the other State (till date they are purchasing within State only).

From the information given above, examine whether M/s. T can opt for composition scheme under Section 10(1), 10(2A) or 10(2) of the CGST Act, 2017 for FY 2024-25? **(5 Marks)**

(b) (i) Garima having its permanent residence in Bhavnagar, Gujarat purchased car from Kiara Motors of Jaipur, Rajasthan to take the advantage of lower registration charges and road tax. Garima took the delivery of the car from Jaipur and returned with car to her residence in Bhavnagar, Gujarat. Address of Garima recorded in the invoice issued by Kiara Motors mentions only the name of the

State i.e. Gujarat.

Garima is an unregistered person whereas Kiara Motors is a registered person under GST. Determine the place of supply for supply made by Kiara Motors to Garima. **(2 Marks)**

(ii) Aakar Advertisement Agency, a registered person in Nagpur, Maharashtra, wants to display the products of its client's at most prominent places in different States. It took on rights to use the space on hoardings mounted on fixed surface attached to earth, situated in Udaipur, Rajasthan and in Gwalior, Madhya Pradesh from G.N. Enterprise registered in State of Chhattisgarh. Aakar Advertisement Agency has an exclusive right to use the space and also to manage the advertisements on the hoardings.

What will be the place of supply of services provided by the G.N. Enterprise to the Aakar Advertisement Agency? **(3 Marks)**

3. (a) Mohan, a registered person in Salem, Tamil Nadu, makes intra-State supply of taxable goods amounting to ₹ 13,57,000 (inclusive of GST) to a Public Sector Undertaking (PSU). Consideration for same is received in 5 equal instalments from the PSU.

Tax rates applicable: CGST 9%, SGST 9%, IGST 18%

What will be your view with respect to applicability of TDS provisions as per section 51 of the CGST Act, 2017 regarding above transaction?

What is the period by which TDS is required to be deposited to the Government account? **(5 Marks)**

(b) Every registered person executing works contract shall keep separate accounts for works contract under CGST Rules, 2017.

List the details to be maintained. **(5 Marks)**

4. (a) Describe the provisions relating to import of services by a registered person as contained in the section 7(1)(b), 7(1)(c) and Schedule 1 of the CGST Act, 2017. **(5 Marks)**

(b) (i) List out category of persons who are exempted from the E-invoicing provisions. **(2 Marks)**

(ii) No act or proceedings of the Goods and Services Tax Council shall be invalid merely by certain reasons. What are they? **(3 Marks)**

OR

(b) Commissioner has notified some specified persons to maintain additional accounts or documents as mentioned in rule 56 of the CGST Rules 2017, Agent as defined under Section 2(5) of the CGST Act, 2017 is one of them.

List the additional accounts or documents to be kept by agent.

(5 Marks)

ANSWERS

ANSWERS OF MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWER

Division A (30 Marks)

1. **(i)** **(a)**

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

2. **(i)** **(a)**

(ii) **(c)**

(iii) **(d)**

(iv) **(b)**

3 **(i)** **(b)**

(ii) **(d)**

(iii) **(c)**

(iv) **(c)**

4. **(b)**

5 **(b)**

6 **(a)**

Division B

1. **(a)** As per AS 13 (Revised) 'Accounting for Investments', for investment in shares if the investment is purchased with an intention to hold for short-term period (less than one year), then it will be classified as current investment and to be carried at lower of cost and fair value, i.e., in case of shares, at lower of cost (₹ 2,50,000) and market value (₹ 2,25,000) as on 31 March 2023, i.e., ₹ 2,25,000.

If equity shares are acquired with an intention to hold for long term period (more than one year), then should be considered as long-term investment to be shown at cost in the Balance Sheet of the company. However, provision for diminution should be made to recognise a decline, if other than temporary, in the value of the investments.

Gold and silver are generally purchased with an intention to hold it for long term period (more than one year) until and unless given otherwise. Hence, the investment in Gold and Silver (purchased on 1st March, 2020) should continue to be shown at cost (since there is no 'other than temporary' diminution) as on 31st March, 2023, i.e., ₹ 4,00,000 and ₹ 2,00,000 respectively, though their market values have been increased.

(b) As per AS 19 "Leases", the lessee should recognize the lease as an asset and a liability at the inception of a finance lease. Such recognition should be at an amount equal to the fair value of the leased asset at the inception of lease. However, if the fair value of the leased asset exceeds the present value of minimum lease payment from the standpoint of the lessee, the amount recorded as an asset and liability should be the present value of minimum lease payments from the standpoint of the lessee.

Computation of Value of machinery:

Present value of minimum lease payment = ₹ 6,99,054

(See working note below)

Fair value of leased asset = ₹ 7,00,000

Therefore, the recognition will be at the lower of the two i.e. 6,99,054

Working Note - Present value of minimum lease payments:

Annual lease rental × PVIF+ Present value of guaranteed residual value

= ₹ 3,00,000 × (0.869 + 0.756 + 0.657) + ₹ 22,000 × 0.657

= ₹ 6,84,600 + ₹ 14,454 = 6,99,054

Computation of finance charges:

Year	Finance charge	Payment	Reduction in outstanding liability	Outstanding liability
1st Year beginning	–	–	–	6,99,054
End of 1st year	1,04,858	3,00,000	1,95,142	5,03,912
End of 2nd year	75,587	3,00,000	2,24,413	2,79,499
End of 3rd year	41,925	3,00,000	2,58,075	21,424

(c) Treatment of Impairment Loss

As per AS 28 "Impairment of assets", if the recoverable amount (higher of net selling price and its value in use) of an asset is less than its carrying amount, the carrying amount of the asset should be reduced to its recoverable amount. In the given case, net selling price is ₹ 64.50 lakhs (₹ 67.50 lakhs – ₹ 3 lakhs) and value in use is ₹ 60 lakhs. Therefore, recoverable amount will be ₹ 64.50 lakhs. Impairment loss will be calculated as ₹ 10.50 lakhs [₹ 75 lakhs (Carrying Amount after revaluation - Refer Working Note) less ₹ 64.50 lakhs (Recoverable Amount)].

Thus impairment loss of ₹ 10.50 lakhs should be recognised as an expense in the Statement of Profit and Loss immediately since there was downward revaluation of asset which was already charged to Statement of Profit and Loss.

Working Note:

Calculation of carrying amount of the Property, Plant and Equipment at the end of the fourth year on revaluation

	(₹ in lakhs)
Purchase price of a Property, Plant and Equipment	150.00
Less: Depreciation for four years [(150 lakhs / 10 years) x 4 years]	(60.00)
Carrying value at the end of fourth year	90.00
Less: Downward revaluation charged to profit and loss account	(15.00)
Revalued carrying amount	75.00

2. Delta Limited

Balance Sheet as at 31st March 2023

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

Statement of Profit and Loss for the year ended 31st March 2023

Particulars	**Note No.**	**(₹ in '000)**
I. Revenue from Operations		1200.00
II. Other Income	8	6.00

III.	Total Income (I +II)		1,206.00
IV.	Expenses:		
	Purchases (adjusted)		400.00
	Finance Costs	9	30.00
	Depreciation (10% of 800)		80.00
	Other expenses	10	150.00
	Total Expenses		660.00
V.	Profit / (Loss) for the period before tax (III – IV)		546.00
VI.	Tax expenses @30%		163.80
VII	Profit for the period		382.20

Notes to Accounts

	Particulars		(₹ in '000)
1	Share Capital		
	Equity Share Capital		
	Authorised		
	80,000 Shares of ₹ 10/- each		800
	Issued, Subscribed and Called-up		
	50,000 Shares of ₹ 10/- each	500	
	(Out of the above 5,000 shares have been issued for consideration other than cash)		
	Less: Calls in arrears	(5)	495
2	Reserves and Surplus		
	Securities Premium		40.00
	Revaluation Reserve ₹ (960 – 800)		160.00
	General Reserve		150.00
	Surplus i.e. Profit & Loss Account Balance		
	Opening Balance	75.00	
	Add: Profit for the period	382.20	457.20
			807.20
3	Long-Term Borrowings		
	10% Debentures		300
4.	Short – term provision		
	Provision for tax		163.80
5	Property, plant & equipment		
	Land		
	Opening Balance	800	
	Add: Revaluation adjustment	160	
	Closing Balance		960

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

3. (a) As per AS 9 on Revenue Recognition, revenue arising from the use by others of enterprise resources yielding interest and royalties should only be recognized when no significant uncertainty as to measurability or collectability exists. These revenues are recognized on the following bases:

(i) Interest: on a time proportion basis taking into account the amount outstanding and the rate applicable. Therefore X Ltd. should recognize interest revenue of ₹ 10 Lakhs.

(ii) Royalties: on an accrual basis in accordance with the terms of the relevant agreement. X Ltd. therefore should recognize royalty revenue of ₹ 15 Lakhs.

(b) **In the Books of ABC Ltd.**

Journal Entries

Particulars		₹	₹
8% Preference share capital A/c	Dr.	6,00,000	
To 11% Debentures A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital and issue of 11% debentures]			
9% Debentures A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Settlement of debenture holders by allotment of plant & machinery]			
Trade payables A/c	Dr.	5,92,000	
To Inventory A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving Inventories]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			
Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

	₹		₹
To Investments A/c	13,000	By Preference share capital A/c	1,80,000
To Profit and loss A/c	4,05,000	By 9% Debenture holders A/c	3,00,000

To Capital reserve A/c	1,54,000	By Trade payables A/c	92,000
	5,72,000		5,72,000

Balance Sheet Extract of ABC Ltd. (And Reduced)
As at 31st March 2023

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	20,00,000
(b) Reserves and Surplus	2	1,54,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	7,20,000
Total		28,74,000

Notes to Accounts

		₹
1.	**Share Capital**	
	2,00,000 Equity shares of ₹ 10 each fully paid-up	20,00,000
2.	**Reserve and Surplus**	
	Capital Reserve	1,54,000
3.	**Long Term Borrowings**	
	11% Debentures (₹ 4,20,000 + ₹ 3,00,000)	7,20,000

4. **In the Books of Hari Ltd.**

Journal Entries

		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000

To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption)
as at 31st March, 2023

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	70,000
3		**Current liabilities**		
	A	Trade Payables		2,10,000
		Total		19,80,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	11,10,000
	B	Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		

	1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000
	Preference share capital		
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		16,10,000
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	**Long-term provisions**		
	Retirement Gratuity fund		70,000
	Total		70,000
4	**Property, Plant and Equipment**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
5	**Intangible assets**		
	Goodwill		1,00,000
6	**Trade receivables**		3,00,000
	Less: Provision for Doubtful Debts		7,500
			2,92,500

Working Notes:

Purchase Consideration:	₹
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000

1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

5. Consolidated balance Sheet of Virat Ltd. and its Subsidiary Anushka Ltd. as at 31st March, 2023

	Particulars	Note	Amount (₹)
I	**EQUITY AND LIABILITIES:**		
	Shareholders' Funds:		
(1)	(a) Share Capital	1	6,00,000
	(b) Reserve and Surplus	2	1,80,000
	Minority Interest	3	1,00,000
	Non-Current Liabilities:		
(2)	Long Term Borrowings	4	3,00,000
(3)			
(4)	**Current Liabilities:**		
	Trade Payables	5	2,00,000
	Total		**13,80,000**
II	**ASSETS:**		
(1)	**Non-Current Assets**		
	Property, Plant & Equipment	6	7,00,000
(2)	**Current Assets:**		
	(a) Inventories	7	3,60,000
	(b) Trade receivables	8	2,20,000
	(c) Cash and Cash Equivalents	9	1,00,000
	Total		**13,80,000**

Notes to Accounts

	Particulars	₹	₹
1.	**Share capital**		
	60,000 equity shares of ₹ 10 each fully paid up		6,00,000
2.	**Reserves and Surplus**		
	General Reserve	1,00,000	
	Add: General reserve of Anushka Ltd (80%)	80,000	
	Total		1,80,000
3.	**Minority interest**		
	20% share in Anushka Ltd (WN 3)		1,00,000

4	**Long term borrowings**		
	Long term borrowings of Virat	2,00,000	
	Add: Long term borrowings of Anushka	1,00,000	
	Total		3,00,000
5.	**Trade payables**		
	Trade payables of Virat	1,00,000	
	Add: Trade payables of Anushka	1,00,000	
	Total		2,00,000
6.	**Property, Plant and Equipment (PPE)**		
	PPE of Virat Ltd	4,00,000	
	Add: PPE of Anushka Ltd	3,00,000	
	Total		7,00,000
7.	**Inventories**		
	Inventories of Virat Ltd	1,60,000	
	Add: Inventories of Anushka Ltd	2,00,000	
	Total		3,60,000
8.	**Trade receivables**		
	Trade receivables of Virat Ltd	80,000	
	Add: Trade receivables of Anushka Ltd	1,40,000	
	Total		2,20,000
9	**Cash and cash equivalents**		
	Cash and cash equivalents of Virat Ltd	40,000	
	Add: Cash and cash equivalents of Anushka Ltd	60,000	
	Total		1,00,000

Working Notes:

1. Basic Information

Company Status	Dates	Holding Status
Holding Co. = Virat Ltd. Subsidiary = Anushka Ltd.	Acquisition: Anushka's Incorporation Consolidation: 31st March, 2023	Holding Company = 80% Minority Interest = 20%

2. Analysis of General Reserves of Anushka Ltd

Since Virat holds shares in Anushka since its incorporation, the entire Reserve balance of ₹1,00,000 will be Revenue.

3. **Consolidation of Balances**

Holding- 80%, Minority - 20%	**Total**	**Minority Interest**	**Holding Company**	
Equity Capital	4,00,000	80,000	3,20,000	-
General Reserves	1,00,000	20,000	Nil (pre-acq)	80,000 (post-acq)
Total		1,00,000	3,20,000	80,000
Cost of Investment			(3,20,000)	-
Goodwill/ capital reserve			NIL	
Parent's Balance				1,00,000
Amount for Consolidated Balance Sheet				1,80,000

6. **(a)** The qualitative characteristics are attributes that improve the usefulness of information provided in financial statements. Understandability; Relevance; Reliability; Comparability are the qualitative characteristics of financial statements.

Qualitative Characteristics of Financial Statements

• Understandability	• Information presented in financial statements should be readily understandable by the users with reasonable knowledge of business and economic activities.
• Relevance	• Financial statements should contain relevant information only. Information, which is likely to influence the economic decisions of the users is called relevant.
• Reliability	• Information must be reliable; that is to say, they must be free from material error and bias.
• Comparability	• Financial statements should provide both inter-firm and intra-firm comparison.

Or

(a) Accounting Standards deal with the issues of (i) Recognition of events and transactions in the financial statements, (ii) Measurement of these transactions and events, (iii) Presentation of these transactions and events in the financial statements in a manner that is meaningful and understandable to the reader, and (iv) Disclosure requirements.

(b) Cash Flow Statement of ……

for the year ended March 31, 2023(Direct Method)

Particulars	₹	₹
Operating Activities:		
Cash received from sale of goods	1,40,000	
Cash received from Trade receivables	1,75,000	
Trade Commission received	50,000	3,65,000
Less: Payment for Cash Purchases	1,20,000	
Payment to Trade payables	1,57,000	
Office and Selling Expenses	75,000	
Payment for Income Tax	30,000	(3,82,000)
Net Cash Flow used in Operating Activities		(17,000)

(c) (i) Calculation of profit earned by the branch

In the books of Jammu Branch

Trading Account and Profit and Loss Account

Particulars	Amount	Particulars	Amount
	₹		₹
To Opening stock	2,20,000	By Sales	12,00,000
To Goods received by Head office	11,00,000	By Closing stock (Refer W.N.)	3,60,000
To Expenses	45,000		
To Net profit (Bal fig)	1,95,000		
	15,60,000		15,60,000

(ii) Stock reserve in respect of unrealised profit

= ₹ 3,60,000 x (20/120) = ₹ 60,000

Working Note:

	₹	
Cost Price	100	
Invoice Price	120	
Sale Price	150	
Calculation of closing stock at invoice price	₹	
Opening stock at invoice price	2,20,000	
Goods received during the year at invoice price	11,00,000	
	13,20,000	
Less: Cost of goods sold at invoice price	(9,60,000)	[12,00,000 x (120/150)]
Closing stock	3,60,000	

ANSWER OF MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. (i) (c)

(ii) (b)

(iii) (c)

(iv) (d)

2. (i) (a)

(ii) (a)

(iii) (b)

(iv) (a)

(v) (b)

3. (i) (b)

(ii) (a)

(iii) (b)

4. (a)

5. (d)

6. (a)

PART II – Descriptive Questions (70 Marks)

1. (a) As per AS 26 "Intangible Assets", expenditure on research should be recognized as an expense when it is incurred. An intangible asset arising from development (or from the development phase of an internal project) should be recognized if, and only if, an enterprise can demonstrate all of the conditions specified in para 44 of the standard. An intangible asset (arising from development) should be derecognised when no future economic benefits are expected from its use according to para 87 of the standard. Thus, the manager cannot defer the expenditure write off to future years in the given case.

Hence, the expenses amounting ₹ 40 lakhs incurred on the research and development project has to be written off in the current year ending 31st March, 2024.

(b) (i) As per AS 2 'Valuation of Inventories', abnormal amounts of wasted materials, labour and other production costs are excluded from cost of inventories and such costs are recognised as expenses in the period in which they are incurred. The normal loss will be included in determining the cost of inventories (finished goods) at the year end.

(ii) Material used 16,000 MT @ ₹ 190 = ₹ 30,40,000

Normal Loss	(5% of 16,000 MT) 800 MT (included in calculation of cost of inventories)
Net quantity of material	15,200 MT
(iii) Abnormal Loss in quantity	(950 - 800) 150 MT
Abnormal Loss	₹ 30,000

[150 units @ ₹ 200 (₹ 30,40,000/15,200)]

Amount of ₹ 30,000 (Abnormal loss) will be charged to the Profit and Loss statement.

(c) As per AS 13 (Revised) 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

(ii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

2. **Oliva Company Ltd.**

Statement of Profit and loss for the year ended 31.03.2024

	Particulars	Note	Amount (₹)
I	Revenue from operations		17,10,000
II	Other income (3,900 +300)		4,200
III	**Total Revenue (I +II)**		17,14,200
IV	Expenses:		
	Cost of materials consumed	10	12,64,200
	Purchases of inventory-in-trade		--
	Changes in inventories of finished goods, work-in-progress and inventory-in-Trade	11	(13,500)
	Employee benefit expenses	12	44,700
	Finance costs		--
	Depreciation and amortization expenses		18,240
	Other expenses	13	3,51,510
	Total Expenses		16,65,150
V	Profit before exceptional and extraordinary items and tax		49,050

VI	Exceptional items		--
VII	Profit before extraordinary items and tax		49,050
VIII	Extraordinary items		--
IX	Profit before tax		49,050
X	Tax expense (40% of 49,050)		19,620
XI	Profit/Loss for the period from continuing operations		29,430

Oliva Company Ltd.
Balance Sheet for the year ended 31.03.2024

	Particulars	Note	Amount
1	**Equity and Liabilities**		
	(i) Shareholders' funds		
	(a) Share Capital		3,15,000
	(b) Reserves and surplus	1	50,430
2)	**Non-current liabilities**		
	(a) Long-term borrowings	2	24,300
(3)	**Current Liabilities**		
	(a) Short -term borrowings	3	6,000
	(b) Trade payables		3,27,000
	(c) Other current liability	4	72,000
	(d) Short term provision	5	19,620
			8,14,350
II	**ASSETS**		
(1)	**Non current assets**		
	(a) Property, Plant & equipment	6	2,04,160
	(b) Non-current investments		7,500
(2)	**Current assets**		
	(a) Current investments		4,500
	(b) Inventories	7	85,800
	(c) Trade receivables		2,38,500
	(d) Cash and cash equivalents		2,71,100
	(e) Short-term loans and advances	8	2,490
	(f) Other current assets	9	300
			8,14,350

Notes to accounts

No.	Particulars		Amount	Amount
1.	**Reserve & Surplus**			
	Profit & Loss Account: Balance b/f		48,000	
	Net Profit for the year		29,430	
	Less: Interim Dividend		(27,000)	50,430
2.	**Long term borrowings**			
	Secured loans		21,000	
	Fixed Deposits: Unsecured		3,300	24,300
3.	**Short term borrowings**			
	Secured loans		4,500	
	Fixed Deposits -Unsecured		1,500	6,000
4.	**Other current liabilities**			
	Expenses Payable (67,500 + 4,500)			72,000
5.	**Short term provisions**			
	Provision for Income tax			19,620
6.	**PPE**			
	Building	1,01,000		
	Less: Depreciation @ 2%	(2,020)	98,980	
	Plant & Machinery	70,400		
	Less: Depreciation @ 10%	(7,040)	63,360	
	Furniture	10,200		
	Less: Depreciation @ 10%	(1,020)	9,180	
	Motor vehicles	40,800		
	Less: Depreciation @ 20%	(8,160)	32,640	2,04,160
7	**Inventory**			
	Raw Material		25,800	
	Finished goods		60,000	85,800
8.	**Short term Loans & Advances**			
	General Charges prepaid			2,490
9.	**Other Current Assets**			
	Interest accrued			300
10.	**Cost of material consumed**			
	Opening inventory of raw material	30,000		
	Add: Purchases	12,15,000		

	Stores & spare parts consumed	45,000	12,90,000	
	Less: Closing inventory		(25,800)	12,64,200
11.	**Changes in inventory of Finished Goods & WIP**			
	Closing Inventory of Finished Goods		60,000	
	Less: Opening Inventory of Finished Goods		46,500	13,500
12.	**Employee Benefit expenses**			
	Salary & Wages (40,200 + 4,500)			44,700
13.	**Other Expenses**			
	Manufacturing Expenses (2,70,000 + 67,500)		3,37,500	
	General Charges (16,500 – 2,490)		14,010	3,51,510

3. (a) As per AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognised for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it is viewed that the accounting treatment adopted by the company with respect to warranty is not correct.

(b) Balance Sheet of Radhika Ltd. (and Reduced) as on 1.4.2024

	Particulars	Notes	₹
I.	Equity & Liabilities		
A	Shareholders' Fund		
a	Share Capital	1	3,16,800
b	Reserves & Surplus	2	1,10,200
B	Non-Current Liabilities		

a	Long Term Borrowings	3	7,86,000
C	Current Liabilities		
a	Trade Payables		3,60,000
b	Short Term borrowings: Bank OD		2,34,000
	Total		18,07,000
II.	<u>Assets</u>		
A	Non-Current Assets		
a	Property, Plant & Equipment	4	7,09,000
b	Intangible assets: Patents		45,000
B	Current Assets		
a	Inventory (5,10,000-65,000)		4,45,000
b	Trade Receivable	5	4,31,500
c	Cash & Cash Equivalent		1,76,500
	Total		18,07,000

Notes to Accounts

	Particulars	**₹**
1	Share Capital	-
	Authorised, Issued, Subscribed & Paid Up Capital	
	Equity share Capital	
	15,840 Shares of ₹20 Paid up	<u>3,16,800</u>
	(Out of above 6,840 shares are issued for consideration other cash) (W.N 1)	
2	Reserves & Surplus	
	Capital Reserve (W.N 2)	1,10,200
3	Long Term Borrowings Secured	
a	6% Debentures	4,50,000
b	11% Debentures (70% of 4,80,000 preference shares)	<u>3,36,000</u>
		<u>7,86,000</u>
4	PPE	
	Freehold property	6,49,000
	Plant	<u>60,000</u>
		<u>7,09,000</u>
5	Trade receivable	5,00,000
	Less: Provision for Doubtful Debts	<u>(68,500)</u>
		<u>4,31,500</u>

Working notes:

1. **Computation of equity shares:**

			Equity share capital	**No. of shares at ₹ 20 each**
1	After the reduction to ₹ 20 each	90,000 x 20	1,80,000	9,000
2.	Equity shares allotted to preference shareholders for their ¼ arrears.	6% of 4,80,000	28,800	1,440
3.	Equity shares allotted to Directors in settlement of their loan	90% of 1,20,000	1,08,000	5,400
	Total equity shares		3,16,800	15,840

2. Calculation of capital reserve: Equity Share 7,20,000 + Preference share 1,44,000 + Freehold property 1,39,000 +Investment 74,000 + Director Loan 6,000 – Preference share dividend 28,800 - Goodwill 1,56,000 – Inventory 65,000 – Bad debts 68,500 – Profit & Loss A/c 6,42,000 = Capital Reserve 1,22,700

3. Cash balance:

		₹
Cash & cash equivalent		82,000
Add: Investment sold		1,40,000
Less: Directors Loan (1,20,000 x 5%)	6,000	
Penalty (2,50,000x 5%)	12,500	
Interest on debentures (6% on 4,50,000)	27,000	45,500
		1,76,500

4. Calculation of Net Assets

Particulars	**Anu Ltd. (₹)**	**Banu Ltd. (₹)**
Goodwill	1,75,000	50,000
Freehold property	3,75,000	3,00,000
Plant & Machinery	1,25,000	50,000
Motor vehicle	37,500	25,000
Trade receivable	2,50,000	1,00,000
Inventory	2,87,500	2,25,000
Cash at Bank	1,00,000	50,000
Total	13,50,000	8,00,000

Less : Trade payable	(2,62,500)	(1,62,500)
6% debentures	-	(1,57,500)
Net Assets	10,87,500	4,80,000

Calculation of Purchase Consideration

Sr. No.	Particulars	Computation	Anu Ltd	Banu Ltd
1	Amount payable to Equity Share Holder in the form of			
	1,08,750 Equity shares of ₹10 each	(1,08,750 × 10)	10,87,500	
	48,000 Equity shares of ₹10 each	(48,000 × 10)		4,80,000
	Purchase Consideration		10,87,500	4,80,000

Balance Sheet of Anban Ltd.
as on 1st April, 2023

	Particulars	Note No.	₹
	Equity and Liabilities		
(1)	Shareholders' Funds		
(a)	Share Capital	1	15,67,500
(2)	Non-current Liabilities		
(a)	Long term borrowings	2	1,57,500
(3)	Current Liabilities		
(a)	Trade Payables (2,62,500 + 1,62,500)		4,25,000
	Total		21,50,000
	Assets		
(1)	Non-current Assets		
(a)	Property Plant and Equipment	3	9,12,500
(b)	Intangible assets	4	2,25,000
(2)	Current Assets		
(a)	Inventories (2,87,500 + 2,25,000)		5,12,500
(b)	Trade Receivables (2,50,000 + 1,00,000)		3,50,000
(c)	Cash and cash equivalents (1,00,000 + 50,000)		1,50,000
	Total		21,50,000

Notes to Accounts:

Note No.	Particulars	₹
1	Share Capital	
	Equity share capital	
	1,56,750 equity shares of ₹10 each	15,67,500
	(out of above shares are issued for consideration other than cash)	
2	Long term borrowings	
	6% Debentures	1,57,500
3	Property, Plant & Equipment's	
	Freehold property (3,75,000 + 3,00,000)	6,75,000
	Plant & Machinery (1,25,000 + 50,000)	1,75,000
	Motor Vehicle (37,500+25,000)	62,500
		9,12,500
4	Intangible assets	
	Goodwill (1,75,000 + 50,000)	2,25,000

5. (a) Revalued net assets of Moon Ltd.as on 31st March, 2024

	₹ in lakhs	₹ in lakhs
Property, plant and equipment [240 x 120%]		288.0
Investments [110 X 90%]		99
Current Assets		140.0
Loans and Advances		30.0
Total Assets after revaluation		557
Less: 15% Debentures	180.0	
Current Liabilities	100.0	(280.0)
Equity / Net Worth		277
Star Ltd.'s share of net assets (70% of 277)		193.9
Star Ltd.'s cost of acquisition of shares of Moon Ltd.		
(₹ 140 lakhs – ₹ 14 lakhs*)		126.00
Capital reserve		67.9

* Total Cost of 70 % Equity of Moon Ltd.	₹ 140 lakhs
Purchase Price of each share	₹ 20
Number of shares purchased [140 lakhs /₹ 20]	7 lakhs
Dividend @ 20 % i.e. ₹ 2 per share	₹ 14 lakhs

Since dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

(b) Impact of Revaluation of Plant and Machinery will be as -

	₹
Book value of Plant and Machinery as on 01-04-2023	2,25,000
Depreciation Rate $\frac{(2,25,000-2,02,500)}{2,25,000}$ = 22,500/2,25000 x100	10%
Book value of Plant and Machinery as on 01-10-2023 after six months depreciation @10% (2,25,000-11,250)	2,13,750
Revalued at	2,70,000
Revaluation profit (2,70,000-2,13,750)	56,250
Share of Gamma Limited in Revaluation Profit (80%)	45,000
Share of Minority in Revaluation profit (20%)	11,250
Additional Depreciation on appreciated value to be charged from post-acquisition profits	
(10% of ₹ 22,5,000 for 6 months) + (10% of ₹ 2,70,000 for 6 months) less ₹ 22500 (as already charged)	2,250
Share of Gamma Limited in additional depreciation that will reduce its share (80%) in post-acquisition profit by	1,800
Share of Minority Interest in additional depreciation	450

Working note:

Percentage of holding:

		No. of Shares	Percentage
Holding Co.	:	24,000	(80%)
Minority shareholders	:	6,000	(20%)
TOTAL SHARES	:	30,000	

6. **(a)** Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

Or

Effects of each transaction on Balance sheet of the trader is shown below:

Transactions	**Assets ₹ lakh**	**–**	**Liabilities ₹ lakh**	**=**	**Equity ₹ lakh**
Opening	16.00	–	6.00	=	10.00
(1) Dividend earned	16.40	–	6.00	=	10.40
(2) Settlement of Creditors	15.40	-	4.60	=	10.80
(3) Rent Outstanding	15.40	–	4.80	=	10.60
(4) Drawings	15.22	–	4.80	=	10.42

(b) Journal Entries

			₹	₹
2022 June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of ₹ 100 into ₹ 4,00,000 Equity Stock as per resolution in general meeting dated…)			
2023 June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of ₹ 4,00,000 Equity Stock into 40,000 shares of ₹ 10 fully paid Equity Shares as per resolution in General Meeting dated...)			

(c) Books of Head Office

Branch Stock Account

	₹		₹
To Balance b/d – Op Stock	30,000	By Branch Debtors (Sales)	1,65,000
To Goods Sent to Branch A/c	2,40,000	By Branch Cash	59,000
To Branch Adjustment A/c	2,000	By Balance c/d	

(Balancing Figure – Excess of Sale over Invoice Price)		Goods in Transit (₹ 2,40,000 – ₹ 2,20,000)	20,000
		Closing Stock at Branch	28,000
	2,72,000		2,72,000

Branch Debtors Account

	₹		₹
To Balance b/d	32,750	By Bad debts written off	750
To Branch Stock A/c (Sales)	1,65,000	By Branch Cash (bal. fig.)	1,71,000
		By Balance c/d	26,000
	1,97,750		1,97,750

ANSWER OF MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. **(i)** **(b)**
(ii) **(b)**
(iii) **(b)**
(iv) **(d)**

2. **(i)** **(b)**
(ii) **(a)**
(iii) **(b)**
(iv) **(b)**

3. **(i)** **(d)**
(ii) **(c)**
(iii) **(c)**
(iv) **(b)**

4. **(c)**

5. **(a)**

6. **(b)**

PART II – Descriptive Questions (70 Marks)

1. (a) Investment Account for the year ending on 31st December, 2023

Scrip : 8% Convertible Debentures in C Ltd.

[Interest Payable on 31st March and 30th September]

Date	Particulars	Nominal value ₹	Interest ₹	Cost ₹	Date	Particulars	Nominal Value (₹)	Interest (₹)	Cost (₹)
1.4.23	To Bank A/c	2,00,000	-	2,16,000	30.09.23	By Bank A/c	-	12,000	-
1.7.23	To Bank A/c (W.N.1)	1,00,000	2,000	1,10,000		[₹3,00,000 x 8% x (6/12]			
31.12.23	To P & L A/c	-	14,033	-	1.10.23	By Bank A/c	80,000		84,000
	[Interest]				1.10.23	By P & L A/c (loss) (W.N.3)			2,933
					1.12.23	By Bank A/c (Accrued interest) (₹ 55,000 x .08 x 2/12)		733	

					1.12.23	By Equity shares in C Ltd. (W.N. 3 and 4)	55,000		59,767
					31.12.23	By Balance c/d (W.N.5)	1,65,000	3,300	1,79,300
		3,00,000	16,033	3,26,000			3,00,000	16,033	3,26,000

SCRIP: Equity Shares in C LTD.

Date	Particulars	Cost (₹)	Date	Particulars	Cost (₹)
1.12.23	To 8 % debentures	59,767	31.12.23	By balance c/d	59,767

Working Notes:

(i) Cost of Debenture purchased on 1st July = ₹ 1,12,000 – ₹ 2,000 (Interest) = ₹1,10,000

(ii) Cost of Debentures sold on 1st Oct.

= (₹ 2,16,000 + ₹ 1,10,000) x 80,000/3,00,000 = ₹ 86,933

(iii) Loss on sale of Debentures = ₹ 86,933– ₹84,000 = ₹ 2,933

Nominal value of debentures converted into equity shares

=₹ 55,000

[(₹ 3,00,000 – 80,000) x.25]

Interest received before the conversion of debentures

Interest on 25% of total debentures = 55,000 x 8% x 2/12 = 733

(iv) Cost of Debentures converted = (₹ 2,16,000 + ₹1,10,000) x 55,000/3,00,000 = ₹ 59,767

(v)

Cost of closing balance of Debentures = (₹ 2,16,000 + ₹1,10,000) x 1,65,000 / 3,00,000

= ₹ 1,79,300

(vii) Closing balance of Debentures has been valued at cost.

(viii) 5,000 equity Shares in C Ltd. will be valued at cost of ₹ 59,767 being lower than the market value ₹ 75,000 (₹ 15 x5,000)

Note: It is assumed that interest on debentures, which are converted into cash, has been received at the time of conversion.

(b) As per AS 16 'Borrowing Costs', a qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Further, the standard states that what constitutes a substantial period of time primarily depends on the facts and circumstances of each case. However, ordinarily, a period of twelve months is considered as substantial period of time unless a shorter or longer period can be justified on the basis of facts and circumstances of the case. In estimating the period, time which an asset takes, technologically and commercially, to get it ready for its intended use or sale is considered.

It may be implied that there is a rebuttable presumption that a 12 months period constitutes substantial period of time.

Under present circumstances where construction period has reduced drastically due to technical innovation, the 12 months period should at best be looked at as a benchmark and not as a conclusive yardstick. It may so happen that an asset under normal circumstances may take more than 12 months to complete. However, an enterprise that completes the asset in 8 months should not be penalized for its efficiency by denying it interest capitalization and vice versa.

The substantial period criteria ensures that enterprises do not spend a lot of time and effort capturing immaterial interest cost for purposes of capitalization.

Therefore, if the factory is constructed in 8 months then it shall be considered as a qualifying asset. The interest on borrowings for the same shall be capitalised although it has taken less than 12 months for the asset to get ready to use.

2. Balance Sheet of Mehar Ltd. as at 31st March, 2024

		Note	₹
I	**EQUITY AND LIABILITIES:**		
(1)	(a) Share Capital	1	1,60,00,000
	(b) Reserves and Surplus	2	110,68,000
(2)	**Non-current Liabilities**		
	Long term Borrowings- Terms Loans (Secured)		40,00,000
(3)	**Current Liabilities**		
	(a) Trade Payables		45,80,000
	(b) Other current liabilities	3	8,00,000
	(c) Short-term Provisions (Provision for taxation)		10,20,000
	Total		**3,74,68,000**
II	**ASSETS**		
(1)	**Non-current Assets**		
	(a) Property, Plant and Equipment	4	214,00,000
	(b) Non- current Investments		9,00,000
(2)	**Current Assets:**		
	(a) Inventories	5	48,00,000
	(b) Trade Receivables	6	48,20,000
	(c) Cash and Cash Equivalents		38,40,000

	(d)	Short-term Loans and Advances	7	17,08,000
		Total		**3,74,68,000**

Notes to accounts

			(₹)
1.	**Share Capital**		
	Authorized, issued, subscribed & called up		
	1,20,000, Equity Shares of ₹ 100 each	1,20,00,000	
	40,000 10% Redeemable Preference Shares of 100 each	40,00,000	1,60,00,000
2.	**Reserves and Surplus**		
	Securities Premium Account	19,00,000	
	General reserve	62,00,000	
	Profit & Loss Balance		
	Opening balance -		
	Profit for the period 32,00,000		
	Less: Miscellaneous Expenditure		
	written off (2,32,000)	29,68,000	110,68,000
3.	**Other current liabilities**		
	Loan from other parties		8,00,000
4.	**Property, plant and equipment**		
	Plant and Machinery (WDV)		214,00,000
5.	**Inventories**		
	Finished Goods	30,00,000	
	Stores	16,00,000	
	Loose Tools	2,00,000	48,00,000
6.	**Trade Receivables**		
	Trade receivables	49,00,000	
	Less: Provision for Doubtful Debts	(80,000)	48,20,000
7.	**Short term loans & Advances**		
	Staff Advances*	2,20,000	
	Other Advances*	14,88,000	17,08,000

**Considered to be short term.*

3. (a) Present value of minimum lease payment is computed below:

Year	MLP ₹	DF (12.6%)	PV ₹
1	50,000	0.890	44,500
2	50,000	0.790	39,500

3	50,000	0.700	35,000
4	50,000	0.622	31,100
5	50,000	0.552	27,600
5	25,000	0.552	13,800
			1,91,500

Present value of minimum lease payment = ₹ 1,91,500

Fair value of leased asset = ₹ 2,00,000

As per AS 19, on the date of inception of Lease, Lessee should show it as an asset and corresponding liability at lower of Fair value of leased asset at the inception of the lease and present value of minimum lease payments from the standpoint of the lessee. The accounting entry at the inception of lease to record the asset taken on finance lease in books of lessee is suggested below:

	₹	₹
Asset A/c Dr.	1,91,500	
To Lessor (Lease Liability) A/c		1,91,500
(Being recognition of finance lease as asset and liability)		

(b) As per AS 12 'Accounting for Government Grants,' income from Deferred Grant Account is allocated to Profit and Loss account usually over the periods and in the proportions in which depreciation on related assets is charged. Accordingly, in the first two years (₹ 32 lakhs /4 years) = ₹ 8 lakhs x 2 years= ₹ 16 lakhs will be credited to Profit and Loss Account and ₹ 16 lakhs will be the balance of Deferred Grant Account after two years. Therefore, on refund of grant, following entry will be passed:

	₹	₹
Deferred Grant A/c Dr.	16 lakhs	
Profit & Loss A/c Dr.	16 lakhs	
To Bank A/c		32 lakhs
(Being Government grant refunded)		

1. Value of Fixed Assets after two years but before refund of grant

Fixed assets initially recorded in the books = ₹ 80 lakhs

Depreciation for each year

= (₹ 80 lakhs – ₹8 lakhs)/4 years = ₹ 18 lakhs per year

Book value of fixed assets after two years

= ₹ 80 lakhs – (₹ 18 lakhs x 2 years) = ₹ 44 lakhs

2. **Value of Fixed Assets after refund of grant**

On refund of grant the balance of deferred grant account will become nil. The fixed assets will continue to be shown in the books at ₹ 44 lakhs.

3. **Amount of depreciation for remaining two years**

Depreciation will continue to be charged at ₹ 18 lakhs per annum for the remaining two years.

4. Books of Robert Ltd.

Balance Sheet of Robert Ltd. as at 1st April, 2024 (after merger)

		Particulars	Notes	₹ (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	36,000
	B	Reserves and Surplus	2	24,981
2		Non-current liabilities		
	A	Long-term borrowings	3	1,500
3		Current liabilities		
	A	Trade Payables (1,800+694.5-120)		2,374.5
	B	Short-term provisions (2,745+1,053)		3,798
		Total		68,653.5
		Assets		
1		Non-current assets		
	A	Property, Plant & Equipment	4	43,506
2		Current assets		
	A	Inventories (11,793+6,061.5)		17,854.5
	B	Trade receivables (3,180+1,650-120)		4,710
	C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
		Total		68,653.5

Notes to Accounts

	₹
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid-up: 36 crores equity shares of ₹ 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000

2. Reserves and Surplus	
General Reserve	14,550
Securities Premium	4,500
Foreign Project Reserve	465
Profit and Loss Account ₹ (4,305 +1,162.5-1.5)	5,466
Total	24,981
3. Long-term borrowings	
Secured	
13% Debentures	1,500
4. PPE	
Land & Buildings	9,000
Plant & Machinery	28,500
Furniture & Fittings	6,006
Total	43,506

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of *Robert* Ltd. for every two equity shares held in *Diamond* Ltd.

Purchase consideration = ₹ 9,000 lacs × $\frac{3}{2}$ = ₹ 13,500 lacs

5. Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

as at 31st March, 2024

Particulars	***Note No.***	***(₹)***
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital (1,20,000 equity shares of ₹ 10 each)		12,00,000
(b) Reserves and Surplus	1	8,16,200
(2) Minority Interest (W.N.4)		99,300
(3) Current Liabilities		
(a) Trade Payables	2	4,10,000
Total		25,25,500
II. Assets		
(1) Non-current assets		
(i) Property, plant and equipment	3	13,10,500
(ii) Intangible assets	4	24,000
(2) Current assets		
(i) Inventories	5	3,25,000

	(ii) Trade Receivables	6	6,70,000
	(iii) Cash at Bank	7	1,96,000
	Total		25,25,500

Notes to Accounts

				₹
1.	Reserves and Surplus			
	General Reserves		4,35,000	
	Add: 80% share of S Ltd.'s post-acquisition reserves (W.N.3)		84,000	5,19,000
	Profit and Loss Account		2,80,000	
	Add: 80% share of S Ltd.'s post-acquisition profits (W.N.3)	21,200		
	Less: Unrealised gain	(4,000)	17,200	2,97,200
				8,16,200
2.	Trade Payables			
	H Ltd.		3,22,000	
	S Ltd.		1,23,000	
	Less: Mutual transaction		(35,000)	4,10,000
3.	Property, plant and equipment			
	Machinery			
	H Ltd.		6,40,000	
	S Ltd.	2,00,000		
	Add: Appreciation	1,00,000		
		3,00,000		
	Less: Depreciation	(30,000)	2,70,000	9,10,000
	Furniture			
	H. Ltd.		3,75,000	
	S Ltd.	40,000		
	Less: Decrease in value	(10,000)		
		30,000		
	Less: Depreciation	(4,500)	25,500	4,00,500
				13,10,500
4.	Intangible assets			
	Goodwill [WN 5]			24,000
5.	Inventories			
	H Ltd.		2,68,000	
	S Ltd.		62,000	3,30,000
	Less: Inventory reserve			(5,000)
				3,25,000

6.	Trade Receivables			
	H Ltd.		4,70,000	
	S Ltd.		2,35,000	
				7,05,000
	Less: Mutual transaction			(35,000)
				6,70,000
7.	Cash and Bank			
	H Ltd.		1,64,000	
	S Ltd.		32,000	1,96,000

Working Notes:

1. **Profit or loss on revaluation of assets in the books of S Ltd. and their book values as on 1.4.2023**

	₹
Machinery	
Revaluation as on 1.4.2023	3,00,000
Less: Book value as on 1.4.2023	(2,00,000)
Profit on revaluation	1,00,000
Furniture	
Revaluation as on 1.4.2023	30,000
Less: Book value as on 1.4.2023	(40,000)
Loss on revaluation	(10,000)

2. **Calculation of short/excess depreciation**

	Machinery	***Furniture***
Upward/ (Downward) Revaluation	1,00,000	(10,000)
Rate of depreciation	10% p.a.	15% p.a.
Difference [(short)/excess]	(10,000)	1,500

3. **Analysis of reserves and profits of S Ltd. as on 31.03.2024**

	Pre-acquisition profit upto 1.4.2023	***Post-acquisition profits (1.4.2023–31.3.2024)***	
	(Capital profits)	***General Reserve***	***Profit and loss account***
General reserve as on 31.3.2024	50,000	1,05,000	
Profit and loss account as on 31.3.2024	30,000		35,000
Upward Revaluation of machinery	1,00,000		

as on 1.4.2023			
Downward Revaluation of Furniture as on 1.4.2023	(10,000)		
Short depreciation on machinery			(10,000)
Excess depreciation on furniture			1,500
Total	1,70,000	1,05,000	26,500

4. Minority Interest

	₹
Paid-up value of (2,00,000 x 20%)	40,000
Add: 20% share of pre-acquisition profits and reserves [(20% of (50,000 + 30,000)]	16,000
20% share of profit on revaluation	18,000
20% share of post-acquisition reserves	21,000
20% share of post-acquisition profit	5,300
	1,00,300
Less: Unrealised Profit on Inventory (55,000 x 10/110) x 20%	(1,000)
	99,300

5. Cost of Control or Goodwill

Cost of Investment		3,20,000
Less: Paid-up value of 80% shares	1,60,000	
80% share of pre-acquisition profits and reserves (₹ 64,000 + ₹72,000)	1,36,000	(2,96,000)
Cost of control or Goodwill		24,000

6. (a) Accounting Standards standardize diverse accounting policies with a view to eliminate the non-comparability of financial statements and improve the reliability of financial statements. Accounting Standards provide a set of standard accounting policies, valuation norms and disclosure requirements. Accounting standards aim at improving the quality of financial reporting by promoting comparability, consistency and transparency, in the interests of users of financial statements.

The following are the benefits of Accounting Standards:

(i) ***Standardization of alternative accounting treatments:*** Accounting Standards reduce to a reasonable extent confusing variations in the accounting treatment followed for the purpose of preparation of financial statements.

(ii) ***Requirements for additional disclosures:*** There are certain areas where important is not statutorily required to be disclosed. Standards may call for disclosure beyond that required by law.

(iii) ***Comparability of financial statements:*** The application of accounting standards would facilitate comparison of financial statements of different companies situated in India and facilitate comparison, to a limited extent, of financial statements of companies situated in different parts of the world. However, it should be noted in this respect that differences in the institutions, traditions and legal systems from one country to another give rise to differences in Accounting Standards adopted in different countries.

Or

Amount that can be drawn from reserves for (10% dividend on ₹ 80,00,000 i.e. ₹ 8,00,000)

Profits available

Current year profit	₹ 1,42,500
Amount which can be utilized from reserves (₹ 8,00,000 – 1,42,500)	₹ 6,57,500

Conditions as per Companies (Declaration of dividend out of Reserves) Rules, 2014:

Condition I

Since 10% is lower than the average rate of dividend (12%), 10% dividend can be declared.

Condition II

Maximum amount that can be drawn from the accumulated profits and reserves should not exceed 10% of paid up capital plus free reserves ie. ₹ 10,50,000 [10% of (80,00,000 + 25,00,000)]

Condition III

The balance of reserves after drawl ₹ 18,42,500 (₹ 25,00,000 - ₹ 6,57,500) should not fall below 15% of its paid up capital ie. ₹ 12,00,000 (15% of ₹ 80,00,000]

Since all the three conditions are satisfied, the company can withdraw ₹ 6,57,500 from accumulated reserve (as per Declaration and Payment of Dividend Rules, 2014).

(b) **Cash Flow Statement for the year ended 31.3.2024**

	₹	₹
Cash flow from operating activities		
Cash received on account of trade receivables	3,50,000	
Cash paid on account of trade payables	(90,000)	
Cash paid to employees (salaries and wages)	(25,000)	
Other cash payments (overheads)	(15,000)	
Cash generated from operations	2,20,000	

Income tax paid	(1,55,000)	
Net cash generated from operating activities		65,000
Cash flow from investing activities		
Payment for purchase of machinery	(4,00,000)	
Proceeds from sale of machinery	70,000	
Net cash used in investment activities		(3,30,000)
Cash flow from financing activities		
Proceeds from issue of share capital	5,00,000	
Bank loan repaid	(2,50,000)	
Debentures redeemed	(50,000)	
Net cash used in financing activities		2,00,000
Net decrease in cash and cash equivalents		(65,000)
Cash and cash equivalents at the beginning of the year		80,000
Cash and cash equivalents at the end of the year		15,000

(c) **Outlet Stock A/c**

Particulars	**₹**	**Particulars**	**₹**
To bal b/d	45,000	By Sales (90,000/20 × 120)	5,40,000
To Goods sent at outlet	4,86,000	By goods lost by fire (balancing figure)	27,000
To Gross Profit	90,000	By bal c/d	54,000
	6,21,000		6,21,000

Outlet Profit and Loss A/c

Particulars	**₹**	**Particulars**	**₹**
To Expenses	30,000	By Gross Profit	90,000
To Goods lost by fire	27,000		
To Net Profit (balancing figure)	33,000		
	90,000		90,000

Stock Reserve A/c

Particulars	**₹**	**Particulars**	**₹**
To HO P&L A/c	9,000	By bal c/d	9,000
To Bal c/d	10,800	By HO P&L A/c	10,800
	19,800		19,800

ANSWER OF MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP - I

PAPER – 1 : ADVANCED ACCOUNTING

Case Scenario

1. (a) (ii)

(b) (ii)

(c) (iii)

d) (iv)

2. (a) (iii)

(b) (ii)

(c) (iii)

(d) (iii)

3. (a) (iii)

(b) (iv)

(c) (ii)

(d) (ii)

4. (c)

5. (b)

6. (c)

PART II – Descriptive Questions (70 Marks)

1. (a) As per AS 13 'Accounting for Investments', where long-term investments are reclassified as current investments, transfers are **made at the lower of cost and carrying amount** at the date of transfer; and where investments are reclassified from current to long term, transfers are made **at lower of cost and fair value** on the date of transfer.

Accordingly, the re-classification will be done on the following basis:

(i) In this case, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 12 lakhs in the books.

(ii) In this case also, carrying amount of investment on the date of transfer is less than the cost; hence this re-classified current investment should be carried at ₹ 5 lakhs in the books.

(iii) In this case, reclassification of current investment into long-term investments will be made at ₹ 7 lakhs as cost is less than its fair value of ₹ 8.5 lakhs on the date of transfer.

(iv) In this case, market value (considered as fair vale) is ₹ 3.8 lakhs on the date of transfer which is lower than the cost of ₹ 4 lakhs. The reclassification of current investment into long-term investments will be made at ₹ 3.8 lakhs.

(b) **(i)** Suit filed against the company is a contingent liability but it was not existing as on balance sheet date as the suit was filed on 20th April after the balance Sheet date. As per AS 4, 'Contingencies' used in the Standard is restricted to conditions or situations at the balance sheet date, the financial effect of which is to be determined by future events which may or may not occur. Hence, it will have no effect on financial statements and will be a non-adjusting event.

(ii) In the given case, terms and conditions for acquisition of business were finalised and carried out before the closure of the books of accounts but transaction for payment of financial resources was effected in April, 2024. This is clearly an event occuring after the balance sheet date. Hence, necessary adjustment to assets and liabilities for acquisition of business is necessary in the financial statements for the year ended 31st March 2024.

(iii) Only those significant events which occur between the balance sheet date and the date on which the financial statements are approved, may indicate the need for adjustment to assets and liabilities existing on the balance sheet date or may require disclosure. In the given case, theft of cash was detected on 16th July, 2024 after approval of financial statements by the Board of Directors, hence no treatment is required.

(iv) Adjustments to assets and liabilities are not appropriate for events occurring after the balance sheet date, if such events do not relate to conditions existing at the balance sheet date. In the given case, sale of immovable property was under proposal stage (negotiations also not started) on the balance sheet date. Therefore, no adjustment to assets for sale of immovable property is required in the financial statements for the year ended 31st March, 2024.

(v) The condition of fire occurrence was not existing on the balance sheet date. Only the disclosure regarding event of fire and loss being completely insured may be given in the report of approving authority.

2. **Prashant Ltd.**

Balance Sheet as on 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	14,95,000
	b	Reserves and Surplus	2	3,76,800
2		**Non-current liabilities**		
		Long-term borrowings	3	3,65,000

3		**Current liabilities**		
	a	Trade Payables		2,67,000
	b	Other current liabilities	4	10,000
	c	Short-term provisions	5	72,000
		Total		25,85,800
		Assets		
1		**Non-current assets**		
		Property, Plant and Equipment	6	15,95,000
2		**Current assets**		
	a	Inventories		3,15,000
	b	Trade receivables	7	2,95,000
	c	Cash and bank balances	8	3,22,300
	d	Short-term loans and advances		58,500
		Total		25,85,800

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	Issued & subscribed & fully paid up		
	1,50,000 Equity Shares of ₹ 10 each		
	(of the above 10,000 shares have been issued for consideration other than cash)	15,00,000	
	Less: Calls in arrears	(5,000)	14,95,000
2	Reserves and Surplus		
	General Reserve		2,70,000
	Profit & Loss balance		1,06,800
		Total	3,76,800
3	Long-term borrowings		
	Secured		
	Loan from State Financial Corporation (2,10,000-10,000)		2,00,000
	(Secured by hypothecation of Plant and Machinery)		
	Unsecured Loan		1,65,000
	Total		3,65,000
4	Other current liabilities		
	Interest accrued but not due on loans (SFC)		10,000
5	Short-term provisions		
	Provision for taxation		72,000

6	Property, Plant & Equipment		
	Land		5,50,000
	Building	5,50,000	
	Less: Depreciation(b.f.)	(65,000)	4,85,000
	Plant & Machinery	6,25,000	
	Less: Depreciation (b.f.)	(65,000)	5,60,000
	Total		15,95,000
7	Trade receivables		
	Outstanding for a period exceeding six months		55,000
	Other Amounts		2,40,000
	Total		2,95,000
8	Cash and bank balances		
	Cash and cash equivalents		
	Cash at bank		2,85,000
	Cash in hand		37,300
	Other bank balances		Nil
	Total		3,22,300

3. (a) (i) PQR Ltd.

Cash Flow Statement for the year ended 31st March, 2024

(Using direct method)

Particulars	₹	₹
Cash flows from Operating Activities		
Cash sales (₹ 3,75,000/25%)		15,00,000
Less: Cash payments for trade payables	(6,10,000)	
Wages Paid	(5,55,000)	
Office and selling expenses ₹ (35,000 + 15,000)	(50,000)	(12,15,000)
Cash generated from operations before taxes		2,85,000
Income tax paid		(55,000)
Net cash generated from operating activities (A)		2,30,000
Cash flows from Investing activities		
Sale of investments ₹ (8,20,000 + 20,000)	8,40,000	
Payments for purchase of Plant & machinery	(3,50,000)	
Net cash used in investing activities (B)		4,90,000

Cash flows from financing activities		
Bank loan repayment (including interest)	(2,05,000)	
Dividend paid	(40,000)	
Net cash used in financing activities (C)		(2,45,000)
Net increase in cash (A+B+C)		4,75,000
Cash and cash equivalents at beginning of the period		2,25,000
Cash and cash equivalents at end of the period		7,00,000

(ii) 'Cash Flow from Operating Activities' by indirect method

		₹
Net Profit for the year before tax and extraordinary items		2,80,000
Add: Non-Cash and Non-Operating Expenses:		
Depreciation		60,000
Interest Paid		5,000
Less: Non-Cash and Non-Operating Incomes:		
Profit on Sale of Investments		(20,000)
Net Profit after Adjustment for Non-Cash Items		3,25,000
Less: Decrease in trade payables	15,000	
Increase in inventory	25,000	(40,000)
Cash generated from operations before taxes		2,85,000

Working Note:

Calculation of net profit earned during the year

	₹	₹
Gross profit		3,75,000
Less: Office expenses, selling expenses	50,000	
Depreciation	60,000	
Interest paid	5,000	(1,15,000)
		2,60,000
Add: Profit on sale of investments		20,000
Net profit before tax		2,80,000

(b) As per AS 14, 'Accounting for Amalgamations' consideration for the amalgamation means the aggregate of shares and other securities issued and payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.

(i) Computation of Purchase Consideration

	₹
(a) Preference Shares: ₹ 50 per share 24,000 Preference shares	12,00,000

(b)	Cash	39,000
(c)	Equity shares: 56,000 equity shares in Wow Ltd. @ ₹ 115	64,40,000
		76,79,000

(ii) **Journal entry**

		₹	₹
Liquidator of Wonder Ltd.	Dr.	76,79,000	
To Cash			39,000
To Preference Share Capital A/c			12,00,000
To Equity Share Capital A/c			56,00,000
To Securities Premium A/c [56,000 x ₹ 15 (115-100)]			8,40,000

4. **(i)** **Journal Entries in the Books of VT Ltd.**

		Dr. ₹	*Cr.* ₹
PPE	Dr.	2,10,000	
To Revaluation Reserve			2,10,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	1,20,000	
To Equity Dividend			1,20,000
(Equity dividend @ 10%)			
Equity Dividend	Dr.	1,20,000	
To Bank Account			1,20,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	9,80,000	
To Liquidator of MG Ltd.			9,80,000
(Consideration payable for the business taken over from MG Ltd.)			
PPE (115% of ₹ 5,00,000)	Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000)	Dr.	6,08,000	
Debtors	Dr.	3,80,000	
Bills Receivable	Dr.	40,000	
Investment	Dr.	1,60,000	
Cash at Bank	Dr.	20,000	
(₹ 80,000 –₹ 60,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 3,60,000)			18,000

To Sundry Creditors			2,50,000
To 12% Debentures in MG Ltd.			3,24,000
To Bills Payable			50,000
To Business Purchase Account			9,80,000
To Capital Reserve (Balancing figure)			1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of MG Ltd.	Dr.	9,80,000	
To Equity Share Capital			8,00,000
To 10% Preference Share Capital			1,80,000
(Discharge of consideration for MG Ltd.'s business)			
12% Debentures in MG Ltd. (₹ 3,00,000 × 108%)	Dr.	3,24,000	
Discount on Issue of Debentures (₹ 3,60,000 × 10%)	Dr.	36,000	
To 12% Debentures (₹ 3,24,000/90 × 100)			3,60,000
(Allotment of 12% Debentures to debenture holders of MG Ltd. at a discount of 10%)			
Sundry Creditors	Dr.	20,000	
To Sundry Debtors			20,000
(Cancellation of mutual owing)			
Goodwill	Dr.	60,000	
To Bank			60,000
(Being liquidation expenses reimbursed to MG Ltd.)			
Capital Reserve/P&L A/c	Dr.	60,000	
To Goodwill			60,000
(Being goodwill set off)			

(ii) Statement of Consideration payable by VT Ltd. for 60,000 shares (payment method)

Shares to be allotted 60,000/12 × 16 = 80,000 shares of VT Ltd.

Issued 80,000 shares of ₹ 10 each i.e. ₹ 8,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ 2,00,000x 90/100 ₹ 1,80,000 (ii)

Consideration amount [(i) + (ii)] ₹ 9,80,000

5. Consolidated Balance Sheet of Kedar Ltd. and its Subsidiary Vijay Ltd. as at 31st March, 2024

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		15,00,000
(b) Reserves and Surplus	1	8,61,500
(2) Minority Interest (W.N.5)		1,20,375
(3) Current Liabilities		
(a) Trade Payables	2	5,17,500
Total		29,99,375
II. Assets		
(1) Non-current assets		
(i) Property, plant & Equipment	3	14,94,375
(ii) Intangible assets	4	30,000
(b) Other non- current assets	5	14,75,000
Total		29,99,375

Notes to Accounts

				₹
1.	**Reserves and Surplus**			
	Reserves		5,00,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition reserves (W.N.3)		1,00,000	6,00,000
	Profit and Loss Account		2,50,000	
	Add: 4/5th share of Vijay Ltd.'s post-acquisition profits (W.N.4)		11,500	2,61,500
				8,61,500
2.	**Trade Payables**			
	Kedar Ltd.		3,75,000	
	Vijay Ltd.		1,42,500	5,17,500
3.	**Property, plant & Equipment**			
	Machinery			
	Kedar Ltd.		7,50,000	

	Vijay Ltd.	2,50,000		
	Add: Appreciation	1,25,000		
		3,75,000		
	Less: Depreciation	(37,500)	3,37,500	
	Furniture	-		
	Kedar Ltd.	-	3,75,000	
	Vijay Ltd.	50,000		
	Less: Decrease in value	(12,500)		
		37,500		
	Less: Depreciation	(5,625)	31,875	14,94,375
4.	**Intangible assets**			
	Goodwill [WN 6]			30,000
5.	**Other non-current assets**			
	Kedar Ltd.		11,00,000	
	Vijay Ltd.		3,75,000	14,75,000

Working Notes:

		₹
1.	**Pre-acquisition profits and reserves of Vijay Ltd.**	
	Reserves	62,500
	Profit and Loss Account	37,500
		1,00,000
	Kedar Ltd.'s = 4/5 × 1,00,000	80,000
	Minority Interest = 1/5 × 1,00,000	20,000
2.	**Profit on revaluation of assets of *Vijay* Ltd.**	-
	Profit on Machinery ₹ (3,75,000 – 2,50,000)	1,25,000
	Less: Loss on Furniture ₹(50,000 – 37,500)	12,500
	Net Profit on revaluation	1,12,500
	Kedar Ltd.'s share 4/5 × 1,12,500	90,000
	Minority Interest 1/5 × 1,12,500	22,500
3.	**Post-acquisition reserves of *Vijay* Ltd.**	-
	Post-acquisition reserves (Total reserves less pre-acquisition reserves = ₹ 1,87,500 – 62,500)	1,25,000
	Kedar Ltd.'s share 4/5 × 1,25,000	1,00,000
	Minority interest 1/5 × 25,000	25,000
4.	**Post -acquisition profits of *Vijay* Ltd.**	-
	Post-acquisition profits (Profit & loss account balance less pre-acquisition profits = ₹ 62,500 – 37,500)	25,000
	Add: Excess depreciation charged on furniture @ 15%	-
	on ₹ 12,500 i.e. (50,000 – 37,500)	1,875
		26,875

Less: Under depreciation on machinery @ 10%	-
on ₹ 1,25,000 i.e. (3,75,000 – 2,50,000)	(12,500)
Adjusted post-acquisition profits	14,375
Kedar Ltd.'s share 4/5 × 14,375	11,500
Minority Interest 1/5 × 14,375	2,875
5. Minority Interest	-
Paid-up value of (2,500 – 2,000) = 500 shares	-
held by outsiders i.e. 500 × ₹ 100	50,000
Add: 1/5th share of pre-acquisition profits and reserves	20,000
1/5th share of profit on revaluation	22,500
1/5th share of post-acquisition reserves	25,000
1/5th share of post-acquisition profit	2,875
	1,20,375
6. Cost of Control or Goodwill	-
Paid-up value of 2,000 shares held by Kedar Ltd. i.e. 2,000 × ₹ 100	2,00,000
Add: 4/5th share of pre-acquisition profits and reserves	80,000
4/5th share of profit on the revaluation	90,000
Intrinsic value of shares on the date of acquisition	3,70,000
Price paid by Kedar Ltd. for 2,000 shares	4,00,000
Less: Intrinsic value of the shares	(3,70,000)
Cost of control or Goodwill	30,000

6. (a) Difference between Amalgamation, Absorption and External Reconstruction

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	In this case, an existing company takes over the business of one or more existing companies.	In this case, a newly formed company takes over the business of an existing company.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.

Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a single resultant company.	No new resultant company is formed.	Only one resultant company is formed. Under this case a newly formed company takes over the business of an existing company.
Objective	Amalgamation is done to cut competition and reap the economies in large scale.	Absorption is done to cut competition and reap the economies in large scale.	External reconstruction is done to reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

Or

(a) Profit and Loss Account for the year ended 2023-24 (not assuming going concern)

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

(b) According to AS 15 (Revised) "Employee Benefits", actuarial gains and losses should be recognized immediately in the statement of profit and loss as income or expense. Therefore, surplus of ₹ 6 lakhs in the pension scheme on its actuarial valuation is required to be credited to the profit and loss statement of the current year. Hence, Synergy Ltd. cannot spread the actuarial gain of ₹ 6 lakhs over the next 2 years by reducing the annual contributions to ₹ 2 lakhs instead of ₹ 5 lakhs. It has to contribute ₹ 5 lakhs annually for its pension schemes.

(c) Trial Balance of Foreign Branch (converted into Indian Rupees) as on March 31, 2024

Particulars	**$ (Dr.)**	**$ (Cr.)**	**Conversion Basis**	**Rate**	**₹ (Dr.)**	**₹ (Cr.)**
Fixed Assets	8,000		Transaction Date Rate	63	5,04,000	
Opening Inventory	800		Opening Rate	65	52,000	
Goods Received from HO	2,800		Actuals		1,85,500	
Sales		24,050	Average Rate	66		15,87,300
Purchases	11,800		Average Rate	66	7,78,800	
Expenses	1,800		Average Rate	66	1,18,800	
Cash	700		Closing Rate	67	46,900	
Remittance to HO	2,450		Actuals		1,62,000	
HO Account		4,300	Actuals			2,84,500
Exchange Rate Difference			Balancing Figure		23,800	
	28,350	28,350			18,71,800	18,71,800
Closing Stock	700		Closing Rate	67	46,900	
Depreciation	800		Fixed Asset Rate	63	50,400	

ANSWERS OF MODEL TEST PAPER 5
INTERMEDIATE COURSE; GROUP I
PAAPER 1 ADVANCED ACCOUNTING

1.	**(i)**	**(d)**
	(ii)	**(c)**
	(iii)	**(b)**
	(iv)	**(a)**
2.	**(i)**	**(b)**
	(ii)	**(d)**
	(iii)	**(c)**
	(iv)	**(c)**
3.	**(i)**	**(b)**
	(ii)	**(a)**
	(iii)	**(d)**
	(iv)	**(a)**
4.	**(a)**	
5.	**(b)**	
6.	**(c)**	

Part II- Descriptive questions (70 marks)

1. (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.

(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

2. (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) To Own debentures A/c To Capital reduction A/c (Being profit on cancellation of own debentures transferred to capital reduction A/c)	Dr.	3,60,000	 3,45,600 14,400
6.	10% Debentures A/c Capital reduction A/c To Machinery or PPE A/c (Being machinery taken up by debenture holders for ₹ 6,00,000)	Dr. Dr.	6,00,000 3,00,000	 9,00,000
7.	Capital reduction A/c (balancing figure) To PPE A/c (72,00,000 - 9,00,000 - 60,00,000) (Being PPE revalued)	Dr.	3,00,000	 3,00,000
8.	Trade payables A/c (16,80,000 -15,00,000) To Trade receivables A/c (13,75,000-13,00,000) To Inventory A/c (9,80,000-9,44,000) To Capital Reduction A/c (Being assets and liabilities revalued)	Dr.	1,80,000	 75,000 36,000 69,000
9.	Capital reduction A/c To Goodwill A/c To Profit and Loss A/c (Being the above assets written off)	Dr.	13,16,000	 81,000 12,35,000
10.	Capital reduction A/c To Bank A/c (Being penalty paid for avoidance of capital commitments)	Dr.	60,000	 60,000
11.	Capital reduction A/c To Capital reserve A/c (Being the credit balance in Capital Reduction A/c transferred to Capital Reserve)	Dr.	3,44,200	 3,44,200

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

3. (a) (i) **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%

(ii) **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

4. 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

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.

*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.

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

5. **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.

6. (a) Colour Limited leased a Machine to Red Limited on 1 April, 2021 on the 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)	₹ 20,70,495
Add: Unguaranteed residual value	₹ 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) =

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

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

ANSWER OF MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

ANSWERS

1. (a) (iii)

(b) (i)

(c) (ii)

(d) (iii)

2. (a) (ii)

(b) (iii)

(c) (iii)

(d) (i)

3. (a) (iii)

(b) (iii)

(c) (ii)

(d) (iv)

4. (ii)

5. (i)

6. (iv)

PART II – Descriptive Questions (70 Marks)

1. (a) Provision to be made for warranty under AS 29 'Provisions, Contingent Liabilities and Contingent Assets'

As at 31st March, 2023 = ₹ 60,000 x .02 + ₹ 40,000 x .03

= ₹ 1,200 + ₹ 1,200 = ₹ 2,400

As at 31st March, 2024 = ₹ 40,000 x .02 + ₹ 1,35,000 x .03

= ₹ 800 + ₹ 4,050 = ₹ 4,850

Amount debited to Profit and Loss Account for year ended 31st March, 2024

	₹
Balance of provision required as on 31.03.2024	4,850
Less: Opening Balance as on 1.4.2023	(2,400)
Amount debited to profit and loss account	2,450

Note: No provision will be made on 31st March, 2024 in respect of sales amounting ₹ 60,000 made on 11th February, 2022 as the warranty period of 2 years has already expired.

(b) As per AS 26 "Intangible Assets", subsequent expenditure on an intangible asset after its purchase or its completion should be recognized as an expense when it is incurred unless (a) it is probable that the expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance; and (b) expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure should be added to the cost of the intangible asset.

(i) In the given case, the legal expenses to defend the patent of a product amounting ₹ 23,00,000 should not be capitalized and be charged to Profit and Loss Statement.

(ii) The company is required to expense the entire amount of ₹ 7,00,000 in the Profit and Loss account for the year ended 31st March, 2024 because no benefit will arise in the future.

(iii) As per AS 26, expenditure on an intangible item that was initially recognized as an expense by a reporting enterprise in previous annual financial statements should not be recognized as part of the cost of an intangible asset at a later date. Thus, the company cannot capitalize the amount of ₹ 25,00,000 and it should be recognized as expense

(iv) Expenditure of ₹ 50,00,000 on advertising and promotional activities should always be charged to Profit and Loss Statement. Hence, the company has done the correct treatment by debiting the sum of 50 lakhs to Profit and Loss Account.

(c) (1) Trade discounts and volume rebates received are not encompassed within the definition of revenue, since they represent a reduction of cost. Trade discounts and volume rebates given should be deducted in determining revenue.

(2) When goods are sold to distributor or others, revenue from such sales can generally be recognized if significant risks of ownership have passed; however, in some situations the buyer may in substance be an agent and in such cases the sale should be treated as a consignment sale.

(3) For transactions, where seller concurrently agrees to repurchase the same goods at a later date that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue.

(4) Insurance agency commissions should be recognized on the effective commencement or renewal dates of the related policies.

(5) On 11.03.2024, if X mart takes title and accepts billing for the goods then it is implied that the sale is complete and all risk and reward on ownership has been transferred to the buyers.

Revenue should be recognized for year ended 31st March, 2024 notwithstanding that physical delivery has not been completed so long as there is every expectation that delivery will be made and items were ready for delivery to the buyer at the time.

2. **MN Limited**

Balance Sheet as at 31st March, 2024

Particulars			Note No.	(₹ in 000)
Equity and Liabilities				
1.	**Shareholders' funds**			
	A	Share capital	1	300
	B	Reserves and Surplus	2	530
2.	**Non-Current liabilities**			
	A	Long term borrowings	3	200
3.	**Current liabilities**			
	A	Trade Payables		52
		Total		**1082**
Assets				
1.	**Non-current assets**			
	A	PPE (Property, Plant & Equipment)	4	880
2	**Current assets**			
	A	Inventories		86
	B	Trade receivables		96
	C	Cash and bank balances		20
		Total		**1082**

MN Limited

Statement of Profit and Loss for the year ended 31st March, 2024

	Particulars	Notes	(₹ in 000)
I.	Revenue from operations		700
II.	Other Income	5	2
III	**Total Income**		**702**
IV	Expenses:		
	Purchases		320
	Finance costs	6	20

	Depreciation (10% of 760*)		76
	Other expenses	7	120
	Total Expenses		**536**
V.	**Profit (Loss) for the period** (III – IV)		**166**

Notes to accounts

			(₹ in 000)
1.	**Share Capital**		
	Equity share capital		
	Authorised		
	40,000 shares of ₹ 10 each		400
	Issued & subscribed & called up		
	30,000 shares of ₹ 10 each		300
2.	**Reserves and Surplus**		
	Securities Premium Account		40
	Revaluation reserve (360 – 220)		140
	General reserve		130
	Profit & loss Balance		
	Opening balance 72		
	Profit for the period 166	238	
	Less: Appropriations		
	Interim Dividend	(18)	220
			530
3.	**Long term borrowing**		
	10% Debentures		200
4.	**PPE**		
	Land		
	Opening balance	220	
	Add: Revaluation adjustment	140	
	Closing balance		360
	Plant and Machinery		
	Opening balance	770	
	Less: Disposed off	(10)	
		760	
	Less: Depreciation (172-8+76)	(240)	
	Closing balance		520

* 770 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

Total		880
5. Other Income		
Profit on sale of machinery:		
Sale value of machinery	4	
Less: Book value of machinery (10-8)	(2)	2
6. Finance costs		
Debenture interest		20
7. Other expenses:		
Factory expenses	60	
Selling expenses	30	
Administrative expenses	30	120

Note: The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March, 2024. Such dividends will be disclosed in notes only.

3. (a) $$\frac{\text{Fair value of shares immediately prior to exercise of rights + Total amount received from exercise}}{\text{Number of shares outstanding prior to exercise + Number of shares issued in the exercise}}$$

$$\frac{102 \text{ x } 2,50,000 \text{ Shares} + ₹\ 98 \text{ x } 1,00,000 \text{ shares}}{3,50,000 \text{ shares}}$$

Theoretical ex-rights fair value per share = ₹ 100.86

Computation of adjustment factor:

$$\frac{\text{Fair value per share prior to exercise of rights}}{\text{Theoretical ex-rights value per share}} = 102/100.86 = 1.01$$

Computation of earnings per share:

EPS for the year 2022-23 as originally reported: ₹ 50,00,000/2,50,000 shares = ₹ 20

EPS for the year 2022-23 restated for rights issue: = ₹ 50,00,000/ (2,50,000 shares x 1.01)

= ₹ 19.80

EPS for the year 2023-24 including effects of rights issue:

EPS = 75,00,000/3,25,625* = ₹ 23.03

* [(2,50,000 x 1.01 x 3/12) + (3,50,000 x 9/12)] =63,125 + 2,62,500 = 3,25,625 shares

Note: Financial year (ended 31st March) is considered as accounting year while giving the above answer.

(b) **In the books of Fortunate Ltd.**

Journal Entries

	Particulars		Debit (₹)	Credit (₹)
1.	Equity share capital A/c (₹ 50)	Dr.	9,37,500	
	To Equity share capital A/c (₹ 5)			93,750
	To Capital reduction A/c*			8,43,750
	(Being equity capital reduced to nominal value of ₹ 5 each)			
2.	Bank A/c	Dr.	2,81,250	
	To Equity share capital			2,81,250
	(Being 3 right shares against each share was issued and subscribed)			
3.	8% Preference share capital A/c (₹ 50)	Dr.	7,50,000	
	Capital reduction A/c	Dr.	75,000	
	To 6% Preference share capital (₹ 10)			6,00,000
	To equity share capital			2,25,000
	(Being 8% preference shares of ₹ 50 each converted to 6% preference shares of ₹ 10 each and also given to them 3 equity shares for every share held)			
4.	Loan A/c	Dr.	1,87,500	
	To 6% Preference share capital A/c (15,000 x ₹ 10)			1,50,000
	To Equity share capital A/c (7,500 x ₹ 5)			37,500
	(Being loan to the extent of ₹ 1,50,000 converted into share capital)			
5.	Bank A/c (25,000 x ₹ 5)	Dr.	1,25,000	
	To Equity share application A/c			1,25,000
	(Being shares subscribed by the directors)			
6.	Equity share application A/c	Dr.	1,25,000	
	To Equity share capital A/c			1,25,000
	(Being application money transferred to capital A/c)			

7.	Loan A/c	Dr.	2,50,000	
	To Bank A/c			2,50,000
	(Being loan repaid)			
8.	Capital reduction A/c	Dr.	7,68,750	
	To Profit and loss A/c			5,63,750
	To Plant A/c			43,750
	To Trademarks and Goodwill A/c (Bal. fig.)			1,61,250
	(Being losses and assets written off to the extent required)			

Balance sheet of Fortunate Ltd. (and reduced)

as on 31.3.2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	15,12,500
2		Non-current liabilities		
	a	Long-term borrowings (7,16,250 – 1,87,500 – 2,50,000)		2,78,750
3		Current liabilities		
	a	Trade Payables		2,58,750
	b	Other current liabilities		43,750
		Total		20,93,750
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment	2	7,91,250
	b	Intangible assets	3	2,36,250
2		Current assets		
	a	Inventories		5,00,000
	b	Trade receivables		4,10,000
	c	Cash and cash equivalents	4	1,56,250
		Total		20,93,750

Notes to accounts:

			₹
1	Share Capital		
	Authorized capital:		
	81,250 Preference shares of ₹ 10 each	8,12,500	

	1,87,500 Equity shares of ₹ 5 each	9,37,500	17,50,000
	Issued, subscribed and paid up:		
	1,52,500 equity shares of ₹ 5 each	7,62,500	
	(out of the above 52,500 shares issued for consideration other than cash)		
	75,000, 6% Preference shares of ₹ 10 each	7,50,000	15,12,500
2	Property, Plant and Equipment		
	Building at cost less depreciation	5,00,000	
	Plant at cost less depreciation	2,91,250	7,91,250
3.	Intangible assets		
	Trademarks and goodwill		2,36,250
4	Cash and cash equivalents		
	Bank (2,81,250+1,25,000-2,50,000)		1,56,250

4 In the Books of Y Ltd. Realisation Account

			₹		₹
To	Sundry Assets:			By Retirement Gratuity Fund	60,000
	Goodwill	75,000		By Trade payables	2,40,000
	Land & Building	3,00,000		By X Ltd. (Purchase	15,90,000
	Plant & Machinery	4,50,000		Consideration)	
	Inventory	5,25,000			
	Trade receivables	3,00,000			
	Bank	60,000	17,10,000		
To	Preference Shareholders (Premium on Redemption)		30,000		
To	Equity Shareholders (Profit on Realisation)		1,50,000		
			18,90,000		18,90,000

Balance Sheet of X Ltd. (after absorption) as at 31st March, 2024

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital	1	48,30,000
	B	Reserves and Surplus	2	2,70,000

2		Non-current liabilities		
	A	Long-term provisions	3	2,10,000
3		Current liabilities		
	A	Trade Payables	4	6,10,000
	B	Short term provision	5	7,500
		Total		59,27,500
		Assets		
1		Non-current assets		
	A	Fixed assets		
		Tangible assets	6	33,00,000
		Intangible assets	7	3,00,000
2		Current assets		
	A	Inventories	8	12,22,500
	B	Trade receivables	9	8,80,000
	C	Other current Assets	10	15,000
	D	Cash and cash equivalents	11	2,10,000
		Total		59,27,500

Notes to accounts

		₹
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of ₹ 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)	6,30,000
	Total	48,30,000
2	Reserves and Surplus	
	Securities Premium	60,000
	General Reserve	2,10,000
	Total	2,70,000
3	Long-term provisions	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*) * *Mutual Owings eliminated.*	6,10,000

5	Short term Provisions	
	Provision for Doubtful Debts	7,500
6	Tangible assets	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 +1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill ₹

Profit of 2022-23	90,000
Profit of 2021-22 adjusted ₹ 78,000 + 10,000)	88,000
Profit of 2020-21 adjusted (₹ 72,000 – 25,000)	47,000
	2,25,000
Average profit	75,000

Goodwill to be valued at 2 times of average profits = ₹ 75,000 x 2 = ₹ 1,50,000

2.

Purchase Consideration:		₹
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		

10% Preference Shareholders of Y Ltd.	3,00,000
Add: 10% Premium	30,000
9% Preference Shares of X Ltd.	3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000	
equity Shares of X Ltd. at 5% Premium	12,60,000
Total	15,90,000

5 **Restated Balance Sheet of MNT Ltd.**

as at 31st December, 2024

Particulars	**Note No.**	**(₹)**
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital		7,50,000
(b) Reserves and Surplus	1	7,18,500
(2) Current Liabilities		
(a) Short term borrowings	2	1,70,000
(b) Trade Payables		2,46,000
(c) Short-term provision	3	4,30,000
Total		23,14,500
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	4	6,37,500
(b) Non-current Investment		5,30,000
(2) Current assets		
(a) Inventories (6,90,000 +12,000)	5	7,02,000
(b) Trade Receivables $\left(\frac{3,43,000}{98} \times 100\right)$		3,50,000
(c) Cash & Cash Equivalents		42,500
(d) Other current assets	6	52,500
Total		23,14,500

Notes to Accounts

			₹
1.	Reserves and Surplus		
	Revenue Reserve (refer W.N.)	5,11,500	
	Securities Premium	2,07,000	7,18,500
2.	**Short term borrowings**		

	Bank overdraft		1,70,000
3.	Short-term provision		
	Provision for taxation		4,30,000
4.	Property, Plant and Equipment		
	Cost	9,20,000	
	Less: Depreciation to date	(2,82,500)	6,37,500
5.	**Inventories**	6,90,000	
	Increase in value as per FIFO	12,000	7,02,000
6.	**Other current assets**		
	Prepaid expenses (After adjusting sales promotion expenses to be written off each year) (65,000 -12,500)		52,500

Working Note:

Adjusted revenue reserves of MNT Ltd.:

	₹	₹
Revenue reserves as given		5,05,000
Add: Provision for doubtful debts [3,43,000 X 2/98)	7,000	
Add: Increase in value of inventory	12,000	19,000
		5,24,000
Less: Sales Promotion expenditure to be written off		(12,500)
Adjusted revenue reserve		5,11,500

6. (a) Elements of Financial Statements

Asset	Resource controlled by the enterprise as a result of past events from which future economic benefits are expected to flow to the enterprise
Liability	Present obligation of the enterprise arising from past events, the settlement of which is expected to result in an outflow of a resource embodying economic benefits.
Equity	Residual interest in the assets of an enterprise after deducting all its liabilities
Income/gain	Increase in economic benefits during the accounting period in the form of inflows or enhancement of assets or decreases in liabilities that result in increase in equity other than those relating to contributions from equity participants
Expense/loss	Decrease in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrence of liabilities that result in decrease in

	equity other than those relating to distributions to equity participants

Or

Schedule III has come into force for the Balance Sheet and Profit and Loss Account prepared for the financial year commencing on or after 1st April, 2023. As per Part I of the Schedule III, a company should, inter alia, disclose in notes to accounts for the period of 5 years immediately preceding the balance sheet date (31st March, 2024 in the instant case) the aggregate number and class of shares allotted as fully paid-up bonus shares. Schedule III does not require a company to disclose the source from which bonus shares have been issued. Therefore, non-disclosure of source from which bonus shares have been issued does not violate the Schedule III to the Companies Act.

(b) Following will be the treatment in the given cases:

(i) When sale price of ₹ 24 lakhs is equal to fair value, A Ltd. should immediately recognise the profit of ₹ 4 lakhs (i.e. 24 – 20) in its books.

(ii) When fair value is ₹ 20 lakhs & sale price is ₹ 24 lakhs then profit of ₹ 4 lakhs is to be deferred and amortised over the lease period.

(iii) When fair value is ₹ 22 lakhs & sale price is ₹ 25 lakhs, profit of ₹ 2 lakhs (22 - 20) to be immediately recognised in its books and balance profit of ₹ 3 lakhs (25-22) is to be amortised/deferred over lease period.

(iv) When fair value of leased machinery is ₹ 25 lakhs & sale price is ₹ 18 lakhs, then loss of ₹ 2 lakhs (20 – 18) to be immediately recognised by A Ltd. in its books provided loss is not compensated by future lease payment.

(v) When fair value is ₹ 18 lakhs & sale price is ₹ 19 lakhs, then the loss of ₹ 2 lakhs (20-18) to be immediately recognised by A Ltd. in its books and profit of ₹ 1 lakhs (19-18) should be amortised/deferred over lease period.

(c) Books of Branch A

Journal Entries

	Particulars		**Dr. Amount ₹**	**Cr. Amount ₹**
(i)	Expenses account	Dr.	3,500	
	To Head office account			3,500
	(Being the allocated expenditure by the head office recorded in branch books)			
(ii)	Depreciation account	Dr.	1,500	
	To Head office account			1,500

	(Being the depreciation provided)			
(iii)	Head office account	Dr.	2,000	
	To Salaries account			2,000
	(Being the rectification of salary paid on behalf of H.O.)			
(iv)	Head office account	Dr.	10,000	
	To Debtors account			10,000
	(Being the adjustment of collection from branch debtors)			
(v)	No entry in branch books			
(vi)	Head Office account	Dr.	3,000	
	To Cash account			3,000
	(Being the expenditure on account of Branch B, recorded in books)			

Note: Entry (vi) Inter branch transactions are routed through Head Office.

ANSWERS OF MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP – I

PAPER – 1 : ADVANCED ACCOUNTING

1. **(i)** **(a)**
(ii) **(b)**
(iii) **(c)**
(iv) **(b)**

2. **(i)** **(c)**
(ii) **(c)**
(iii) **(c)**
(iv) **(c)**

3. **(a)** **(ii)**
(b) **(ii)**
(c) **(iii)**
(d) **(iv)**

4. **(ii)**

5. **(iii)**

6. **(b)**

PART II – Descriptive Questions (70 Marks)

1. **(a)** **(i)** As per AS 4'Contingencies and Events Occurring After the Balance Sheet Date', disclosure should be made in the report of the approving authority of those events occurring after the balance sheet date that represent material changes and commitments affecting the financial position of the enterprise, the investment of ₹ 40 lakhs in April, 2024 in the acquisition of another company should be disclosed in the report of the Board of Directors to enable users of financial statements to make proper evaluations and decisions.

(ii) As per AS 4, adjustment to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the Balance Sheet date. A debtor for ₹ 2,50,000 suffered heavy loss due to earthquake in the second week of March, 2024 which was not covered by insurance. This information with its implications was already known to the company. The fact that he became bankrupt in May, 2024 (after the balance sheet date) is only an additional information related to the existing condition on the balance sheet date. Accordingly, full provision for bad debts amounting ₹ 2,50,000 should be made, to cover the loss arising due to the insolvency of a debtor, in the final accounts for the year ended 31st March 2024.

(iii) As per AS 4, adjustments to assets and liabilities are required for events occurring after the balance sheet date that provide additional information materially affecting the determination of the amounts relating to conditions existing at the balance sheet date. In the given case, since Hari Ltd. was sued by a competitor for infringement of a trademark during the year 2023-24 for which the provision was also made by it, the decision of the Court on 26th May, 2024, for payment of the penalty will constitute as an adjusting event because it is an event occurred before approval of the financial statements. Therefore, Hari Ltd. should adjust the provision upward by ₹ 4 lakhs to reflect the award decreed by the Court to be paid by them to its competitor.

(iv) As the embezzlement of cash comes to the notice of company management only after approval of financial statements by board of directors of the company, then the treatment will be done as per the provisions of AS 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and the same will not be adjusted in the financial statements for the year ended 31st March, 2024. This being an extra-ordinary item should be disclosed in the statement of profit and loss as a part of loss for the year ending March, 2025, in a manner, that its impact on current profit or loss can be perceived.

(v) Collection of cheques after balance sheet date is not an adjusting event even if the cheques bear the date of 31st March. Recognition of cheques in hand is therefore not consistent with requirements of AS 4. Moreover, the collection of cheques after balance sheet date does not represent any material change or commitments affecting financial position of the enterprise and no disclosure of such collections in the Directors' Report is necessary.

(b) As per AS 26 'Intangible Assets'

(i) Carrying value of intangible asset as on 31.03.2023

At the end of financial year, on 31st March 2023, the production process will be recognized (i.e. carrying amount) as an intangible asset at a cost of ₹ 30 (98-68) lacs (expenditure incurred since the date the recognition criteria were met, i.e., from 1st January, 2023).

(ii) Expenditure to be charged to Profit and Loss account for the year ended 31.03.2024

	(₹ in lacs)
Carrying Amount as on 31.03.2023	30
Expenditure during 2023–2024	72
Book Value	102
Recoverable Amount	(52)
Impairment loss	50

₹ 50 lakhs to be charged to Profit and loss account for the year ending 31.03.2024.

(iii) Carrying value of intangible asset as on 31.03.2024

	(₹ in lacs)
Book Value	102
Less: Impairment loss	(50)
Carrying amount as on 31.03.2024	52

2. (a) Cost of Control

Sr. No.	Particulars	Computation	₹
A]	Cost of Investments	Given	70,00,000
	Less: Dividend out of Pre Acquisition Dividend	(3.5 Lacs × ₹10 (FV) × 20%) (No of Shares = 70 Lacs/20= 3.5 Lacs)	(7,00,000)
		Subtotal A	63,00,000
B]	Share in Net Assets of Zed Ltd.	(1,38,50,000 × 70%)	96,95,000
C]	Goodwill / (Capital Reserve)	(A – B)	33,95,000

W.N. 1 : Calculation of Net Assets

Sr. No.	Particulars	₹
A]	Assets	
-	Property, Plant & Equipment (120+20%)	1,44,00,000
-	Investment (55 – 10%)	49,50,000
-	Current Assets	70,00,000
-	Loans & Advances	15,00,000
	Subtotal A	2,78,50,000
B]	Liabilities	
-	15% Debentures	90,00,000

-	Current Liabilities	50,00,000
	Subtotal B	1,40,00,000
C]	Net Assets (A – B)	1,38,50,000

W.N. 2 : No of shares acquired

$$= \frac{\text{Cost of investment}}{\text{Purchase price share}}$$

$$= \frac{70,00,000}{₹\ 20 \text{ shares}} = ₹3,50,000 \text{ shares}$$

Revalued net assets of Zed Ltd. as on 31.03.2024

Particulars	₹ in lakhs	₹ in lakhs
Property Plant & Equipment [120 × 120%]		144.0
Investments [55 × 90%]		49.5
Current Assets		70.0
Loans & Advances		15.0
Total Assets after revaluation		278.5
Less: 15% Debentures	90.0	
Current Liabilities	50.0	(140.0)
Equity / Net Worth		138.50
Exe Ltd.'s share of net assets (70% of 138.50)		96.95
Exe Ltd.'s cost of acquisition of shares of Zed Ltd. (₹70 lakhs – 7 lakhs*)		63.00
Capital Reserve		33.95

*Total Cost of 70% Equity of Zed Ltd.	₹70 lakhs
Purchase Price of each share	₹20
Number of shares purchases(70 lakhs/20)	3.50 lakhs
Dividend @ 20% i.e. ₹2/share	₹7 lakhs

Since, dividend received is for pre-acquisition period, it has been reduced from the cost of investment in the subsidiary company.

(b) Minority Interest = Equity attributable to minorities

Equity is the residual interest in the assets of an enterprise after deducting all its liabilities i.e. in this case, it should be equal to Share Capital + Profit & Loss A/c

A = Share capital on 1.1.2024

B = Profit & loss account balance on 1.1.2024

C = Share capital on 31.12.2024

D = Profit & loss account balance on 31.12.2024

	Minority % Shares Owned ***[E]***	***Minority interest as at the date of acquisition*** ***[E] x [A + B] ₹***	***Minority interest as at the date of consolidation*** ***[E] X [C + D] ₹***
Case i [100-85]	15%	29,250	30,750
Case ii [100-70]	30%	51,000	39,000
Case iii [100-65]	35%	10,500	10,500
Case iv [100-90]	10%	6,500	8,500
Case v [100-100]	NIL	NIL	NIL

3. (a) (i) As per AS 9 "Revenue Recognition", in case of goods sold on approval basis, revenue should not be recognized until the goods have been formally accepted by the buyer or the buyer has done an act adopting the transaction or the time period for rejection has elapsed or where no time has been fixed, a reasonable time has elapsed. Therefore, revenue should be recognized for the total sales amounting ₹ 5,00,000 as the time period for rejecting the goods had expired.

(ii) The sale is complete but delivery has been postponed at buyer's request. The entity should recognize the entire sale of ₹ 2,40,000 for the year ended 31st March.

(iii) Sale/repurchase agreements i.e. where seller concurrently agrees to repurchase the same goods at a later date, such transactions that are in substance a financing agreement, the resulting cash inflow is not revenue as defined and should not be recognized as revenue. Hence no revenue to be recognized in the given case.

(iv) Revenue arising from the use by others of enterprise resources yielding interest and royalty should be recognized when no significant uncertainty as to measurability or collectability exists. The interest should be recognized on time proportion basis taking into account the amount outstanding and rate applicable. The royalty should be recognized on accrual basis in accordance with the terms of relevant agreement.

(v) 40% goods lying unsold with consignee should be treated as closing inventory and sales should be recognized for ₹ 2,40,000 (60% of ₹ 4,00,000). In case of consignment sale revenue should not be recognized until the goods are sold to a third party.

(b) **Journal Entries**

		₹ in lacs
	Dr.	*Cr.*

Equity Share Capital (₹ 10 each) A/c	Dr.	500	
To Equity Share Capital (₹ 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of ₹ 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debenture holders forgoing outstanding debenture interest)			
Bank A/c	Dr.	125	
To Equity Share Application A/c			125
(Application money received for fully paid equity shares of ₹ 2.5 each from existing shareholders)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (₹ 2.50 each) A/c			125
(Application money transferred to share capital)			
Trade payables A/c	Dr.	165	
To Equity Share Capital (₹ 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade payables for ₹ 65 lakhs accepting shares for full amount and those for ₹ 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve A/c	Dr.	6	
To Reconstruction A/c			6
(Being the loss on reconstruction (balance in the Reconstruction A/c) transferred to Capital Reserve)			
Land and Building A/c	Dr.	46	
To Reconstruction A/c			46

(Appreciation made in the value of land and building as per scheme of reconstruction)			
Reconstruction A/c	Dr.	505	
To Goodwill A/c			15
To Plant and Machinery A/c			66
To Inventory A/c			22
To Trade receivables A/c			4
To Discount on issue of Debentures A/c			8
To Profit and Loss A/c			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			

Note: In a scheme of Reconstruction, Goodwill, Losses etc should be written off against the Reconstruction Account whether or not it is mentioned in the question.

4. (a) Hello Ltd.

Balance Sheet as at 31st March, 2024

		Particulars	*Notes*	*₹*
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	50,00,000
	b	Reserves and Surplus	2	14,83,500
2		**Non-current liabilities**		
		Long-term borrowings	3	13,55,000
3		**Current liabilities**		
	a	Trade Payables		10,00,000
	b	Short-term provisions	4	6,40,000
		Total		**94,78,500**
		Assets		
1		**Non-current assets**		
		Property, Plant & equipment	5	56,25,000
2		**Current assets**		
	a	Inventories	6	12,55,000
	b	Trade receivables	7	10,00,000
	c	Cash and Cash Equivalents	8	13,85,000
	d	Short-term loans and advances		2,13,500
		Total		**94,78,500**

Notes to accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued & subscribed & called up		
	50,000 Equity Shares of ₹ 100 each		50,00,000
	(of the above 10,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	General Reserve	10,50,000	
	Add: current year transfer	20,000	10,70,000
	Profit & Loss balance		
	Profit for the year	4,33,500	
	Less: Appropriations:		
	Transfer to General reserve	(20,000)	
			4,13,500
			14,83,500
3	**Long-term borrowings**		
	Secured Term Loan		
	State Financial Corporation Loan (Secured by hypothecation of Plant and Machinery)		7,50,000
	Unsecured Loan		6,05,000
	Total		13,55,000
4	**Short-term provisions**		
	Provision for taxation		6,40,000
5	**Property, plant and Equipment**		
	Building	30,00,000	
	Less: Depreciation	(2,50,000) (b.f.)	27,50,000
	Plant & Machinery	35,00,000	
	Less: Depreciation	(8,75,000) (b.f.)	26,25,000
	Furniture & Fittings	3,12,500	
	Less: Depreciation	(62,500) (b.f.)	2,50,000
	Total		56,25,000

6	**Inventories**		
	Raw Materials		2,55,000
	Finished goods		10,00,000
	Total		12,55,000
7	**Trade receivables**		
	Outstanding for a period exceeding six months		2,60,000
	Other Amounts		7,40,000
	Total		10,00,000
8	**Cash and Cash Equivalents**		
	Cash at bank		
	with Scheduled Banks	12,25,000	
	with others (Omega Bank Ltd.)	10,000	12,35,000
	Cash in hand		1,50,000
	Other bank balances		Nil
	Total		13,85,000

5. Journal Entries in the books of A Ltd.

Particulars		Debit ₹	Credit ₹
Business purchase A/c (W.N.1)	Dr.	13,75,000	
To Liquidator of B Ltd.			13,75,000
(Being business of B Ltd. taken over)			
Land & Building A/c	Dr.	8,40,000	
Plant and machinery A/c	Dr.	5,60,000	
Office equipment A/c	Dr.	2,10,000	
Investments A/c	Dr.	3,00,000	
Inventory A/c	Dr.	4,20,000	
Debtors A/c	Dr.	3,20,000	
Bills receivables A/c	Dr.	70,000	
Bank A/c	Dr.	61,000	
To General reserve A/c (W.N.2) (2,50,000-1,55,000)			95,000
To Export profit reserve A/c			1,20,000
To Investment allowance reserve A/c			60,000
To Profit and loss A/c			1,20,000
To Liability for 9% Debentures A/c (₹ 100 each)			2,00,000

To Secured Loan			3,60,000
To Trade creditors A/c			2,76,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			13,75,000
(Being assets and liabilities taken over)			
Liquidator of B Ltd.	Dr.	13,75,000	
To Equity share capital A/c			8,00,000
To 10% Preference share capital A/c			4,00,000
To Securities premium A/c			1,75,000
(Being purchase consideration discharged)			
General Reserve* A/c	Dr.	12,000	
To Cash at bank			12,000
(Being expenses of amalgamation paid)			
Liability for 9% Debentures in B Ltd. A/c	Dr.	2,00,000	
To 9% Debentures A/c			2,00,000
(Being debentures in B ltd. discharged by issuing own 9% debentures)			
Bills payables A/c	Dr.	60,000	
To Bill receivables A/c			60,000
(Cancellation of mutual owing on account of bills of exchange)			

*Alternatively, profit & loss A/c may be debited in place of general reserve A/c.

Opening Balance Sheet of A Ltd. (after absorption) as at 1st April, 2024

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	30,00,000
b	Reserves and Surplus	2	14,94,000
2	Non-current liabilities		
a	Long-term borrowings	3	8,60,000
3	Current liabilities		
a	Trade Payables	4	7,03,000

	b	Other current liabilities	5	1,25,000
		Total		61,82,000
		Assets		
1		Non-current assets		
	a	PPE	6	36,35,000
	b	Investments	7	3,96,000
2		Current assets		
	a	Inventories	8	10,50,000
	b	Trade receivables	9	8,80,000
	c	Cash and cash equivalents	10	2,21,000
		Total		61,82,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
2,00,000 Equity shares of ₹ 10 each (Out of above, 80,000 shares were issued for consideration other than cash)		20,00,000
Preference share capital		
10,000 10% Preference shares of ₹ 100 each (Out of above, 4,000 shares were issued for consideration other than cash)		10,00,000
Total		30,00,000
2 Reserves and Surplus		
General Reserve		
Opening balance	3,00,000	
Add: Adjustment under scheme of amalgamation	95,000	
Less: Amalgamation expense paid	(12,000)	3,83,000
Securities premium (2,40,000 + 1,75,000)		4,15,000
Export profit reserve		
Opening balance	1,80,000	
Add: Adjustment under scheme of amalgamation	1,20,000	3,00,000
Investment allowance reserve		60,000

	Profit and loss account		
	Opening balance	2,16,000	
	Add: Adjustment under scheme of amalgamation	1,20,000	3,36,000
	Total		14,94,000
3	Long-term borrowings		
	Secured		
	9% Debentures	3,00,000	
	Add: Adjustment under scheme of amalgamation	2,00,000	
	Secured loan	3,60,000	8,60,000
4	Trade payables		
	Creditors: Opening balance	3,12,000	
	Add: Adjustment under scheme of amalgamation	2,76,000	5,88,000
	Bills Payables: Opening balance	75,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	1,15,000
			7,03,000
5	Other current liabilities		
	Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	75,000	1,25,000
6	PPE		
	Land & Building- Opening balance	10,80,000	
	Add: Adjustment under scheme of amalgamation	8,40,000	19,20,000
	Plant and machinery- Opening balance	6,00,000	
	Add: Adjustment under scheme of amalgamation	5,60,000	11,60,000
	Office equipment-Opening balance	3,45,000	
	Add: Adjustment under scheme of amalgamation	2,10,000	5,55,000
	Total		36,35,000
7	Investments		
	Opening balance	96,000	
	Add: Adjustment under scheme of amalgamation	3,00,000	3,96,000

8	Inventories		
	Opening balance	6,30,000	
	Add: Adjustment under scheme of amalgamation	4,20,000	10,50,000
9	Trade receivables		
	Debtors: Opening balance	4,90,000	
	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owning upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:

1. Calculation of purchase consideration

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. **Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited**

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

6. **(a)** Yes, one of the characteristics of financial statements is neutrality. To be reliable, the information contained in financial statement must be neutral, that is free from bias. Financial Statements are not neutral if by the selection or presentation of information, the focus of analysis could shift from one area of business to another thereby arriving at a totally different conclusion on the business results.

Or

Certain changes have been made in Ind AS considering the economic environment of the country, which is different as compared to the economic environment presumed to be in existence by IFRS. These differences are due to differences in economic conditions prevailing in India. These differences which are in deviation to the accounting principles and practices stated in IFRS, are commonly known as 'Carve-outs'. Additional guidance given in Ind AS over and above what is given in IFRS, is termed as 'Carve in'.

(b) As per provisions of AS 29 "Provisions, Contingent Liabilities and Contingent Assets", where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognized when, and only when, it is virtually certain that reimbursement will be received if the enterprise settles the obligation. The reimbursement should be treated as a separate asset. The amount recognized for the reimbursement should not exceed the amount of the provision.

It is apparent from the question that the company had not made provision for warranty in respect of certain goods considering that the company can claim the warranty cost from the original supplier. However, the provision for warranty should have been made as per AS 29 and the amount claimable as reimbursement should be treated as a separate asset in the financial statements of the company rather than omitting the disclosure of such liability. Accordingly, it can be said that the accounting treatment adopted by the company with respect to warranty is not correct.

(c) Goods are marked on invoice price to achieve the following objectives:

(i) To keep secret from the branch manager, the cost price of the goods and profit made, so that the branch manager may not start a rival and competitive business with the concern; and

(ii) To have effective control on stock i.e. stock at any time must be equal to opening stock plus goods received from head office minus sales made at branch.

(iii) To dictate pricing policy to its branches, as well as save work at branch because prices have already been decided.

ANSWERS OF MODEL TEST PAPER 8

INTERMEDIATE COURSE; GROUP I

PAAPER 1 ADVANCED ACCOUNTING

MCQ No.		Answers
1.	(i)	(b)
	(ii)	(c)
	(iii)	(a)
	(iv)	(d)
2	(i)	(a)
	(ii)	(c)
	(iii)	(a)
3.		(c)
4.		(b)
5.		(b)
6.	(i)	(b)
	(ii)	(d)
	(iii)	(a)
	(iv)	(c)
7		(b)

1. (a) (i) In the following cases, record Journal Entries for amortization in the books of

Journal Entry for the year ended on 31st March 2024

			₹ in lakhs	₹ in lakhs
31.3.24	Amortization A/c (340 × 350/ 1,190)	Dr.	100	
	To Patent Rights A/c			100
	P&L A/c	Dr.	100	
	To Amortization A/c			100

Working note

Huge Limited amortised ₹ 340 lakhs during next 4 years on the basis of net cash flows arising of the product. The amortisation for second year will be worked out as under:

₹ 340 x 350 /1,190 (140+350+280+420) = ₹ 100 lakhs

(ii)

Particulars		₹ in lakhs	₹ in lakhs
Prior period item	Dr.	50	
Amortization A/c	Dr.	10	
To Know-how A/c			60
[Being amortization of 6 years (out of which amortization of 5 years charged as prior period item i.e. 80 x 6 /8 = 60 lakhs)]			
Profit and Loss A/c	Dr.	60	
To Amortization A/c			10
To Prior Period Item			50
(Being amount transferred to Profit and Loss account)			

(b) Computation of Expected and Actual Returns on Plan Assets

		₹
Return on ₹ 5,00,000 held for 12 months at 10.50%		52,500
Return on ₹ 1,42,000 for 6 months at 10.50%		7,455
Loss of interest on benefits paid for 4 months on ₹ 63,000 for 4 months @ 10.50%		(2,205)
Expected return on plan assets for 2023-2024		57,750
Fair value of plan assets as on 31st March 2024		7,50,000
Less: Fair value of plan assets as on 1 April,2023	5,00,000	
Contributions received on 30.9.2023	1,42,000	(6,42,000)
		1,08,000
Add: Benefits paid on 30th Nov 2023		63,000
Actual return on plan assets		1,71,000

(c) Calculation of Deferred Tax Asset/Liability in Delta Limited

Year	Accounting Income	Taxable Income	Timing Difference	Timing Difference (balance)	Deferred Tax	Deferred Tax Liability (balance)
2021	34,00,000	30,00,000	4,00,000	4,00,000	1,20,000	1,20,000
2022	50,00,000	52,00,000	(2,00,000)	2,00,000	(60,000)	60,000
2023	65,00,000	67,00,000	(2,00,000)	NIL	(60,000)	NIL
	1,49,00,000	1,49,00,000				

Calculation of total tax

Year	Deferred Tax	Current tax expense	Total tax
2021	1,20,000	9,00,000 (30,00,000 x 30%)	10,20,000

2022	(60,000)	15,60,000 (52,00,000 x 30%)	15,00,000
2023	(60,000)	20,10,000 (67,00,000 x 30%)	19,50,000

Note: It is assumed that the revenue and the taxable profit is the same.

2. Shivam Limited

Balance Sheet as at 31st March 2024

Particulars	Note No.	₹ (in 000)
I. Equity and Liabilities		
1. Shareholders' funds		
(a) Share capital	1	300.00
(b) Reserves and Surplus	2	232.70
2. Non-Current liabilities		
(a) Long term borrowings	3	135.00
3. Current liabilities		
(a) Trade Payables		35.00
(b) Short-Term Provisions		30.30
Total		733.00
II. Assets		
1. Non-current assets		
(a) Property, Plant and Equipment and Intangible assets		
(i) Property, Plant and Equipment	4	596.00
2. Current assets		
(a) Inventories		58.00
(b) Trade receivables		65.00
(c) Cash and cash equivalents		14.00
Total		733.00

Shivam Limited

Statement of Profit and Loss for the year ended 31st March 2024

	Particulars	Notes	₹ (in '000)
I.	Revenue from operations		473.00
II.	Other Income	5	1.00
III.	Total Income		474.00
IV.	Expenses:		
	Purchases		226.00
	Finance costs		14.00

	Depreciation and Amortisation expenses (10% of 510*)		51.00
	Other expenses	6	82.00
	Total Expenses		373.00
V.	Profit before Tax (III-IV)		101.00
	Tax Expense:		
	Current tax		(30.30)
	Profit for the period (after tax)		70.70

Notes to accounts

				₹ (in 000)
1.	**Share Capital**			
	Equity share capital			
	Authorised			
	35,000 shares of ₹ 10 each			350.00
	Issued, subscribed & paid-up			
	20,000 shares of ₹ 10 each fully paid up		200.00	
	Add: 10,000 Bonus Shares issued during the year		100.00	300.00
2.	**Reserves and Surplus**			
	Securities Premium Account			
	Opening Balance	27.00		
	Less: Utilised for bonus issue	27.00		0.00
	Revaluation reserve (2,45,000 – 1,48,000)			97.00
	General Reserve 90			
	Less: Utilized for bonus issue (73)	17.00		
	Add: Transfer from Profit & loss @ 10%	7.07		24.07
	Profit & loss Balance			
	Opening balance	48.00		
	Profit for the period	70.70		
	Appropriations			
	Transfer to General Reserve @ 10%	(7.07)		111.63
				232.70
3.	**Long term borrowing**			
	10% Debentures			135.00
4	**Property, Plant and Equipment**			
	Land			

* 520 (Plant and machinery at cost) – 10 (Cost of plant and machinery sold)

	Opening balance	148.00	
	Add: Revaluation adjustment	97.00	
	Closing balance		245.00
	Plant and Machinery		
	Opening balance	520.00	
	Less: Disposed off	(10.00)	
		510.00	
	Less: Depreciation (1,16,000-8,000+51,000)	(159.00)	
	Closing balance		351.00
	Total		596.00
5	**Other Income**		
	Profit on sale of machinery:		
	Sale value of machinery	3.00	
	Less: Book value of machinery (10,000-8,000)	(2.00)	1.00
6	**Other expenses:**		
	Factory expenses	40.00	
	Selling expenses	20.00	
	Administrative expenses	22.00	82.00

The final dividend will not be recognized as a liability at the balance sheet date (even if it is declared after reporting date but before approval of the financial statements) as per Accounting Standards. Hence, it has not been recognized in the financial statements for the year ended 31 March 2024. Such dividends will be disclosed in notes only.

Working note:

Bonus Shares Issue:

- Bonus shares are issued in a 1:2 ratio, so for every 2 equity shares, 1 bonus share is issued.
- Equity Share Capital = ₹ 2,00,000 / ₹ 10 = 20,000 shares.
- Bonus Shares = 20,000 / 2 = 10,000 shares × ₹ 10 = ₹ 1,00,000.

Alternatively, since, the amount of interest on 10% 1,35,000 Debentures comes to Rs 13,500 while the Debenture Interest in the trial balance is listed as ₹ 14,000, the difference of ₹ 500 (₹13,500 - ₹14,000) may be treated as an advance payment.

3. (a) Cash flow statement

for the year ended 31st March 2024

	(₹ in lakhs)	(₹ in lakhs)
Cash flow from operating activities		

Cash sales	262.00	
Cash collected from credit customers	134.00	
Interest received on advance payment to suppliers	0.50	
Less: Cash purchases	(44.00)	
Less: Payment to Creditors (84 + 176 – 92)	(168.00)	
Less: Cash paid to suppliers for consumables & services	(19.00)	
Less: Cash paid to employee	(20.00)	
Cash from operations	145.50	
Less: Income tax paid	(26.00)	
Net cash generated from operating activities		119.50
Cash flow from investing activities		
Payment for purchase of Machine (20-15)	(5.00)	
Proceeds from rent received	8.00	
Net cash used in investing activities		3.00
Cash flow from financing activities		
Redemption of Preference shares	(32.00)	
Proceeds from issue of Equity shares	24.00	
Debenture interest paid	(3.00)	
Dividend Paid	(15.00)	
Net cash used in financing activities		(26.00)
Net increase in cash and cash equivalent		96.50
Add: Cash and cash equivalents as on 1.04.2023		2.00
Cash and cash equivalents as on 31.3.2024		98.50

(b) Statement determining the maximum number of shares to be bought back

(in thousands)

Particulars	**Number of shares**
Shares Outstanding Test (W.N.1)	15
Resources Test (W.N.2)	12
Debt Equity Ratio Test (W.N.3)	11
Maximum number of shares that can be bought back [least of the above]	11

Thus, the lowest being 11,000 shares, the company cannot buy back 14,000 shares.

Working Notes:

1. **Shares Outstanding Test**

Particulars	(Shares in thousands)
Number of shares outstanding	60
25% of the shares outstanding	15

2. **Resources Test**

Particulars	₹ (in thousands)
Paid up capital	600
Free reserves (540 + 200 +100)	840
Shareholders' funds	1,440
25% of Shareholders fund	360
Buy-back price per share	₹ 30
Number of shares that can be bought back	12,000 shares

3. **Debt Equity Ratio Test: Loans cannot be in excess of twice the Equity Funds post Buy-Back**

Particulars		₹ in thousands
(a)	Loan funds	2,000
(b)	Minimum equity to be maintained after buy-back in the ratio of 2:1 (₹) (a/2)	1,000
(c)	Present equity shareholders fund (₹)	1,440
(d)	Future equity shareholders fund (₹) (see W.N.4) (1,440-110)	1,330
(e)	Maximum permitted buy-back of Equity (₹) [(d) – (b)]	330
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share	11,000 shares

4. **Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.**

Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y' Then

Equation 1: (Present Equity- Transfer to CRR)- Minimum Equity to be maintained = Maximum Permitted Buy-Back

$$= (1,440 - x) - 1,000 = y$$

$$= 440 - x = y \qquad (1)$$

Equation 2: Maximum Permitted Buy-Back X Nominal Value Per Share/Offer Price Per Share

$y/30 \times 10 = x$

or

3x = y (2)

by solving the above two equations we get

x = ₹ 110 thousands

y = ₹ 330 thousands

Alternatively, Maximum number of shares from debt equity ratio test may be worked out as follows:

Buy-back price + Face value of equity shares ₹ 30 + ₹ 10 = ₹ 40

Excess of equity fund over the minimum equity to be maintained 1440-1000 = 440 thousands

Number of Shares that can be bought back = 440/40 thousands = 11 thousands.

4. Journal Entries in the Books of Nice Ltd.

		Dr. ₹ in '000	Cr. ₹ in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of ₹ 16,380)	Dr.	19,656	
Inventory (110% of ₹ 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			

Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

		₹	Form
Preference shareholders:	16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders:	1,25,000 × 3/5×120	90,00,000	Equity shares
		1,06,20,000	

10 % Preference shares	18,00,000
Less: 10% discount	1,80,000
	16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	₹ in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375
	(b)	Short term borrowing		1,975
		Total		1,19,225

	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
		(i) Property, plant and equipment		82,206
		(ii) Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of ₹ 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of ₹ 100 each (9,500 + 1,620) (out of above 16,200 shares are issued for consideration other than cash)		11,120
			50,120
2	**Reserves and Surplus**		
	Securities premium	1,500	
	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375

5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

5. 1. Trade payable (Consolidated)

Best limited	3,80,000
Add: Cool Ltd	4,10,000
Less: Elimination	(3,00,000)
Total	4,90,000

2. Current assets (Consolidated)

Best limited		9,65,000
Add: Cool Ltd		5,60,000
Less: Elimination of inter company owing	(3,00,000)	
Less: Unrealized stock profit	(1,50,000)	(4,50,000)
Total		10,75,000

3. Minority interest Cool Ltd

Share Capital (20,00,000 x 20%)		4,00,000
Add: Securities premium (2,20,000 x 20%)		44,000
Add: General Reserve (84,000 x 20%)		16,800
Add: Profit and loss balance	2,70,000	
Less: Adjustment of unrealised profit stock	(1,50,000)	
Balance	1,20,000	
20% of above balance		24,000
Total		4,84,800

4. **Goodwill/Capital Reserve on Acquisition of Cool Ltd.:**

Purchase Consideration		14,80,000
Less: Share Capital (20,00,000 x 80%)		16,00,000
Less: Securities premium (2,20,000 x 80%)		1,76,000
Less: General Reserve (84,000 x 80%)		67,200
Less: Profit and loss balance opening (30,000 x 80%)		24,000
Less: Pre acquisition profits (2,70,000-30,000) x 10/12 x 80%	1,60,000	
Less: Unrealised profit stock (1,50,000 x 80%)	1,20,000	40,000
Capital Reserves		4,27,200

5. **Goodwill/Capital Reserve on Acquisition of Good Ltd.**

Purchase Consideration	3,80,000
Less: Share Capital (10,00,000 x 25%)	2,50,000
Less: General Reserve (1,20,000 x 25%)	30,000
Less: Profit and loss balance (50,000 x 25%)	12,500
Goodwill	87,500

6. **Profit and Loss Account (Consolidated)**

Best limited	3,26,000
Add: Post acquisition profit of Cool Ltd {(2,70,000-30,000) x 2/12}80%	32,000
Total	3,58000

7. **General Reserve (Consolidated)**

Best limited	2,69,000

With reference to para no 15 of AS 21

If an enterprise makes two or more investments in another enterprise at different dates and eventually obtains control of the other enterprise, the consolidated financial statements are presented only from the date on which holding-subsidiary relationship comes in existence. If two or more investments are made over a period of time, the equity of the subsidiary at the date of investment, for the purposes of paragraph 13 above, is generally determined on a step-by-step basis; however, if small investments are made over a period of time and then an investment is made that results in control, the date of the latest investment, as a practicable measure, may be considered as the date of investment.

And para no 22 of AS 21 The results of operations of a subsidiary are included in the consolidated financial statements as from the date on which parent-subsidiary relationship came in existence. The results of operations of a subsidiary with which parent- subsidiary relationship ceases to exist are included in the consolidated statement of profit and loss until the date of cessation of the relationship. The difference between the proceeds from the disposal of investment in a subsidiary and the carrying amount of its assets less liabilities as of the date of disposal is recognised in the consolidated statement of profit and loss as the profit or loss on the disposal of the investment in the subsidiary. In order to ensure the comparability of the financial statements from one accounting period to the next, supplementary information is often provided about the effect of the acquisition and disposal of subsidiaries on the financial position at the reporting date and the results for the reporting period and on the corresponding amounts for the preceding period.

8. Revenue (Consolidated) as per para no 15 and 22 of AS 21

Revenue of Best Ltd	56,00,000
Add: Revenue of Cool Ltd. (38,00,000 × 2/ 12)	6,33,333
	62,33,333

9. Cost of materials purchased/consumed (Consolidated) as per para no 15 and 22 of AS 21

Raw material of Best Ltd	36,50,000
Add: Raw material of Cool Ltd (31,20,000x 2/12)	5,20,000
	41,70,000

6. (a) In the books of Mr. Day

Investment Account
(Equity shares in Square Ltd.)

Date	Particulars	No. of shares	Amount (₹)	Date	Particulars	No. of shares	Amount (₹)
1.4.23	To Balance b/d	25,000	6,25,000	31.3.24	By Balance c/d (Bal. fig.)	63,750	13,00,000
31.7.23	To Bonus issue (W.N.1)	5,000	-				
5.10.23	To Bank A/c (right shares) (W.N.4)	33,750	6,75,000				
		63,750	13,00,000			63,750	13,00,000

Working Notes:

(1) Bonus shares = $\frac{25,000}{5}$ = **5,000** shares

(2) Right shares = $\frac{25,000 + 5,000}{2} \times 3$ = **45,000** shares

(3) Sale of rights = 45,000 shares × $\frac{1}{4}$ × ₹ 5

= 11,250 x 5 = **56,250**

₹ 56,250 to be credited to statement of profit and loss

(4) Rights subscribed = 45,000 shares × $\frac{3}{4}$ × ₹ 20 = ₹ **6,75,000**

Or

In determining the cost of inventories, it is appropriate to exclude certain costs and recognise them as expenses in the period in which they are incurred. Examples of such costs are:

(a) **Abnormal amounts** of wasted materials, labour, or other production costs;

(b) **Storage costs**, unless the production process requires such storage.

(c) **Administrative overheads** that do not contribute to bringing the inventories to their present location and condition.

(d) **Selling and distribution costs**.

(b) Journal Entries

		₹	₹
Equity Share Capital (old) A/c	Dr.	15,00,000	
To Equity Share Capital (₹ 10) A/c			5,00,000
To Cash A/c			50,000
To 10% Debentures A/c			7,50,000
To Securities premium			1,50,000
To Capital Reduction/ Reconstruction A/c			50,000
(Being new equity shares, 8% Debentures issued, cash of ₹ 50,000 and the balance transferred to Reconstruction account as per the Scheme)			
8% Debentures A/c	Dr.	5,00,000	
To Freehold Property A/c			4,45,000
To Capital Reduction/ Reconstruction A/c			55,000
(Being the debenture holders claim settled partly and foregone partly as per reconstruction scheme)			
Capital Reduction/Reconstruction A/c	Dr.	1,05,000	
To Capital Reserves A/c			1,05,000
(Being balance in capital reduction account transferred to Capital Reserves A/c)			

(c) (i) In the books of Kullu Branch

Trading and Profit and Loss Account

Particulars	Amount ₹	Particulars	Amount ₹
To Opening stock	2,70,000	By Sales	19,50,000
To Goods received by Head office	17,82,000	By Goods returned by Branch	75,000
To Expenses	56,000	By Closing stock (Refer W.N.)	4,17,000

To Net profit (Bal fig)	3,34,000		
	24,42,000		24,42,000

(ii) Calculation of Closing Stock

Cost price	100
Invoice price	120 (100+20)
Sales price	150 (120+25% of 120)
Opening Stock	2,70,000
Goods received	17,82,000
Less: Goods Returned	75,000
	19,77,000
Less: Cost of Goods Sold (Invoice price)	15,60,000
Closing Stock	4,17,000

Stock reserve in respect of unrealised profit

= 4,17,000 x (20/120) = ₹ 69,500

ANSWER OF MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **(d)**

2. **(b)**

3. **(d)**

4. **(b)**

5. **(c)**

6. **(c)**

7. **(a)**

8. **(a)**

9. **(b)**

10. **(b)**

11. **(c)**

12. **(b)**

13. **(c)**

14. **(b)**

15. **(a)**

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. **(a)** **(i)** According to section 2(85) of the Companies Act, 2013, small company means a company, other than a public company, having-

(A) paid-up share capital not exceeding four crore rupees; and

(B) turnover as per profit and loss account for the immediately preceding financial year not exceeding forty crore rupees:

Provided that nothing in this clause shall apply to a holding company or a subsidiary company.

Also, according to section 2(87), subsidiary company, in relation to any other company (that is to say the holding company), means a company in which the holding company exercises or controls more than one-half of the total voting power either at its own or together with one or more of its subsidiary companies.

In the given question, Yellow Limited (a public company) holds 2,00,000 equity shares of Resolutions Private Limited (having paid up share capital of 5,00,000 equity shares @ ₹ 10 each totaling ₹ 50 lakh). Hence, Resolutions Private Limited is not a subsidiary of Yellow Limited and hence it is a private company and not a deemed public company.

Further, the paid up share capital (₹ 50 lakh) and turnover (₹ 2 crore) is within the limit as prescribed under section 2(85), hence, Resolution Private Limited can be categorised as a small company.

(ii) According to section 2 (40), Financial statement in relation to a company, includes—

(a) a balance sheet as at the end of the financial year;

(b) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

(c) cash flow statement for the financial year;

(d) a statement of changes in equity, if applicable; and

(e) any explanatory note annexed to, or forming part of, any document referred to in points (a) to (d):

Provided that the financial statement, with respect to One Person Company, small company and dormant company, may not include the cash flow statement.

Resolution Private Limited being a small company is exempted from filing a cash flow statement as a part of its financial statements. Thus, Resolution Private Limited has not defaulted in filing its financial statements with ROC.

(b) According to section 135(1) of the Companies Act, 2013, every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one director shall be an independent director.

In the given question, the company does not fulfil any of the given criteria (net worth/ turnover/ net profit) for the immediately preceding financial year (i.e., 1.4.2022 to 31.3.2023). Hence, Pacific Limited is not required to constitute Corporate Social Responsibility Committee for the financial year 2023-24.

(c) Section 127 of the Companies Act, 2013, requires that the declared dividend must be paid to the entitled shareholders within the prescribed time limit of 30 days from the date of declaration of dividend. In case dividend is paid by issuing dividend warrants, such warrants must be posted at the registered addresses within the prescribed time. Once posted, it is immaterial whether the same are received within 30 days by the shareholders or not.

In the given question, the dividend was declared on 31.07.2023 and the dividend warrant was posted within 30 days from date of declaration of dividend (posted on 22nd August, 2023). It is immaterial if Mr. A has received it on 5th September 2023 (i.e., after 30 days from 31.07.2023). Hence, Mr. A cannot initiate action against the company for failure to distribute the dividend within 30 days of declaration.

(d) **(i)** **Remittance of Foreign Exchange for studies abroad:** According to the provisions of the Foreign Exchange Management Act, 1999, foreign exchange may be released for studies abroad up to a limit of US $ 250,000 for the studies abroad without any permission from the Reserve Bank of India (RBI). Above this limit, RBI's prior approval is required. Further, proviso to Para I of Schedule III states that individual may be allowed remittances exceeding USD 250,000 based on the estimate received from the institution abroad. In this case since US $ 140,000 is the drawal of foreign exchange, so permission of the RBI is not required by Mr. Pravesh.

(ii) Under section 5 of the Foreign Exchange Management Act, 1999, and Rules relating thereto, some current account transactions require prior approval of the Central Government, some others require the prior approval of the Reserve Bank of India, some are freely permitted transactions and some others are prohibited transactions.

This is a current account transaction, where Pravesh is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

In all the cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person as defined in Section 2(c).

2. **(a)** According to section 103(1) of the Companies Act, 2013, unless the articles of the company provide for a larger number, in case of a public company:

(1) five members personally present if the number of members as on the date of meeting is not more than one thousand,

(2) fifteen members personally present if the number of members as on

the date of meeting is more than one thousand but up to five thousand,

(3) thirty members personally present if the number of members as on the date of the meeting exceeds five thousand,

shall be the quorum for a meeting of the company.

The term 'members personally present' as mentioned above refers to the members entitled to vote in respect of the items of business on the agenda of the meeting.

(b) According to proviso to section 68(2) of the Companies Act, 2013, no offer of buy-back, shall be made within a period of one year from the date of the closure of the preceding offer of buy- back, if any.

Section 68 (8) casts an obligation that where a company completes a buy-back of its shares or other specified securities under this section, it shall not make further issue of same kind of shares including allotment of further shares under section 62 (1) (a) or other specified securities within a period of six months except by way of bonus issue or in the discharge of subsisting obligations such as conversion of warrants, stock option schemes, sweat equity or conversion of preference shares or debentures into equity shares.

Keeping in view of the above provisions, the statement "the offer of buy-back of its own shares by a company shall not be made within a period of six months from the date of the closure of the preceding offer of buy back, if any and cooling period to make further issue of same kind of shares including allotment of further shares shall be a period of one year from the completion of buy back subject to certain exceptions" is not valid.

(c) According to section 27 of the General Clauses Act, 1897, where any legislation or regulation requires any document to be served by post, then unless a different intention appears, the service shall be deemed to be effected by:

(i) properly addressing

(ii) pre-paying, and

(iii) posting by registered post.

Further, on the basis of decision taken by the apex court in case of Jagdish Singh vs Natthu Singh, where a notice is sent to the landlord by registered post and the same is returned by the tenant with an endorsement of refusal, it will be presumed that the notice has been served.

In the given case, the Income Tax Department sent the show cause notice properly by a registered post at the address which was in the records of the department. Hence, it was a proper service of notice.

Further, refusal by current owner of house to accept the notice, will not amount to- that the notice was not properly served by the Income Tax Department. It was the duty of Mr. Rachit to update his address. Therefore, Income Tax Department is correct in its decision.

3. **(a)** Under section 20 of the Companies Act, 2013 a document may be served on a company or an officer thereof by sending it to the company or the officer at the registered office of the company by registered post or by speed post or by courier service or by leaving it at its registered office or by means of such electronic or other mode as may be prescribed. However, in case where securities are held with a depository, the records of the beneficial ownership may be served by such depository on the company by means of electronic or other mode.

Under section 20 (2), save as provided in the Act or the rule thereunder for filing of documents with the registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by post or by registered post or by speed post or by courier or by delivering at his office or address, or by such electronic or other mode as may be prescribed. However, a member may request for delivery of any document through a particular mode, for which he shall pay such fees as may be determined by the company in its annual general meeting.

(b) According to Rule 2(1)(c) of the *Companies (Acceptance of Deposits) Rules, 2014*, the following amount is not considered as deposit:

Any amount brought in by the promoters of the company by way of unsecured loan in pursuance of the stipulation of any lending financial institution or a bank subject to the fulfillment of following conditions:

(a) the loan is brought because of the stipulation imposed by the lending institutions on the promoters to contribute such finance;

(b) the loan is provided by the promoters themselves or by their relatives or by both; and

(c) such exemption shall be available only till the loans of financial institution or bank are repaid and not thereafter.

Hence, in the instant case, the unsecured loan contributed by promoters of J Limited will not be regarded as deposit as the unsecured loan is brought because of the stipulation imposed by the SIDCL and the loan is provided by the promoters themselves.

In case the entire loan obtained from SIDCL is repaid, then the unsecured loan provided by promoters of J Limited will be regarded as deposit.

(c) **Impact of the words "Means" and "Includes" in the definitions-** The definition of a word or expression in the definition section may either be restricting of its ordinary meaning or may be extensive of the same.

When a word is defined to '**mean'** such and such, the definition is 'prima facie' restrictive and exhaustive, we must restrict the meaning of the word to that given in the definition section.

But where the word is defined to **'include'** such and such, the definition is 'prima facie' extensive, here the word defined is not restricted to the meaning assigned to it but has extensive meaning which also includes the meaning assigned to it in the definition section.

Example:

Definition of Director [section 2(34) of the Companies Act, 2013]: Director means a director

appointed to the board of a company. The word "means" suggests exhaustive definition.

Definition of Whole time director [Section 2(94) of the Companies Act, 2013]: Whole time director includes a director in the whole time employment of the company. The word "includes" suggests extensive definition. Other directors may be included in the category of the whole time director.

4. (a) Directors' Responsibility Statement: According to section 134(5) of the Companies Act, 2013, the Directors' Responsibility Statement referred to in 134(3)(c) shall state that—

(1) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(2) the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year and of the profit and loss of the company for that period;

(3) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularit ies;

(4) the directors had prepared the annual accounts on a going concern basis; and

(5) the directors, in the case of a listed company, had laid down internal financial controls to be followed by the company and that

such internal financial controls are adequate and were operating effectively.

Here, the term “internal financial controls” means the policies and procedures adopted by the company for ensuring the orderly and efficient conduct of its business, including adherence to company’s policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information;

(6) the directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

(b) According to section 7 of the Limited Liability Partnership Act, 2008, every Limited Liability Partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

In the given case, Mohan John LLP intends to appoint Mr. John and Ms. Kate (both are non- resident Indians) as the only designated partners. This is not in consonance with provisions of the Limited Liability Partnership Act, 2008, as at least one of the designated partners should be a resident in India.

(c) **(i)** **Historical Setting:** The history of the external circumstances which led to the enactment in question is of much significance in construing any enactment. We have, for this purpose, to take help from all those external or historical facts which are necessary in the understanding and comprehension of the subject matter and the scope and object of the enactment. History in general and Parliamentary History in particular, ancient statutes, contemporary or other authentic works and writings all are relevant in interpreting and construing an Act.

(ii) **Use of Foreign Decisions:** Foreign decisions of countries following the same system of jurisprudence as ours and given on laws similar to ours can be legitimately used for construing our own Acts. However, prime importance is always to be given to the language of the Indian statute. Further, where guidance can be obtained from Indian decisions, reference to foreign decisions may become unnecessary.

5. **(a)** Limited Liability Partnership (LLP) is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership

Limited Liability: Every partner of a LLP is, for the purpose of the business of LLP, the agent of the LLP, but not of other partners (Section 26 of the LLP Act, 2008). The liability of the partners will be limited to their agreed contribution in the LLP, while the LLP it self will be liable for the full extent of its assets.

Flexibility of a partnership: The LLP allows its members the flexibility of organizing their internal structure as a partnership based on a mutually arrived agreement. The LLP form enables entrepreneurs, professionals and enterprises providing services of any kind or engaged in scientific and technical disciplines, to form commercially efficient vehicles suited to their requirements. Owing to flexibility in its structure and operation, the LLP is a suitable vehicle for small enterprises and for investment by venture capital.

(b) Section 140 of the Companies Act, 2013 prescribes procedure for removal of auditors. Under section 140 (1) the auditor appointed under section 139 may be removed from his office before the expiry of his term only by a special resolution of the company, after obtaining the previous approval of the Central Government in that behalf in the prescribed manner.

From this sub section it is clear that the approval of the Central Government shall be taken first and thereafter the special resolution of the company should be passed.

Provided that before taking any action under this sub-section, the auditor concerned shall be given a reasonable opportunity of being heard.

Hence, in the instant case, the decision of X Ltd. to remove ABC & Associates, auditors of the company at the general meeting held on 25-5-2023, is not valid. The approval of the Central Government shall be taken before passing the special resolution in the general meeting.

(c) **Financial Year:** According to Section 3(21) of the General Clauses Act, 1897, f inancial year shall mean the year commencing on the first day of April.

The term Year has been defined under section 3(66) as a year reckoned according to the British calendar. Thus, as per the General Clauses Act, 1897, year means calendar year which starts from January to December.

Difference between Financial Year and Calendar Year: Financial year starts from first day of April, but Calendar Year starts from first day of January.

6. **(a)** A 'Floating Charge' is a type of charge that is created on assets or a class of assets which are of fluctuating or changing in nature. The assets which are under floating charge may include raw material, stock-in-trade, debtors, etc.

It is a charge created upon a class of assets both present and future.

The assets under floating charge keep on changing because the borrowing company is permitted to use them in the ordinary course of business.

The buyers of the assets covered under floating charge will get them free of charge.

Crystallization of a Floating Charge

In the following events, a floating charge will get crystallised or fixed:

(i) When the creditor enforces the security due to the breach of terms and conditions of floating charge like there is non-payment of interest or default in repayment of instalments as per the terms of agreement.

(ii) When the company ceases to continue its business.

(iii) When the borrowing company goes into liquidation.

A floating charge remains dormant until it becomes fixed or crystallised. On crystallisation of charge, the security (*i.e.* raw material, stock-in-trade, etc.) becomes fixed and is available for realization so that borrowed money is repaid.

OR

(a) According to section 96 of the Companies Act, 2013, every company shall be required to hold its first Annual General Meeting within a period of 9 months from the date of closing of its first financial year.

No extension of time can be granted by the Registrar for the holding of the first annual general meeting.

Example: ABC Limited was incorporated on 1.4.2021. No General Meeting of the company was held till 30.4.2023. The first financial year of ABC Ltd is for the period 1st April 2021 to 31st March 2022, the first Annual General Meeting (AGM) of the company should be held on or before 31st December, 2022.

Further, in case of first AGM, the Registrar of Companies does not have the power to grant extension of any time limit.

(b) Preparation and filing of financial statements by a foreign company

According to section 381 of the Companies Act, 2013:

(i) Every foreign company shall, in every calendar year,—

  (a) make out a balance sheet and profit and loss account in such form, containing such particulars and including or having attached or annexed thereto such documents as may be prescribed, and

  (b) deliver a copy of those documents to the Registrar.

According to the Companies (Registration of Foreign Companies) Rules, 2014, every foreign company shall prepare financial statement of its Indian business operations in accordance with Schedule III or as near thereto as possible for each financial year including:

(1) documents that are required to be annexed should be in accordance with Chapter IX i.e. Accounts of Companies.

(2) The documents relating to copies of latest consolidated financial statements of the parent foreign company, as submitted by it to the prescribed authority in the country of its incorporation under the applicable laws there.

(ii) The Central Government is empowered to direct that, in the case of any foreign company or class of foreign companies, the requirements of clause (a) of section 381(1) shall not apply, or shall apply subject to such exceptions and modifications as may be specified in notification in that behalf.

(iii) If any of the specified documents are not in the English language, a certified translation thereof in the English language shall be annexed. [Section 381 (2)]

(iv) Every foreign company shall send to the Registrar along with the documents required to be delivered to him, a copy of a list in the prescribed form, of all places of business established by the company in India as at the date with reference to which the balance sheet referred to in section 381(1) is made.

According to the Companies (Registration of Foreign Companies) Rules, 2014, every foreign company shall file with the Registrar, along with the financial statement, in Form FC-3 with such fee as provided under Companies (Registration Offices and Fees) Rules, 2014 a list of all the places of business established by the foreign company in India as on the date of balance sheet.

(c) According to the provisions of the Foreign Exchange Management Act, 1999 read with respective Rules and Schedule, foreign exchange drawals for cultural tours require prior permission/approval of the Ministry of Human Resources Development (Department of Education and Culture) irrespective of the amount of foreign exchange required. Therefore, in the given case, Ms. Prabha is required to seek permission of the said Ministry of the Government of India.

ANSWER OF MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. (c)

2. (b)

3. (c)

4. (b)

5. (a)

6. (d)

7. (c)

8. (c)

9. (b)

10. (b)

11. (b)

12. (b)

13. (c)

14. (b)

15. (c)

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. (a) (i) Section 1 of the Companies Act, 2013, provides that the provisions of this Act shall apply to companies incorporated under this Act or under any previous company law. Hence, the provisions of the Companies Act, 2013 are also applicable on Cross Limited.

(ii) According to section 2(71) of the Companies Act, 2013, public company means a company which is not a private company.

Provided that a company which is a subsidiary of a company, not being a private company, shall be deemed to be public company for the purposes of this Act even where such subsidiary company continues to be a private company in its articles.

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

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

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

In the given question, total voting power in XYZ Private Limited is:

Particulars	Amount in ₹
Convertible Preference Shares (carrying voting rights)	1,00,00,000
Equity Shares	1,00,00,000
Total Voting Power	2,00,00,000

Cross Limited holds more than one- half of the total voting power [(₹ 10,00,000 equity shares+ ₹ 1,00,00,000 preference shares)/ ₹ 2,00,00,000]. Therefore, XYZ Private Limited is a subsidiary of Cross Limited.

Further, in terms of the provisions of section 2(71), XYZ Private Limited being subsidiary of Cross Limited (a public company), shall also be deemed to be a public company.

(b) According to section 135(1) of the Companies Act, 2013, every company net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during the immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board.

Further, according to section 135(5), the Board of every company referred to in sub-section (1), shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its Corporate Social Responsibility Policy.

Also, according to sub-section 9, where the amount to be spent by a company under sub-section 5 does not exceed fifty lakh rupees, the requirement for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

Here, the “Net Profit” shall not include such sums as may be prescribed, and shall be calculated in accordance with the provisions of section 198.

In the instant case,

1. Net Profit before tax of HelpIndia Limited for the FY 2023- 24 is ₹ 10 crore, hence, HelpIndia Limited is required to constitute a CSR committee during FY 2024- 25 as the Net profit before tax for the FY exceeds ₹ 5 crore.
2. Minimum contribution towards CSR will be: 2% of average net profits since incorporation (HelpIndia Limited was incorporated on 1st April 2022.)

Average Net Profit since incorporation: (₹ 11 crore + ₹ 10 crore)/ 2 = ₹ 10.5 crore

Minimum contribution towards CSR will be: 2% of ₹ 10.5 crore = ₹ 0.21 crore or ₹ 21 lakh.

In the given question, since the amount to be spent by HelpIndia Limited is not exceeding ₹ 50 lakh, the requirement for constitution of the Corporate Social Responsibility Committee shall not be applicable and the functions of such Committee provided under this section shall, in such cases, be discharged by the Board of Directors of such company.

(c) Section 5 of the Foreign Exchange Management Act, 1999 provides that any person may sell or draw foreign exchange to or from an authorized person if such sale or drawal is a current account transaction. The Central Government in consultation can, in public interest and in consultation with Reserve Bank of India, impose reasonable restrictions for such transactions.

Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transaction included in Schedule II is remittance of prize money/ sponsorship of sports activity abroad by a person other than International/ National/ State level sports bodies, if the amount involved exceeds USD 100,000.

Accordingly, Rohan Sharma Cricket Academy can withdraw foreign exchange of USD 100,000 as participation fee after obtaining permission from Ministry of Human Resource Development (Department of Youth Affairs and Sports) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

2. (a) (i) Abridged Form of Annual Return

In terms of Second Proviso to Section 91(1) of the Companies Act, 2013, the Central Government may prescribe abridged form of annual return for One Person Company, small company and such other class or classes of companies as may be prescribed.

As per Rule 11 (1) One Person Company and small company shall file the annual return in Form No. MGT-7A.

(ii) Signing of Annual Return

The annual return shall be signed by a director of the company and the company secretary; and in case, there is no company secretary, by a company secretary in practice.

In relation to One Person Company, small company and private company (if such private company is a start-up), the annual return shall be signed by the company secretary, or where there is no company secretary, by the director of the company.

(b) According to section 63 of the Companies Act, 2013, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of:

(i) its free reserves;

(ii) the securities premium account; or

(iii) the capital redemption reserve account.

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

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

(i) it is authorised by its Articles;

(ii) it has, on the recommendation of the Board, been authorised in the general meeting of the company;

(iii) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;

(iv) it has not defaulted in respect of payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;

(v) the partly paid-up shares, if any, outstanding on the date of allotment, are made fully paid-up;

(vi) it complies with conditions as are prescribed by Rule 14 of the Companies (Share Capital and debentures) Rules, 2014 which states that the company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

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

For the issue of bonus shares APR Limited will require reserves of ₹ 50,00,000 (i.e. half of ₹ 1,00,00,000 being the paid-up share capital), which is readily available with the company. Hence, after following the above conditions relating to the issue of bonus shares, the company may proceed for a bonus issue of 1 share for every 2 shares held by the existing shareholders.

(c) (i) Movable Property

According to section 3(36) of the General Clauses Act, 1897**,** 'Movable Property' shall mean property of every description, except immovable property.

Thus, any property which is not immovable property is movable property. Debts, share, electricity are moveable property.

(ii) Oath

According to section 3(37) of the General Clauses Act, 1897, 'Oath' shall include affirmation and declaration in the case of persons by law allowed to affirm or declare instead of swearing.

3. (a) As per section 8 of the Companies Act, 2013, the Central Government (ROC in its behalf) may grant a licence (to operate as a non profit organisation) if it is proved to the satisfaction that a person or an association of persons proposed to be registered under the Companies Act, 2013, as a limited company:

- has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
- intends to apply its profits (if any) or other income in promoting its objects; and
- intends to prohibit payment of any dividend to its members.

(b) According to Rule 2(1)(c)(x) of the Companies (Acceptance of Deposits) Rules, 2014, any amount received from an employee of the company not exceeding his annual salary under a contract of employment with the company in the nature of non-interest bearing security deposit, is not considered as deposit.

In the above case, the amount of ₹ 4,00,000 received by Wood Limited from Mr. Cotton under the contract of employment with the company being non-interest bearing security deposit, will be considered as deposit in terms of sub-clause (x), since the amount is more than his annual salary of ₹ 3,85,000.

(c) Read the Statute as a Whole:

It is the elementary principle that construction of a statute is to be made of all its parts taken together and not of one part only. The deed must be read as a whole in order to ascertain the true meaning of its several clauses, and the words of each clause should be so interpreted as to bring them into harmony with other provisions– if that interpretation does no violence to the meaning of which they are naturally susceptible. And the same approach would apply with equal force with regard to Acts and Rules passed by the legislature.

One of the safest guides to the construction of sweeping general words is to examine other words of like import in the same enactment or instrument to see what limitations must be imposed on them. If we find that a number of such expressions have to be subjected to limitations and qualifications and that such limitations and qualifications are of the same nature, that circumstance forms a strong argument for subjecting the expression in dispute to a similar limitation and qualification.

4. (a) Periodical Financial Results [Section 129A of the Companies Act, 2013]

The Central Government may, require such class or classes of unlisted companies, as may be prescribed:

(a) to prepare the financial results of the company on periodical basis and in prescribed form

(b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in the prescribed manner; and

(c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Therefore, the objection of the Board of Directors on the ground that as Crystal Limited is an unlisted company, periodical financial results need not be prepared, is not correct. Section 129A clearly specifies that even unlisted company has to prepare Periodical Financial Results.

(b) According to section 7 of the Limited Liability Partnership Act, 2008, every Limited Liability Partnership (LLP) shall have at least two designated partners who are individuals and at least one of them shall be a resident in India.

Provided, if in LLP, all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such LLP or nominees of such bodies corporate shall act as designated partners.

In the given question, at least Mr. Prateek and one nominee of any bodies corporate shall be designated partners.

(c) Heading and Title of a Chapter

If we glance through any Act, we would generally find that a number of its sections referring to a particular subject are grouped together, sometimes in the form of chapters, prefixed by headings and/or Titles. These Heading and Titles prefixed to sections or groups of sections can legitimately be referred to for the purpose of construing the enactment or its parts.

The headings of different portions of a Statute can be referred to determine the sense of any doubtful expression in a section ranged under any particular heading.

They cannot control the plain meaning of the words of the enactment though, they may, in some cases be looked at in the light of preamble if there is any ambiguity in the meaning of the sections on which they can throw light.

It may be noted that headings may sometimes be referred to know the scope of a section in the same way as the preamble. But a heading cannot control or override a section.

5. (a) Circumstances in which LLP may be wound up by Tribunal [Section 64 of the Limited Liability Partnership Act, 2008]

A LLP may be wound up by the Tribunal:

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

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

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

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

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

(b) According to the Companies (Accounts) Rules, 2014, every unlisted public company having:

(A) paid up share capital of ₹ 50 crore rupees or more during the preceding financial year; or

(B) turnover of ₹ 200 crore rupees or more during the preceding financial year; or

(C) outstanding loans or borrowings from banks or public financial institutions exceeding ₹ 100 crore rupees or more at any point of time during the preceding financial year; or

(D) outstanding deposits of 25 crore rupees or more at any point of time during the preceding financial year;

shall be required to appoint an internal auditor which may be either an individual or a partnership firm or a body corporate.

In the given question, Kesar Limited has outstanding loan from bank exceeding 100 crore rupees i.e., ₹ 102 crore on 3rd March 2024 (i.e. during the preceding financial year 2023-24). Hence, it is required to appoint Internal Auditor during the year 2024-25.

(c) As per section 9 of the General Clauses Act, 1897, for computation of time, the section states that in 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".

In the given instance, Sheesham Limited declared dividend for its shareholder in its Annual General Meeting held on 8th August 2023. Under the provisions of section 127 of the Companies Act, 2013, a company is required to pay declared dividend within 30 days from the date of declaration, i.e. from 9th August 2023 to 7th September 2023. In this series of 30 days, 8th August 2023 will be excluded and last 30th day, i.e. 7th September 2023 will be included. Accordingly, Sheesham Limited will be required to pay dividend within the time frame of 9th August 2023 and 7th September 2023 (both days inclusive).

6. (a) Inspection of Register of Charges and Instrument of Charges

As regards inspection, section 85 (2) of the Companies Act, 2013, states that the register of charges and the instrument of charges shall be open for inspection during business hours:

(1) by any member or creditor without any payment of fees; or

(2) by any other person on payment of prescribed fees. subject to such reasonable restrictions as the company may, by its articles, impose.

OR

(a) **(i)** There shall not be included in the minutes, any matter which, in the opinion of the Chairman of the meeting–

- ♦ is or could reasonably be regarded as defamatory of any person; or
- ♦ is irrelevant or immaterial to the proceedings; or
- ♦ is detrimental to the interests of the company.

(ii) Maximum time allowed for entering minutes of proceedings: The minutes of proceedings of each meeting shall be entered in the books maintained for that purpose along with the date of such entry within 30 days of the conclusion of the meeting.

(b) According to section 389 of the Companies Act, 2013:

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 established, or when formed will or will not establish, a place of business in India, unless before the issue, circulation or distribution of the prospectus in India;

- ✓ a copy thereof certified by the chairperson of the company and two other directors of the company as having been approved by resolution of the managing body has been delivered for registration to the Registrar; and
- ✓ the prospectus states on the face of it that a copy has been so delivered, and
- ✓ there is endorsed on or attached to the copy, any consent to the issue of the prospectus required by section 388 and such documents as may be prescribed.

According to the Companies (Registration of Foreign Companies) Rules, 2014, the following documents shall be annexed to the prospectus, namely:

(1) any consent to the issue of the prospectus required from any person as an expert;

(2) a copy of contracts for appointment of managing director or manager and in case of a contract not reduced into writing, a memorandum giving full particulars thereof;

(3) a copy of any other material contracts, not entered in the ordinary course of business, but entered within preceding 2 years;

(4) a copy of underwriting agreement; and

(5) a copy of power of attorney, if prospectus is signed through duly authorized agent of directors.

(c) Section 5 of the Foreign Exchange Management Act, 1999 provides that any person may sell or draw foreign exchange to or from an authorized person if such sale or drawal is a current account transaction. The Central Government in consultation can, in public interest and in consultation with Reserve Bank of India, impose reasonable restrictions for such transactions.

Schedule II of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 provides that no person shall draw foreign exchange for a transaction without approval of the Central Government. One of the transaction included in Schedule II is ‘cultural tours’.

Accordingly, Ms. Kanika Tripathi can withdraw foreign exchange of USD 75,000 for meeting expenses of cultural tour after obtaining permission from Ministry of Human Resource Development (Department of Education and Culture) as prescribed in Schedule II of Foreign Exchange Management (Current Account Transactions) Rules, 2000.

ANSWERS OF MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART I CASE SCENARIO BASED MCQS

1. (c)

2. (b)

3. (a)

4. (c)

5. (c)

6. (b)

7. (c)

8. (b)

9. (a)

10. (b)

11. (a)

12. (c)

13. (b)

14. (b)

15. (a)

ANSWER TO PART II DESCRIPTIVE QUESTIONS

1. (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).

2. **(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) 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.

3. (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.

(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.

4. **(a)** 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.

(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.

(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.

5. (a) 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).

(b) The relevant provision under the Companies Act, 2013 deals with the prohibition on the appointment of auditors due to conflict of interest is governed by Section 141(3)(d).

Section 141(3)(d) states that a person shall not be eligible for appointment as an auditor of a company if such person or a firm who, whether directly or indirectly, has business relationship with the company, or its subsidiary, or its holding or associate company or subsidiary of such holding company or associate company of such nature as may be prescribed;

Golden Smith Ltd. is prohibited from appointing M/s Kukreja & Associates as its audit firm due to the presence of Mr. Shyam, who is a partner in both M/s Krishna & Associates and M/s Kukreja & Associates. According to rules, this creates a conflict of interest. This prohibition lasts for 5 years from the end of M/s Krishna & Associates' term as auditors, which in this case is until the year 2031. After this cooling-off period, Golden Smith Ltd. may freely choose to appoint either M/s Kukreja & Associates or M/s Krishna & Associates as its auditors.

(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.

6. (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.

(b) Under Section 388 of the Companies Act, 2013, certain requirements must be met when including statements made by experts in a prospectus for securities issued by a company incorporated or to be incorporated outside India.

Firstly, if the prospectus includes a statement made by an expert, the expert must give written consent to the inclusion of the statement in the form and context in which it appears. If the expert withdraws their consent before the prospectus is delivered for registration, or if there is no statement indicating that the expert has given and not withdrawn their consent, the prospectus cannot be issued, circulated, or distributed in India.

Secondly, the prospectus must have the effect, upon application, 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), as far as applicable. This ensures that all relevant parties are subject to the legal obligations outlined in these sections.

It's important to note that a statement made by an expert is deemed to be included in a prospectus if it appears on the face of the prospectus, is incorporated by reference, or is issued with the prospectus.

Hence, compliance with the requirements of Section 388 is crucial for the validity of a prospectus issued for securities by a company incorporated or to be incorporated outside India. Failure to meet these requirements may render the prospectus invalid for distribution in India.

(c) Yes, the stated transaction falls under the category of current account transactions. As per the requirements stated under Schedule III of the Current account Transaction Rules 2000, under the FEMA, 1999, Mr. Patel payment for his child's education fees in the United States represents a payment for a service (education) provided by a foreign entity (an educational institution in the United States).

According to FEMA, payments for education expenses of family members residing abroad are considered current account transactions. Therefore, Mr. Patel's payment for his child's education fees falls under this classification.

Further, the purpose of the transaction is to cover the living and education expenses of a family member (Mr. Patel's child) residing abroad, which aligns with the definition of current account transactions. Patel's payment for his child's education fees in the United States qualifies as a current account transaction under FEMA, as it meets the criteria outlined in the regulations.

ANSWER OF MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. (c)

2. (b)

3. (b)

4. (b)

5. (d)

6. (d)

7. (a)

8. (a)

9. (c)

10. (b)

11. (b)

12. (b)

13. (b)

14. (d)

15. (c)

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. (a) According to section 2(68) of the Companies Act, 2013, "Private company" means a company having prescribed minimum paid-up share capital, and which by its articles, limits the number of its members to 200.

However, where two or more persons hold one or more shares in a company jointly, they shall, for the purposes of this clause, be treated as a single member.

It is further provided that following shall not be included in the number of members -

(A) persons who are in the employment of the company; and

(B) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased.

Accordingly, total Number of members in ABC Limited are:

(i)	Directors and their relatives	20
(ii)	Joint shareholders (10x2)	10
(iii)	Other Members	150
	Total	**180**

(i) ABC Limited may be converted into a private company only if the total members of the company are limited to 200. In the instant case, since existing number of members are 180 which is within the prescribed maximum limit of 200, so ABC Limited can be converted into a private company.

(ii) There is no need for reduction in the number of members for the proposed private company as existing number of members are 180 which does not exceed maximum limit of 200.

(b) **Interim dividend:** As per section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year or at any time during the period from closure of financial year till holding of the annual general meeting out of the surplus in the profit and loss account or out of profits of the financial year in which such interim dividend is sought to be declared.

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

Final dividend: The company in general meeting may declare dividends, but no dividend shall exceed the amount recommended by the Board. [Clause 80 of Table F in Schedule I]

According to the given facts, Sunday Ltd. incurred losses in current financial year 2023-24. It is also provided that, in the immediately preceding three financial years, the company declared dividend at the rate of 15%, 20% and 25% respectively. Accordingly, the rate of dividend declared shall not exceed 20%, the average of the rates (15+20+25=60/3) at which dividend was declared by it during the immediately preceding three financial years.

Board of Directors of Sunday Ltd. recommended a final dividend @15% for financial year 2023-24 in the meeting held on 5th August 2024. It was approved in the general meeting. However, shareholders demanded that since Interim dividend was at the rate of 10%, so final dividend should not be less than 20%. The general meeting cannot declare the dividend at a rate higher than the rate of dividend recommended by the Board.

Yes, the decision of Company Secretary that final dividend cannot be increased beyond the rate of 15% as recommended in the Board Meeting, is correct.

(c) According to section 5 of the Foreign Exchange Management Act, 1999, any person may sell or draw foreign exchange to or from an authorized person if such a sale or drawal is a current account transaction. Provided that Central Government may, in public interest and in consultation with the reserve bank, impose such reasonable restrictions for current account transactions as may be prescribed.

As per the rules, drawal of foreign exchange for current account transactions are categorized under three headings-

1. Transactions for which drawal of foreign exchange is prohibited,
2. Transactions which need prior approval of appropriate government of India for drawal of foreign exchange, and
3. Transactions which require RBI's prior approval for drawl of foreign exchange.

(i) Mr. Vinod wanted to remit US Dollar 20,000 out of his lottery winnings to his son residing in Singapore. Such remittance is prohibited and the same is included in the Foreign Exchange Management (Current Account Transactions) Rules, 2000.

Hence Mr. Vinod cannot withdraw foreign exchange for this purpose.

(ii) In the given situation, it is a current account transaction, where Mr. Shyam is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

2. (a) Crystallization of a Floating Charge

When the creditor enforces the security due to the breach of terms and conditions of floating charge or the company goes into liquidation, the floating charge will become a fixed charge on all the assets available on that date. This is called crystallization of a floating charge.

A floating charge remains dormant until it becomes fixed or crystallizes. On crystallization of charge, the security (*i.e.* raw material, stock-in-trade, etc.) becomes fixed and is available for realization by the lender so that borrowed money is repaid. Crystallization of floating charge may occur when the terms and conditions of floating charge are violated or the company ceases to continue its business or the company goes into liquidation or the creditors enforce the security covered by the floating charge.

(b) According to section 2(13) of the Companies Act, 2013, 'Books of account' includes records maintained in respect of:

(i) all sums of money received and expended by a company and matters in relation to which the receipts and expenditure take place;

(ii) all sales and purchases of goods and services by the company;

(iii) the assets and liabilities of the company; and

(iv) the items of cost as may be prescribed under section 148 in the case of a company which belongs to any class of companies specified under that section.

(c) (i) Measurement of Distances

According to section 11 of the General Clauses Act, 1897, in the measurement of any distance, for the purposes of any Central Act or Regulation made after the commencement of this Act, that distance shall, unless a different intention appears, be measured in a straight line on a horizontal plane.

(ii) Duty to be taken pro rata in enactments

According to section 12 of the General Clauses Act, 1897, where, by any enactment now in force or hereafter to be in force, any duty of customs or excise or in the nature thereof, is leviable on any given quantity, by weight, measure or value of any goods or merchandise, then a like duty is leviable according to the same rate on any greater or less quantity.

Pro rata is a Latin term used to describe a proportionate allocation.

3. (a) Exceptions to Doctrine of Indoor Management

Relief on the ground of 'indoor management' cannot be claimed by an outsider dealing with the company in the following circumstances:

1. **Knowledge of irregularity** - In case this 'outsider' has actual knowledge of irregularity within the company, the benefit under the rule of indoor management would no longer be available. In fact, he/she may well be considered part of the irregularity**.**
2. **Negligence:** If with a minimum of effort, the irregularities within a company could be discovered, the benefit of the rule of indoor management would not apply. The protection of the rule is also not available where the circumstances surrounding the contract are so suspicious as to invite inquiry, and the outsider dealing with the company does not make proper inquiry.
3. **Forgery:** The rule does not apply where a person relies upon a document that turns out to be forged since nothing can validate forgery. A company can never be held bound for forgeries committed by its officers.
4. Where the **question** is in regard to the very **existence of an agency.**
5. Where a **pre-condition** is required to be fulfilled before company itself can exercise a particular power. In other words, the act done is not merely ultra vires the directors/officers but ultra vires the company itself.

(b) Section 96(2) of the Companies Act, 2013, states that every Annual General Meeting (AGM) shall be called during business hours, that is, between 9 a.m. and 6 p.m. on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated.

However, AGM of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

Explanation—For the purposes of this sub-section, 'National Holiday' means and includes a day declared as National Holiday by the Central Government.

In the instant case, Prateek Limited, an unlisted company, can hold its AGM on 13th August 2024 which happens to be a holiday declared by the Government of Arunachal Pradesh and so, this is not a national holiday.

(c) Doctrine of *Contemporanea Expositio*

This doctrine is based on the concept that a statute or a document is to be interpreted by referring to the exposition it has received from contemporary authority. The maxim "*Contemporanea Expositio est optima et fortissinia in lege*" means "contemporaneous exposition is the best and strongest in the law." This means a law should be understood in the sense in which it was understood at the time when it was passed.

This maxim is to be applied for construing ancient statutes, but not to Acts that are comparatively modern.

4. (a) (i) As per section 141(3)(d)(i) of the Companies Act, 2013, an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holding any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company. Further the proviso provides that, the relative of the auditor may hold the securities or interest in the company of face value not exceeding of ₹ 1,00,000.

In the present case, Chitralekha (spouse of Chintamani, the auditor), is having securities of Nagmani Limited having face value of ₹ 80,000, which is within the prescribed limits under the proviso to section 141(3)(d)(i). Therefore, Chintamani will be eligible to be appointed as an auditor of Nagmani Limited.

(ii) As per section 141(3)(f), an auditor is disqualified to be appointed as an auditor if a person whose relative is a director or is in the employment of the company as a director or a Key Managerial Personnel. In the instant case, since Mani, real sister of Mr. Priyanshu (Chartered Accountant) is the CFO (a KMP) of Parivar Ltd., hence, Mr. Priyanshu will be disqualified to be appointed as an auditor in the said company.

(b) Small limited liability partnership

According to section 2(1)(ta) of the Limited Liability Partnership Act, 2008, small limited liability partnership means a limited liability partnership:

(i) the contribution of which, does not exceed twenty-five lakh rupees or such higher amount, not exceeding five crore rupees, as may be prescribed; and

(ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed forty lakh rupees or such higher amount, not exceeding fifty crore rupees, as may be prescribed; or

(iii) which meets such other requirements as may be prescribed, and fulfils such terms and conditions as may be prescribed.

(c) Preamble merely affords help in the matter of construction, if there is an ambiguity in the law.

Courts refer to the preamble as an aid to construction in the following situations:

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

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

5. (a) According to section 24(3) of the Limited Liability Partnership Act, 2008, where a person has ceased to be a partner of a LLP (hereinafter referred to as 'former partner'), the former partner is to be regarded (in relation to any person dealing with the LLP) as still being a partner of the LLP unless**:**

(a) the person has notice that the former partner has ceased to be a partner of the LLP; or

(b) notice that the former partner has ceased to be a partner of the LLP has been delivered to the Registrar.

Hence, by virtue of the above provisions, as no notice of resignation was given to Registrar of Companies, Shilpa will still be liable for the loss of firm of the transactions entered after 7th May 2024.

(b) Periodical Financial Results [Section 129A of the Companies Act, 2013]

The Central Government may, require such class or classes of unlisted companies, as may be prescribed,:

(a) to prepare the financial results of the company on periodical basis and in prescribed form

(b) to obtain approval of the Board of Directors and complete audit or limited review of such periodical financial results in the prescribed manner; and

(c) file a copy with the Registrar within a period of thirty days of completion of the relevant period with such fees as may be prescribed.

Therefore, the objection of the Board of Directors on the ground that as Vishal Ltd. is an unlisted company, periodical financial results need not be prepared, is not correct. Section 129A clearly specifies that the prescribed class(es) of unlisted companies has to prepare Periodical Financial Results.

(c) Official Chiefs and subordinates

According to section 19 of the General Clauses Act, 1897, a law relative to the chief or superior of an office shall apply to the deputies or subordinates lawfully performing the duties of that office in the place of their superior, to prescribe the duty of the superior.

In the instant case, Ms. Priya, the Deputy Director of Digital Communications, was lawfully assigned to perform the duties of the Director. Hence, the actions taken by Ms. Priya Sharma were valid.

6. (a) Persons entitled to receive the Notice of the General Meeting

According to section 101(3) of the Companies Act, 2013, the notice of every meeting of the company shall be given to:

(1) every member of the company, legal representative of any deceased member or the assignee of insolvent member;

(2) the auditor or auditors of the company;

(3) every director of the company.

OR

(a) Time limit for Filing of Annual Return

(i) A copy of annual return shall be filed with the Registrar of Companies (RoC) within 60 days from the date on which the Annual General Meeting ('AGM') is held.

(ii) Where no annual general meeting is held in any year, it shall be filed with the Registrar of Companies (RoC) within 60 days from the date on which the annual general meeting should have been held, along with the reasons for not holding the AGM.

(b) Audit of accounts of foreign company

According to the Companies (Registration of Foreign Companies) Rules, 2014,

(i) Every foreign company shall get its accounts, pertaining to the Indian business operations prepared in accordance with section 381(1) of the Companies Act, 2013 and Rules thereunder, shall be audited by a practicing Chartered Accountant in India or a firm or limited liability partnership of practicing chartered accountants.

(ii) The provisions of Chapter X i.e. Audit and Auditors and rules made there under, as far as applicable, shall apply, *mutatis mutandis*, to the foreign company.

(c) Currency

According to section 2(h) of the Foreign Exchange Management Act, 1999, 'Currency' includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travelers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank.

(d) Official Gazette

According to section 3(39) of the General Clauses Act, 1897, 'Official Gazette' or 'Gazette' shall mean:

(i) The Gazette of India, or

(ii) The Official Gazette of a state.

The Gazette of India is a public journal and an authorised legal document of the Government of India, published weekly by the Department of Publication, Ministry of Housing and Urban Affairs. As a public journal, the Gazette prints official notices from the government. It is authentic in content, accurate and strictly in accordance with the Government policies and decisions. The gazette is printed by the Government of India Press.

ANSWER OF MODEL TEST PAPER 5

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. (b)

2. (b)

3. (a)

4. (a)

5. (a)

6. (c)

7. (d)

8. (b)

9. (b)

10. (b)

11. (b)

12. (d)

13. (c)

14. (c)

15. (b)

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. (a) According to section 19 of the Companies Act, 2013 a company shall not hold any shares in its holding company either by itself or through its nominees. Also, holding company shall not allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

Following are the exceptions to the above rule:

(a) where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or

(b) where the subsidiary company holds such shares as a trustee; or

(c) where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company but in this case it will not have a right to vote in the meeting of holding company.

In the given case one of the shareholders of holding company has transferred his shares in the holding company to a trust where the shares will be held by subsidiary company. It means now subsidiary will hold shares in the holding company. But it will hold shares in the capacity of a trustee. Therefore, we can conclude that in the given situation New Ltd. can hold shares in Old Ltd.

(b) According to first proviso to section 137(1) of the Companies Act, 2013, where the financial statements are not adopted at annual general meeting or adjourned annual general meeting, such unadopted financial statements along with the required documents shall be filed with the Registrar within thirty days of the date of annual general meeting and the Registrar shall take them in his records as provisional till the financial statements are filed with him after their adoption in the adjourned annual general meeting for that purpose.

According to second proviso to section 137(1) of the Companies Act, 2013, financial statements adopted in the adjourned AGM shall be filed with the Registrar within thirty days of the date of such adjourned AGM with such fees or such additional fees as may be prescribed.

In the instant case, the accounts of Surya Ltd. were adopted at the adjourned AGM held on 29th September, 2024 and filing of financial statements with Registrar was done on 20th October, 2024 i.e. within 30 days of the date of adjourned AGM.

Hence, Surya Ltd. has not complied with the statutory requirement regarding filing of unadopted accounts with the Registrar, but has certainly complied with the provisions by filing of adopted accounts within the due date with the Registrar.

(c) Under provisions of section 5 of the Foreign Exchange Management Act, 1999 certain Rules have been made for drawal of Foreign Exchange for Current Account transactions. As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some Current Account transactions, prior permission of Reserve Bank of India is required.

(i) In respect of item No.(i), i.e., remittance out of lottery winnings, such remittance is prohibited and the same is included in First Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, Mr. A cannot withdraw Foreign Exchange for this purpose.

(ii) Foreign Exchange for meeting expenses of cultural tour can be withdrawn by any person after obtaining permission from Government of India, Ministry of Human Resources Development, (Department of Education and Culture) as prescribed in Second Schedule to the Foreign Exchange Management (Current Account Transactions) Rules, 2000. Hence, in respect of item (ii), Mr. A can withdraw the Foreign Exchange after obtaining such permission.

In all the cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person.

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

This situation would arise where the property subject to a charge is sold to a third-party and neither the company nor the charge-holder has intimated the Registrar regarding satisfaction of the earlier charge.

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

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

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

According to section 82 (4), section 82 shall not be deemed to affect the powers of the Registrar to make an entry in the register of charges under section 83 or otherwise than on receipt of an intimation from the company *i.e.* even if no intimation is received by him from the company.

Information to affected parties: According to section 83 (2), the Registrar shall inform the affected parties within 30 days of making the entry in the register of charges.

Issue of Certificate: As per Rule 8 (2) of the Companies (Registration of Charges) Rules, 2014, in case the Registrar enters a memorandum of satisfaction of charge in full, he shall issue a certificate of registration of satisfaction of charge.

(b) Save as provided in the Companies Act, 2013 or the rules made thereunder for filing of documents with the Registrar in electronic mode, a document may be served on Registrar or any member by sending it to him by:

1. Post, or
2. registered post, or
3. speed post, or
4. courier, or
5. by delivering at his office or address, or

6. by such electronic or other mode as may be prescribed.

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

(c) Provisions applicable to making of rules or bye-laws after previous publications [Section 23 of the General Clauses Act, 1897]:

Where, by any Central Act or Regulation, a power to make rules or bye-laws is expressed to be given subject to the condition of the rules or bye-laws being made after previous publication, then the following provisions shall apply, namely:-

(1) **Publish of proposed draft rules/ bye- laws:** The authority having power to make the rules or bye-laws shall, before making them, publish a draft of the proposed rules or bye-laws for the information of persons likely to be affected thereby;

(2) **To publish in the prescribed manner:** The publication shall be made in such manner as that authority deems to be sufficient, or, if the condition with respect to previous publication so requires, in such manner as the Government concerned prescribes;

(3) **Notice annexed with the published draft:** There shall be published with the draft a notice specifying a date on or after which the draft will be taken into consideration;

(4) **Consideration on suggestions/objections received from other authorities:** The authority having power to make the rules or bye-laws, and, where the rules or bye-laws are to be made with the sanction, approval or concurrence of another authority, that authority also shall consider any objection or suggestion which may be received by the authority having power to make the rules or bye-laws from any person with respect to the draft before the date so specified;

(5) **Notified in the official gazette:** The publication in the Official Gazette of a rule or bye-law purporting to have been made in exercise of a power to make rules or bye-laws after previous publication shall be conclusive proof that the rule or bye-laws have been duly made.

3. (a) Application of Premium received on Issue of Shares

The provisions of the Companies Act, 2013, allow the companies to apply securities premium account for:

1) Issue of fully paid bonus shares;

2) Writing off the preliminary expenses;

3) Writing off the issue expenses (expenses including commission paid or discount allowed on any issue of shares or debentures);

4) Premium payable on the redemption (of any preference shares or of any debentures); or

5) Buy-back (purchase of its own shares or other securities under section 68).

(b) According to section 103 of the Companies Act, 2013, unless the articles of the company provide for a larger number, the quorum for the meeting of a Public Limited Company shall be 5 members personally present, if number of members is not more than 1000.

(i) (1) P1, P2 and P3 will be counted as three members.

(2) If a company is a member of another company, it may authorize a person by resolution to act as its representative at a meeting of the latter company, then such a person shall be deemed to be a member present in person and counted for the purpose of quorum. Hence, P4 and P5 representing ABC Ltd. and DEF Ltd. respectively will be counted as two members.

(3) Only members present in person and not by proxy are to be counted. Hence, proxies whether they are members or not will have to be excluded for the purposes of quorum. Thus, P6 and P7 shall not be counted in quorum.

In the light of the provision of the Act and the facts of the question, it can be concluded that the quorum for Annual General Meeting of KMN Ltd. is 5 members personally present. Total 5 members (P1, P2, P3, P4 and P5) were present. Hence, the requirement of quorum is fulfilled.

(ii) The section further states that, if the required quorum is not present within half an hour, the meeting shall stand adjourned for the next week at the same time and place or such other time and place as decided by the Board of Directors.

Since, P4 is an essential part for meeting the quorum requirement, and he reaches after 11:30 AM (i.e. half an hour after the starting of the meeting), the meeting will be adjourned as provided above.

(iii) In case of lack of quorum, the meeting will be adjourned as provided in section 103.

In case of the adjourned meeting or change of day, time or place of meeting, the company shall give not less than 3 days' notice to the members either individually or by publishing an advertisement in the newspaper.

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

(c) **(i)** Proviso: The normal function of a proviso is to except something out of the enactment or to qualify something stated in the enactment which would be within its purview if the proviso were not there. The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general. As a general rule, a proviso is added to an enactment to qualify or create an exception to what is in the enactment. Ordinarily a proviso is not interpreted as stating a general rule.

It is a cardinal rule of interpretation that a proviso to a particular provision of a statute only embraces the field which is covered by the main provision.

(ii) Explanation: An Explanation is at times appended to a section to explain the meaning of the text of the section. An Explanation may be added to include something within the section or to exclude something from it. An Explanation should normally be so read as to harmonise with and clear up any ambiguity in the main section. It should not be so construed as to widen the ambit of the section.

The meaning to be given to an explanation will really depend upon its terms and not on any theory of its purpose.

4. (a) According to section 144 of the Companies Act, 2013, an auditor appointed under this Act shall provide to the company only such other services as are approved by the Board of Directors or the audit committee, as the case may be. But such services shall not include designing and implementation of any financial information system.

In the said instance, the Board of directors of Avni Ltd. requested its Statutory Auditor to accept the assignment of designing and implementation of suitable financial information system to strengthen the internal control mechanism of the company. As per the above provision said service is strictly prohibited.

In case the Statutory Auditor accepts the assignment, he will attract the penal provisions as specified in Section 147 of the Companies Act, 2013.

In the light of the above provisions, we shall advise the Statutory Auditor not to take up the above stated assignment.

(b) **Body Corporate:** According to section 2(1)(d) of the Limited Liability Partnership Act, 2008, body corporate means a company as defined in section 2(20) of the Companies Act, 2013 and includes:

(i) a LLP registered under the Limited Liability Partnership Act, 2008;

(ii) a LLP incorporated outside India; and

(iii) a company incorporated outside India,

but does not include**—**

(i) a corporation sole;

(ii) a co-operative society registered under any law for the time being in force; and

(iii) any other body corporate (not being a company as defined in section 2(20) of the Companies Act, 2013 or a limited liability partnership as defined in the Limited Liability Partnership Act, 2008), which the Central Government may, by notification in the Official Gazette, specify in this behalf.

(c) Practically speaking, the distinction between a provision which is 'mandatory' and one which is 'directory' is that when it is mandatory, it must be strictly observed; when it is 'directory' it would be sufficient that it is substantially complied with. However, we have to look to the substance and not merely the form, an enactment in mandatory form might substantially be directory and, conversely, a statute in directory form may in substance be mandatory. Hence, it is the substance that counts and must take precedence over mere form. If a provision gives a power coupled with a duty, it is mandatory: whether it is or is not so would depend on such consideration as:

– the nature of the thing empowered to be done,

– the object for which it is done, and

– the person for whose benefit the power is to be exercised.

5. (a) Section 15 of Limited Liability Partnership Act, 2008 provides no LLP shall be registered by a name which, in the opinion of the Central Government is—

(a) undesirable; or

(b) identical or too nearly resembles to that of any other 'LLP or a company or a registered trade mark of any other person under the Trade Marks Act, 1999'.

Further, section 17 provides, if the name of LLP is identical with or too nearly resembles to-

(a) that of any other LLP or a company; or

(b) a registered trade mark of a proprietor under the Trade Marks Act, 1999

then on an application of such LLP or proprietor referred to in clauses (a) and (b) respectively or a company, the CG may direct that such LLP to change its name within a period of 3 months from the date of issue of such direction.

Following the above provisions, LLP need not change its name if its name resembles with the name of a partnership firm. These provisions are applicable only in case where name is resembles with LLP, company or a registered trade mark of a proprietor.

Hence, M/s Sulbha LLP need not change its name even it resembles with the name of partnership firm.

(b) Section 139(2) of the Companies Act, 2013, provides that no listed company or a company belonging to prescribed classes of companies, shall appoint or re-appoint an audit firm as auditor for more than two terms of five consecutive years.

The proviso to section 139(2) provides that an audit firm which has completed its terms, shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term.

Further, it provides that as on the date of appointment no audit firm having a common partner or partners of the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

In the given question, SM & Company has also completed its two terms of 5 years (i.e. 10 years in total).Thus, ML & Co. cannot be appointed as statutory auditor of Liberal Ltd. during cooling period because CA. Mudit was the common partner in both the Audit firms. This prohibition is only for 5 years i.e. upto year 2032. After 5 years, Liberal Ltd. is free to appoint ML & Co. as its statutory auditors.

(c) As per section 9 of the General Clauses Act, 1897, for computation of time, the section states that in 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".

In the given instance, A Ltd. declares dividend for its shareholder in its Annual General Meeting held on 27th September 2024. Under the provisions of section 127 of the Companies Act, 2013, a company is required to pay declared dividend within 30 days from the date of declaration, i.e. from 28th September 2024 to 27th October 2024. In this series of 30 days, 27th September 2024 will be excluded and last 30th day, i.e. 27th October 2024 will be included. Accordingly, A Ltd. will be required to pay dividend within 28th September 2024 and 27th October 2024 (both days inclusive).

6. (a) According to section 100 (2) of the Companies Act 2013, the Board of directors must convene a general meeting upon requisition made by the stipulated minimum number of members.

As per section 103(2)(b) of the Companies Act, 2013, if the quorum is not present within half an hour from the appointed time for holding a meeting of the company, the meeting, if called on the requisition of members, shall stand cancelled. Therefore, the meeting stands cancelled and the stand taken by the Board of Directors to adjourn it, is not proper and valid.

OR

(a) Under section 102(2)(b) of the Companies Act, 2013, in the case of any general meeting other than an Annual General Meeting, all business transacted thereat shall be deemed to be special business.

Further under section 102(1), a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting, namely:

(a) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of:

(i) every director and the manager, if any;

(ii) every other key managerial personnel; and

(iii) relatives of the persons mentioned in sub-clauses (i) and (ii);

(b) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the shareholder is valid since the details of the item to be considered at the general meeting are not fully disclosed. The information about the amount is a material fact with reference to the proposed increase of share capital. The notice is, therefore, not a valid notice considering the provisions of section 102 of the Companies Act, 2013.

(b) As per section 389 of the Companies Act, 2013, 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 established, or when formed will or will not establish, a place of business in India, unless before the issue, circulation or distribution of the prospectus in India, a copy thereof certified by the chairperson of the company and two other directors of the company as having been approved by resolution of the managing body has been delivered for registration to the Registrar and the prospectus states on the face of it that a copy has been so delivered, and there is endorsed on or attached to the copy, any consent to the issue of the prospectus required by section 388 and such documents as may be prescribed under Rule 11 of the Companies (Incorporated outside India) Rules, 2014.

Accordingly, the Shaltom Ltd. a foreign company shall proceed with the issue of prospectus in compliance with the above stated provisions of section 379 of the Act.

(c) According to section 2(n) of the Foreign Exchange Management Act, 1999, 'foreign exchange' means foreign currency and includes:

(i) deposits, credits and balances payable in any foreign currency,

(ii) drafts, travelers' cheques, letters of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency,

(iii) drafts, travelers' cheques, letters of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency.

ANSWER OF MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. (c)

2. (d)

3. (c)

4. (d)

5. (c)

6. (a)

7. (a)

8. (a)

9. (b)

10. (b)

11. (b)

12. (b)

13. (c)

14. (d)

15. (c)

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. (a) Sweat equity shares of a class of shares already issued.

According to section 54 of the Companies Act, 2013, a company may issue sweat equity shares of a class of shares already issued, if the following conditions are fulfilled, namely—

(i) the issue is authorised by a special resolution passed by the company;

(ii) the resolution specifies the number of shares, the current market price, consideration, if any, and the class or classes of directors or employees to whom such equity shares are to be issued;

(iii) where the equity shares of the company are listed on a recognised stock exchange, the sweat equity shares are issued in accordance with the regulations made by the Securities and Exchange Board in this behalf and if they are not so listed, the sweat equity shares are issued in accordance with such rules as prescribed under Rule 8 of the *Companies (Share and Debentures) Rules, 2014,*

The rights, limitations, restrictions and provisions as are for the time being applicable to equity shares shall be applicable to the sweat equity shares issued under this section and the holders of such shares shall rank *paripassu* with other equity shareholders.

Alpha Limited can issue sweat equity shares by following the conditions as mentioned above. It does not make a difference that the company is just a few months old.

(b) **(i)** Section 141(3)(c) of the Companies Act, 2013 prescribes that any person who is a partner or in employment of an officer or employee of the company will be disqualified to act as an auditor of a company. Section 141(4) provides where a person appointed as an auditor of a company incurs any of the disqualifications mentioned in section 141(3) after his appointment, he shall vacate his office as such auditor and such vacation shall be deemed to be a casual vacancy in the office of the auditor.

In the present case, Mr. Prem, an auditor of A Limited, joined as partner with consultancy firm where Mr. Ajay has become a partner and Mr. Ajay is also the Finance executive of A Limited. Hence, Mr. Prem has attracted clause (3)(c) of section 141 and, therefore, he shall be deemed to have vacated office of the auditor of A Limited.

(ii) As per section 141(3)(d)(i), an auditor is disqualified to be appointed as an auditor if he, or his relative or partner holds any security of or interest in the company or its subsidiary, or of its holding or associate company or a subsidiary of such holding company.

In the present case, Mr. Tom is holding security of ₹ 1,00,000 in the B Limited, therefore, he is not eligible for appointment as an auditor of B Limited.

(c) Under provisions of section 5 of the Foreign Exchange Management Act, 1999 certain Rules have been made for drawal of Foreign Exchange for Current Account transactions. As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some Current Account transactions, prior permission of Reserve Bank of India is required.

Accordingly,

(i) It is a current account transaction, where A is required to take approval of the Central Government for drawal of foreign exchange for remittance of hire charges of transponders.

(ii) Withdrawal of foreign exchange for payment related to call back services of telephone is a prohibited transaction. Hence, Mr. B cannot obtain US $ 2,000 for the said purpose.

In all the cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person.

2. (a) Rule 2(1)(c) of *the Companies (Acceptance of Deposit) Rules, 2014*, states various amounts received by a company which will not be considered as deposits. As per rule 2(1)(c)(x) any amount received from an employee of the company not exceeding his annual salary under a contract of employment with the company in the nature of non-interest-bearing security deposit is not considered as deposit.

In the instant case, ₹ 5,30,000 was received by PQR Trading Private Limited as a non-interest-bearing security deposit, from its employee, Mr. Romit, who draws an annual salary of ₹ 5,00,000 under a contract of employment.

Accordingly, amount of ₹ 5,30,000 received from Mr. Romit, will be considered as deposit in terms of sub-clause (x) of Rule 2(1)(c) of the Act, as the amount received from Mr. Romit is more than his annual salary of ₹ 5,00,000.

(b) As per section 2(43) of the Companies Act, 2013, free reserves means such reserves which, as per the latest audited balance sheet of a company, are available for distribution as dividend:

Provided that—

(i) any amount representing unrealised gains, notional gains or revaluation of assets, whether shown as a reserve or otherwise, or

(ii) any change in carrying amount of an asset or of a liability recognized in equity, including surplus in profit and loss account on measurement of the asset or the liability at fair value,

shall not be treated as free reserves.

(c) (i) Movable Property

According to section 3(36) of the General Clauses Act, 1897, 'Movable Property' shall mean property of every description, except immovable property.

Thus, any property which is not immovable property is movable property. Debts, share, electricity are moveable property.

(ii) Oath

According to section 3(37) of the General Clauses Act, 1897, 'Oath' shall include affirmation and declaration in the case of persons by law allowed to affirm or declare instead of swearing.

3. (a) As per section 8 of the Companies Act, 2013, the Central Government (ROC in its behalf) may grant a licence (to operate as a non profit organisation) if it is proved to the satisfaction that a person or an association of persons proposed to be registered under the Companies Act, 2013, as a limited company:

- has in its objects the promotion of commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object;
- intends to apply its profits (if any) or other income in promoting its objects; and
- intends to prohibit payment of any dividend to its members.

(b) Validity of Resolution passed in the EGM called by the Requisitionists

As per section 100(2) of the Companies Act, 2013, read with Rule 17 of the Companies (Management and Administration) Rules, 2014, the Board shall on the requisition of, in the case of company having a share capital, such number of members who hold, on the date of receipt of requisition, at least 1/10th of such paid-up capital of the company as on that date carries the right of voting, shall call for the meeting.

The requisition made under sub-section (2) shall set out the matters for the consideration of which the meeting is to be called and shall be signed by the requisitionists and sent to the registered office of the company.

The Board must, within 21 days from the date of receipt of a valid requisition, proceed to call a meeting on a day not later than 45 days from the date of receipt of such requisition.

If the Board does not, within 21 days from the date of receipt of a valid requisition in regard to any matter, proceed to call a meeting for the consideration of that matter on a day not later than 45 days from the date of receipt of such requisition, the meeting may be called and held by the requisitionists themselves within a period of three months from the date of the requisition. [Sub-Section 4].

Sub-section (5) of Section 100 provides that the requisitionists shall call and hold the meeting in the same manner in which the meeting is called and held by the Board.

Sub-section (6) of Section 100 any reasonable expenses incurred by the requisitionists in calling a meeting under sub-section (4) shall be reimbursed to the requisitionists by the company and the sums so paid shall be deducted from any fee or other remuneration under section 197 payable to such of the directors who were in default in calling the meeting.

In the given case, meeting called by requisitionists to pass the resolution to remove the Managing Director in the said meeting can be said to be valid as the requisition moved from Mr. Jai and Mr. Narayan holding ₹ 60,000 (each holding ₹ 30,000) equity share capital (1/10th of 1,00,000) is in compliance with the legal requirement and will be binding on the company, its officers and members provided if all the conditions for a valid meeting are satisfied.

(c) Sometimes an explanation is added to a section of an Act for the purpose of explaining the main provisions contained in that section. If there is some ambiguity in the provisions of the main section, the explanation is inserted to harmonise and clear up the ambiguity in the main section. Something may be added to or something may be excluded from the main provision by insertion of an explanation. But the explanation should not be construed to widen the ambit of the section.

4. (a) According to section 127 of the Companies Act, 2013, in case a company fails to pay declared dividends or fails to post dividend warrants within 30 days of declaration, following punishments are applicable:

(i) Every director of the company shall be punishable with imprisonment of up to two years, if he is knowingly a party to the default. And, he shall also be liable to pay minimum fine of ₹ 1,000 for every day during which such default continues.

(ii) The company shall be liable to pay simple interest at the rate of 18% p.a. during the period for which such default continues.

(b) Financial Year: According to section 2(1)(l) of the Limited Liability Partnership Act, 2008, "Financial year", in relation to a Limited Liability Partnership (LLP), means the period from the 1st day of April of a year to the 31st day of March of the following year.

However, in the case of a LLP incorporated after the 30th day of September of a year, the financial year may end on the 31st day of March of the year next following that year.

(c) Normally a Proviso is added to a section of an Act to except something or qualify something stated in that particular section to which it is added. A proviso should not be, ordinarily, interpreted as a general rule. Usually, a proviso is embedded in the main body of the section and becomes an integral part of it.

The effect of the proviso is to qualify the preceding enactment which is expressed in terms which are too general.

It is a cardinal rule of interpretation that a proviso or exception to a particular provision of a statute only embraces the field which is covered by the main provision. It carves out an exception to the main provision to which it has been enacted as a proviso and to no other. *(Ram Narain Sons Ltd. vs. Assistant Commissioner of Sales Tax, AIR 1955 SC 765)*.

5. (a) According to section 24(3), where a person has ceased to be a partner of a LLP (hereinafter referred to as "former partner"), the former partner is to be regarded (in relation to any person dealing with the LLP) as still being a partner of the LLP unless**:**

(a) the person has notice that the former partner has ceased to be a partner of the LLP; or

(b) notice that the former partner has ceased to be a partner of the LLP has been delivered to the Registrar.

Hence, by virtue of the above provisions, as no notice of resignation was given to ROC, Yuvan will still be liable for the loss of firm of the transactions entered after 11th November, 2024.

(b) The situation as stated in the question relates to the creation of a casual vacancy in the office of an auditor due to resignation of the auditor before the Annual General Meeting (AGM), in case of a company other government company. Under section 139 (8)(i) any casual vacancy in the office of an auditor arising as a result of his resignation, such vacancy can be filled by the Board of Directors within 30 days thereof and in addition the appointment of the new auditor shall also be approved by the company at a general meeting convened within three months of the recommendation of the Board and he shall hold the office till the conclusion of the next annual general meeting.

(c) **Good Faith:** According section 3(22) of the General Clauses Act, 1897, a thing shall be deemed to be done in “good faith” where it is in fact done honestly, whether it is done negligently or not.

The question of good faith under the General Clauses Act is one of fact. It is to determine with reference to the circumstances of each case. The term “Good faith” has been defined differently in different enactments. This definition of the good faith does not apply to that enactment which contains a special definition of the term “good faith” and there the definition given in that particular enactment has to be followed. This definition may be applied only if there is nothing repugnant in subject or context, and if that is so, the definition is not applicable.

6. (a) Section 109 of the Companies Act, 2013 provides for the demand of poll before or on the declaration of the result of the voting on any resolution on show of hands. Accordingly, law says that:-

Before or on the declaration of the result of the voting on any resolution on show of hands, a poll may be ordered to be taken by the Chairman of the meeting on his own motion, and shall be ordered to be taken by him on a demand made in that behalf:-

(i) In the case a company having a share capital, by the members present in person or by proxy, where allowed, and having not less than one-tenth of the total voting power or holding shares on which an aggregate sum of not less than five lakh rupees or such higher amount as may be prescribed has been paid-up; and

(ii) in the case of any other company, by any member or members present in person or by proxy, where allowed, and having not less than one tenth of the total voting power.

In the given question, 80 members present in person or by proxy holding more than 1/10th of the total voting power, demanded for poll. Hence, the contention of the Chairman is not valid.

OR

(a) Under section 102(2)(b) of the Companies Act, 2013, in the case of any general meeting other than an Annual General Meeting, all business transacted thereat shall be deemed to be special business.

Further under section 102(1), a statement setting out the following material facts concerning each item of special business to be transacted at a general meeting, shall be annexed to the notice calling such meeting, namely:

(1) the nature of concern or interest, financial or otherwise, if any, in respect of each items, of:

  (i) every director and the manager, if any;

  (ii) every other key managerial personnel; and

  (iii) relatives of the persons mentioned in sub-clauses (i) and (ii);

(2) any other information and facts that may enable members to understand the meaning, scope and implications of the items of business and to take decision thereon.

Thus, the objection of the shareholder is valid since the details of the item to be considered at the general meeting are not fully disclosed. The information about the amount is a material fact with reference to the proposed increase of share capital. The notice is, therefore, not a valid notice considering the provisions of section 102 of the Companies Act, 2013.

(b) Audit of accounts of foreign company

According to the Companies (Registration of Foreign Companies) Rules, 2014,

(i) Every foreign company shall get its accounts, pertaining to the Indian business operations prepared in accordance with section 381(1) of the Companies Act, 2013 and Rules thereunder, shall be audited by a practicing Chartered Accountant in India or a firm or limited liability partnership of practicing chartered accountants.

(ii) The provisions of Chapter X i.e. Audit and Auditors and rules made there under, as far as applicable, shall apply, *mutatis mutandis*, to the foreign company.

(c) According to section 2(j) of the Foreign Exchange Management Act, 1999, 'Current Account transaction' means a transaction other than a capital account transaction and without prejudice to the generality of the foregoing such transaction includes,

(i) payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business.

(ii) payments due as interest on loans and as net income from investments.

(iii) remittances for living expenses of parents, spouse and children residing abroad, and

(iv) expenses in connection with foreign travel, education and medical care of parents, spouse and children.

ANSWER OF MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART – I CASE SCENARIO BASED MCQS

1. **(b)**

2. **(b)**

3. **(d)**

4. **(a)**

5. **(c)**

6. **(b)**

7. **(b)**

8. **(b)**

9. **(b)**

10. **(c)**

11. **(b)**

12. **(d)**

13. **(a)**

14. **(b)**

15. **(c)**

ANSWERS OF PART – II DESCRIPTIVE QUESTIONS

1. **(a)** As per section 2(40) of the Companies Act, 2013, Financial Statement in relation to a company, includes—

(i) a balance sheet as at the end of the financial year;

(ii) a profit and loss account, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year;

(iii) cash flow statement for the financial year;

(iv) a statement of changes in equity, if applicable; and

(v) any explanatory note annexed to, or forming part of, any document referred to in sub-clause (i) to sub-clause (iv):

Exemption: As per the proviso to section 2(40), the financial statement, with respect to one person company, small company, dormant company and private company (if such private company is a start-up) may not include the cash flow statement.

In the instant case, Mr. P has to prepare the prescribed financial statements except Cash Flow Statement; since Nath Private Limited is a start-up private company.

(b) According to section 139(2) of the Companies Act, 2013, no listed company or a company belonging to such class or classes of companies as may be prescribed, shall appoint or re-appoint—

(a) an individual as auditor for more than one term of five consecutive years; and

(b) an audit firm as auditor for more than two terms of five consecutive years.

Provided that –

(i) an individual auditor who has completed his term under clause (a) shall not be eligible for re-appointment as auditor in the same company for five years from the completion of his term;

(ii) an audit firm which has completed its term under clause (b), shall not be eligible for re-appointment as auditor in the same company for five years from the completion of such term.

Provided further that as on the date of appointment no audit firm having a common partner or partners to the other audit firm, whose tenure has expired in a company immediately preceding the financial year, shall be appointed as auditor of the same company for a period of five years.

As per Explanation II in Rule 6(3) of the Companies (Audit and Auditors) Rules, 2014, if a partner, who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of chartered accountants, such other firm shall also be ineligible to be appointed for a period of five years.

Here, Mr. Ramchandra has retired from A & Associates and joined Gupta & Gupta Firm. Mr. Ramchandra was a partner, in- charge Associates (and certifies the financial statement of the company) in A & Associates. He retires from A & Associates and joins Gupta & Gupta firm.

As per the facts of the question and provisions of law, Gupta & Gupta Firm will also be ineligible, to be appointed as auditor of Badri Limited (listed company) for a period of 5 years.

(c) Under provisions of section 5 of the Foreign Exchange Management Act, 1999 certain Rules have been made for drawal of Foreign Exchange for Current Account transactions. As per these Rules, Foreign Exchange for some of the Current Account transactions is prohibited. As regards some other Current Account transactions, Foreign Exchange can be drawn with prior permission of the Central Government while in case of some

Current Account transactions, prior permission of Reserve Bank of India is required.

Accordingly, Payment of commission on exports made towards equity investment in Joint Ventures/ Wholly Owned Subsidiaries abroad of Indian companies, is a transactions for which drawal of foreign exchange is prohibited.

In all the cases, where remittance of Foreign Exchange is allowed, either by general or specific permission, the remitter has to obtain the Foreign Exchange from an Authorised Person.

2. (a) Rule 13 of the Companies (Acceptance of Deposits) Rules, 2014, states that the amount deposited in the 'Deposit Repayment Reserve Account' shall not be used by a company for any purpose other than repayment of deposits.

In the given question, Samay Publishing Limited wants to utilise a portion of 'Deposit Repayment Reserve Account' to pay off its short-term creditors. Since there is a prohibition, Samay Publishing Limited is not permitted to utilise its 'Deposit Repayment Reserve Account' to pay off its short-term creditors.

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

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

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

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

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

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

(c) (i) Person

According to section 3(42) of the General Clauses Act, 1897, 'Person' shall include any company or association or body of individuals, whether incorporated or not.

(ii) Document

According to section 3(18) of the General Clauses Act, 1897, 'Document' shall include any matter written, expressed or described upon any substance by means of letters, figures or marks or by more than one of those means which is intended to be used or which may be used, for the purpose or recording that matter.

3. (a) Section 8 of the Companies Act, 2013 deals with the formation of companies which are formed to promote the charitable objects of commerce, art, science, education, sports etc. Such company intends to apply its profit in promoting its objects. Section 8 companies are registered by the Registrar only when a license is issued by the Central Government to them. Since, Trinity school was a Section 8 company and it had started violating the objects of its objective clause, hence in such a situation the following powers can be exercised by the Central Government:

(i) The Central Government may by order revoke the licence of the company where the company contravenes any of the requirements or the conditions of this sections subject to which a licence is issued or where the affairs of the company are conducted fraudulently, or violative of the objects of the company or prejudicial to public interest, and on revocation the Registrar shall put 'Limited' or 'Private Limited' against the company's name in the register. But before such revocation, the Central Government must give it a written notice of its intention to revoke the licence and opportunity to be heard in the matter.

(ii) Where a licence is revoked, the Central Government may, by order, if it is satisfied that it is essential in the public interest, direct that the company be wound up under this Act or amalgamated with another company registered under this section. However, no such order shall be made unless the company is given a reasonable opportunity of being heard.

(iii) Where a licence is revoked and where the Central Government is satisfied that it is essential in the public interest that the company registered under this section should be amalgamated with another company registered under this section and having similar objects, then, notwithstanding anything to the contrary contained in this Act, the Central Government may, by order, provide for such amalgamation to form a single company with such constitution, properties, powers, rights, interest, authorities and privileges and with such liabilities, duties and obligations as may be specified in the order.

(b) Validity of Resolution passed in the EGM called by the Requisitionists

A Proxy is an instrument in writing executed by a shareholder authorizing another person to attend a meeting and to vote thereat on his behalf and in his absence. As per the provisions of section 105 of the Companies Act, 2013, every shareholder who is entitled to attend and vote has a statutory right to appoint another person as his proxy. Section 105(4) provides that a proxy received 48 hours before the meeting will be valid. Further, any provision in the articles of association of the company requiring instrument of proxy to be lodged with the company more than 48 hours before a meeting shall have effect as if 48 hours had been specified therein.

Thus, in case of member X, the proxy Y will be permitted to represent as proxy on his behalf as form for appointing proxy was submitted within the permitted time.

However, in the case of member W, the proxy M will be permitted to represent as the proxy. Whereas submission of form authorizing N to represent as proxy was deposited in less than 48 hours before the meeting, so N will not be allowed to represent W.

(c) **(i)** **Ambiguous definitions:** Sometime, we may find that the definition section may itself be ambiguous, and so it may have to be interpreted in the light of the other provisions of the Act and having regard to the ordinary meaning of the word defined. Such type of definition is not to be read in isolation. It must be read in the context of the phrase which it defines, realising that the function of a definition is to give accuracy and certainty to a word or phrase which would otherwise be vague and uncertain but not to contradict it or depose it altogether.

(ii) **Definitions subject to a contrary context:** When a word is defined to bear a number of inclusive meanings, the sense in which the word is used in a particular provision must be ascertained from the context of the scheme of the Act, the language of the provision and the object intended to be served thereby.

4. **(a)** **Persons responsible to maintain books**: As per section 128 (6) of the Companies Act, 2013, the person responsible to take all reasonable steps to secure compliance by the company with the requirement of maintenance of books of account etc. shall be:

(a) Managing Director,

(b) Whole-Time Director, in charge of finance

(c) Chief Financial Officer

(d) Any other person of a company charged by the Board with duty of complying with provisions of section 128.

(b) **Small limited liability partnership**

According to section 2(1)(ta) of the Limited Liability Partnership Act, 2008, small limited liability partnership means a limited liability partnership:

(i) the contribution of which, does not exceed 25 lakh rupees or such higher amount, not exceeding 5 crore rupees, as may be prescribed; and

(ii) the turnover of which, as per the Statement of Accounts and Solvency for the immediately preceding financial year, does not exceed 40 lakh rupees or such higher amount, not exceeding 50 crore rupees, as may be prescribed; or

(iii) which meets such other requirements as may be prescribed, and fulfils such terms and conditions as may be prescribed.

(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.

5. (a) Section 96(2) of the Companies Act, 2013 states that every Annual General Meeting (AGM) shall be called on any day that is not a National Holiday and shall be held either at the registered office of the company or at some other place within the city, town, or village in which the registered office of the company is situated.

However, AGM of an unlisted company may be held at any place in India if consent is given in writing or by electronic mode by all the members in advance.

Explanation—For the purposes of this sub-section, "National Holiday" means and includes a day declared as National Holiday by the Central Government.

In the instant case,

(i) Kedar Limited, an unlisted company, can hold its AGM on 28th September, 2024 which happens to be a holiday declared by Haryana Government because this is not a national holiday.

(ii) Kedar Limited cannot hold its AGM in Lonavala, a hill resort in Maharashtra because consent for this has to be given by all the members in advance and here only 98 members out of 100 have given their consent for conducting the meeting in Lonavala.

(b) As per section 137 of the Companies Act, 2013, where the Annual General Meeting of a company for any year has not been held, the financial statements along with the documents required to be attached, duly signed along with the statement of facts and reasons for not holding the AGM shall be filed with the Registrar within 30 days of the last date before which the AGM should have been held and in such manner, with such fees or additional fees as may be prescribed.

(c) According to section 11 of the General Clauses Act, 1897, in the measurement of any distance, for the purposes of any Central Act or Regulation made after the commencement of this Act, that distance shall, unless a different intention appears, be measured in a straight line on a horizontal plane.

In this case, the distance between ABC Limited's factory and the river must be measured in a straight line on a horizontal plane, not based on the road or path distance. The environmental agency's claim that the factory is only 4.5 kilometers away in a straight line is correct. Since this measurement is less than the required 5 kilometers, the factory does not comply with the law.

Therefore, ABC Limited's contention is not correct.

6. (a) Section 83 of the Companies Act, 2013 empowers the Registrar to make entries with respect to the satisfaction and release of charge even if no intimation has been received by him from the company. Accordingly, with respect to any registered charge if an evidence is shown to the satisfaction of Registrar that the debt secured by charge has been paid or satisfied in whole or in part or that the part of the property or undertaking charged has been released from the charge or has ceased to form part of the company's property or undertaking, then he may enter in the register of charges a memorandum of satisfaction that:

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

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

The Registrar shall inform the affected parties within 30 days of making the entry in the Register of Charges.

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

Therefore, Mr. H can approach the Registrar and show evidence to his satisfaction that the charge has been duly settled and satisfied and request the Registrar to enter a memorandum of satisfaction noting the release of charge.

OR

(a) According to section 80 of the Companies Act, 2013, where any charge on any property or assets of a company or any of its undertakings is registered under section 77 of the Companies Act, 2013, any person acquiring such property, assets, undertakings or part thereof or any share or interest therein shall be deemed to have notice of the charge from the date of such registration.

Thus, section 80 clarifies that if any person acquires a property, assets or undertaking in respect of which a charge is already registered, it would be deemed that he has complete knowledge of charge from the date of its registration. Mr. Prakash, therefore, ought to have been careful while purchasing property and should have verified beforehand that PQR Limited had already created a charge on the property.

In view of above, the contention of PQR Limited is correct.

(b) According to section 393 of the Companies Act, 2013, any failure by a company to comply with the provisions of Chapter XXII of the Companies Act, 2013, shall not affect the validity of any contract, dealing or transaction entered into by the company or its liability to be sued in respect thereof. However, the company shall not be entitled to bring any suit, claim any set-off, make any counter-claim or institute any legal proceeding in respect of any such contract, dealing or transaction, until the company has complied with the provisions of the Companies Act, 2013, applicable to it.

In this given question, XYZ Limited, a company incorporated outside India, has failed to comply with certain provisions of Chapter XXII of the Companies Act, 2013, which governs the registration and compliance requirements for foreign companies operating in India.

According to the Companies Act, 2013, non-compliance with Chapter XXII does not affect the validity of any contract, dealing, or transaction entered into by the company. Therefore, the contract between XYZ Limited and ABC Limited remains valid, and ABC Limited is still legally bound to fulfill its contractual obligations, including the payment for the machinery supplied.

Further, XYZ Limited cannot bring a suit, claim any set-off, make any counter-claim, or institute any legal proceeding related to the contract as it has not complied with certain provisions of Chapter XXII.

(c) **(i)** **Authorised person**

According to section 2(c) of the Foreign Exchange Management Act, 1999, Authorised person means an authorised dealer, money changer, off- shore banking unit or any other person for the time being authorised under section 10(1) to deal in foreign exchange or foreign securities.

(ii) **Currency**

According to section 2(h) of the Foreign Exchange Management Act, 1999, Currency includes all currency notes, postal notes, postal orders, money orders, cheques, drafts, travelers' cheques, letters of credit, bills of exchange and promissory notes, credit cards or such other similar instruments, as may be notified by the Reserve Bank.

ANSWERS OF MODEL TEST PAPER 8

INTERMEDIATE COURSE: GROUP – I

PAPER – 2: CORPORATE AND OTHER LAWS

ANSWER TO PART I- CASE SCENARIO BASED MCQS

1. **(c)**

2. **(d)**

3. **(c)**

4. **(b)**

5. **(a)**

6. **(c)**

7. **(c)**

8. **(b)**

9. **(b)**

10. **(a)**

11. **(d)**

12. **(b)**

13. **(b)**

14. **(b)**

15. **(d)**

ANSWER TO PART II- DESCRIPTIVE QUESTIONS

1. **(a)** As per section 50 of the Companies Act, 2013, (the Act) a company may, if so authorized by its Articles, accept from any member the whole or a part of the amount remaining unpaid on any shares held by him, although no part of that amount has been called up.

As per section 51 of the Act, a company may, if so authorized by its Articles, pay dividends in proportion to the amount paid-up on each share. The Board of Directors of a company may decide to pay dividends on pro-rata basis if all the equity shares of the company are not equally paid-up.

Interest can be paid on such advance, if permitted by Articles. Here it is worth noting that, where the rate of interest is permitted by the Articles on such advance payment, same could be varied by shareholders in general meeting.

Further, section 49 of the Act, specifies that calls shall be made on a uniform basis on all shares that are falling under the same class. A shareholder on whom a regular call for payment has been served may choose to pay only a part of the sum due.

Hence, in the light of the stated provisions, SAB Health Products Limited is permitted to do the following acts:

Is Mr. GH's claim justified?

Mr. GH is entitled to claim interest on money advanced by him and also dividend in proportion to the amount paid-up on each share, if so authorized by the Articles of the company.

In the matter of Mr. LK

Whereas, with respect to Mr. LK, calls shall be made on a uniform basis by the directors, on all shares that are falling under the same class as per section 49 of the Act. A call cannot be made on some of the members only, unless they constitute a separate class of shareholders.

Therefore, the action of the Board of Directors of SAB Health Products Limited towards Mr. LK for calling to pay the entire amount due by him in respect of the shares held by Mr. LK is invalid and not permissible.

(b) **(i)** Voluntary Revision of Financial Statements or Board's Report on the Approval of the Tribunal

As per 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 3 preceding financial years after obtaining the approval of the Tribunal on an application made by the company within fourteen days of the decision taken by the Board.

A certified copy of the order of the Tribunal shall be filed with the Registrar of Companies within 30 days of the date of receipt of the certified copy.

In the given question, Mr. C has advised the Board of Right Trading Limited to revise the financial statements for the year 2021-22. The Board of Directors can do so as the said financial statements are pertaining to not later than three preceding financial years (from 2024- 2025) and by obtaining the approval of the Tribunal within fourteen days of the decision taken by the Board.

(ii) As per section 139(2) of the Companies Act, 2013, listed companies and such class of companies as prescribed, shall not appoint or re- appoint an audit firm as auditor for more than two terms of five consecutive years.

Further, on the date of appointment, an audit firm shall not have any partner or partners who are/were also the partner/s to the other audit firm, whose tenure has been expired in a company immediately preceding the financial year.

It means, if a partner (common partner), who is in charge of an audit firm and also certifies the financial statements of the company, retires from the said firm and joins another firm of Chartered Accountants, such other firm shall also be ineligible to be appointed as succeeding auditor of same company after two terms of five consecutive years. i.e. cooling period. [Rule 6(3) of Companies (Audit and Auditors) Rules, 2014]

The audit of Right Trading Limited was conducted by M/s DEF and after expiry of two consecutive terms, it is proposed to appoint
M/s XYZ. Mr. F is the common partner in M/s DEF and M/s XYZ, hence, the appointment of M/s XYZ is not valid.

(c) (i) Can Ms. Rose purchase the house in USA and continue to retain it even after returning to India?

According to section 6(4) of the Foreign Exchange Management Act, 1999, (the Act) a person resident in India may hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such person when he was resident outside India or inherited from a person who was resident outside India.

Ms. Rose stayed in USA for 12 years, hence she must have become a non–resident for those years. She purchased a house during this time.

As per the above provisions, Ms. Rose can rightfully purchase the house in USA and continue to retain it after returning to India.

(ii) Can Ms. Rose purchase another house in USA after returning to India?

Ms. Rose deposited the amount of rent from the house to her account in USA. Out of that amount she purchased another house in USA after returning to India. Ms. Rose is a person resident in India due to joining an employment in India.

As per section 6(4)(iv) of the Foreign Exchange Management Act, 1999 (FEMA), a person resident in India may freely utilize all their eligible assets abroad as well as income on such assets or sale proceeds thereof received after their return to India for making any payments or to make any fresh investments abroad without approval of Reserve Bank, provided the cost of such investments and/or any subsequent payments received therefor are met exclusively out of funds forming part of eligible assets held by her and the transactions is not in contravention to extant FEMA provisions.

In view of the above, Ms. Rose can rightfully purchase another house in USA after returning to India.

2. (a) **Whether Stuti Ceramic Pvt Ltd (SCPL) can raise funds through Private Placement?**

Yes, SCPL can raise funds through the private placement of shares.

Section 23(2)(b) of the Companies Act, 2013 (the Act) provides that a private company may issue securities through private placement by complying with the provisions specified in section 42 of the Act in supplement with those stated under Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

Meaning of Private Placement

According to the Explanation I to section 42(3) of the Act, "private placement" means any offer or invitation to subscribe or issue of securities to a select group of persons by a company (other than by way of public offer) through private placement offer- cum-application, which satisfies the conditions specified in this section.

Offer to be made only to a select group of persons

A private placement shall be made only to a select group of not more than two hundred (200) persons (referred to as "identified persons") in a financial year who have been identified by the Board after passing a special resolution [Section 42(2) read with Rule 14(1) of the Companies (Prospectus and Allotment of Securities), Rules 2014].

Limit on Fresh Offer

As per section 42(5) of the Act, no fresh offer or invitation under this section shall be made unless the allotments with respect to any offer or invitation made earlier have been completed or that offer or invitation has been withdrawn or abandoned by the company.

Thus, Stuti Ceramic Pvt. Ltd. can raise further funds through private placement issue after the allotments with respect to right issue for ₹ 100 lakh have been completed and subject to the maximum number of 200 persons (identified persons) under section 42(2) and by complying with the procedures stated in Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014.

Time Limit for Allotment of Securities

As per section 42(6) of the Companies Act, 2013, a company making an offer or invitation under this section shall allot its securities within 60 days from the date of receipt of the application money for such securities and if the company is not able to allot the securities within that period, it shall repay the application money to the subscribers within 15 days from the expiry of 60 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 12% per annum from the expiry of the sixtieth day.

(b) (i) Whether Dolls Toys Limited is permitted to accept deposits from Public other than its members?

Section 76 of the Companies Act, 2013 read with Companies (Acceptance of Deposits) Rules, 2014 deal with acceptance of deposits from public other than its members by 'eligible companies'.

Accordingly, a public company, having net worth of not less than ₹ 100 crore or turnover of not less than ₹ 500 crore, and which has obtained the prior consent by a special resolution and filed it with the Registrar of Companies before making any invitation to the Public for acceptance of deposit can accept deposits from persons other than its members.

Eligible Company: As per Rule 2(1)(e) of the Companies (Acceptance of Deposits) Rules, 2014, a public company, having net worth of not less than one hundred crore rupees or a turnover of not less than five hundred crore rupees, may accept deposits from persons other than its members. Such type of public company is known as 'eligible company'.

In the given question, Dollys Toys Limited has a net-worth of ₹ 310 crore and turnover of ₹ 300 crore.

Since at least one condition is satisfied that is net worth is ₹ 310 crore which is more than the prescribed limit, and assuming it has obtained the prior consent by a special resolution and filed it with the Registrar of Companies, it is permitted to accept deposits from public other than its members.

Thus, Dollys Toys Limited is an eligible company and hence can accept deposits from public other than its members.

(ii) Whether Dolls Toys Limited permitted to accept deposits with repayment period of 4 months?

As per Rule 3(1) of the Companies (Acceptance of Deposits) Rules, 2014, a company is not permitted to accept or renew deposits (whether secured or unsecured) which is repayable on demand or in less than six months. Further, the maximum period of acceptance of deposits cannot exceed thirty- six months.

Exception to the rule of tenure of six months: For the purpose of meeting any of its short-term requirements of funds, a company may accept or renew deposits for repayment earlier than six months subject to the condition that:

(i) such deposits shall not exceed ten per cent of the aggregate of the paid-up share capital, free reserves and securities premium account of the company; and

(ii) such deposits are repayable only on or after three months from the date of such deposits or renewal.

Hence, Dolly Toys Limited is permitted to accept deposits with repayment period of 4 months in compliance to the stated provisions.

However, by virtue of exception to the rule of tenure of six months as stated above, since the company cannot accept the deposit exceeding 10% of the aggregate of the paid up share capital, free reserves and security premium account which is ₹ 310 crore therefore the company can accept the deposits to the extent of ₹ 31 crore only.

(c) (i) As per section 5 of the General Clauses Act, 1897, where any Central Act has not specifically mentioned a particular date to come into force, it shall be implemented on the day on which it receives the assent of the Governor General in case of a Central Act made before the commencement of the Indian Constitution and/or, of the President, in case of an Act of Parliament.

Where, if any specific date of enforcement is prescribed in the Official Gazette, the Act shall into enforcement from such date.

(ii) According to section 6 of the General Clauses Act, 1897, where any Central legislation or any regulation made after the commencement of this Act repeals any Act made or yet to be made, unless another purpose exists, the repeal shall not:

- Revive anything not enforced or prevailed during the period at which repeal is effected or;
- Affect the previous operation of any enactment so repealed or anything duly done or suffered thereunder; or
- Affect any right, privilege, obligation or liability acquired, accrued or incurred under any enactment so repealed; or
- Affect any penalty, forfeiture or punishment incurred in respect of any offence committed against any enactment so repealed; or
- Affect any inquiry, litigation or remedy with regard to such claim, privilege, debt or responsibility or any inquiry, litigation or remedy may be initiated, continued or insisted.

3. (a) (i) Can Star Furnishing Limited, make further investments in equity shares of Home Décor Limited during 2024-25?

According to section 19 of the Companies Act, 2013, a subsidiary company is not allowed to hold shares of its holding company. The prohibition also extends up to the nominees of the subsidiary company. Also, a holding company shall not allot or transfer its shares to any of its subsidiary companies and any such allotment or transfer of shares of a company to its subsidiary company shall be void.

The prohibition does not apply to the following cases:

(a) Where the subsidiary company holds such shares as the legal representative of a deceased member of the holding company; or

(b) Where the subsidiary company holds such shares as a trustee; or

(c) Where the subsidiary company is a shareholder even before it became a subsidiary company of the holding company, but in this case, it will not have a right to vote in the meeting of holding company.

It is also provided that the subsidiary company shall have a right to vote at a meeting of the holding company only in respect of the shares held by it as a legal representative or as a trustee.

In the given question Star Furnishing Limited is a subsidiary of Home Décor Limited as it holds 60% (6,00,000/10,00,000 shares) shares of Star Furnishing Limited. Simultaneously, Star Furnishings Limited is holding 7% equity shares in Home Décor Limited out of which 2% are held as a legal representative of a deceased member of Home Décor Limited.

These shares are held by Star Furnishings Limited before Home Décor Limited became its holding company. However, after becoming its subsidiary, Star Furnishings Limited cannot make further investment in Home Décor Limited.

(ii) As per second proviso to section 19, a subsidiary company shall have a right to vote at a meeting of the holding company only in respect of the shares held by it as a legal representative or as a trustee.

Accordingly, Star Furnishings Limited can exercise voting rights at the Annual General Meeting of Home Décor Limited only in respect of 2% shares held in the capacity of legal representative and not for other 5% shares.

(b) (i) According to section 77(1) of the Companies Act, 2013, it shall be the duty of a company creating a charge to register it with the Registrar of Companies within 30 days from the date of creation of the charge. The obligation to register a charge arises not merely at the time of sanctioning the credit limit but when the charge is created.

Whenever a company borrows money by way of loans including term loans or working capital loans from financial institutions or banks or any other persons, by offering its property or assets, as security a charge is created on such property or assets in favor of the lender.

The Trigger point for registration of charge arises when the Bank has sanctioned the mortgaged backed credit limit, documentation was done, papers of the property for creation of the mortgage was tendered by the company for creation of fixation of the credit limits.

Here, the words 'creating a charge' refers to the accepting of the property papers for the purpose of creation of charge. Thus, it is the date when the credit limits were sanctioned as assigned to the company and not the date when the company had actually drawn a cheque from such credit limit.

(ii) Consequence of non-registration of charge [Section 77 (3) & (4)]

No charge created by a company shall be taken into account by the liquidator appointed under the Companies Act, 2013 or the Insolvency and Bankruptcy Code, 2016 or any other creditor unless it is duly registered and a certificate of registration of such charge is given by the Registrar.

This means that the charge will become void against the liquidator and other creditors of the company. That is to say, at the time of winding up, the creditor whose charge has not been registered will be reduced to the level of an unsecured creditor. Neither the liquidator nor any other creditor will give legal recognition to a charge that is not registered.

Another important consequence of non-registration is that the charge-holder loses priority. Any subsequent registration of a charge (i.e. even if it is registered within the extended period instead of original thirty days) shall not prejudice any right acquired in respect of any property before the charge is actually registered.

(c) Rule that suggests 'Plain Word requires no explanation'

This Rule is called "Rule of Literal Construction".

It is a cardinal rule of construction that a statute must be construed literally and grammatically giving the words their ordinary and natural meaning. Therefore, the language used in the statute must be construed in its grammatical sense. The correct course is to take the words themselves and arrive if possible, at their meaning without reference to cases, in the first instance.

If the phraseology of a statute is clear and unambiguous and capable of one and only one interpretation, then it would not be correct to extrapolate these words out of their natural and ordinary sense. When the language of a statute is plain and unambiguous it is not open to the courts to adopt any other hypothetical construction simply with a view to carrying out the supposed intention of the legislature.

This principle is contained in the Latin maxim "*absoluta sententia expositore non indiget*" which literally means "an absolute sentence or preposition needs not an expositor". In other words, plain words require no explanation.

Sometimes, occasions may arise when a choice has to be made between two interpretations– one narrower and the other wider or bolder. In such a situation, if the narrower interpretation would fail to achieve the manifest purpose of the legislation, one should rather adopt the wider one.

Technical words are to be understood in a Technical sense only

This point of literal construction is that technical words are understood in the technical sense only.

In construing the word 'practice' in the Supreme Court Advocates Act, 1951, it was observed that practice of law generally involves the exercise of both the functions of acting and pleading on behalf of a litigant party. When legislature confers upon an advocate the right to practice in a court, it is legitimate to understand that expression as authorizing him to appear and plead as well as to act on behalf of suitors in that court. (Ashwini Kumar Ghose v. Arabinda Bose AIR 1952 SC 369).

4. (a) As per section 123(3) of the Companies Act, 2013, the Board of Directors of a company may declare interim dividend during any financial year out of the surplus in the profit and loss account and out of profits of the financial year in which such interim dividend is sought to be declared.

Provided that in case the company has incurred loss during the current financial year up to the end of the quarter immediately preceding the date of declaration of interim dividend, such interim dividend shall not be declared at a rate higher than the average dividends declared by the company during the immediately preceding three financial years.

According to the given facts, XYZ Ltd. is facing losses in business during the first and second quarter of financial year 2023-2024. In the immediately preceding three financial years, the company declared dividend at the rate of 15%, 15% and 30% respectively. Accordingly, the rate of dividend declared shall not exceed 20%, the average of the rates (15+15+30=60/3) at which dividend was declared by it during the immediately preceding three financial years.

Therefore, the act of the Board of Directors as to declaration of interim dividend at the rate of 30% during the F.Y. 2023-2024 is not valid.

(b) According to section 63 of the Limited Liability Partnership Act, 2008, the winding up of a LLP may be either voluntary or by the Tribunal and LLP, so wound up, may be dissolved.

As per section 64 of the Limited Liability Partnership Act, 2008, a LLP may be wound up by the Tribunal, if the LLP has made a default in filing with the Registrar the Statement of Account and Solvency or Annual Return for any 5 consecutive financial years.

In the present case, M/s Strong Steels LLP did not file its Annual Returns from 2020-21. In the financial year 2024-25, the default in filing of annual return has not continued for 5 consecutive years. In view of the facts of the question and provisions of the Act, the Tribunal cannot pass an order to wind up M/s Strong Steels LLP.

The objection of remaining partners is correct.

Annual Return [Section 35]

(1) Every LLP shall file an annual return duly authenticated with the Registrar within 60 days of closure of its financial year in such form and manner and accompanied by such fee as may be prescribed.

(2) Penalty for non-filing of annual return:

LLP– ₹ 100 per day subject to maximum ₹ 1,00,000

Every Designated Partners – ₹ 100 per day subject to maximum ₹ 50,000.

(c) (i) Purpose of inclusion of 'definition' of certain words and expressions in the body of any statute

The legislature has the power to embody in a statute itself the definitions of its language and it is quite common to find in the Statutes 'definitions' of certain words and expressions used in the body of the statute.

When a word or phrase is defined as having a particular meaning in the enactment, it is that meaning alone which must be given to it in interpreting a Section of the Act unless there be anything repugnant in the context. This is called an exhaustive definition. The Court cannot ignore an exhaustive statutory definition and try and extract what it considers to be the true meaning of the expression independently of it.

The purpose of a definition clause is two-fold: (i) to provide a key to the proper interpretation of the enactment, and (ii) to shorten the language of the enacting part by avoiding repetition of the same words contained in the definition part every time the legislature wants to refer to the expressions contained in the definition.

(ii) Restrictive and extensive definitions: The definition of a word or expression in the definition section may either be restricting of its ordinary meaning or may be extensive of the same.

When a word is defined to 'mean' such and such, the definition is 'prima facie' restrictive and exhaustive, we must restrict the meaning of the word to that given in the definition section.

But where the word is defined to 'include' such and such, the definition is 'prima facie' extensive: here the word defined is not restricted to the meaning assigned to it but has extensive meaning which also includes the meaning assigned to it in the definition section.

We may also find a word being defined as ‘means and includes’ such and such. In this case, the definition would be exhaustive.

On the other hand, if the word is defined ‘to apply to and include’, the definition is understood as extensive.

5. (a) In terms of section 128(3) of the Companies Act, 2013 the books of account and other books and papers maintained by the company within India shall be open for inspection at the registered office of the company or at such other place in India by any director during business hours and in the case of financial information, if any, maintained outside the country, copies of such financial information shall be maintained and produced for inspection by any director subject to such conditions as prescribed in Rule 4 of the Companies (Accounts) Rules, 2014.

The financial information shall be sought for by the director himself and not by or through his power of attorney holder or agent or representative.

As per the facts of the question, the books of accounts and other records including minutes books are maintained at the registered office of Designer’s Cloths Ltd. in Mumbai i.e. within India. Sanjana as the director of the company can inspect the books of accounts and minutes books. But she cannot authorize Avantika to make an inspection on behalf of her.

(b) Whether X has any remedy against the denial?

According to section 42 of the Limited Liability Partnership Act, 2008, the rights of a partner to a share of the profits and losses of the limited liability partnership and to receive distributions in accordance with the limited liability partnership agreement are transferable either wholly or in part.

The transfer of right pursuant to this section does not, by itself, entitle the transferee or assignee to participate in the management or conduct of the activities of the limited liability partnership, or access information concerning the transactions of the limited liability partnership.

In the given question, the partners of Alpha LLP are correct in denying access of information about trading transactions to X (daughter of A).

X does not have any remedy against the denial by the partners of Alpha LLP.

(c) (i) Whether offence is punishable under both the Acts?

According to section 26 of the General Clauses Act, 1897, where an act or omission constitutes an offence under two or more enactments, then the offender shall be liable to be prosecuted and punished under either or any of those enactments, but shall not be punished twice for the same offence.

Thus, Mr. A who is liable for the fraudulent activity under both the Indian Contract Act, 1872 and the Sale of Goods Act, 1930, will be prosecuted and punished under either or both the enactments but shall not be liable to be punished twice for the same offence.

(ii) Whether Purchases made could be said to be made in Good Faith?

According to section 3(22) of the General Clauses Act, 1897, a thing shall be deemed to be done in 'good faith' where it is in fact done honestly, whether it is done negligently or not.

The question of good faith under the General Clauses Act, 1897 is one of fact in Maung Aung Pu v. Maung Si Maung, it was pointed out that the expression 'good faith' is not defined in the Indian Contract Act, 1872 and the definition given here in the General Clauses Act, 1897 does not expressly apply the term on the Indian Contract Act. The definition of good faith as is generally understood in the civil law and which may be taken as a practical guide in understanding the expression in the Contract Act is that nothing is said to be done in good faith which is done without due care and attention as is expected with a man of ordinary prudence. An honest purchase made carelessly without making proper enquiries cannot be said to have been made in good faith so as to convey good title.

Hence, in the given case, the purchase of car by Mr. P cannot be said to be made in good faith.

6. (a) (i) Can the Board of Silk Textile Limited can hold its EGM at Dubai?

As per section 100 of the Companies Act, 2013, the Board may, whenever it deems fit, call an extraordinary general meeting of the company.

Provided that an extraordinary general meeting of the company, other than of the wholly owned subsidiary of a company incorporated outside India, shall be held at a place within India.

As per the facts given in the question, Silk Textile Limited is a Company incorporated in India and has two subsidiaries incorporated outside India. In Print Limited, it holds 80% of the shares and Stitch Limited is its wholly owned subsidiary. As Silk Textile Limited is incorporated in India the Company can call the EGM anywhere only in India. Hence, it cannot hold its EGM at Dubai (outside India).

(ii) Whether the EGM of Print Limited can be held in Dubai?

Print Limited is incorporated outside India and its 80% shares are held by Silk Limited (incorporated in India).

Hence, it is not a wholly owned subsidiary of Silk Limited. Only a wholly owned subsidiary of a company incorporated outside India, can hold its EGM outside India. In view of the above, Print Limited cannot hold its EGM in Dubai.

OR

(a) (i) Can Raman, as an individual shareholder make a requisition for calling an EGM?

According to section 100 of the Companies Act, 2013, in the case of company having a share capital, EGM may be called by the Board of Directors at the requisition of such number of members who hold, on the date of receipt of requisition, at least 1/10th of such paid-up share capital of the company as on that date carries the right of voting.

If the Board does not, within 21 days from the date of receipt of a valid requisition in regard to any matter, proceed to call a meeting for the consideration of that matter on a day not later than 45 days from the date of receipt of such requisition, the meeting may be called and held by the requisitionists themselves within a period of three months from the date of the requisition.

In the given question, Raman is holding 1/10th [5,00,000/50,00,000] of the paid up share capital. Hence, he can, even as a single shareholder (holding 1/10th of the paid up share capital), make a requisition to the company for calling the EGM.

(ii) If the company does not call the EGM on the requisition of Raman

If the company does not within 21 days from the date of receipt of a valid requisition from Raman, proceed to call the EGM for the consideration of the matter of removal of Somnath, on a day not later than 45 days from the date of receipt of such requisition, the meeting may be called by Raman himself within a period of 3 months from the date of the requisition.[Section 100(4)].

In this regard, Rule 17 of the Companies (Management and Administration) Rules, 2014 containing the provisions with regard to calling of EGM by requisitionists shall be followed.

Further, section 100 (5) of the Act provides that a meeting under sub-section (4) by the requisitionists shall be called and held in the same manner in which the meeting is called and held by the Board.

(b) (i) Whether Beauty Cosmetics shall be deemed to be a foreign company or an Indian company?

As per section 2(42) of the Companies Act, 2013, a ‘foreign company’ means any company or a body corporate incorporated outside India which has:

(a) a place of business in India whether by itself or through an agent physically or through electronic mode and

(b) conducts any business activity in India in any other manner.

In the given question, Beauty Cosmetics, a Korean company has established a place of business in India (branch office in Chennai) and also carries on the business in India. Hence, Beauty Cosmetics shall be deemed to be a foreign company under the Companies Act, 2013 for the business carried on by it in India.

Further, according to section 379(2) of the Companies Act, 2013, where not less than 50% of the paid-up share capital, whether equity or preference or partly equity and partly preference, of a foreign company incorporated outside India is held by:

(i) one or more citizens of India; or

(ii) by one or more companies or bodies corporate incorporated in India; or

(iii) by one or more citizens of India and one or more companies or bodies corporate incorporated in India,

whether singly or in the aggregate, such foreign company shall also comply with the provisions of Chapter XXII and other prescribed provisions of the Companies Act, 2013, with regard to the business carried on by it in India as if it were a company incorporated in India.

In the given question, 50% (10% + 20% + 20%) of the share capital of Beauty Cosmetics (incorporated in Korea) is held by Mr. L (Indian Citizen), Mr. R (Indian Citizen) and Fairness Cosmetics Limited (Indian Company) respectively.

Hence, Beauty Cosmetics shall be deemed to an Indian company for the business carried on by it in India.

(ii) Whether Beauty Cosmetics, for the business carried on by it in India, be required to comply with the provisions of the Act?

Since, Beauty Cosmetics shall be deemed to an Indian company for the business carried on by it in India, it is required to comply with the relevant provisions of the Companies Act, 2013, as if it is an Indian company.

(c) As per Schedule III to the Foreign Exchange Management Act, 1999, remittances by persons other than individuals shall require prior approval of the Reserve Bank of India, for donations exceeding 1% of their foreign exchange earnings during the previous three financial years or USD 5,000,000, whichever is less, for:

a. Creation of Chairs in reputed Educational Institutes,

b. Contribution to Funds (not being an investment fund) promoted by Educational Institutes; and

c. Contribution to a Technical Institution or Body or Association in the field of activity of the Donor Company.

In the given question, Mitali Diamonds Limited can donate lower of USD 3,300 [1% of (1,25,000 + 1,10,000 + 95,000)] or USD 5,000,000.

Thus, Mitali Diamonds Limited can give a donation of USD 3,300 without RBI approval and for USD 10,000 it shall require prior approval of the Reserve Bank of India to the said institution as this institution is a Technical Institution or Body or Association in the field of activity of the Donor Company.

ANSWERS OF MODEL TEST PAPER 1

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	**(i)**	**(d)**
	(ii)	**(a)**
	(iii)	**(a)**
2.	**(i)**	**(c)**
	(ii)	**(d)**
	(iii)	**(d)**

MCQ No.	Most Appropriate Answer
3.	**(c)**
4.	**(c)**

Division B – Descriptive Questions

1. Computation of total income of Mr. Amit as per section 115BAC for A.Y. 2025-26

Particulars		₹
Net profit as per profit and loss account		50,85,000
Less:	Income-tax refund credited in the profit and loss account, out of which interest on such refund is only taxable, which is to be considered separately under the head "Income from other sources"	30,000
		50,55,000
Add:	**Expenses either not allowable or to be considered separately but charged in the profit & loss account**	
	- Salary paid to brother disallowed to the extent considered unreasonable [Section 40A(2)]	5,000
	- Advertisement in the souvenir of political party not allowable as per section 37(2B) **(See Note 1)**	2,500
	- Payment made to political party by cheque **(See Note 2)**	1,00,000
	- Penalty levied by the Goods and Services tax department for delayed filing of returns not allowable as being paid for infraction of law **(See Note 3)**	5,300
	- Depreciation as per books	1,07,250
	- 30% of interest paid on loan paid to Mr. Mohit, a resident, without deduction of tax at source not allowable as per section 40(a)(ia)	24,000
		52,99,050

Less: Depreciation allowable as per Income-tax Act, 1961		65,000	
Depreciation on building [₹ 20 lakhs x 10%]		2,00,000	2,65,000
Profits and gains from business or profession			**50,34,050**
Income from Other Sources			
Interest on income-tax refund			4,570
Gross Total Income			**50,38,620**
Less: Deduction under section 80GGC [Contribution to Political Party] [Not allowable]			Nil
Total Income			**50,38,620**

Notes –

(1) The amount of ₹ 2,500 paid for advertisement in the souvenir issued by a political party attracts disallowance under section 37(2B).

(2) Payment to political party is not an expenditure incurred wholly and exclusively for business purpose and hence not allowance under section 37(1). Since the amount has been debited to profit and loss account, the same has to be added back for computing business income.

(3) The interest of ₹ 12,750 paid on the delayed deposit of goods and services tax is for breach of contract and hence, is allowable as deduction. However, penalty of ₹ 5,300 for delay in filing of returns is not allowable since it is for breach of law.

(4) Deduction under section 35AD is not allowable as per section 115BAC(2). However, normal depreciation u/s 32 is allowable.

Computation of tax liability as per section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 50,38,620		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 50,38,620 [@30% of ₹ 35,38,620]	10,61,586	
		12,01,586
Add: Surcharge @10% [Since, the total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore]		1,20,159
		13,21,745

Less: Marginal relief **(See computation below)**		93,125
		12,28,620
Add: Health and education cess@4%		49,145
Total tax liability		**12,77,765**
Total tax liability (Rounded off)		**12,77,770**

Computation of marginal relief

	Particulars	₹
(A)	Tax payable including surcharge on total income of ₹ 50,38,620 as per section 115BAC	13,21,745
(B)	Tax payable on total income of ₹ 50 lakhs as per section 115BAC	11,90,000
(C)	Excess tax payable (A-B)	1,31,745
(D)	Marginal relief (₹1,31,745 – ₹ 38,620, being the amount of income in excess of ₹ 50 lakhs)	**93,125**

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

Computation of total income of Mr. Amit for A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Gross Total Income as per default tax regime under section 115BAC		50,38,620
Add: Depreciation on building [₹ 20 lakhs x 10%]		2,00,000
		52,38,620
Less: Warehousing charges		22,50,000
Gross Total Income excluding profits and gains from specified business under section 35AD		29,88,620
Profits and gains from specified business under section 35AD		
Warehousing charges	22,50,000	
Less: Deduction under section 35AD **(See Note 1)**	20,00,000	2,50,000
Gross Total Income as per normal provisions of the Act		32,38,620
Less: Deduction under section 80GGC for contribution to Political Party **(See Note 2)**		1,00,000
Total Income as per regular provisions of the Act		**31,38,620**

Notes –

(1) Deduction @100% of the capital expenditure is available under section 35AD in respect of specified business of setting up and operating a warehouse facility for storage of agricultural produce which commences operation on or after 1.04.2009.

(2) Payment to political party qualifies for deduction under section 80GGC since the payment is made by way of a cheque.

Computation of tax liability of Mr. Amit for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 31,38,620		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 31,38,620 [@30% of ₹ 21,38,620]	6,41,586	7,54,086
Add: Health and education cess@4%		30,163
Total tax liability		**7,84,249**
Total tax liability (rounded off)		**7,84,250**

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2025-26

Particulars	₹	₹
Total Income (computed above as per regular provisions of income tax)		**31,38,620**
Add: Deduction under section 35AD	20,00,000	
Less: Depreciation under section 32 on building [₹ 20 lakhs x 10%]	(2,00,000)	**18,00,000**
Adjusted Total Income		**49,38,620**
Alternative Minimum Tax@18.5%		9,13,645
Add: Health and education cess@4%		36,546
Total tax liability		**9,50,191**
Total tax liability (rounded off)		**9,50,190**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 9,50,190.

Since the tax liability of Mr. Amit under section 115JC is lower than the tax liability as computed u/s 115BAC, it would be beneficial for him to opt out of the default tax regime under section 115BAC for A.Y. 2025-26 and pays tax under regular provisions of the Act. Moreover, benefit of alternate minimum tax credit is also available to the extent of tax paid in excess of regular tax.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	9,50,190
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	7,84,250
	1,65,940

2. **(a)** As per section 6(1), an Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India would be resident in India if he or she stays in India for a period of 182 days or more during the relevant previous year in case such person has total income, other than the income from foreign sources, not exceeding ₹ 15 lakhs. However, if such person has total income, other than the income from foreign sources, exceeding ₹ 15 lakhs, he would also be a resident if he has been in India for at least 120 days during the relevant previous year and has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more. In such a case, he would be resident but not ordinarily resident in India.

Income from foreign sources means income which accrues or arises outside India (except income derived from a business controlled in or a profession set up in India) and which is not deemed to accrue or arise in India.

In this case, total income, other than the income from foreign sources, of Mr. Akash for P.Y. 2024-25 would be

Particulars		Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not included in total income, since it is income from foreign source)		-
Dividend from Indian companies (Included in total income, since it is deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not included in total income, since it is accrued or arisen outside India and received outside India)		-
Rent received/receivable from house property in Delhi (Included in total income, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of ₹ 5.50 lakhs	1,65,000	3,85,000
Profits from a profession in California, which was set up in India, received there		6,00,000
Total income, other than the income from foreign sources		**14,85,000**

Since Mr. Akash is an Indian citizen who comes on a visit to India only for 121 days in the P.Y. 2024-25 and his total income, other than income from foreign sources does not exceed ₹ 15 lakhs, he would be non-resident for the A.Y. 2025-26.

A non-resident is chargeable to tax in respect of income received or deemed to receive in India and income which accrues or arises or is deemed to accrue or arise to him in India. Accordingly, his total income would be as follow –

Particulars		Amount (₹)
Salary from ABC Inc., California received in California (Computed) (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Dividend from Indian companies (Taxable, since deemed to accrue or arise in India)		5,00,000
Agricultural income from land situated in Nepal (Not taxable, since it neither accrues or arises in India nor is it received in India)		-
Rent received/receivable from house property in Delhi (Taxable, since it is deemed to accrue or arise in India)	5,50,000	
Less: 30% of ₹ 5.50 lakhs	1,65,000	3,85,000
Profits from a profession in California, which was set up in India, received there		-
Gross Total Income/ Total income		**8,85,000**

(b) TDS implications

(i) Section 194-I, which governs the deduction of tax at source @10% on payment of rent, exceeding ₹ 2,40,000 p.a., is applicable to all persons except individuals and HUF, whose turnover/gross receipts do not exceed ₹ 1 crore in case of business or ₹ 50 lakhs in case of profession during the financial year immediately preceding the financial year in which such rent is credited or paid.

In the present case, State Bank of India has to deduct at source @ 10% on rental payment to Mr. Kunal.

Tax deducted at source = ₹ 72,000 (₹ 7,20,000 x 10%)

Section 196, however, provides exemption in respect of payments made to Government from application of the provisions of tax deduction at source.

Therefore, no tax is required to be deducted at source by State Bank of India from rental payments to the Government.

(ii) As per section 194C, no tax is required to be deducted at source on payment to transporter if the following conditions are satisfied:

(1) He owns ten or less goods carriages at any time during the previous year.

(2) He is engaged in the business of plying, hiring or leasing goods carriages;

(3) He furnishes a declaration to this effect along with his PAN.

In the present case, since Mr. Deepak has not furnished his PAN, tax is required to be deducted at source @ 20% under section 206AA on ₹ 2,50,000, since the same exceeds the threshold limit of ₹ 1,00,000.

Tax deducted at source = ₹ 50,000 (₹ 2,50,000 x 20%)

3. (a) Computation of Income under the head "Salaries" in the hands of Mr. Sahil for the A.Y. 2025-26

Particulars	₹
Basic Salary [₹ 55,000 x 12]	6,60,000
Dearness allowance [10% of basic salary]	66,000
Bonus	60,000
Fixed Medical Allowance [Taxable]	50,000
Reimbursement of Medical expenditure incurred for his father [Fully taxable]	6,500
Facility of laptop [Facility of laptop is an exempt perquisite**,** whether used for official or personal purpose or both]	Nil
Reimbursement of salary of domestic servant [₹ 8,000 x 12] [Fully taxable, since perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	96,000
Value of equity shares allotted [700 equity shares x ₹ 110 (₹ 280, being the fair market value – ₹ 170, being the amount recovered)]	77,000
Professional tax paid by the employer [Perquisite includes any sum paid by the employer in respect of any obligation which would have been payable by the employee]	1,400
Gross Salary	**10,16,900**
Less: Deduction under section 16	
Professional tax paid [Not allowed]	-
Standard Deduction (Lower of ₹ 75,000 or amount of salary)	75,000
Taxable Salary	**9,41,900**

(b) Computation of income from house property of Mr. Kushal for A.Y. 2025-26

Particulars	₹	₹
1. Income from let-out property in New York [See Note 1 below]		
[1]Gross Annual Value ($ 5,000 p.m. x 12 months x ₹ 81)		48,60,000
Less: Municipal taxes paid during the year [$ 2,000 ($ 1,250 + $ 750) x ₹ 81][2]		1,62,000
Net Annual Value (NAV)		46,98,000
Less: Deductions under section 24		
(a) 30% of NAV	14,09,400	
(b) Interest on housing loan	-	14,09,400
		32,88,600
2. Income from self-occupied property in Ahmedabad		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan **[See Note 2 below]**		2,00,000
		(2,00,000)
Income from house property [₹ 32,88,600 – ₹ 2,00,000]		**30,88,600**

Notes:

(1) Since Mr. Kushal is a resident but not ordinarily resident in India for A.Y. 2025-26, income which is, *inter alia,* received in India shall be taxable in India, even if such income has accrued or arisen outside India by virtue of the provisions of section 5(1). Accordingly, rent received from house property in New York would be taxable in India since such income is received by him in India.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (₹ 30,00,000 x 10%) ₹ 3,00,000

[1] *In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV*

[2] *Both property tax and sewerage tax qualify for deduction from gross annual value*

Pre-construction interest

For the period 01.09.2019 to 31.03.2021 (₹ 30,00,000 x 10% x 19/12) = ₹ 4,75,000	
₹ 4,75,000 allowed in 5 equal installments (₹ 4,75,000/5)	₹ 95,000
	₹ 3,95,000
In case of self-occupied property, interest deduction to be restricted to	₹ 2,00,000

4. (a) Computation of Total Income of Mr. Vishal for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House in Delhi [Since Mr. Vishal receives direct or indirect benefit from income arising to his brother's daughter, Ms. Deepika, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Vishal, even though the transfer may not be revocable during lifetime of Ms. Deepika]		
Gross Annual Value[3]	5,50,000	
Less: Municipal taxes	-	
Net Annual Value	5,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,65,000	
(b) Interest on loan	-	
		3,85,000
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains. Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹15,000. Balance short term capital loss of ₹ 1,000 to be carry forward to A.Y.2026-27	15,000	-
Income from other sources		
Dividend on preference shares [Taxable in	4,50,000	

[3] *Rent receivable has been taken as the gross annual value in the absence of other information.*

the hands of Mr. Vishal as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]		
Interest from saving bank account	1,75,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is received from his niece, who is not a relative]	75,000	
Income from betting [No loss is allowed to be set off against such income]	25,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	7,71,000
Gross Total Income		**11,56,000**
Less: **Deduction under Chapter VI-A**		
Deduction under section 80TTA [Interest from savings bank account]	10,000	10,000
Total Income		**11,46,000**

Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses.	14,600

(b) First alternative

As per section 139(3), an assessee is required to file a return of loss within the due date specified u/s 139(1) for filing return of income.

As per section 80, certain losses which have not been determined in pursuance of a return filed under section 139(3) on or before the due date specified under section 139(1) cannot be carried forward and set-off. Thus, the assessee has to file a return of loss under section 139(3) within the time allowed u/s 139(1) in order to carry forward and set off of following losses:

- loss under the head "Capital Gains",
- loss from activity of owning and maintaining race horses.
- business loss,
- speculation business loss and

- loss from specified business (in case assessee opts out of the default tax regime).

However, following can be carried forward for set-off even if the return of loss has not been filed before the due date:

- Loss under the head “Income from house property” (in case assessee opts out of the default tax regime) and
- Unabsorbed depreciation

(b) Second alternative

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Sale of scooter for ₹ 70,000	No, quoting of PAN is not mandatory on sale of scooter.
2.	Payment of life insurance premium of ₹ 67,000 to insurance company	Yes, since the amount paid exceeds ₹ 50,000.
3.	Purchase of plot for ₹ 9 lakhs while the stamp duty of the same is ₹ 11 lakhs	Though the amount of consideration does not exceed ₹ 10 lakhs, Mr. Vishnu has to quote PAN since stamp duty of plot exceeds ₹ 10 lakhs.
4.	Applied to PNB for issue of credit card	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.

ANSWERS OF MODEL TEST PAPER 2

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(b)
	(ii)	(d)
	(iii)	(b)
	(iv)	(a)
	(v)	(a)
	(vi)	(a)

MCQ No.	Most Appropriate Answer
2.	(b)
3.	(c)

Division B – Descriptive Questions

1. Computation of total income of Mr. Sunil for A.Y. 2025-26 under default tax regime under section 115BAC

	Particulars	₹	₹	₹
I	**Income from house property**			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,95,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 25,000/2]		12,500	
	Net Annual Value (NAV)		2,82,500	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 2,82,500	84,750		
	(b) Interest on housing loan [₹ 1,50,000/2]	75,000	1,59,750	
			1,22,750	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			
	Less: Interest on housing loan [Not allowable under section 115BAC]		Nil	
			Nil	
	Income from house property			1,22,750

II	**Profits and gains of business or profession**			
	Income from SEZ unit			40,00,000
III	**Capital Gains**			
	Long-term capital gains on sale of land (since held for more than 24 months)			
	Full Value of Consideration [Actual consideration of ₹ 15 lakhs, since stamp duty value of ₹ 16 lakhs does not exceed 110% of actual consideration of ₹ 15 lakhs]		15,00,000	
	Less: Cost of acquisition [₹ 4,00,000] (As transfer is on or after 23.07.2024, the indexation benefit would not be available)		4,00,000	11,00,000
	Cost of acquisition			
	Higher of -			
	- Actual cost ₹ 2.80 lakhs + ₹ 0.12 lakhs = ₹ 2.92 lakhs and			
	- Fair Market Value (FMV) as on 1.4.2001 = ₹ 4.8 lakhs but cannot exceed stamp duty value of ₹ 4 lakhs.			
IV	**Income from Other Sources**			
	Interest on savings bank deposits		30,000	
	Interest on fixed deposits		40,000	70,000
	Gross Total Income			**52,92,750**
	***Less*: Deduction under Chapter VI-A**			
	Deduction under section 80JJAA			7,12,800
	30% of the employee cost of the new employees employed during the P.Y. 2024-25 for 240 days or more during the P.Y. 2024-25 allowable as deduction [30% of ₹ 23,76,000 (12 x 18,000 x 11)]			
	As per section 115BAC, no deduction under section 10AA or under Chapter VI-A is allowable except u/s 80JJAA			
	Total Income			**45,79,950**

Computation of tax liability of Mr. Sunil under section 115BAC

Particulars	₹	₹
Tax on total income of ₹ 45,79,950		
Tax on LTCG on sale of vacant land		
As the asset is a long term capital asset, being land acquired before 23.07.2024 and transferred on or after 23.07.2024 by a resident individual, the tax shall be computed @20% with indexation benefit or @12.5% without indexation benefit, whichever is more beneficial to the assessee.		
<u>Tax @20% with indexation</u>		
Sale consideration = 15,00,000		
Cost of acquisition = 4,00,000 x 363/100 = 14,52,000		
Gain = 48,000		
Tax @20% = 48,000 x 20% = 9,600		
<u>Tax @12.5% without indexation</u>		
Tax @12.5% = 11,00,000 x 12.5% = 1,37,500		
Tax on LTCG on sale of vacant land @20% with indexation		9,600
Tax on remaining total income of ₹ 34,79,950		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [@5% of ₹ 4 lakhs]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [@10% of ₹ 3 lakhs]	30,000	
₹ 10,00,001 – ₹ 12,00,000 [@15% of ₹ 2 lakhs]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [@20% of ₹ 3 lakhs]	60,000	
₹ 15,00,001 – ₹ 34,79,950 [@30% of ₹ 19,79,950]	<u>5,93,985</u>	
		<u>7,33,985</u>
		7,43,585
Add: Health and education cess@4%		<u>29,743</u>
Total tax liability		<u>7,73,328</u>
Tax liability (Rounded off)		**<u>7,73,330</u>**

Note - An individual paying tax u/s 115BAC is not liable to alternate minimum tax u/s 115JC.

2. **(a)** Under section 6(1), an individual is said to be resident in India in any previous year, if he satisfies any one of the following conditions:

(i) He has been in India during the previous year for a total period of 182 days or more, or

(ii) He has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.

If an individual satisfies any one of the conditions mentioned above, he is a resident. If both the above conditions are not satisfied, the individual is a non-resident.

Therefore, the residential status of Mrs. Sia D'Souza, an American, for A.Y.2025-26 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2025-26 i.e. P.Y.2024-25 and in the preceding four assessment years.

Her stay in India during the previous year 2024-25 and in the preceding four years are as under:

P.Y. 2024-25

01.04.2024 to 16.08.2024	-	138 days
23.03.2025 to 31.03.2025	-	9 days
	Total	147 days

Four preceding previous years

P.Y.2023-24 [1.4.2023 to 31.3.2024]	-	14 days
P.Y.2022-23 [1.4.2022 to 31.3.2023]	-	Nil
P.Y.2021-22 [1.4.2021 to 31.3.2022]	-	Nil
P.Y.2020-21 [1.4.2020 to 31.3.2021]	-	Nil
Total		14 days

The total stay of Mrs. Sia D'Souza during the previous year in India was less than 182 days and during the four years preceding this year was for 14 days. Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2025-26.

Computation of total income of Mrs. Sia D'Souza for the A.Y. 2025-26

Particulars		₹	₹
Income from house property			
Flat located in Mumbai let-out from 01.06.2024 to 31.03.2025 @ ₹ 26,000 p.m.			
Gross Annual Value [26,000 x 10][1]		2,60,000	
Less: Municipal taxes		Nil	
Net Annual Value (NAV)		**2,60,000**	
Less: Deduction under section 24			
30% of NAV	78,000		
Interest on loan [fully allowable as deduction, since property is let-out]	2,05,000	2,83,000	(23,000)

[1] *Actual rent received has been taken as the gross annual the value in absence of other information (i.e. Municipal value, fair rental value and standard rent) in the question.*

Income from other sources		
- Gold chain worth ₹ 1,50,000 received from parents of husband would be exempt, since parents of husband fall within the definition of relatives and gifts from a relative are not chargeable to tax.	Nil	
- Gift received from friends of her husband aggregating to ₹ 1,65,000 is taxable under section 56(2)(x) since the amount of cash gifts of ₹ 1,65,000 exceeds ₹ 50,000.	1,65,000	1,65,000
Gross Total income/ Total Income		**1,42,000**

(b) TDS implications

(i) Tax @ 5% till ₹ 7 lakhs and 20% thereafter, is required to be collected u/s 206C(1G) by the seller of an overseas tour programme package, from Mr. Harish, being the buyer of an overseas tour package, even if payment is made by account payee cheque.

Accordingly, tax has to be collected@5% on ₹ 7 lakh and 20% on ₹ 3 lakhs.

TCS = ₹ 95,000

(ii) Mr. Aditya has to deduct tax at source@5% u/s 194M, although his turnover for the P.Y. 2023-24 does not exceed ₹ 1 crore and he is not liable to deduct tax at source under section 194C, since the payment to contractor, Mr. Naresh, exceeds ₹ 50 lakhs.

Accordingly, tax has to be deducted @5% on ₹ 55 lakhs.

TDS = ₹ 2,75,000

3. (a) Computation of gross total income of Ms. Priyanka for the A.Y. 2025-26 under normal provisions of the Act

	Particulars	₹	₹
(a)	Income from salaries **(See Working Note below)**		5,71,000
(b)	Income from Other Sources		
	(i) Interest on fixed deposit with a company	7,000	
	(ii) Income from specified mutual fund	3,000	
	(iii) Interest on Fixed Deposit received by minor daughter (₹ 4,000 - ₹ 1500)	2,500	12,500
Gross total income			**5,83,500**

Working Note:

Computation of salary income of Ms. Priyanka for the A.Y. 2025-26

Particulars		₹
Salary [₹ 40,000 x 12]		4,80,000
Medical facility [in the hospital maintained by the company is exempt]		–
Rent free accommodation		
10% of salary = 4,80,000 x 10%		48,000
Valuation of perquisite of interest on loan		
[Rule 3(7)(i)] – 9.5% is taxable which is to be reduced by actual rate of interest charged i.e. [9.5% - 6% = 3.5%]		24,500
Use of dining table for 1 month		
[₹ 60,000 x 10/100 x 1/12]		500
Perquisite on sale of dining table		
Cost	60,000	
Less: Depreciation on straight line method @ 10% for 2 years	12,000	
Written Down Value	48,000	
Less: Amount paid by the assessee	30,000	18,000
Purchases through credit card		10,000
Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2022 to 15.7.2023 @ 20%	50,000	
Value as on 14.07.2024- being the date of sale to employee	2,00,000	
Less: Amount received from the assessee on 14.07.2024	1,60,000	40,000
Gross salary		6,21,000
Less: Standard deduction upto ₹ 50,000		50,000
Income from Salaries		**5,71,000**

(b) (i) Computation of book profit of the firm under section 40(b)

Particulars	Amount (₹)	Amount (₹)
Net Profit (before deduction of depreciation, salary and interest)		7,50,000
Less: Depreciation under section 32	2,50,000	
Interest @ 12% p.a. [being the maximum allowable as per section 40(b)] (₹ 6,00,000 × 12%)	72,000	3,22,000
Book profit		**4,28,000**

"Book profit" means the net profit as per the profit and loss account for the relevant previous year computed in the manner laid down in Chapter IV-D as increased by the aggregate amount of the remuneration paid or payable to the partners of the firm if the same has been already deducted while computing the net profit. Hence**,** brought forward loss of ₹ 50,000 of P.Y.2023-24 is not allowed to be set off for computation of "book profit".

(ii) Salary actually paid to working partners = ₹ 25,000 × 2 × 12 = ₹ 6,00,000.

As per the provisions of section 40(b)(v), the maximum allowable working partners' salary for the A.Y. 2025-26 in this case would be:

Particulars	₹
On the first ₹ 6,00,000 of book profit [(₹ 3,00,000 or 90% of ₹ 4,28,000) whichever is more]	3,85,200
Maximum allowable working partners' salary	**3,85,200**

Hence, allowable working partner's salary for the A.Y. 2025-26 as per the provisions of section 40(b) is ₹ 3,85,200.

4. (a) Computation of Taxable Income of Mr. Roshan for the A.Y. 2025-26 under normal provisions of the Act

Particulars	₹	₹
Salaries		
Shamita's salary (₹ 25,000 x 12) **[See Note 1]**	3,00,000	
Less: Standard deduction under section 16(ia) upto ₹ 50,000	50,000	
	2,50,000	
Less: Loss from house property set off against salary income as per section 71(3A) **[See Note 2]**	2,00,000	50,000
Capital Gains		
Short term capital gain	1,50,000	
Less: Loss from tea business (₹ 1,06,000 x 40%) **[See Note 3 & 4]**	42,400	1,07,600
Income from Other Sources		
Dividend income		11,00,000
Taxable Income		**12,57,600**

The following losses can be carried forward for subsequent assessment years:

(i) Loss from house property to be carried forward and set-off against income from house property ₹ 50,000

(ii) Long-term capital loss of A.Y. 2022-23 can be ₹ 86,000

	carried forward and set-off against long-term capital gains	
(iii)	Loss from speculative business to be carried forward and set-off against income from speculative business	₹ 50,000

Notes:

(1) As per section 64(1)(ii), all the income which arises directly or indirectly, to the spouse of any individual by way of salary, commission, fees or any other form of remuneration from a concern in which such individual has a substantial interest shall be included in the total income of such individual. However, where spouse possesses technical or professional qualification and the income is solely attributable to the application of such knowledge and experience, clubbing provisions will not apply. Since, Mrs. Shamita is not adequately qualified for the post and Mr. Roshan has substantial interest in Ray Ltd by holding 21% of the shares of the Ray Ltd., the salary income of Mrs. Shamita to be included in Mr. Roshan's income.

(2) As per section 71(3A), loss from house property can be set off against any other head of income to the extent of ₹ 2,00,000 only.

(3) 60% of the losses from tea business is treated as agricultural income and therefore exempt under section 10(1). Loss from an exempt source cannot be set off against profits from a taxable source.

(4) As per section 71(2A), business loss cannot be set off against salary income. Hence, 40% of the losses from tea business i.e., ₹ 42,400 can be set off against short term capital gains or dividend income.

(5) Loss from card games can neither be set off against any other income, nor can it be carried forward.

(6) Loss of ₹ 50,000 from speculative business can be set-off only against the income from the speculative business. Hence, such loss has to be carried forward.

(7) As per section 74(1), brought forward long-term capital loss can be set-off only against long-term capital gain. Such loss can be carried forward for eight assessment years immediately succeeding the assessment year for which the loss was first computed. Since, 8 assessment years has not expired, such loss can be carried forward to A.Y. 2026-27 for set-off against long-term capital gains.

(b) First alternative

(i) A HUF whose total income without giving effect to, *inter alia*, section 54EC, exceeds the basic exemption limit, is required to file a return of its income on or before the due date under section 139(1). In this case, since the total income without giving effect to exemption under section 54EC is ₹ 12 lakhs, exceeds the basic exemption limit, the HUF is required to file its return of income for A.Y. 2025-26 on or before the due date under section 139(1).

(ii) If an individual has incurred expenditure exceeding ₹ 1 lakh towards consumption of electricity during the previous year, he would be required to file a return of income, even if his total income does not exceed the basic exemption limit. Since Mr. Samarth has incurred expenditure of ₹ 1,20,000 in the P.Y.2024-25 towards consumption of electricity, he has to file his return of income for A.Y. 2025-26 on or before the due date under section 139(1).

(b) Second alternative

Every person who is eligible to obtain Aadhaar Number is required to mandatorily quote Aadhaar Number:

(a) in the application form for allotment of Permanent Account Number (PAN)

(b) in the return of income

The provisions of section 139AA relating to quoting of Aadhaar Number would, however, not apply to an individual who does not possess the Aadhaar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

ANSWERS OF MODEL TEST PAPER 3

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(a)
	(ii)	(d)
	(iii)	(b)
2.	(i)	(b)
	(ii)	(c)
	(iii)	(b)

MCQ No.	Most Appropriate Answer
3.	(a)
4.	(c)

Division B – Descriptive Questions

1. **Computation of total income of Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act**

	Particulars	₹	₹	₹
I	**Income from business or profession**			
	Net profit as per profit and loss account		82,45,000	
	Add: **Items of expenditure not allowable while computing business income**			
	(i) Interest on loan taken for purchase of plant & machinery [Interest from the date on which capital was borrowed till the date on which asset was first put to use, not allowable as deduction under section 36(1)(iii). Accordingly, interest of ₹ 1,75,000 [₹ 50,00,000 x 10.5% x 4/12] has to be added back, since the same is debited to the profit and loss account]	1,75,000		
	(ii) Purchase of goods at a price higher than the fair market value [The difference between the purchase price (₹ 40 lakhs) and the fair market value	5,00,000		

	(₹ 35 lakhs) has to be added back as per section 40A(2) since the purchase is from a related party, i.e., his brother and at a price higher than the fair market value]		6,75,000	
			89,20,000	
	***Less*: Items of income to be treated separately under the respective head of income**			
	(i) Income-tax refund including interest on refund of ₹ 4,550	15,550		
	(ii) Dividend from Indian companies	15,00,000		
	(iii) Short term capital gains on transfer of listed equity shares	10,00,000	25,15,550	
			64,04,450	
	***Less:* Depreciation on interest on loan capitalised to plant and machinery**			
	₹ 1,75,000, being the amount of interest on loan taken for purchase of plant and machinery from the date on which capital was borrowed till the date on which asset was first put to use, shall be capitalized			
	Normal depreciation @15% x 50% on such interest	13,125		
	Additional depreciation @20% x 50% on such interest	17,500	30,625	
	[Since plant & machinery was put to use for less than 180 days in P.Y. 2024-25, it is eligible for 50% of the rate of depreciation]			
				63,73,825
II	**Capital Gains**			
	Short term capital gains on transfer of listed equity shares			10,00,000
III	**Income from Other Sources**			
	Interest on income-tax refund		4,550	
	Dividend from Indian companies		15,00,000	15,04,550
	Gross Total Income			**88,78,375**
	Less: Deductions under Chapter VI-A			
	- Deduction under section 80C		40,000	
	Life insurance premium for married daughter [Allowable as deduction			

	though she is not dependent, since child of an individual whether dependent or not falls within the meaning of term "Person". Accordingly, whole of the amount of ₹ 40,000 is allowable as it does not exceed 10% of the ₹ 5,00,000, being the sum assured]			
	- Deduction under section 80D		25,000	65,000
	Health insurance premium for self, spouse and children [Allowable as deduction, since it is paid otherwise than by way of cash. However, it is to be restricted to ₹ 25,000			
	Total Income			**88,13,375**
	Total Income (Rounded off)			**88,13,380**

Computation of tax payable by Mr. Ayush for A.Y. 2025-26 under the regular provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 88,13,380		
Tax on short term capital gains on transfer of listed equity shares @15% u/s 111A [₹ 10,00,000 x 15%]		1,50,000
Tax on other Income of ₹ 78,13,380		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001- ₹ 78,13,380 [@30% of ₹ 68,13,380]	20,44,014	21,56,514
		23,06,514
Add: Surcharge @10%, since total income exceeds ₹ 50,00,000 but does not exceed ₹ 1 crore		2,30,651
		25,37,165
Add: Health and education cess@4%		1,01,487
Total tax liability		26,38,652
Less: TDS u/s 194N @ 2% on ₹ 50 lakhs, being the cash withdrawals exceeding ₹ 1 crore	1,00,000	
Less: Advance tax paid	17,50,000	18,50,000
Tax payable		**7,88,652**
Tax payable (Rounded off)		**7,88,650**

2. **(a)** Miss Geeta is said to be resident if she satisfies any one of the following basic conditions:

(i) Has been in India during the previous year for a total period of 182 days or more

(or)

(ii) Has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days during the previous year.

Miss Geeta's stay in India during the P.Y.2024-25 is 142 days [30+31+30+31+20] which is less than 182 days. However, her stay in India during the P.Y.2024-25 exceeds 60 days. Since, she left India for the first time, her stay in India during the four previous years prior to P.Y.2024-25 would be more than 365 days. Hence, she is a resident for P.Y.2024-25.

Further, Miss Geeta would be "Resident and ordinarily resident" in India in during the previous year 2024-25, since her stay in India in the last seven previous years prior to P.Y.2024-25 is more than 729 days and she must be resident in the preceding ten years.

Computation of business income and agricultural income of Miss Geeta for A.Y. 2025-26

Particulars		Income	Business Income ₹	Agricultural Income ₹
(i)	Income from sale of centrifuged latex processed from rubber plants grown in Kanyakumari (Apportioned between business and agricultural income in the ratio of 35:65 as per Rule 7A of Income-tax Rules, 1962)	1,50,000	52,500	97,500
(ii)	Income from sale of coffee grown, cured, roasted and grounded in Colombo and received in Chennai [**See Note 1 below]**	5,00,000	5,00,000	-
(iii)	Income from sale of tea grown and manufactured in West Bengal (Apportioned between business and agricultural income in the ratio of			

	40:60 as per Rule 8 of the Income-tax Rules, 1962)	12,00,000	4,80,000	7,20,000
(iv)	Income from sapling and seedling grown in a nursery at Cochin. Basic operations were not carried out on land **[See Note 2 below]**	2,00,000	-	2,00,000
		20,50,000	**10,32,500**	**10,17,500**

Notes:

(1) Since Ms. Geeta is resident and ordinarily resident in India for A.Y. 2025-26, her global income is taxable in India. Entire income from sale of coffee grown, cured, roasted and grounded in Colombo is taxable as business income since such income is earned from sale of coffee grown, cured, roasted and grounded outside India i.e., in Colombo.

(2) As per *Explanation 3* to section 2(1A), income derived from sapling or seedlings grown in a nursery would be deemed to be agricultural income, whether or not the basic operations were carried out on land. Hence, income of ₹ 2,00,000 from sapling and seedling grown in a nursery at Cochin is agricultural income.

(b) TDS implications

(i) On pre-mature withdrawal from EPF

No tax is deductible under section 192A even though the employee, Mr. Vikas, has not completed 5 years of continuous service, since termination of employment is on account of his ill-health. Hence, Rule 8 of Part A of the Fourth Schedule is applicable in this case.

(ii) On payment of service fee to bank

Even though service fee is included in the definition of "interest" under section 2(28A), no tax is deductible at source under section 194A, since the service fee is paid to a banking company, i.e., Indian Bank.

3. (a) Computation of Gross Total Income of Mr. Jain and Mrs. Jain for A.Y. 2025-26

Particulars	Mr. Jain		Mrs. Jain	
	₹	₹	₹	₹
Salary	12,50,000		-	
Less: Standard deduction under section 16(ia)	50,000	12,00,000		

Interest on Fixed Deposit earned by Mrs. Jain	-			14,00,000
Total income (before including remuneration from firm and minor's income)		12,00,000		14,00,000
Remuneration from firm (assumed that the same is fully deductible in the hands of the firm)			2,50,000	
Remuneration of ₹ 2,50,000 received by Mr. Jain has to be included in the total income of Mrs. Jain, since both of them have substantial interest in the concern (i.e., each having 25% share in the firm, in the present case), and her total income of ₹14 lakh exceeds the total income of her spouse excluding this income (i.e., ₹ 12 lakh). It is assumed that such remuneration is fully deductible in the hands of the firm.			2,50,000	5,00,000
Total Income (before including minor's income)		12,00,000		19,00,000
Income of three minor children to be included in Mrs. Jain's income[1], since her total income before including minor's income is higher than that of her husband.		-		
- Neeta			15,000	
- Meeta			10,000	
- Seeta			2,000	
			27,000	

[1] *It is assumed that the income of the minor children are not on account of their skills.*

Less: Exemption of ₹ 1,500 u/s 10(32) in respect of the income each child so included.			4,500	22,500
Gross Total Income		**12,00,000**		**19,22,500**

(b) Computation of Total Income of Mr. Ram for A.Y. 2025-26

Particulars	Amount ₹	Amount ₹
Salaries		
Basic Salary	3,80,000	
Dearness Allowance	1,20,000	
Employer contribution to NPS = 20% of ₹ 3,80,000	76,000	
	5,76,000	
Less: Standard deduction		
[₹ 50,000 or ₹ 5,76,000, whichever is lower]	50,000	5,26,000
Profits and gains of business or profession		
Where the amount gifted by Mr. Ram (₹ 6 lakh, in this case) is invested by Mrs. Ram in a business as her capital, proportionate share of profit or loss, as the case may be, computed by taking into account the value of the investment as on 1.4.2024 to the total investment in the business (₹ 10 lakh) would be included in the income of Mr. Ram [loss of ₹ 1,30,000 x 6/10]	(78,000)	
Income from other sources		
All income of the minor son would be included in the income of the parent Mr. Ram, since his income is higher than the income of Mrs. Ram (loss of ₹ 52,000, based on the information given in the question). Accordingly, ₹ 70,000, being amount of gift received by minor son during the P.Y. 2024-25, would be included in the income of Mr. Ram as the amount of gift exceeds ₹ 50,000.	70,000	
Less: Exemption in respect of income of minor child included in Mr. Ram's income	1,500	
	68,500	
Less: Business loss of ₹ 78,000 set-off to the extent of	68,500	

(Balance **business loss of ₹ 9,500 to be carried forward** to the next year, since the same cannot be set-off against salary income)		Nil
Gross Total Income		5,26,000
***Less:* Deductions under Chapter VI-A**		
Under section 80C – deposit in Sukanya Samridhi Account	70,000	
Under section 80CCC – Contribution to LIC Annuity Plan	40,000	
Under section 80CCD(1) – Employee contribution to NPS (₹ 76,000 – ₹ 50,000 deduction claimed u/s 80CCD(1B)], since it is lower than ₹ 42,800, being 10% of salary (₹ 3,80,000 + ₹ 48,000)	26,000	
Allowable in full, since less than ₹ 1,50,000, being the maximum permissible deduction u/s 80C, 80CCC & 80CCD(1)	1,36,000	
Under section 80CCD(1B) – Employee contribution to NPS	50,000	
Under section 80CCD(2) – Employer contribution to NPS restricted to 14% of basic salary + DA forming part of pay, since employer is Central Government = 14% x (₹ 3,80,000 + ₹ 48,000)	59,920	
Under section 80E – Interest paid on loan taken for higher education	15,000	2,60,920
Total Income		**2,65,080**

4. (a) First alternative

For the purpose of computation of long-term capital gains chargeable to tax under section 112A, the cost of acquisition in relation to the long-term capital asset, being an equity share in a company or a unit of an equity oriented fund or a unit of a business trust acquired before 1st February, 2018 shall be the higher of

(a) cost of acquisition of such asset, i.e., actual cost; and

(b) lower of

(i) the fair market value of such asset as on 31.1.2018; and

(ii) the full value of consideration received or accruing as a result of the transfer of the capital asset.

(i) The fair market value of listed equity shares as on 31.1.2018 is the highest price quoted on the recognized stock exchange as on that date.

Accordingly, long-term capital gain on transfer of STT paid listed equity shares by Mr. Shagun would be determined as follows:

The FMV of shares of A Ltd. would be ₹ 700, being the highest price quoted on National Stock Exchange on 31.1.2018. The cost of acquisition of each equity share in A Ltd. would be ₹ 700, being higher of actual cost i.e., ₹ 400 and ₹ 700 [being the lower of FMV of ₹ 700 as on 31.1.2018 (i.e., the highest trading price) and actual sale consideration of ₹ 1,200]. Thus, the long-term capital gain would be ₹ 1,50,000 i.e., (₹ 1,200 – ₹ 700) x 300 shares. The long-term capital gain of ₹ 25,000 (i.e., the amount in excess of ₹ 1,25,000) would be subject to tax@10% under section 112A (*plus* cess@4%), without benefit of indexation. The tax on capital gain @10.4% would be ₹ 2,600 (₹ 25,000 x 10.4%)

(ii) In the case of units listed on recognised stock exchange on the date of transfer, the FMV as on 31.1.2018 would be the highest trading price on recognised stock exchange as on 31.1.2018 (if units are listed on that date), else, it would be the net asset value as on 31.1.2018 (where units are unlisted on that date).

Accordingly, the FMV of units of Fund A as on 31.1.2018 would be ₹ 750 (being the highest trading price on 31.1.2018, since the units of Fund A are listed on that date).

The cost of acquisition of a unit of Fund A would be ₹ 750, being higher of actual cost i.e., ₹ 550 and ₹ 750 (being the lower of FMV of ₹ 750 as on 31.1.2018 and actual sale consideration of ₹ 900). Thus, the long-term capital gains on sale of units of Fund A would be ₹ 30,000 (₹ 900 – ₹ 750) x 200 units.

Since the long term capital gains on sale of units of Fund A is ₹ 30,000, which is less than ₹ 1,25,000, the said sum is not chargeable to tax under section 112A.

(a) Second alternative

Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
AB University, an approved University	15	35(1)(ii)	Nil	Nil
Siya College	17	-	Nil	Nil
IIT Bangalore (under an approved programme for scientific research)	12	35(2AA)	Nil	Nil

In-house research				
Capital expenditure – Purchase of Machinery	25	35(1)(iv) r.w. 35(2)	100%	25
Deduction allowable under section 35				**25**

Deduction under section 35(1)(ii) and 35(2AA) is not allowable under default tax regime under section 115BAC.

(b) Computation of income under the head "Salaries" of Mr. Sailesh for the A.Y.2025-26

Particulars	₹	₹
Basic Salary [₹ 70,000 x 12 months]		8,40,000
Dearness allowance [40% of ₹8,40,000]		3,36,000
Entertainment allowance		10,000
Interest on housing loan given at concessional rate, would be perquisite, since the amount of loan exceeds ₹ 20,000, For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%) **[*See Working Note*]**		49,291
Health insurance premium paid by the employer [tax free perquisite]		Nil
Gift voucher on the occasion of his marriage anniversary [As per Rule 3(7)(iv), the value of any gift or voucher or token in lieu of gift received by the employee or by member of his household exceeding ₹ 5,000 in aggregate during the previous year is fully taxable] **(See note below)**		10,000
Allotment of sweat equity shares		
Fair market value of 800 sweat equity shares @ ₹ 700 each	5,60,000	
Less: Amount recovered @ ₹ 450 each	3,60,000	2,00,000
Use of furniture by employee		
10% p.a. of the actual cost of ₹ 1,10,000		11,000
Use of Laptop		
Facility of use of laptop is not a taxable perquisite		Nil

Transfer of asset to employee		
Value of furniture transferred to Mr. Sailesh	1,10,000	
Less: Normal wear and tear @10% for each completed year of usage on SLM basis [1,10,000 x 10% x 4 years (from September 2020 to September 2024)]	44,000	66,000
Gross Salary		**15,22,291**
Less: Standard deduction u/s 16 [Actual salary or ₹ 50,000, whichever is less]		50,000
Net Salary		**14,72,291**

Working Note:

Computation of perquisite value of loan given at concessional rate

For computation, the lending rate of SBI on 1.4.2024 @8% has to be considered. Thus, perquisite value would be determined @ 3.5% (8% - 4.5%)

Month	Maximum outstanding balance as on last date of month (₹)	Perquisite value at 3.5% for the month (₹)
April, 2024	15,00,000	4,375
May, 2024	15,00,000	4,375
June, 2024	14,50,000	4,229
July, 2024	14,50,000	4,229
August, 2024	14,50,000	4,229
September, 2024	14,00,000	4,083
October, 2024	14,00,000	4,083
November, 2024	14,00,000	4,083
December, 2024	13,50,000	3,937.50
January, 2025	13,50,000	3,937.50
February, 2025	13,50,000	3,937.50
March, 2025	13,00,000	3,792
	Total value of this perquisite	**49,290.50**

Note: *An alternate view possible is that only the sum in excess of ₹ 5,000 is taxable. In such a case, the value of perquisite would be ₹ 5,000 and gross salary and net salary would be ₹ 15,17,291 and ₹ 14,67,291, respectively.*

ANSWERS OF MODEL TEST PAPER 4

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	**(i)**	**(b)**
	(ii)	**(d)**
	(iii)	**(a)**
2.	**(i)**	**(a)**
	(ii)	**(c)**
	(iii)	**(a)**

MCQ No.	Most Appropriate Answer
3.	**(a)**
4.	**(d)**

Division B – Descriptive Questions

1. Computation of Total Income of Ms. Farah for the A.Y.2025-26 under default tax regime under section 115BAC

Particulars	₹	₹	₹
Income from house property			
Gross Annual Value[1]		90,000	
Less: Municipal taxes paid		9,000	
Net Annual Value (NAV)		81,000	
Less: Deduction under section 24(a) – 30% of NAV = 30% of ₹ 81,000		24,300	56,700
Profits and gains of business or profession			
Net profit as per Profit and loss account		25,91,000	
Add: Expenses debited but not allowable			
(i) Purchase of car [Amount paid for purchase of car is not allowable since it is a capital expenditure]	3,00,000		
(ii) Municipal tax paid in respect of house property [allowable as deduction under the head "Income from house property"]	9,000		
(iii) Payment made to tax consultant in cash [disallowed under section	50,000		

[1] *Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent.*

40A(3), since such cash payment exceeds ₹ 10,000]			
(iv) Travel expenditure on foreign professional tour [Since it is incurred in connection with professional work, the same is allowable as deduction. As it has already been debited to profit and loss account, no further adjustment is required]	-		
(v) Repair and maintenance of car [Repairs and maintenance paid in advance for the period 1.4.2025 to 30.9.2025 i.e. for 6 months amounting to ₹ 17,500 is not allowable as deduction, since Ms. Farah is following the accrual system of accounting]	17,500	3,76,500	
		29,67,500	
Less: Income credited but not taxable under this head:			
(i) Dividend from an Indian company (taxable under the head "Income from Other Sources")	11,00,000		
(ii) Interest on deposit certificates issued under gold monetization scheme, 2015 (taxability or otherwise to be considered under the head "Income from Other Sources")	25,000		
(iii) Honorarium for valuation of answer papers	50,000		
(iv) Rent received in respect of house property	90,000	12,65,000	
		17,02,500	
Less: Depreciation on car @15%		45,000	
			16,57,500
Income from Other Sources			
Dividend from an Indian company		11,00,000	
Interest on deposit certificates issued under gold monetization scheme, 2015 [Exempt under section 10(15)]		-	
Honorarium for valuation of answer papers		50,000	11,50,000
Gross Total Income			**28,64,200**

Less: Deduction under Chapter VI-A [Deduction under section 80D would not be allowable]			-
Total Income			**28,64,200**

Computation of tax payable under default tax regime under section 115BAC

Particulars		**₹**
Tax on total income of ₹ 28,64,200		
Upto ₹ 3,00,000	Nil	
₹ 3,00,001 – ₹ 7,00,000 [i.e., ₹ 4,00,000@5%]	20,000	
₹ 7,00,001 – ₹ 10,00,000 [i.e., ₹ 3,00,000@10%]	30,000	
₹ 10,00,001 –₹12,00,000 [i.e.,₹ 2,00,000@15%]	30,000	
₹ 12,00,001 – ₹ 15,00,000 [i.e., ₹ 3,00,000@20%]	60,000	
₹ 15,00,001 – ₹ 28,64,200 [i.e., ₹ 13,64,200 @30%]	4,09,260	
		5,49,260
Add: Health and Education cess@4%		21,970
Tax Liability		**5,71,230**
Less: Advance Tax paid		1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 10%]		1,10,000
Tax payable		**3,61,230**

Computation of total income and tax payable by Ms. Farah for the A.Y.2025-26 under regular provisions of the Act

Particulars		**₹**
Gross Total Income		28,64,200
[Income under the "Income from house property" "Profits and gains from business or profession" and "Income from other sources" would remain the same under regular provisions of the Act]		
Less: Deductions under Chapter VI-A		
Section 80D		
Medical insurance premium paid online for parents, being senior citizens	47,000	
Payment made in cash of ₹ 8,500 for preventive health check-up for self and spouse restricted to	5,000	52,000
Total Income		**28,12,200**

Tax on total income of ₹ 28,12,200		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000 [i.e., ₹ 2,50,000@5%]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [i.e., ₹ 5,00,000@20%]	1,00,000	
₹ 10,00,001 – ₹ 28,12,200 [i.e., ₹ 18,12,200 @30%]	5,43,660	
		6,56,160
Add: Health and Education cess@4%		26,246
Tax Liability		**6,82,406**
Less: Advance Tax paid		1,00,000
Less: Tax deducted at source on dividend income from an Indian company under section 194 [₹ 11,00,000 x 10%]		1,10,000
Tax payable		**4,72,406**
Tax payable (Rounded off)		**4,72,410**

Note *– Since the tax payable under default tax regime under section 115BAC is lower than the tax payable under the regular provisions of the Act, it would be beneficial for Ms. Farah to pay tax under default tax regime under section 115BAC for A.Y. 2025-26.*

2. (a) An Indian citizen, who leaves India in any previous year, *inter alia*, for purposes of employment outside India, would be resident in India during the relevant previous year if he stayed in India during that previous year for 182 days or more.

(i) Since Sagar is leaving India for the purpose of employment outside India, he will be treated as resident only if the period of his stay during the previous year amounts to 182 days or more. Therefore, Sagar should leave India on or before 28th September, 2024, in which case, his stay in India during the previous year would be less than 182 days and he would become non-resident for the purpose of taxability in India. In such a case, only the income which accrues or arises in India or which is deemed to accrue or arise in India or received or deemed to be received in India shall be taxable.

The income earned by him in New York would not be chargeable to tax in India for A.Y. 2025-26, if he leaves India on or before 28th September, 2024.

(ii) If any part of Sagar's salary will be credited directly to his bank account in Delhi then, that part of his salary would be considered as income received in India during the previous year under section 5 and would be chargeable to tax under Income-tax Act, 1961, even if he is a non-resident. Therefore, Sagar should receive his entire salary in New York and then remit the required amount to his bank account in Delhi in which case, the salary earned by him in New York would not be subject to tax in India.

(b) TDS implications

(i) Since the sale consideration or stamp duty value of residential house exceeds ₹ 50 lakhs, Mr. Deepak is required to deduct tax at source@1% of ₹ 65 lakhs, being higher of sale consideration of ₹ 60 lakh and stamp duty value of ₹ 65 lakhs under section 194-IA.

TDS provisions under section 194-IA are not attracted in respect of transfer of rural agricultural land, even if the consideration exceeds ₹ 50 lakh.

Tax deducted at source = ₹ 65 lakhs x 1% = ₹ 65,000

(ii) Every person, being a seller, who receives any amount as consideration for sale of a motor vehicle of the value exceeding ₹ 10 lakhs, is required to collect tax at source @1% of the sale consideration from the buyer.

TCS provisions will, however, not apply on sale of motor vehicles by manufacturers to dealers/distributors. Hence, XYZ Ltd., the manufacturer-seller need not collect tax at source on sale of cars to the dealer, ABC & Co., even if the value of each car exceeds ₹ 10 lakhs.

However, TCS provisions would be attracted when ABC & Co., sells cars to individual buyers, since the value of each car exceeds ₹ 10 lakhs. ABC & Co. has to collect tax@1% of the consideration on sale of each car to an individual buyer.

3. (a) Computation of income from house property of Mr. Kamal for A.Y. 2025-26

Particulars	₹	₹
1. Income from let-out property in Dubai [See Note 1 below]		
[2]Gross Annual Value (DHS 20,000 p.m. x 12 months x ₹ 22)		52,80,000
Less: Municipal taxes paid during the year [DHS 4,000 (DHS 2,500 + DHS 1,500) x ₹ 22][3]		88,000
Net Annual Value (NAV)		51,92,000
Less: Deductions under section 24		
(a) 30% of NAV	15,57,600	
(b) Interest on housing loan	-	15,57,600
		36,34,400

[2] *In the absence of information related to municipal value, fair rent and standard rent, the rent receivable has been taken as the GAV*

[3] *Both property tax and sewerage tax qualify for deduction from gross annual value*

2. Income from self-occupied property in Mumbai		
Annual Value [Nil, since the property is self-occupied]		NIL
[No deduction is allowable in respect of municipal taxes paid in respect of self-occupied property]		
Less: Deduction in respect of interest on housing loan **[See Note 2 below]**		1,64,000
		(1,64,000)
Income from house property [₹ 36,34,400 – ₹ 1,64,000]		**34,70,400**

Notes:

(1) Since Mr. Kamal is a resident but not ordinarily resident in India for A.Y. 2025-26, income which is, *inter alia,* received in India shall be taxable in India, even if such income has accrued or arisen outside India. Accordingly, rent received from house property in Dubai would be taxable in India since such income is received by him in India. Income from property in Mumbai would accrue or arise in India and consequently, interest deduction in respect of such property would be allowable while computing Mr. Kamal's income from house property because of self-occupied property.

(2) **Interest on housing loan for construction of self-occupied property allowable as deduction under section 24**

Interest for the current year (₹ 10,00,000 x 12%)	₹ 1,20,000
Pre-construction interest	
For the period 01.06.2021 to 31.03.2023 (₹ 10,00,000 x 12% x 22/12) = ₹ 2,20,000	
₹ 2,20,000 allowed in 5 equal installments (₹ 2,20,000/5)	₹ 44,000
	₹ 1,64,000

(b) Computation of income chargeable under the head "Capital Gains" for A.Y. 2025-26

Particulars		₹
Capital Gains on sale of residential house		
Actual sale consideration	₹ 80 lakhs	
Value adopted by Stamp Valuation Authority	₹ 90 lakhs	
Full value of sale consideration [Higher of the above]		90,00,000
[As per section 50C, where the actual sale consideration is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, and such stamp duty value exceeds 110% of the actual sale consideration, then, the value adopted by the Stamp		

Valuation Authority shall be taken to be the full value of consideration. In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. In this case, since 20% of ₹ 80 lakhs is paid through account payee bank draft on the date of agreement, stamp duty value on the date of agreement can be adopted as the full value of consideration]	
Less: Cost of acquisition of residential house	20,00,000
Long-term capital gains [Since the residential house property was held by Mr. Ashish for more than 24 months immediately preceding the date of its transfer]	**70,00,000**
Less: **Exemption under section 54**	15,00,000
The capital gain arising on transfer of a long-term residential property shall not be chargeable to tax to the extent such capital gain is invested in the purchase of one residential house property in India within one year before or two years after the date of transfer of original asset.	
Long term capital gains chargeable to tax	**55,00,000**

4. (a) Gross Total Income of Mr. Mohit for A.Y. 2025-26

Particulars		₹	₹
Salaries			
Income from salary		6,50,000	
Less: Loss from house property of ₹ 2,60,000, restricted to		2,00,000	4,50,000
Income from house property			
Income from House I		55,000	
Less: Loss from House II (self-occupied)	1,25,000		
Loss from House III	1,90,000	3,15,000	
		(2,60,000)	
Set-off of loss from house property against salary income, restricted to		2,00,000	
Loss to be carried forward to A.Y. 2026-27		(60,000)	
Profits and gains of business or profession			
Profit from cloth business		1,70,000	

Less: Loss from leather business	68,000	
		1,02,000
Capital Gains		
Short term capital loss in equity-oriented funds on which STT is paid ₹ 35,000 to be carried forward to A.Y. 2026-27 since such loss can be set-off only against capital gains and not against income under any other head	-	
Income from other sources		
Income from owning and maintenance of race bulls	9,000	
Loss of ₹ 7,500 from the activity of owning and maintenance of race horses cannot be set-off against any source other than income from the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y. 2026-27.	Nil	
Income from crossword puzzles	12,000	
Dividend from foreign company	8,500	29,500
Gross Total Income		**5,81,500**

Losses to be carried forward to A.Y.2026-27:

Particulars	₹
Loss from house property [to be carried forward for set-off against income from house property]	60,000
Short-term capital loss in equity oriented funds on which STT was paid [to be carried forward for set-off against capital gains, long-term or short-term]	35,000
Loss from owning and maintaining race horses [to be carried forward for set-off against income from the activity of owning and maintaining race horses]	7,500

Note: *Loss from house property can also be set-off to the extent of ₹ 1,02,000 from profits and gains from business or profession and balance i.e., ₹ 98,000 against Income under the head "Salaries".*

(b) First alternative

If a person, who has been allotted PAN as on 1st July, 2017 and is required to intimate his Aadhaar number, has failed to intimate the same on or before 31st March, 2022, the PAN of such person would become inoperative and he would be liable for payment of fee in accordance with section 234H read with Rule 114(5A) i.e., ₹ 1,000.

A person, whose PAN has become inoperative, would be liable for following further consequences for the period commencing from the date notified by the CBDT i.e., from 1.7.2023 till the date it becomes operative–

(i) no refund of any amount of tax or part thereof, due under the provisions of the Act;

(ii) interest would not be payable on such refund for the period, beginning with the date notified by the CBDT and ending with the date on which it becomes operative;

(iii) where tax is deductible at source in case of such person, such tax shall be deducted at higher rate, in accordance with provisions of section 206AA;

(iv) where tax is collectible at source in case of such person, such tax shall be collected at higher rate, in accordance with provisions of section 206CC.

(b) Second alternative

(i) Fee for default in furnishing return of income u/s 234F

Where a person who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of ₹ 5,000.

However, if the total income of the person does not exceed ₹ 5 lakhs, the fees payable shall not exceed ₹ 1,000

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

(i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;

(ii) a non-resident as per Income-tax Act, 1961;

(iii) of the age of 80 years or more at any time during the previous year;

(iv) not a citizen of India.

ANSWERS OF MODEL TEST PAPER 5

INTERMEDIATE COURSE: GROUP - I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(b)
	(ii)	(b)
	(iii)	(a)
2.	(i)	(d)
	(ii)	(b)
	(iii)	(b)

MCQ No.	Most Appropriate Answer
3.	(d)
4.	(d)

Division B – Descriptive Questions

1. Computation of total income of Mr. Amit for A.Y. 2025-26

	Particulars	₹	₹	₹
I	**Income from house property**			
	Let out portion [First floor]			
	Gross Annual Value [Rent received is taken as GAV, in the absence of other information]		2,28,000	
	Less: Municipal taxes paid by him in the P.Y. 2024-25 pertaining to let out portion [₹ 60,000/2]		30,000	
	Net Annual Value (NAV)		1,98,000	
	Less: Deduction u/s 24			
	(a) 30% of ₹ 1,98,000		59,400	
			1,38,600	
	Self-occupied portion [Ground Floor]			
	Annual Value		Nil	
	[No deduction is allowable in respect of municipal taxes paid]			1,38,600
II	**Profits and gains of business or profession**			
	Income from SEZ unit			20,00,000

III	**Capital Gains**			
	On transfer of 60,000 shares (2,00,000 x 30%)			
	Sales consideration [60,000 x ₹ 60 per share]		36,00,000	
	Less: Cost of acquisition [60,000 x 40]		24,00,000	
	Long-term capital gains u/s 112A (since shares are held for a period of more than 12 months before transfer)			12,00,000
IV	**Income from Other Sources**			
	Royalty from artistic book		2,88,000	
	Less: Expenses incurred for earning royalty		40,000	
			2,48,000	
	Interest on savings bank deposits		30,000	
				2,78,000
	Gross Total Income			**36,16,600**
	Less: **Deduction u/s 10AA** [Not available, since he commenced operation in P.Y. 2021-22]			-
	Less: **Deduction under Chapter VI-A**			
	Deduction under section 80C			
	Tuition fee paid for maximum of two children is allowable (₹ 14,000 x 2)	28,000		
	Insurance premium paid on life insurance policy of son allowable, even though not dependent on Mr. Amit	39,000		
	Insurance premium paid on life insurance policy of father **not** allowable, even though father is dependent on Mr. Amit	-	67,000	
	Deduction under section 80QQB		1,90,000	
	Royalty [₹ 2,88,000 x 15/18 = ₹ 2,40,000, restricted to amount brought into India in convertible foreign exchange			

	₹ 2,30,000 minus ₹ 40,000 expenses already allowed as deduction while computing royalty income]			
	Deduction under section 80TTA		10,000	
	Interest on savings bank account, restricted to ₹ 10,000			
				2,67,000
	Total Income			**33,49,600**

Computation of tax liability of Mr. Amit for A.Y.2025-26 under the normal provisions of the Act

Particulars	₹	₹
Tax on total income of ₹ 33,49,600		
Tax on LTCG of ₹ 10,75,000, being the sum exceeding ₹ 1.25 lakh @10% u/s 112A		1,07,500
Tax on remaining total income of ₹ 21,49,600		
Upto ₹ 2,50,000	Nil	
₹ 2,50,001 – ₹ 5,00,000[@5% of ₹ 2.50 lakh]	12,500	
₹ 5,00,001 – ₹ 10,00,000 [@20% of ₹ 5,00,000]	1,00,000	
₹ 10,00,001 – ₹ 21,49,600 [@30% of ₹ 11,49,600]	3,44,880	4,57,380
		5,64,880
Add: Health and education cess@4%		22,595
Total tax liability		5,87,475
Tax liability (rounded off)		**5,87,480**

Computation of adjusted total income and AMT of Mr. Amit for A.Y. 2025-26

Particulars	₹
Computation of adjusted total income	
Total income as per the normal provisions of the Act	**33,49,600**
***Add:* Deduction u/s 80QQB**	1,90,000
Adjusted Total Income	**35,39,600**
Alternative Minimum Tax@18.5%	6,54,826
Add: Health and education cess@4%	26,193
AMT liability	6,81,019
AMT liability (Rounded off)	**6,81,020**

Since the regular income-tax payable is less than the alternate minimum tax payable, the adjusted total income shall be deemed to be the total income and tax is leviable @18.5% thereof plus cess@4%. Therefore, liability as per section 115JC is ₹ 6,81,020.

AMT credit to be carried forward under section 115JEE

Particulars	₹
Tax liability under section 115JC	6,81,020
Less: Tax liability under the regular provisions of the Income-tax Act, 1961	5,87,480
	93,540

2. (a) An Indian citizen or a person of Indian origin who, being outside India, comes on a visit to India (and whose total income, other than from foreign sources, does not exceed ₹ 15,00,000) would be resident in India only if he or she stays in India for a period of 182 days or more during the previous year. Even if his total income, other than from foreign sources, exceeds ₹ 15,00,000, he would be resident in India if stays in India for 120 days or more during the relevant previous year and 365 days or more during the 4 previous years immediately preceding the relevant previous year.

Since Mrs. Riya is a person of Indian origin who comes on a visit to India only for 60 days in the P.Y.2024-25, she is non-resident for the A.Y. 2025-26.

A non-resident is chargeable to tax in respect of income received or deemed to be received in India and income which accrues or arises or is deemed to accrue or arise to her in India. Accordingly, her total income and tax liability would be determined in the following manner:

Computation of total income and tax liability of Mrs. Riya for A.Y. 2025-26

Particulars		Amt (₹)
Salaries		
Pension received from Russian Government [Not taxable, since it neither accrues or arises in India nor it is received in India]		Nil
Income from House Property		
Annual Value [Rental Income from house property in New Delhi is taxable, since it is deemed to accrue or arise in India, as it accrues or arises from a property situated in India]	90,000	
Less: Deduction u/s 24(a) @ 30%	27,000	63,000
Capital Gains		
Long-term capital gains on sale of land at New Delhi [Taxable, since it is deemed to accrue or arise in India as it is arising from transfer of land situated in India]		3,00,000
Short-term capital gains on sale of shares of Indian listed companies in respect of which STT was paid [Taxable, since it is deemed to accrue or arise in India, as such		60,000

income arises on transfer of shares of Indian listed companies]	
Gross Total Income	**4,23,000**
Less: **Deduction under Chapter VI-A**	
Deduction under section 80C [Not available under default tax regime]	Nil
Total Income	**4,23,000**

(b) Determination of Advance Tax Liability of Mr. Sameer

Particulars	₹
Estimated tax liability for the financial year 2024-25	80,000
Less: Tax deducted at source	12,000
Tax payable	**68,000**

Due Date of installment	Amount payable	₹
On or before 15th June, 2024	Not less than 15% of advance tax liability	10,200
On or before 15th September, 2024	Not less than 45% of advance tax liability *less* amount paid in earlier installment	20,400 (₹ 30,600, being 45% of ₹ 68,000 - ₹ 10,200)
On or before 15th December, 2024	Not less than 75% of advance tax liability *less* amount paid in earlier installment(s)	20,400 (51,000, being 75% of ₹ 68,000 - ₹ 30,600)
On or before 15th March, 2025	Whole of the advance tax liability *less* amount paid in earlier installment(s)	17,000 (68,000, being 100% of ₹ 68,000 - ₹ 51,000)

3. (a) (i) Computation of depreciation for A.Y.2025-26

Particulars	₹
W.D.V. of the block as on 1.4.2024	7,70,000
Add: Purchase of second hand plant during the year [in December, 2024]	6,10,000
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2024]	10,00,000
W.D.V of the block as on 31.03.2025	**3,80,000**
Depreciation @ 15% but restricted to 50% thereon. ₹ 3,80,000 X 7.5%	**28,500**
[Since the value of the block as on 31.3.2025 represents part of actual cost of second hand plant purchased in December, 2024, which has	

been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is ₹ 28,500 being 7½% of ₹ 3,80,000]	

(ii) In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year

(iii) Computation of deduction allowable under section 35

Particulars	Amount (₹ in lakhs)	Section	% of weighted deduction	Amount of deduction (₹ in lakhs)
Payment for scientific research				
UV University, an approved University	15	35(1)(ii)	100%	15
Satyawati College [Since it is not mentioned as an approved University]	17	-	NIL	NIL

(b) Computation of income chargeable under the head "Capital Gains" for A.Y.2025-26

Particulars	₹ (in lakhs)	₹ (in lakhs)
Capital Gains on sale of residential building		
Actual sale consideration ₹ 600 lakhs		
Value adopted by Stamp Valuation Authority ₹ 670 lakhs		
Full Value of Consideration		670.00
[In case the actual sale consideration declared by the assessee is less than the value adopted by the Stamp Valuation Authority for the purpose of charging stamp duty, then, the value adopted by the Stamp Valuation Authority shall be taken to be the full value of consideration as per section 50C.		

In a case where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided the whole or part of the consideration is paid by way of account payee cheque/bank draft or by way of ECS through bank account on or before the date of agreement. However, where the stamp duty value does not exceed 110% of the sale consideration received or accruing as a result of the transfer, the consideration so received or accruing shall be deemed to be the full value of the consideration. In this case, since advance of ₹ 20 lakh is paid by cash, stamp duty value of ₹ 620 lakhs on the date of agreement cannot be adopted as the full value of consideration and stamp duty value on the date of registration would be considered. However, since stamp duty value on the date of registration exceeds 110% of the actual consideration, stamp duty value on the date of registration would be the full value of consideration]		
Less: Brokerage@1% of sale consideration (1% of ₹ 600 lakhs)		6.00
Net Sale consideration		664.00
Less: Cost of acquisition		
- Cost of vacant land, ₹ 80 lakhs, *plus* registration and other expenses i.e., ₹ 8 lakhs, being 10% of cost of land	88	
- Construction cost of residential building	100	188.00
Long-term capital gains before exemption		**476.00**
Less: **Exemption under section 54EC**		50.00
Amount deposited in capital gains bonds of NHAI within six months from the date of transfer (i.e., on or before 09.08.2025) would qualify for exemption, to the maximum extent of ₹ 50 lakhs. Therefore, in the present case, exemption can be availed only to the extent of ₹ 50 lakh out of ₹ 60 lakhs,		

even if the both the investments are made on or before 09.08.2025 (i.e., within six months from the date of transfer).		
Long Term Capital Gains [Since it was held for more than 24 months]		**426.00**

4. (a) **Computation of tax liability of Mr. Vijay Prasad for A.Y.2025-26**

Particulars	₹	₹
Salary		
Income by way of salary (computed)		2,75,000
Profits and gains from business and profession		
Business Income- Retail business	1,20,000	
Less: Set-off of business loss of ₹ 1,00,000 from wholesale business	1,00,000	
	20,000	
Less: Set-off of brought forward business loss of ₹ 1,35,000 of A.Y.2022-23 allowable to the extent of ₹ 20,000 by virtue of section 72(1)	20,000	Nil
[Balance brought forward business loss of ₹ 1,15,000 (i.e., ₹ 1,35,000 – ₹ 20,000) to be carry forward to A.Y. 2026-27 for set-off against business income of that year]		
Capital Gains		
Long-term capital gain on sale of building	2,00,000	
Less: Set-off of short term capital loss	1,85,000	15,000
Income from Other Sources		
Lottery winnings		45,000
Income of minor daughter from special talent [Not included in Vijay Prasad's income since it is earned from special talent]		-
Gross Total Income		3,35,000
Less: Deduction under section 80C		
Contribution to provident fund and NSC ₹ 1,50,000		150,000
Total Income		**1,85,000**
Tax on ₹ 1,85,000		
Tax on lottery income of ₹ 45,000 @30% [Unexhausted basic exemption limit can not be reduced from lottery income]	13,500	
Tax on LTCG of ₹ 15,000 @20% [Unexhausted basic exemption limit can not be reduced from	3,000	

LTCG as Mr. Vijay is a non resident]		
Tax on other income of ₹ 1,25,000 (since it does not exceed basic exemption limit)	-	
		16,500
Add: Health and education cess @4%		660
Tax liability		**17,160**

(b) [First Alternative]

Consequences for non-filing return of income within the due date under section 139(1)

Interest under section 234A

Interest under section 234A@1% per month or part of the month for the period commencing from the date immediately following the due date under section 139(1) till the date of furnishing of return of income is payable, where the return of income is furnished after the due date.

However, no interest u/s 234A shall be charged on self-assessment tax paid by the assessee on or before the due date of filing of return.

Fee under section 234F

Late fee of ₹ 5,000 would be payable under section 234F, if the return of income is not filed before the due date specified in section 139(1).

However, such fee cannot exceed ₹ 1,000, if the total income does not exceed ₹ 5,00,000.

Carry forward and set-off of certain losses not permissible

Following losses would not be allowed to be carried forward, where a return of income is not furnished within the time allowed under section 139(1):

- business loss, speculation business loss, loss from specified business (in case assessee opts out of default tax regime),
- loss under the head "Capital Gains"; and
- loss from the activity of owning and maintaining race horses.

(b) [Second Alternative]

	Transaction	Is quoting of PAN mandatory in related documents?
1.	Payment of life insurance premium of ₹ 40,000 in the F.Y.2024-25 by account payee cheque to LIC for insuring life of self and spouse	No, since the amount paid does not exceed ₹ 50,000 in the F.Y.2024-25.
2.	Payment of ₹ 1,10,000 to RBI for acquiring its bonds	Yes, since the amount paid exceeds ₹ 50,000

3.	Applied to SBI for issue of credit card.	Yes, quoting of PAN is mandatory on making an application to a banking company for issue of credit card.
4.	Payment of ₹ 1,00,000 by account payee cheque to travel agent for travel to Dubai for 3 days to visit	No, since the amount was paid by account payee cheque and not in cash, quoting of PAN is not mandatory even though the payment exceeds ₹ 50,000

ANSWERS OF MODEL TEST PAPER 6

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	**(i)**	**(c)**
	(ii)	**(c)**
	(iii)	**(c)**
2.	**(i)**	**(b)**
	(ii)	**(c)**
	(iii)	**(a)**

MCQ No.	Most Appropriate Answer
3.	**(a)**
4.	**(c)**

B – Descriptive Questions

1. Computation of total income of Mr. Ashok for the A.Y.2025-26

Particulars	₹	₹
Income from house property		
Arrears of rent	1,35,000	
(Taxable under section 25A even if Mr. Ashok is not the owner of the house property in the P.Y.2024-25)		
Less: Deduction@30%	40,500	94,500
Profits and gains of business or profession		
Income from wholesale business		
Net profit as per books	6,60,000	
Add: Amount debited to P & L A/c, not allowable as deduction		
- Depreciation as per books	34,000	
- Disallowance of municipal taxes paid for the second half-year under section 43B, since the same was paid after the due date of filing of return of income (₹ 7,000/2)	3,500	
- Disallowance under section 40A(3) in respect of salary paid in cash since the same exceeds ₹ 10,000	22,000	
- 20% of car expenses for personal use	8,000	
	7,27,500	
Less: Depreciation allowable **(Note 1)**	1,96,800	
	5,30,700	

Income from firm			
Share of profit from the firm is exempt under section 10(2A)	-		
Interest on capital from partnership firm **(Note 2)**	1,20,000		
Salary as working partner fully taxable	1,00,000	2,20,000	7,50,700
Income from other sources			
Interest on bank fixed deposit (Gross) [₹ 49,500 x 100/90]		55,000	
Interest on saving bank account		13,300	
Interest on income-tax refund		1,400	69,700
Gross total income			**9,14,900**
Less: Deduction under Chapter VIA **(Note 3)**			2,65,000
Total Income			**6,49,900**

Computation of tax liability of Mr. Ashok for the A.Y.2025-26

Particulars	₹
Upto ₹ 3,00,000	Nil
₹ 3,00,001 – ₹ 5,00,000 [i.e., ₹ 2,00,000@5%]	10,000
₹ 5,00,001 – ₹ 6,49,900 [i.e., ₹ 1,49,900@20%]	29,980
	39,980
Add: Health and Education cess@4%	1,599
Tax liability	**41,579**
Tax liability (Rounded off)	**41,580**

Notes:

(1) **Depreciation allowable under the Income-tax Rules, 1962**

		Opening WDV/ Actual cost	Rate		Depreciation
Block 1	Computers	2,40,000	40%		96,000
	Computer printer	1,50,000	40%		60,000
Block 2	Motor Car	6,80,000	15%	51,000 [50% of 15% is allowable, since it is put to use for less than 180 days]	40,800
	Less: 20% disallowance for personal use			10,200	
					1,96,800

(2) Only to the extent the interest is allowed as deduction in the hands of the firm, the same is includible as business income in the hands of the partner. Since interest is paid in accordance with partnership deed, maximum interest allowable as deduction in the hands of the firm is 12% p.a. Therefore, interest @12% p.a. amounting to ₹ 1,20,000 would be treated as the business income of Mr. Ashok.

(3) **Deduction under Chapter VI-A**

Particulars	₹	₹
Under section 80C		
LIP for independent son	60,000	
PPF paid in wife's name	70,000	
		1,30,000
Under section 80D		
Health insurance premium taken for himself is fully allowable as deduction, since he is a senior citizen		35,000
Under section 80G		
Contribution towards PM National Relief Fund eligible for 100% deduction without any qualifying limit		50,000
Under section 80TTB		
Interest on deposits in case of senior citizen, restricted to		50,000
Total deduction		**2,65,000**

2. (a) Mr. Sudesh is a non-resident for the A.Y.2025-26, since he was not present in India at any time during the previous year 2024-25.

As per section 5(2), a non-resident is chargeable to tax in India only in respect of following incomes:

(i) Income received or deemed to be received in India; and

(ii) Income accruing or arising or income deemed to accrue or arise in India.

Computation of Total Income of Mr. Sudesh for A.Y. 2025-26
(As per default regime)

Particulars	₹
Salaries	
Salary from Government of India	9,25,000
(Income chargeable under the head 'Salaries' payable by the Government to a citizen of India for services rendered outside India is deemed to accrue or arise in India under section 9(1)(iii). Hence, such income is taxable in the hands of Mr. Sudesh, a citizen of India, even though he is a non-resident and rendering services outside India)	

Foreign Allowance from Government of India [Any allowances or perquisites paid or allowed as such outside India by the Government to a citizen of India for rendering service outside India is exempt under section 10(7)].	Nil
Gross Salary	**9,25,000**
Less: Standard Deduction under section 16(ia) of ₹ 75,000, being lower of gross salary or ₹ 75,000	75,000
	8,50,000
Income from House Property	
Rent from a house situated at UK, received in UK	Nil
(Income from property situated outside India would not be taxable in India in the hands of a non-resident, since it neither accrues or arises in India nor is it deemed to accrue or arise in India nor is it received in India)	
Gross Total Income/ Total Income	**8,50,000**

(b) Mr. Sumit has furnished his return of income under default tax regime for A.Y.2025-26 on 22.10.2025, i.e., after the due date specified under section 139(1) i.e., 31st July 2025. Hence, the return is a belated return under section 139(4).

As per section 80 read with section 139(3), specified losses, which have not been determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to the subsequent year for set-off against income of that year. The specified losses include, *inter alia*, business loss but does not include loss from house property and unabsorbed depreciation.

Accordingly, business loss of ₹ 10,80,000 of Mr. Sumit for A.Y. 2025-26, not determined in pursuance of a return of loss filed within the time specified in section 139(1), cannot be carried forward to A.Y. 2026-27. The loss of ₹ 2,50,000 from let out house property cannot be carried forward since Mr. Sumit is paying tax under default tax regime.

However, unabsorbed depreciation of ₹ 2,00,000 pertaining to A.Y.2025-26, can be carried forward to A.Y.2026-27 for set-off, even though Mr. Sumit has filed the return of loss for A.Y.2025-26 belatedly.

(c) (i) HFC Bank is not required to deduct tax at source under section 194A, since the aggregate interest on fixed deposit with the two branches of the bank ₹ 49,000 does not exceed the threshold limit of ₹ 50,000, applicable in case of senior citizen. Since HFC Bank has adopted core banking solution (CBS), the aggregate interest paid by both branches has to be considered.

(ii) TDS provisions under section 194C are not attracted in this case, since Mr. Chetan is a pensioner. However, Mr. Chetan has to deduct tax at source@2% u/s 194M, since the payment to contractor, Mr. Gopi, exceeds ₹ 50 lakhs.

3. (a) Computation of taxable income of Mr. Yogesh for A.Y. 2025-26

Particulars		Amount (₹)	Amount (₹)
Income from house property (A)			
Unit - 1 [50% of floor area - Let out]			
Gross Annual Value, higher of			
- **Expected rent ₹ 1,39,000** [Higher of Municipal Value of ₹ 1,44,000 p.a. and Fair Rent of ₹ 1,49,000 p.a., but restricted to Standard Rent of ₹ 1,39,000 p.a.]			
- Actual rent ₹ 1,80,000 i.e., [₹ 20,000 x 10] less unrealized rent of January, 2025 ₹ 20,000			
Gross Annual Value		1,80,000	
Less: Municipal taxes [50% of ₹ 30,000]		15,000	
Net Annual Value		1,65,000	
Less: Deductions from Net Annual Value			
(a) 30% of Net Annual Value		49,500	
(b) Interest on loan [50% of ₹ 90,000]		45,000	70,500
Unit – 3 [25% of floor area – Self occupied]			
Net Annual Value		-	
Less: Interest on loan [Not allowed as Mr. Yogesh is paying tax under section 115BAC.]		-	-
			70,500
Profits and gains from business or profession (B)			
Business Income [without deducting expenditure of Unit – 2, 25% floor area used for business purposes]		2,40,000	
Less: Expenditure in respect of Unit -2			
- Municipal taxes [25% of ₹ 30,000]	7,500		
- Repairs [25% of ₹ 7,000]	1,750		
- Interest on loan [25% of ₹ 90,000]	22,500		
- Ground rent [25% of ₹ 6,000]	1,500		
- Fire Insurance premium [25% of ₹ 60,000]	15,000	48,250	1,91,750
Taxable Income (A+B)			**2,62,250**

Note: Alternatively, if as per income-tax returns, unrealised rent is deducted from GAV, then GAV would be ₹ 2,00,000**,** being higher of unexpected rent of ₹ 1,39,000 and actual rent of ₹ 2,00,000. Thereafter, unrealized rent of ₹ 20,000 and municipal taxes of ₹ 15,000 would be deducted from GAV of ₹ 2,00,000 to arrive at the NAV of ₹ 1,65,000

(b)

I	**Tax consequences in the hands of Mr. Soham**
	As per section 43CA, where the consideration received or accruing is less than the stamp duty value of an asset (other than capital asset), being land or building or both and such stamp duty value exceeds 110% of the consideration received or accruing, then the stamp duty value shall be deemed to be the full value of the consideration. However, where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement. In this case, since **₹** 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Since such stamp duty value (₹ 1.75 crores) exceed 110% of the consideration received (₹ 1.50 crores), business income would be computed in the hands of Mr. Soham, for A.Y.2025-26, taking sale consideration of ₹ 1,75,00,000 as the full value of consideration arising on transfer.
II	**Tax consequences in the hands of Mr. Aman**
	In case, immovable property is received for inadequate consideration, the difference between the stamp duty value and actual consideration would be taxable under section 56(2)(x) in the hands of the recipient, if such difference exceeds the higher of ₹ 50,000 and 10% of actual sales consideration. Where the date of agreement is different from the date of registration, stamp duty value on the date of agreement can be considered provided whole or part of the considered is received by way of account payee cheque/ bank draft/ ECS or through any other prescribed modes on or before the date of agreement. In this case, since ₹ 25 lakhs is received by cash on the date of agreement, stamp duty value on the date of registration is to be considered. Accordingly, ₹ 25,00,000 would be taxable in the hands of Mr. Aman under the head "Income from Other Sources" in A.Y.2025-26 since the difference of ₹ 25,00,000 exceed ₹ 15,00,000, being the higher of ₹ 50,000 and ₹ 15,00,000 (10% of consideration).

4. (a) Computation of Total Income of Mr. Mohan for A.Y. 2025-26

Particulars	Amount (₹)	Amount (₹)
Income from house property		
House in Delhi [Since Mr. Mohan receives direct or indirect benefit from income arising to his brother's daughter, Ms. Veena, from the transfer of house to her without consideration, such income is to be included in the total income of Mr. Mohan as per proviso to section 62(1), even though the transfer may not be revocable during lifetime of Ms. Veena]		
Gross Annual Value[1]	6,50,000	
Less: Municipal taxes	-	
Net Annual Value	6,50,000	
Less: Deductions from Net Annual Value		
(a) 30% of Net Annual Value	1,95,000	
(b) Interest on loan	-	
		4,55,000
Profits and gains from business or profession		
Share of profit from firm [Exempt u/s 10(2A)] Exempt income cannot be clubbed	-	
Capital Gains		
Long term capital gain from sale of property	15,000	
Less: Short-term capital loss can be set-off against both short-term capital gains and long-term capital gains[2]. Short term capital loss of ₹ 16,000 set off against long-term capital gains to the extent of ₹ 15,000[3].	15,000	-
Income from other sources		
Dividend on preference shares [Taxable in the hands of Mr. Mohan as per section 60, since he transferred the income, i.e., dividend, without transferring the asset, i.e., preference shares]	10,00,000	
Interest from saving bank account	2,00,000	
Cash gift [Taxable as per section 56(2)(x), since sum of money exceeding ₹ 50,000 is	75,000	

[1] *Rent receivable has been taken as the gross annual value in the absence of other information*
[2] as per section 74(1)
[3] as per section 74(1)

received from his niece, who is not a relative]		
Income from betting [No loss is allowed to be set off against such income]	34,000	
Income from card games [No loss is allowed to be set off against such income]	46,000	13,55,000
Gross Total Income		**18,10,000**
Less: **Deduction under Chapter VI-A**		
Deduction under section 80TTA [Not allowable under default tax regime]	Nil	Nil
Total Income		**18,10,000**

Losses to be carried forward to A.Y. 2026-27

Particulars	Amount (₹)
Short term capital loss [₹ 16,000 – ₹ 15,000]	1,000
Loss on maintenance of race horses [Loss incurred on maintenance of race horses cannot be set-off against income from any source other than the activity of owning and maintaining race horses. Hence, such loss has to be carried forward to A.Y.2026-27]	14,600

(b) First Alternative

As per sixth proviso to section 139(1), every person, being an individual whose total income without giving effect to the provisions of, *inter alia,* section 54EC and Chapter VI-A exceeds the basic exemption limit, is compulsorily required to furnish return of income on or before the due date.

Therefore, in the present case, Mr. Prince, a senior citizen is required to file return of income, since his total income of ₹ 3,90,000 before giving effect to the exemption under section 54EC and deduction of ₹ 1,50,000 under Chapter VI-A, exceeds the basic exemption limit of ₹ 3,00,000 applicable in his case.

(b) Second Alternative

(i) **True:** Section 139A(2) provides that the Assessing Officer may, having regard to the nature of transactions as may be prescribed, also allot a PAN to any other person, whether any tax is payable by him or not, in the manner and in accordance with the procedure as may be prescribed.

(ii) **False:** Section 140(b) provides that where the Karta of a HUF is absent from India, the return of income can be verified by any other adult member of the family; such member can be a male or female member.

ANSWERS OF MODEL TEST PAPER 7

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	(i)	(c)
	(ii)	(d)
	(iii)	(a)
2.	(i)	(b)
	(ii)	(b)
	(iii)	(b)

MCQ No.	Most Appropriate Answer
3.	(a)
4.	(b)

Division B – Descriptive Questions

1. Computation of total income and tax liability of Mr. Sahil for A.Y. 2025-26

	Particulars	₹	₹
I	**Income from house property**		
	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	**Profits and gains of business or profession**		
	Net Profit	94,92,000	
	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]	2,80,000	
	- 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]	49,000	
	- Loss on sale of shares	1,40,000	
	- Depreciation as per books of account	14,00,000	
		1,13,81,000	
	Less: Incomes credited to profit and loss account but not taxable as business income		
	- Dividend from Domestic Companies	1,05,000	
	- Winnings from lotteries	73,500	
	- Profit on sale of shares	3,15,000	
		1,08,87,500	
	Less: Depreciation allowable as per Income-tax Rules,1962		
	- On Plant & Machinery [@15% on ₹ 98,00,000, being opening WDV of ₹ 84 lakhs and additions put to use for more than 180 days of ₹ 14 lakhs + @7.5% on ₹ 14,00,000, being additions put to use for less than 180 days]	15,75,000	
	Business Income	93,12,500	
	Less: Set off of loss from house property as per section 71(3A)	2,00,000	
			91,12,500
III	**Capital Gains**		
	Long term capital gains taxable u/s 112A [Since shares are held for 2 years and STT has been paid]	3,15,000	
	Less: Set off of short term capital loss as per section 70(2)	1,40,000	1,75,000
IV	**Income from Other Sources**		
	Dividend from Domestic Companies	1,05,000	
	Winning from lotteries (₹ 31,500 + ₹ 73,500)	1,05,000	
			2,10,000
	Gross Total Income		94,97,500

	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 80EEA	60,000	
	Deduction under section 80G		
	Contribution to Prime Minister's Relief Fund	10,000	1,20,000
	Total Income		93,77,500
	Tax Liability		
	Tax on LTCG of ₹ 50,000 exceeding ₹ 1.25 lakhs] u/s 112A @12.5%		6,250
	Tax on winning from lotteries of ₹ 1,05,000 @30%		31,500
	Tax on balance income of ₹ 90,97,500 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 ₹ 90,97,500 @30%	24,29,250	25,41,750
			25,79,500
	Add: Surcharge @10% since total income exceeds ₹ 50 lakhs but does not exceed ₹ 1 crore		2,57,950
			28,37,450
	Add: Health and education cess @4%		1,13,498
	Tax Liability		**29,50,948**
	Tax liability (Rounded off)		**29,50,950**

2. (a) Computation of total income of Mr. Tilak for the A.Y. 2025-26

(if he is Resident and Ordinarily Resident - ROR)

	Particulars	**₹**
(i)	**FTS for services rendered in Malaysia** Global income is taxable in case of a ROR.	50,000
(ii)	**Profit from business in England controlled from Bombay** Global income is taxable in case of a ROR.	3,00,000
(iii)	**Past untaxed profits earned in Singapore and brought to India in current year**	Nil

(iv)	**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
(v)	**Income from agricultural land in Nepal, received there** Global income is taxable in case of a ROR	18,000
(vi)	**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. 2025-26
(if he is Resident but Not Ordinarily Resident - RNOR)

	Particulars	₹
(a)	**FTS for services rendered in Malaysia to a non-resident** In case of RNOR, FTS would not be taxable in India since neither services are utilised for business in India nor FTS 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.

3. (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. 2025-26.

(ii) Computation of deduction allowable u/s 35 for the A.Y. 2025-26

	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. 2023-24 – allowed as deduction u/s 35(1)(i) in the P.Y. 2024-25 as it was expended within the 3 years immediately preceding the commencement of business	2,00,000
Total deduction allowable		**10,00,000**

(b) **Computation of Taxable Capital Gains for A.Y.2025-26**

Particulars	₹
Full Value of Consideration	85,00,000
Less: Expenditure in connection with transfer	50,000
Net Sales Consideration	84,50,000
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 363/100]	47,19,000
Less: Indexed cost of improvements [₹ 10 lakhs x 363/220]	16,50,000
	20,81,000
Less: Exemption u/s 54 **–** in respect of residential house purchased on 20.12.2024	12,00,000
Taxable Long Term Capital Gains	**8,81,000**

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 ₹ 31,88,514 (₹ 13,00,000 x 363/148) and taxable long term capital gains would be ₹ 24,11,486.

4. (a) Computation of total income of Mr. Joshi for the A.Y.2025-26

Particulars	₹	
Income from house property	2,00,000	
Less: Set-off of brought forward loss from house property of A.Y. 2022-23 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. 2014-15 not allowable as 8 years' time has already lapsed in the A.Y. 2022-23	Nil	
Less: Set off of unabsorbed depreciation of A.Y. 2014-15	1,00,000	2,00,000
[**Note –** 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. 2019-20 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 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. 2024-25, 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.

(b) [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.

ANSWERS OF MODEL TEST PAPER 8

INTERMEDIATE COURSE: GROUP-I

PAPER – 3: TAXATION

SECTION – A: INCOME TAX LAW

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer
1.	**(i)**	**(c)**
	(ii)	**(b)**
	(iii)	**(b)**
2.	**(i)**	**(c)**
	(ii)	**(c)**
	(iii)	**(a)**

MCQ No.	Most Appropriate Answer
3.	**(c)**
4.	**(d)**

Division B – Descriptive Questions

1. Computation of total income and tax liability of Mr. Raman for A.Y. 2025-26 under default tax regime

	Particulars	₹	₹
I	**Income from house property**		
	Gross Annual Value of first floor (Rent received has been taken as gross annual value in the absence of other information) [₹ 35,000 x 12]	4,20,000	
	Less: Municipal taxes (paid by tenant, Mr. Aman, hence not deductible)	Nil	
	Net Annual Value	4,20,000	
	Less: Deduction @30% of NAV	1,26,000	
			2,94,000
II	**Profits and gains of business or profession**		
	Net Profit	9,25,000	
	***Add:* Expenses debited to Profit and loss A/c but not allowable as deduction or to be considered under other heads of income**		
	- Interest on delay in deposit of GST [Interest on delay in deposit in GST is compensatory in nature and hence, allowable as expenditure]	Nil	
	- Fee for technical services to non-resident [100% disallowed under section 40(a)(i) since the TDS was not deducted]	3,88,000	

	- Fire insurance premium [Fire insurance premium for ground floor which is occupied for business purpose is allowed since Mr. Raman is following mercantile system of accounting. Remaining half for let out portion is disallowed] [₹ 66,000/2]	33,000	
	- Contribution to scientific research association approved u/s 35 [Not allowable under section 35(1)(ii) as per default tax regime]	75,000	
	- Municipal taxes for ground floor [Allowable since the ground floor is occupied for business purpose]	Nil	
	- Sum payable for purchase of raw material from M/s Paul Industries, a micro enterprise [Not allowable as per section 43B(h) since payment was made to a micro enterprise on 5.4.2025 which is beyond the time limit specified u/s 15 of the MSMED Act, 2006 i.e., within 15 days from 10.3.2025]	49,000	
	- Sum payable for purchase of raw material from M/s Kal Industries, a small enterprise [Allowable as per section 43B(h) since payment was made to a small enterprise on 5.4.2025 i.e., within 15 days from 31.3.2025. However, since the payment is made in cash on 5.4.2025, ₹ 1,34,000 for purchase of raw material would be the deemed income of P.Y. 2025-26 as per section 40A(3A)]	Nil	
		14,70,000	
	***Less:* Incomes credited to profit and loss account but not taxable as business income**		
	- Rent received for let out portion	4,20,000	
	- Gain on sale of land	4,00,000	
		6,50,000	
	Less: Depreciation		
	- On trademark [₹ 2,00,000 x 25% x 50%, since trademark is put to use for less than 180 days]	25,000	
	- On Car [₹ 5,40,000 x 15%]	81,000	

	- On new Plant & machinery [₹ 2,50,000 x 15%]	37,500	
	- On Building [₹ 8,00,000 x 10%]	80,000	
	Additional depreciation		
	- On new Plant & machinery [Not allowable under default tax regime]	Nil	
	Income from Business		4,26,500
III	**Capital Gains**		
	Full value of consideration	44,00,000	
	Less: Cost of acquisition	40,00,000	
	Short term capital gains on land [Since land is held for less than 24 months]		4,00,000
	Gross Total Income		**11,20,500**
	Less: Deduction under Chapter VI-A [Not allowable under default tax regime]		Nil
	Total Income		**11,20,500**
	Tax Liability		
	Up to ₹ 3,00,000	Nil	
	From ₹ 3,00,001 to ₹ 7,00,000 @5%	20,000	
	From ₹ 7,00,001 to ₹ 10,00,000 @10%	30,000	
	From ₹ 10,00,001 to ₹ 11,20,500 @15%	18,075	
			68,075
	Add: Health and education cess @4%		2,723
	Tax Liability		**70,798**
	Tax Liability (Rounded off)		**70,800**

Computation of total income and tax liability of Mr. Raman for A.Y. 2025-26 under normal provisions of the Act

	Particulars	₹	₹
	Gross Total Income as per default tax regime		11,20,500
	Less: Additional depreciation on new Plant & machinery [₹ 2,50,000 x 20%]		50,000
	Less: Contribution to scientific research association approved u/s 35		75,000
	Gross Total Income as per normal provisions of the Act		**9,95,500**

	Less: **Deduction under Chapter VI-A**		
	Deduction under section 80C		
	Tuition fees to a college for daughter's education	25,000	
	Deduction under section 80D		
	Preventive health check-up for self and parents restricted to	5,000	
	Deduction under section 80GGC		
	Donation to a registered political party since the payment is made otherwise than by cash	20,000	
			50,000
	Total Income as per normal provisions of the Act		**9,45,500**
	Tax Liability		
	Up to ₹ 3,00,000	Nil	
	From ₹ 3,00,001 to ₹ 5,00,000 @5%	10,000	
	From ₹ 5,00,001 to ₹ 9,45,500 @20%	89,100	
			99,100
	Add: Health and education cess @4%		3,964
	Tax Liability		**1,03,064**
	Tax Liability (Rounded off)		**1,03,060**

2. (a) Residential Status of Mr. Madan

Mr. Madan, an Indian citizen who left India on 1st September 2024 for the purpose of employment to USA, would be non-resident in India, since he stayed in India for 169 days (30+31+30+31+31+1+15) only during the P.Y. 2024-25 which is less than 182 days.

Residential Status of HUF

Since Mr. Madan is managing the HUF for part of the year from India, control and management of its affairs is situated partly in India.

Hence, the HUF would be resident in India for the P.Y. 2024-25.

A HUF is said to be "Resident and ordinarily resident" in India during the previous year 2024-25, if Karta (Mr. Madan, in this case) satisfies both the following conditions:

- He is a resident in at least 2 out of 10 previous years preceding the relevant previous year; and
- His stay in India in the last 7 years preceding the relevant previous year is 730 days or more.

Mr. Madan has satisfied both the above conditions as he had never gone out of India except for 99 days and 201 days in the P.Y. 2023-24 and P.Y. 2022-23, respectively, the HUF would be ROR in India.

Computation of Gross Total Income of Mr. Madan
for the A.Y. 2025-26

	Amount in ₹
Income under the head "Salaries"	
Salary earned in India: [₹ 65,500 x 5 + ₹ 65,500 x15/31]	3,59,194
Salary paid in USA: [Not taxable as Mr. Madan is a non-resident and such income does not accrue or arise or received in India]	Nil
Less: Standard Deduction	50,000
	3,09,194
Income from other sources	
Difference between the consideration of ₹ 18 lakhs and stamp duty value of ₹ 23 lakhs of the residential property acquired [Taxable, since the difference of ₹ 5 lakhs exceed ₹ 1,80,000, being the higher of 10% of the consideration and ₹ 50,000]	5,00,000
Sculpture received as gift from Rajeev, his friend in India [Not taxable as the value does not exceed ₹ 50,000]	Nil
Gross Total Income	**8,09,914**

(b) (i) M/s PQR & Co. is required to deduct tax at source under section 194J @10% on the professional fees paid to Mr. Amit of ₹ 30,500 and ₹ 60,000 on 1st June 2024 and 30th January 2025, respectively, since M/s PQR & Co. turnover/gross receipts exceeds the prescribed threshold limit of ₹ 1 crore during the P.Y. 2023-24.

For non-deduction of tax at source, interest @1% would be leviable under section 201(1A)(i) for every month or part of the month on the amount of tax from the date on which such tax was deductible to the date such tax was paid by the payee i.e., 2.5.2025.

Interest @1% on ₹ 3,050 (10% of ₹ 30,500) from June 2024 to May 2025 = ₹ 366 and on ₹ 6,000 (10% of ₹ 60,000) from January, 2025 to May 2025 = ₹ 300 is payable by M/s PQR & Co.

(ii) M/s. Fastest Ltd. is not required to collect tax at source u/s 206C(1F) on sale of cars of ₹ 150 lakhs to M/s. Race LLP, since such sale is to a distributor and sale price of each car does not exceed ₹ 10 lakhs.

M/s. Race LLP is also not required to deduct tax at source u/s 194Q, since its turnover, being a buyer in the P.Y. 2023-24 does not exceed ₹ 10 crores.

However, M/s Fastest Ltd. is required to collect tax at source u/s 206C(1H) @0.1% on the sale consideration exceeding ₹ 50 lakhs i.e. on ₹ 100 lakhs since turnover of M/s Fastest Ltd. exceeds ₹ 10 crores and TCS u/s 206C(1F) and TDS u/s 194Q is not applicable.

3. (a) **Computation of taxable salary of Mr. Radhey for A.Y.2025-26**

Particulars		₹
Basic Pay [₹ 35,000 x 10 + ₹ 40,000 x 2]		4,30,000
Dearness Allowance [₹ 4,30,000 x 30%]		1,29,000
Value of Rent-free accommodation		
Value of Rent-free accommodation {10% of ₹ 4,99,660 i.e., [₹ 4,30,000, basic salary) + ₹ 69,660 (₹ 1,29,000 x 54%, DA)}	49,966	
Add: Value of furniture [₹ 1,50,000 × 10% p.a.]	15,000	64,966
Facility of use of electricity [Electricity and water bills paid by the employer would be taxable as perquisite] [₹ 4,000 x 12]		48,000
Refresher course for upgrading skills [Tax free perquisite]		Nil
Value of medical treatment [Exempt, since medical treatment for wife is in notified hospital]		Nil
Gross Salary		**6,71,966**
Less: Deduction under section 16 - Standard deduction		75,000
Taxable Salary		**5,96,966**

(b) **Computation of Capital Gains of Mr. Raj for A.Y.2025-26**

Particulars		₹
Capital gain on sale of urban agricultural land		
Actual sale consideration	75,00,000	
Stamp duty value as on date of agreement i.e., on 15.7.2024 [Since part consideration is received through IMPS on the date of agreement]	85,00,000	
Full Value of Consideration [Stamp duty value on the date of agreement since it exceeds 110% of the actual sale consideration]		85,00,000
Less: Expenditure in connection with transfer [1% of sale consideration i.e., ₹ 75 lakhs]		75,000
Net Sales Consideration		84,25,000
Less: Cost of acquisition		10,85,000
		73,40,000
***Less*: Exemption u/s 54B –** In respect of rural agricultural land purchased on 1.1.2025. Mr. Raj is eligible to claim exemption u/s 54B since he has used		40,00,000

the urban agricultural land for agricultural purposes for more than 2 years preceding the date of its transfer.	
Long term capital gain	**33,40,000**

4. (a) Computation of total income of Mr. Suraj, Mrs. Megha and minor son Dev for A.Y. 2025-26

Particulars	Mr. Suraj [Under default tax regime] ₹	Mrs. Megha [Under normal provisions] ₹	Dev [Under normal provisions] ₹
Income from house property			
Annual Value [As per section 27, Mrs. Megha is the deemed owner of the house property transferred to minor son, Dev without consideration though such property is acquired from her "Stridhan"] [₹ 35,000 x12]		4,20,000	
Less: Deduction @30% of NAV		1,26,000	
		2,94,000	
Brought forward loss from House A [Not allowed to be set-off against income from other heads]	-		
Current year loss of Mr. Suraj from House – B [Not allowed to be set-off against income from other heads since Mr. Suraj is paying tax under default tax regime]	-		
Profits and gains from business or profession			
Salary from partnership firm	6,15,000		
Less: As per section 70, set off of current year loss from business of ₹ 8,10,000 to the extent of [Current year loss from business of his wife is allowed to be set off in the hands of Mr. Suraj since	6,15,000		

funds for business is gifted by him]			
Income from Other Sources	**-**		
Interest on enhanced compensation [Taxable in the year it is received]	2,00,000		
Less: Deduction @50%	1,00,000		
	1,00,000		
Gift from grandfather's sister [Taxable under section 56(2)(x), since grandfather's sister is not a relative and the amount of gift exceeds ₹ 50,000]	1,25,000		
Dividend on shares (gross)	50,000		
Maturity proceeds from LIC [Exempt under section 10(10D) since the annual premium payable does not exceed 10% of sum assured]	-		
	2,75,000		
Less: Set off of remaining business loss of ₹ 1,95,000	1,95,000		
	80,000		
Gift of house property from Mrs. Megha to Dev [Exempt since the gift is from a relative i.e., from his mother]			Nil
Gross total income	**80,000**	**2,94,000**	**-**

(b) First Alternative

(i) The due date of filing return of income of Vegetable Ltd for the A.Y.2024-25 is 31st October, 2024 since it is a company.

However, it filed its return of income on 15.12.2024, which is a belated return.

If any omission is discovered even in a belated return, the same can also be revised up to 31.12.2024 being the date 3 months prior to the end of the relevant assessment year i.e. 31.03.2025 or completion of assessment, whichever is earlier.

However, it cannot file a revised return on 02.01.2025 since it is beyond 31.12.2024. Hence, the action of accountant of Vegetable Ltd is not valid.

(ii) Since Mr. Mahendra is a resident individual, not being a company or a person whose accounts are required to be audited under section 44AB for the P.Y. 2024-25, and therefore he can file his return of income for A.Y. 2025-26 through a Tax Return Preparer.

(b) Second Alternative

An updated return can be furnished for the previous year relevant to the assessment year at any time within 24 months from the end of the relevant assessment year.

Accordingly, the following are the suggestions to Rani with respect to updated return on 16.5.2025 for A.Y. 2022-23, A.Y. 2023-24 and A.Y. 2024-25:

A.Y. 2022-23: Since the period of 24 months from the end of A.Y. 2022-23 expired on 31.3.2025 updated return cannot be furnished on 16.5.2025 for A.Y. 2022-23.

A.Y. 2023-24: For A.Y. 2023-24, updated return can be furnished up to 31.3.2026. Thus, updated return can be furnished on 16.5.2025.

Since updated return would be furnished after the expiry of 12 months but before 24 months from the end of 31.3.2024, additional income tax would be payable @50% of aggregate of tax (after taking into consideration tax deducted at source) and interest payable.

In this case, since the refund of ₹ 4,40,000 (₹ 5,60,000, being tax liability - ₹ 10,00,000, being TDS deducted) would arise, updated return cannot be furnished for A.Y. 2023-24.

A.Y. 2024-25: - For A.Y. 2024-25, updated return can be furnished up to 31.3.2027. Thus, updated return can be furnished on 16.5.2025.

Since updated return would be furnished before the expiry of 12 months from the end of 31.3.2025, additional income tax would be payable @25% of aggregate of tax (after taking into consideration tax deducted at source and self-assessment tax paid) and interest payable.

Accordingly, Rani is required to pay additional income-tax of ₹ 1,05,000 i.e., 25% of ₹ 4,20,000 [₹ 3,30,000 (₹ 6,30,000 – ₹ 2,00,000 – ₹ 1,00,000) + ₹ 90,000] in addition to tax payable of ₹ 3,30,000, interest payable of ₹ 90,000 and late fees of ₹ 5,000.

ANSWERS OF MODEL TEST PAPER 1

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1	(b)	Invoice shall be issued before or at the time of removal of smartphones to distributors.
2	(b)	ITC of ₹ 18 lakh can be claimed and value of asset on which depreciation can be claimed under the provisions of Income-Tax Act, 1961 shall be ₹ 1 crore.
3	(a)	The demerged entity shall be treated as related party of the Company.
4	(d)	72 months from due date of furnishing annual return for the relevant financial year
5	(a)	45 days
6	(c)	The restriction of 180 days for payment of consideration is not applicable in the present case.
7	(b)	2 days
8	(c)	Both (a) and (b)

Division B - Descriptive Questions

1. (a) Computation of GST payable on outward supplies

S. No.	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
(i)	Intra-State supply of goods for ₹ 4,00,000 [Note-1]	36,000	36,000	Nil
(ii)	Services rendered by way of labour contracts for repairing a single residential unit otherwise than as a part of residential complex [Note-2]	9,000	9,000	Nil
(iii)	Services provided by way of training in recreational activities relating to sports [Note-3]	Nil	Nil	1,800
(iv)	Inter-State security services provided to Bharat higher secondary school for their annual day function to be held in Kaman Auditorium.[Note-4]	Nil	Nil	2,700
	Total GST payable	**45,000**	**45,000**	**4,500**

Notes

1. A registered person (excluding composition supplier and registered persons making supply of specified actionable claims) has to pay GST on the outward supply of goods at the time of supply as specified in section 12 of the CGST Act, 2017, i.e. date of issue of invoice or the last date on which invoice ought to have been issued. Thus, liability to pay tax on the advance received in January will also arise in the month of February, when the invoice for the supply is issued.
2. Services by way of pure labour contracts of construction, erection, commissioning, or installation of original works pertaining to a single residential unit otherwise than as a part of a residential complex are exempt. Labour contracts for repairing are thus, taxable.
3. Services by way of training in sports is exempt under GST, only if provided by charitable entities registered under section 12AA or section 12AB of the Income-tax Act,1961. Thus, in the given case, said service is taxable.
4. Security services provided to Bharat higher secondary School for Annual Day function organised outside the school campus will be taxable as only the security services performed within the premises of the higher secondary school are exempt.

Computation of total ITC

Particulars	**CGST @ 9% (₹)**	**SGST @ 9% (₹)**	**IGST @ 18% (₹)**
Opening ITC	57,000	Nil	50,000
Add: Purchase of goods from a composition dealer [ITC is not available in case of supply of goods where tax has been paid under composition scheme]	Nil	Nil	Nil
Add: Membership of a club [Blocked credit]	Nil	Nil	Nil
Add: Goods transport services received from GTA [Input tax credit is available for the services received from GTA as the same are used in the course or furtherance of business.]	Nil	Nil	24,000
Add: Inputs to be received in 4 lots, out of which 2nd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil	Nil	Nil
Total ITC	**57,000**	**Nil**	**74,000**

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable	45,000	45,000	4,500
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(24,500) IGST (3)	(45,000) IGST (2)	(4,500) IGST (1)
Less: ITC of CGST to be used against CGST	(20,500) CGST		
Minimum GST payable in cash	**Nil**	**Nil**	**Nil**

Note: Since sufficient balance of ITC of CGST is available for paying CGST liability and cross utilization of ITC of CGST and SGST is not allowed, ITC of IGST has first been used to pay SGST (after paying IGST liability) and then CGST to minimize cash outflow.

(b) Computation of GST liability

S. No.	Particulars	Mridul Traders (₹)	Kalu Motors Ltd. (₹)
(i)	Price of goods	10,000	30,000
(ii)	*Add:* Packing charges (Note-1)	500	
(iii)	*Add*: Commission (Note-1)	500	
(iv)	*Add:* Weighment charges (Note-1)	-	2,000
(v)	*Less:* Discount for prompt payment (Note-2)	-	1,000
	Value of taxable supply	11,000	31,000
	IGST payable @ 18% (Note-3)	**1,980**	
	CGST payable @ 9% (Note-4)		**2,790**
	SGST payable @ 9% (Note-4)		**2,790**

Notes:

1. Incidental expenses, including commission and packing, charged by supplier to recipient of supply is includible in the value of supply. Weighment charges are also incidental expenses, hence includible in the value of supply [Section 15 of the CGST Act, 2017].
2. Since discount is known at the time of supply, it is deductible from the value in terms of section 15 of the CGST Act, 2017.
3. Section 10 of the IGST Act, 2017 provides that where the supply involves movement of goods, the place of supply of such goods

shall be the location of the goods at the time at which the movement of goods terminates for delivery to the recipient. Thus, place of supply is Gujarat.

Further, where the location of the supplier and the place of supply are in two different States, supply of goods shall be treated as a supply of goods in the course of inter-State trade or commerce. Since supply made to Mridul Traders is an inter-State supply, IGST is payable.

2. (a)

S. No.	Particulars	Taxability
(i)	Supply of manpower for cleanliness of roads not involving any supply of goods. [Pure services provided to Government are exempt.]	Exempt
(ii)	Service provided by Fair Price Shops by way of sale of sugar under Public Distribution System [Service provided by Fair Price Shops to Government by way of sale of sugar under Public Distribution System against consideration in the form of commission is exempt.]	Exempt
(iii)	Service of maintenance of street lights in a Municipal area involving replacement of defunct lights and other spares constituting 35% of the supply of service. [Composite supply of goods and services to Government in which the value of supply of goods constitutes not more than 25% of the value of the said composite supply is exempt. Since, in this case value of supply of goods constitutes 35% of the supply of composite service, same is taxable.]	Taxable
(iv)	Service of brochure distribution provided under a training programme. [Services provided to the Government under any training programme for which 75% or more of the total expenditure is borne by the Government is exempt. Since in the given case, 70% of the total expenditure is borne by the Government, it is taxable.]	Taxable

(b) (i) As per Para I of Schedule III of the CGST Act,2017 services by an employee to the employer in the course of or in relation to his employment are non-supplies, i.e. they are neither supply of goods nor supply of services. Services provided by the independent directors who are not employees of the said company to such company, in lieu of remuneration as the consideration for the said services, are clearly outside the scope of Schedule III of the CGST

Act and are therefore taxable. Further, such remuneration paid to the directors is taxable in hands of the company, on reverse charge basis.

Thus, GST is applicable in this case and Star Company Private Limited is liable to pay GST.

(ii) The part of director's remuneration which is declared as salaries in the books of a company and subjected to TDS under section 192 of the Income-tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III of the CGST Act,2017.

Further, the part of employee director's remuneration which is declared separately other than salaries in the company's accounts and subjected to TDS under section 194J of the IT Act as fees for professional or technical services are treated as consideration for providing services which are outside the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the company, is liable to discharge the applicable GST on it on reverse charge basis.

In lieu of the above provisions, ₹ 60,000 declared as salaries in the books of Star Company Private Limited and subjected to TDS under section 192 of the Income-Tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III of the CGST Act,2017.

Further, ₹ 65,000 declared separately other than salaries in the Star Company Private Limited's accounts and subjected to TDS under section 194J of the IT Act as professional services is treated as consideration for providing services which is outside the scope of Schedule III of the CGST Act,2017 and is therefore, taxable. The recipient of the said services i.e. the Star Company Private Limited, is liable to discharge the applicable GST on it on reverse charge basis.

3. **(a)** As per section 22 of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to get registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

(c) ₹ 40 lakh for rest of India except persons engaged in making supplies of fly ash bricks/blocks, building bricks, bricks of fossil meals, earthen/roofing tiles, ice cream and other edible ice, whether or not containing cocoa, Pan masala and Tobacco and manufactured tobacco substitutes.

In the light of the afore-mentioned provisions, the answer to the independent cases is as under:

(i) The benefit of enhanced threshold limit of registration of ₹ 40 lakh is not applicable for Om Sai brothers even though it is exclusively engaged in intra-State taxable supply of goods in Delhi as it is engaged in making supplies of building bricks. Thus, the applicable threshold limit for registration for Om Sai Builders in the given case is ₹ 20 lakh. Thus, it is liable to get registered under GST as it's turnover is more than the threshold limit.

(ii) Hukum Chand could have been eligible for enhanced threshold limit of turnover for registration, i.e. ₹ 40 lakh as he is exclusively engaged in intra-State supply of goods. However, since Hukum Chand is engaged in supplying footwear from a Special Category State i.e. Nagaland, the threshold limit gets reduced to ₹ 10 lakh. Thus, Hukum Chand is liable to get registered under GST as his turnover exceeds ₹ 10 lakh. Further, he is required to obtain registration in both Himachal Pradesh and Nagaland as he is making taxable supplies from both the States.

(b) A supplier who has opted for composition scheme is not required to maintain records relating to;

(i) Stock of goods: Accounts of stock in respect of goods received and supplied by him, and such accounts shall contain particulars of the opening balance, receipt, supply, goods lost stolen, destroyed, written off or disposed of by way of gift or free sample and the balance of stock including raw materials, finished goods, scrap and wastage thereof.

(ii) Details of tax: Account, containing the details of tax payable (including tax payable under reverse charge), tax collected and paid, input tax, input tax credit claimed, together with a register of tax invoice, credit notes, debit notes, delivery challan issued or received during any tax period.

Thus, Mr. Mehta is not required to maintain above mentioned records.

4. (a) In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held.

Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard.

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed in accordance with IGST Rules by the application of generally accepted accounting principles.

Or

(a) It has been clarified vide a circular that securities are considered neither as goods nor as services in terms of definition of goods and the definition of services. Further, securities include 'shares' as per definition of securities.

This implies that the securities held by the holding company in the subsidiary company are neither goods nor services. Further, purchase or sale of shares or securities, in itself is neither a supply of goods nor a supply of services. For a transaction/activity to be treated as supply of services, there must be a supply as defined under section 7 of the CGST Act, 2017. It cannot be said that a service is being provided by the holding company to the subsidiary company, solely on the basis that there is a specific SAC entry in the scheme of classification of services, unless there is a supply of services by the holding company to the subsidiary company in accordance with section 7 of the CGST Act, 2017.

Therefore, the activity of holding of shares of subsidiary company by the holding company *per se* cannot be treated as a supply of services by a holding company to the said subsidiary company and cannot be taxed under GST.

(b) In GST since the returns are built from details of individual transactions, there is no requirement for having a revised return. Any need to revise a return may arise due to the need to change a set of invoices or debit/ credit notes. Instead of revising the return already submitted, the system allows amendment in the details of those individual details of those transactions (invoices or debit/credit notes) that are required to be amended. They can be amended in any of the future GSTR-1 in the tables specifically provided for the purposes of amending previously declared details.

Omission or incorrect particulars discovered in the returns filed under section 39 of the CGST Act, 2017 can be rectified in the return to be filed for the month during which such omission or incorrect particulars are noticed. Any tax payable as a result of such error or omission will be required to be paid along with interest. The rectification of errors/omissions is carried out by entering appropriate particulars in "Amendment Tables" contained in GSTR-1. However, no such rectification of any omission or incorrect particulars is allowed after 30th November following the end of the financial year to which such details pertain, or the actual date of furnishing of relevant annual return, whichever is earlier.

ANSWERS OF MODEL TEST PAPER 2

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1	(b)	The tax is payable at the time of supply of goods
2	(b)	₹ 5 crores
3	(a)	Company has an option to issue single credit note against multiple invoices.
4	(d)	transaction value subject to the conditions mentioned in Section 15(2) of the CGST Act, 2017.
5	(a)	The Company shall be eligible to avail full input tax credit.
6	(c)	Invoice by Maharashtra unit to the Gujarat unit of the Company
7	(c)	Mr. Jambulal is liable to obtain registration as he makes the inter-State supply of goods.
8	(b)	No, service by way of renting of residential property is exempt.

Division B - Descriptive Questions

1. (a) **Computation of GST payable**

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge				
Carnatic music performance given to promote a brand of readymade garments [Carnatic music performance by Mr. Nandan lal is not exempt from GST even though the consideration charged does not exceed ₹ 1,50,000 since said performance has been made by him as a brand ambassador.]	1,40,000	12,600	12,600	Nil
Services of transportation of students provided to HSMG College [Services of transportation of students provided to an educational institution other	1,00,000	9,000	9,000	Nil

than an institution providing pre-school education or education up to higher secondary school, are not exempt.]				
Services provided to IFMP Bank as a business correspondent. [Services provided by a business correspondent to a banking company are not exempt when such services are provided with respect to accounts in its urban area branch.]	2,00,000	18,000	18,000	Nil
Services provided as a recovery agent [Tax is payable under forward charge since recovery agent's services are being provided to a person other than banking company/financial institution/ non-banking financial company.]	15,000	1,350	1,350	Nil
Total GST payable under forward charge (A)		40,950	40,950	Nil
GST payable under reverse charge				
Legal services availed from an advocate. [Legal services received by a business entity with aggregate turnover in the preceding financial year exceeding threshold limit for registration (₹ 20 lakh) are not exempt and tax on the same is payable under reverse charge.]	1,75,000	Nil	Nil	31,500
Total GST payable under reverse charge (B)		Nil	Nil	31,500
Total GST payable [(A)+(B)]		**40,950**	**40,950**	**31,500**

Computation of total ITC available

Particulars	Value of supply (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Outdoor catering services availed [ITC on outdoor catering services is blocked except when such services are (i) used by the taxpayer who is in the same line of business or (ii) provided by the employer to its employees under a statutory obligation.]	50,000	Nil	Nil	Nil
Legal services availed [ITC is available as said services are used in course or furtherance of business.]	1,75,000	Nil	Nil	31,500
General insurance taken on a car (seating capacity 5) used for official purposes [ITC on motor vehicles for transportation of persons with seating capacity ≤ 13 persons (including the driver) is blocked except when the same are used for (i) making further taxable supply of such motor vehicles (ii) making taxable supply of transportation of passengers (iii) making taxable supply of imparting training on driving such motor vehicles. Further, ITC is not allowed on services of general insurance relating to such ineligible motor vehicles.]	40,000	Nil	Nil	Nil
Total ITC available		**Nil**	**Nil**	**31,500**

Computation of net GST payable in cash

Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
GST payable under forward charge	40,950	40,950	Nil

Less: ITC of IGST[1] [Refer Note]	(15,750) IGST	(15,750) IGST	-
	25,200	25,200	Nil
Add: GST payable under reverse charge in cash [Tax payable under reverse charge, being not an output tax, cannot be set off against ITC and thus, will have to be paid in cash.]	Nil	Nil	31,500
Net GST payable in cash	**25,200**	**25,200**	**31,500**

Note: ITC of IGST can be utilised towards payment of CGST and SGST in any proportion and in any order.

(b) Computation of value of taxable supply made by M/s. LSP to Balwant Ltd.

Particulars	**Amount (₹)**
Price of the machine [Since the price linked subsidy is received from the State Government, the same is not includible in the value of supply]	20,000
Third party inspection charges [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply]	6,000
Freight charges for delivery of the machine [Since arranging freight is the liability of supplier, it is a case of composite supply and thus, freight charges are added in the value of principal supply.]	1,000
Total	27,000
Less: Discount @ 2% on ₹ 20,000 being price charged to Balwant Ltd. [Discount given before or at the time of supply if duly recorded in the invoice is deductible from the value of supply]	400
Value of taxable supply	**26,600**

2. (a) (i) Services provided by way of renting of residential dwelling for use as residence except where the residential dwelling is rented to a registered person is exempt from GST. Further, tax on service provided by way of renting of residential dwelling to a registered

[1] *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 different ways as well. In all such cases, net CGST and net SGST payable from Electronic Cash Ledger will differ though the total amount of net GST payable (` 81,900) in cash will remain the same.*

person is payable by the recipient under reverse charge.

Therefore, in the given case, Anant Technologies is liable to pay GST on the residential dwellings taken on rent by it from Sapna Builders, under reverse charge mechanism.

(ii) In case of services provided by any person by way of sponsorship to any body corporate or partnership firm, GST is liable to be paid under reverse charge by such body corporate or partnership firm located in the taxable territory.

Since in the given case, sponsorship services are being provided by the private NGO to a partnership firm – M/s. Verma Consultants, GST is payable by Verma Consultants on said services under reverse charge.

(b) Section 10(2A) of the CGST Act, 2017 provides the turnover limit of ₹ 50 lakh in the preceding financial year for becoming eligible for composition levy for services. Little Smiles has started the supply of services in the current financial year (FY), thus, it's aggregate turnover in the preceding FY is Nil. Consequently, in the current FY, Little Smiles is eligible for composition scheme for services. A registered person opting for composition levy for services shall pay tax @ 3% [Effective rate 6% (CGST+ SGST/UTGST)] of the turnover of supplies of goods and services in the State.

Further, Little Smiles becomes eligible for the registration when the aggregate turnover exceeds ₹ 20 lakh (the threshold limit of obtaining registration). While registering under GST, Little Smiles can opt for composition scheme for services.

The option of a registered person to avail composition scheme for services shall lapse with effect from the day on which his aggregate turnover during a financial year exceeds the threshold limit of ₹ 50 lakh.

However, for the purposes of determining the tax payable under composition scheme, the expression "turnover in State" shall not include the value of supplies from the first day of April of a FY up to the date when such person becomes liable for registration under the CGST Act.

Thus, for determining the turnover of the State for payment of tax under composition scheme for services, turnover of April,2024 – June,2024 quarter [₹ 20 lakh] shall be excluded. On next ₹ 30 lakh [turnover of July, 2024 – September, 2024 quarter], it shall pay tax @ 6% [3% CGST and 3% SGST].

For the purposes of computing aggregate turnover of a registered person for determining his eligibility to pay tax under this section, aggregate turnover includes value of supplies from the 1st April of a FY up to the date of his becoming liable for registration.

Thus, while computing aggregate turnover for determining Little Smiles's eligibility to pay tax under composition scheme, value of supplies from the first day of April of a financial year up to the date when it becomes liable for registration under this Act (i.e. turnover of April,2024 – June,2024 quarter), are included.

By the end of July, 2024 – September, 2024 quarter, the aggregate turnover reaches ₹ 50 lakh. Consequently, the option to avail composition scheme for services shall lapse by the end of July, 2024 – September, 2024 quarter and thereafter, it is required to pay tax at the normal rate of 18%.

Considering the above provisions, the tax payable for each quarter is as under:-

S. No.	Quarter	GST rate [CGST + SGST]	Turnover (₹ in lakh)	GST payable (₹ in lakh)
1	April, 2024 – June, 2024	-	20	-
2	July, 2024 – September, 2024	6%	30	1.8
3	October, 2024 – December, 2024	18%	40	7.2

3. (a) A user will not be able to generate e-way bill for a GSTIN if the said GSTIN is not eligible for e-way bill generation.

The blocking of GSTIN for e-way bill generation is only for the defaulting supplier GSTIN and not for the defaulting Recipient or Transporter GSTIN.

A person paying tax under regular scheme who has not furnished the returns for a consecutive period of 2 tax periods is considered as a defaulting person.

Suspended GSTIN cannot generate e-way bill as supplier. However, the suspended GSTIN can get the e-way bill generated as recipient or as transporter.

In other words, e-way bill generation facility is blocked only in respect of any outward movement of goods of the registered person who is not eligible for e-way bill generation. E-way bills can be generated in respect of inward supplies of said registered person.

Thus, applying the above provisions, there will be no restriction in generating e-way Bill by Mr. Roshan as Mr. Roshan who is making outward movement of goods is a regular return filer.

E-way bill generation is blocked in case of movement of goods made by Mr. Sohan to Mr. Mohan as it’s an outward movement of goods of Mr. Sohan who has not filed GSTR-3B for past 2 months.

(b) The proper officer may cancel the registration of a person from such date, including any retrospective date, as he may deem fit, where,-

(a) a registered person has contravened the prescribed provisions; or

(b) a person paying tax under composition scheme has not furnished returns for a financial year beyond 3 months from due date of furnishing return; or

(c) any registered person, other than a person specified in clause (b), has not furnished returns for a prescribed period; or

(d) any person who has taken voluntary registration has not commenced business within six months from the date of registration; or

(e) registration has been obtained by means of fraud, wilful misstatement, or suppression of facts:

Thus, in view of the above-mentioned provisions, *suo-motu* cancellation of registration of Mr. Raj by proper officer is valid in law since Mr. Raj, a voluntarily registered person, has not commenced his business within 6 months from the date of registration.

Further, where the registration of a person is cancelled *suo-motu* by the proper officer, such registered person may, subject to the provisions of rule 10B, apply for revocation of the cancellation of registration to such proper officer, within 90 days from the date of service of the order of cancellation of registration.

However, the said period of 90 days may, on sufficient cause being shown and for reasons to be recorded in writing, be extended by the Commissioner or an officer authorised by him in this behalf, not below the rank of Additional Commissioner or Joint Commissioner, as the case may be, for a further period not exceeding 180 days.

Thus, considering the above provisions, the contention of Department is not valid in law as he has applied for revocation within the time limit of 90 days.

4. (a) There are cases where an unregistered person purchases goods over the counter (OTC) in one State and thereafter, transports the goods to another State (generally, the State where he resides). For instance, migrant workers, tourists, etc. who come to a State for work, tourism, etc. and purchase goods in that State to take it to their respective State. Similarly, in automobile sector, the residents of a State may travel to another State to purchase vehicle from that State to take advantage of lower registration charges and road tax, which vary from State to State and thereafter, take the vehicle to their State.

Where the supply of goods is made to a person other than a registered person, the place of supply shall be the location as per the address of the said person recorded in the invoice issued in respect of the said supply and the location of the supplier where the address of the said person is not recorded in the invoice.

For this purpose, recording of the name of the State of the said person in the invoice shall be deemed to be the recording of the address of the said person.

Or

(a) In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held.

Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard.

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed by the application of generally accepted accounting principles.

(b) The amount available in the electronic credit ledger may be used for making any payment towards output tax under the CGST Act or the IGST Act, subject to the provisions relating to the order of utilisation of ITC.

Further, output tax in relation to a taxable person is defined as the tax chargeable on taxable supply of goods or services or both but excludes tax payable on reverse charge mechanism.

Accordingly, it is clarified that any payment towards output tax, whether self-assessed in the return or payable as a consequence of any proceeding instituted under the provisions of GST laws, can be made by utilization of the amount available in the electronic credit ledger of a registered person.

It is further reiterated that as output tax does not include tax payable under reverse charge mechanism, implying thereby that the electronic credit ledger cannot be used for making payment of any tax which is payable under reverse charge mechanism.

ANSWERS OF MODEL TEST PAPER 3

SECTION B – GOODS AND SERVICES TAX

Division A – Multiple Choice Questions (MCQs)

Question No.	Answer
1.	(b) mixed supply; 18%
2.	(b) ₹ 70,000
3.	(a) ₹ 45,000
4.	(c) ₹ 1,50,000
5.	(b) Professional service availed from her son free of cost is considered as a deemed supply.
6.	(d) ₹ 1,60,000
7.	(c) (i) & (iv)
8.	(b) 1st October

Division B - Descriptive Questions

1. (a) Computation of net GST payable by ABC & Co. for the month of April

Particulars	Value of supply	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State statutory audit services	1,20,000	10,800	10,800	
Intra-State ITR filing services	1,60,000	14,400	14,400	
Inter-State internal audit services since place of supply is location of recipient, i.e. Mumbai, Maharashtra	1,80,000	-	-	32,400
Total output tax liability		25,200	25,200	32,400
Less: ITC [Refer Working Note] [CGST credit is set off against CGST liability and SGST credit is set off against SGST liability since CGST credit cannot be utilized towards payment of SGST liability and vice versa.]		(21,000)	(21,000)	
Net GST payable		**4,200**	**4,200**	**32,400**

Working Note:

Computation of ITC that can be availed

Particulars	**CGST (₹)**	**SGST (₹)**
Computation of eligible ITC		
Membership fee paid [ITC on membership of a club is blocked except when such services are provided by an employer to its employees under a statutory obligation.]	Nil	Nil
Office rent paid to landlord [No ITC since the supplier did not upload the details of invoice in his GSTR-1 and said details are not being reflected in GSTR-2B of the recipient.]	Nil	Nil
Professional fee paid [ITC on services used in the course/furtherance of the business is allowed.]	18,000	18,000
Air conditioner for office purpose [ITC on goods used in the course/furtherance of the business is allowed.]	3,000	3,000
Total eligible ITC	**21,000**	**21,000**

(b) Computation of value of taxable supply and tax liability

Particulars	**Amount (₹)**
Price of goods (exclusive of tax and discounts)	10,00,000
Add: Subsidy received from Jiva Enterprises Pvt. Ltd. [Subsidy provided by non-Government bodies and which is directly linked to the price, is includible.]	1,10,000
Add: Post-delivery inspection charges [Anything done by the supplier in respect of the supply of goods after the delivery of goods is not includible in value.]	-
Add: Amount directly paid by Y Ltd. to X Ltd. [Liability of the supplier, in relation to the supply being valued, if discharged by the recipient of supply and not included in the price, is includible in the value.]	25,000
Add: Interest [Interest for delayed payment of consideration is includible in the value. Since interest is received in lumpsum, amount is inclusive of GST [₹ 20,000 x 100/112] (rounded off).]	17,857
Value of taxable supply	**11,52,857**
CGST @ 6% (rounded off)	**69,171**
SGST @ 6% (rounded off)	**69,171**

2. (a) Computation of value of taxable supplies of Keshav Ltd.

Particulars	Amount (₹)
Services of transportation of students, faculty and staff to Galgotian College [Not exempt, since transportation services provided to an educational institution are exempt only if such institution provides pre-school education or education up to higher secondary school or equivalent.]	2,50,000
Online monthly magazine to students of Pariksha Law College [Services of supply of online educational journals provided to an educational institution providing qualification recognized by law are exempt.]	Nil
Housekeeping services to Career Coaching Institute [Not exempt since such services are provided to a non-educational institute.]	50,000
Security services to Happy Higher Secondary School [Security services provided to an educational institution providing education up to higher secondary school are exempt since such services are performed in the premises of educational institution.]	Nil
Services of providing breakfast, lunch and dinner to students of Ayushmann Medical College [Not exempt, since catering services provided to an educational institution are exempt only if such institution provides pre-school education or education up to higher secondary school or equivalent.]	5,80,000
Value of taxable supplies	**8,80,000**

(b) Tax on services supplied by a firm of advocates by way of legal services to any business entity is payable under reverse charge by such firm of advocates. Time of supply of services that are taxable under reverse charge is earliest of the following two dates in terms of section 13(3) of the CGST Act, 2017:

- Date of payment [3rd November]
- 61st day from the date of issue of invoice [19th April]

The date of payment comes subsequent to the 61st day from the issue of invoice by the supplier of service. Therefore, the 61st day from the date of supplier's invoice has to be taken as the time of supply. This fixes 19th April as the time of supply.

3. (a) (i) Where a taxpayer opts to withdraw from the composition scheme, he has to file GSTR-4 for the period for which he has paid tax under the composition scheme. Such return is required to be furnished till 30th day of April following the end of the financial year during which such withdrawal falls. Therefore, in the given case, Mr. Jagmag is liable to file GSTR-4 for the said F.Y. during which he opted out of composition scheme by 30th April of next F.Y.

(ii) A registered person is not allowed to furnish a return for a tax period if the return for any of the previous tax periods has not been furnished by him. Therefore, in the given case, Mrs. Gargi cannot file GSTR-3B for July, if she has not filed GSTR-3B for the preceding month, i.e., June.

(b) A chartered accountant can become a GST practitioner (GSTP). However, holding a certificate of practice as a chartered accountant and having GST registration does not imply that such chartered accountant is a GST practitioner as well. For becoming a GSTP, even a chartered accountant in practice has to follow the enrolment process of GSTP as provided under the GST law and only upon approval of such enrolment can a chartered accountant represent himself as a GSTP.

4. (a) In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held.

Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard.

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed in accordance with relevant provisions of GST law by the application of generally accepted accounting principles.

Alternative answer

(a) The term 'charitable activities' mean activities relating to-

(i) public health by way of-

(A) care or counseling of

(I) terminally Ill persons or persons with severe physical or mental disability;

(II) persons afflicted with HIV or AIDS;

(III) persons addicted to a dependence-forming substance such as narcotics drugs or alcohol; or

(B) public awareness of preventive health, family planning or prevention of HIV infection;

(ii) advancement of religion, spirituality or yoga;

(iii) advancement of educational programmes/skill development relating to,-

(A) abandoned, orphaned or homeless children;

(B) physically or mentally abused and traumatized persons;

(C) prisoners; or

(D) persons over the age of 65 years residing in a rural area;

(iv) preservation of environment including watershed, forests & wildlife.

(b) (i) Details of outward supplies which can be furnished using IFF are as follows:

(a) invoice wise details of inter-State and intra-State supplies made to the registered persons;

(b) debit and credit notes, if any, issued during the month for such invoices issued previously.

(ii) Constitution defines the Goods and Services tax (GST) as a tax on supply of goods or services or both, except supply of alcoholic liquor for human consumption. Therefore, alcohol for human consumption is kept out of GST by way of definition of GST in the Constitution.

Five petroleum products viz. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel have temporarily been kept out of the purview of GST; GST Council shall decide the date from which they shall be included in GST. The erstwhile taxation system (CST/VAT & central excise) still continues in respect of the said commodities.

ANSWERS OF MODEL TEST PAPER 4

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

Division A - Multiple Choice Questions

Question No.	Answer	
1	**(c)**	i & iv
2	**(d)**	GTA service is taxable @ 5%, but input tax credit cannot be availed for the same.
3	**(d)**	Not a supply
4	**(d)**	ii & iii
5	**(d)**	Nil
6	**(a)**	IGST: ₹ 10,000; CGST: Nil, SGST: ₹ 5000
7	**(a)**	₹ 40,000
8	**(c)**	She needs to mandatorily have a place of business in Delhi.

Division B - Descriptive Questions

1. (a) Computation of value of taxable supply

Particulars	Amount (₹)
List price of the machine	80,000
Add: Tax levied by Local Authority on the sale of machine [Tax other than GST, if charged separately, are includible in the value in terms of section 15 of the CGST Act, 2017.]	6,000
Add: Packing expenses for safe transportation [Includible in the value as per section 15 of the CGST Act, 2017.]	4,000
Add: Price-linked subsidy received from a NGO on sale of each machine [Subsidy received from a non-Government body and which is directly linked to the price, the same is included in the value in terms of section 15 of the CGST Act, 2017.]	5,000
Total	95,000
Less: Discount @ 2% on ₹ 80,000 [Since discount is known at the time of supply and recorded in invoice, it is deductible from the value in terms of section 15 of the CGST Act, 2017.]	1,600
Value of taxable supply	**93,400**

Computation of minimum net GST payable in cash by Vishwanath Ltd.

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Sale of machine [Intra-State sales = ₹ 93,400 × 3 machines = ₹ 2,80,200 Inter-State sales = ₹ 93,400 × 1 machine = ₹ 93,400]	25,218 [2,80,200 × 9%]	25,218 [2,80,200 × 9%]	16,812 [93,400 × 18%]
Total output tax	25,218	25,218	16,812
Less: Set off of IGST against IGST and SGST [IGST credit first be utilized towards payment of IGST, remaining amount can be utilized towards CGST and SGST in any order and in any proportion]		(9,188)	(16,812)
Less: Set off of CGST against CGST and SGST against SGST [CGST credit cannot be utilized towards payment of SGST and vice versa.]	(25,218)	(14,800)	
Minimum net GST payable in cash	Nil	1,230	

Working Note:

Computation of total ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Opening balance of ITC	18,000	4,000	26,000
***Add:* Inputs purchased during the month**	**10,800** [₹ 1,20,000 ×9%]	**10,800** [₹ 1,20,000 ×9%]	
Total ITC available	28,800	14,800	26,000

(b) Computation of amount of ITC available for the month of August, 2024

S. No.	Particulars	GST (₹)
(1)	Goods used in construction of additional floor of office building [ITC on goods received by a taxable person for construction of an immovable property on his own account is blocked even if the same is used in the course or furtherance of business.]	Nil
(2)	Trucks used for transportation of inputs in the factory [ITC on motor vehicles used for transportation of goods is not blocked.]	11,000

(3)	Inputs used in trial runs [Being used in trial runs, inputs are used in the course or furtherance of business and hence ITC thereon is allowed.]	8,350
(4)	Confectionary items for consumption of employees working in the factory [ITC on food or beverages is blocked unless the same is used in same line of business or as an element of the taxable composite or mixed supply. Further, ITC on goods and/or service used for personal consumption is blocked.]	Nil
(5)	Cement used for making foundation and structural support to plant and machinery [ITC on goods used for construction of plant and machinery is not blocked. Plant and machinery includes foundation and structural supports through which the same is fixed to earth.]	9,550
	Total eligible ITC	**28,900**

2. (a) (i) The place of supply of goods supplied on a board a conveyance like aircraft, train, vessel, motor vehicle is the location where such goods have been taken on board.

Place of supply of goods supplied on board a conveyance is determined under this provision even if the supply has been made by any of the passenger on board the conveyance and not by the carrier of the conveyance.

Thus, in the given case, the place of supply of goods is the location at which the goods are taken on board, i.e. New Delhi and not Jaipur where they have been sold.

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

This is a case of composite supply of goods wherein two supplies are involved, supply of goods and ancillary supply of installation/assembling service. The principal supply is supply of goods which are being installed.

Thus, the place of supply is the site of assembly of machine, i.e. Kutch even though LP refineries is located in Maharashtra.

(b) **Computation of value of taxable supplies**

Particulars	**Amount (₹)**
Services relating to rearing of goats [Exempt since services relating to rearing of all life forms of animals, except horses, for food etc. are exempt.]	Nil

Services by way of artificial insemination of horses [Not exempt since services of artificial insemination are exempt only of livestock other than horses.]	5,00,000
Processing of sugarcane into jaggery [Not exempt, since processes which alter the essential characteristics of agricultural produce are not exempt and processing of sugarcane into jaggery changes the essential characteristics of sugarcane.]	7,00,000
Milling of paddy into rice [Not exempt, since this process, being carried out after cultivation is over, is not an intermediate production process in relation to cultivation of plants and it also changes the essential characteristics of paddy.]	8,00,000
Services by way of warehousing of agricultural produce [Specifically exempt from GST.]	Nil
Value of taxable supplies	**20,00,000**

3. (a) The validity period of e-way bill under rule 138(10) of the CGST Rules, 2017 for transport of cargo by road between two cities situated at a distance of 372 km is as under:

(i) **If it is over dimensional cargo:** the validity period of the e-way bill is one day from relevant date upto 20 km and one additional day for every 20 km or part thereof thereafter.

Thus, validity period in given case:

= 1 day + 18 days

= 19 days

(ii) **If it is a cargo other than over dimensional cargo:** the validity period of the e-way bill is one day from relevant date upto 200 km and one additional day for every 200 km or part thereof thereafter.

Thus, validity period in given case:

= 1 day + 1 day

= 2 days

(b) The procedure to be followed by Apex Cinemas, a registered person engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens, is as under:-

The option to issue consolidated tax invoice is not available to a supplier engaged in making supply of services by way of admission to exhibition of cinematograph films in multiplex screens. Thus, Apex Cinemas cannot issue consolidated tax invoice for supplies made by it at the close of each day.

Apex Cinemas is required to issue an electronic ticket.

The said electronic ticket shall be deemed to be a tax invoice, even if such ticket does not contain the details of the recipient of service but contains the other information as prescribed to be mentioned.

4. **(a)** The registered person who is not eligible for composition scheme for goods under GST law are as under:

(i) Supplier engaged in making any supply of goods or services which are not leviable to tax.

(ii) Supplier engaged in making any inter-State outward supplies of goods or services.

(iii) Person supplying any services through an electronic commerce operator who is required to collect tax at source (under section 52).

(iv) Manufacturer of ice cream, panmasala, tobacco, aerated waters, fly ash bricks; fly ash aggregate, fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles.

(v) Supplier who is either a casual taxable person or a non-resident taxable person

(vi) Supplier of services exceeding an amount which is higher of 10% of the turnover in a State/U.T. in the preceding financial year or ₹ 5 lakh.

Note: Any 5 points may be mentioned.

Or

(a) Tax on following services supplied by the Central Government or State Government to a business entity in India is payable by the supplier of services:

(1) services of renting of immovable property provided to an unregistered business entity.

(2) services by the Department of Posts and the Ministry of Railways (Indian Railways)

(3) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport.

(4) services of transport of goods or passengers.

(b) Following persons can be registered as Goods and Service Tax Practitioners:

Any person who, (i) is a citizen of India; (ii) is a person of sound mind; (iii) is not adjudicated as insolvent; (iv) has not been convicted by a competent court;

and satisfies any of the following conditions, namely that he:

1. is a retired officer of Commercial Tax Department of any State Govt./CBIC who, during service under Government had worked in a post not lower than the rank of a Group-B gazetted officer for a period ≥ 2 years, or

2. is enrolled as a Sales Tax Practitioner or Tax Return Preparer under the erstwhile indirect tax laws for a period of not less than 5 years, or

3. acquired any of the prescribed qualifications

4. has passed Graduate/postgraduate degree or its equivalent examination having a degree in specified disciplines, from any Indian University or a degree examination of any Foreign University recognised by any Indian University as equivalent to degree examination

5. has passed any other notified examination

6. has passed final examination of ICAI/ ICSI/ Institute of Cost Accountants of India

Note: Any 5 points may be mentioned.

ANSWERS OF MODEL TEST PAPER 5

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1.	(a)	Service availed from Insurance Agents
2.	(c)	₹ 23,00,000
3.	(c)	₹ 3,80,000
4.	(b)	90 days
5.	(d)	30^{th} June, 2024
6.	(b)	E-way bill can be cancelled within 24 hours of generation
7.	(c)	5^{th} August
8.	(b)	Credit Note

Division B - Descriptive Questions

1. (a) **Computation of minimum net GST payable in cash by M/s Happy Enterprise for the month of December**

Particulars	Value (₹)	CGST (₹)	SGST (₹)	IGST (₹)
GST payable under forward charge				
Intra-State supply of goods to M/s Natural & Sons	7,00,000	17,500 [7,00,000 × 2.5%]	17,500 [7,00,000 × 2.5%]	
Intra-State branch transfer [Such transfer is not a supply as the branch has the same GSTIN as that of the head office and thus, is not a distinct person.]	1,00,000	--	--	
Permanent transfer of old computers to orphanage home without consideration. [Permanent transfer or disposal of business assets was not treated as supply even if made without consideration in terms of Schedule–I of the CGST Act, 2017, as	80,000			--

ITC was not availed on the same.]				
Advance received for future intra-State supply of management consultancy service (In case of supply of service, tax is payable at the time of receipt of advance amount too)	40,000	3,600 [40,000 × 9%]	3,600 [40,000 × 9%]	
Total output tax		21,100	21,100	
Less: ITC utilized		27,200	27,200	
Net GST payable [A]		Nil	Nil	
Legal services availed **[B]** [Tax on legal services availed by a business entity from an advocate is payable under reverse charge. Further, tax payable under reverse charge cannot be set off against ITC and thus, reverse charge has to be paid in cash since the tax payable under reverse charge is not an output tax.]	50,000	4,500 [50,000 × 9%]	4,500 [50,000 × 9%]	
Minimum net GST payable in cash [A] + [B]		**4,500**	**4,500**	

Working Note:

Computation of ITC available

Particulars	**Value (₹)**	**CGST (₹)**	**SGST (₹)**	**IGST (₹)**
Intra-State purchase of taxable goods [ITC of goods used in the course/ furtherance of business is available.]	8,00,000	20,000 [8,00,000 × 2.5%]	20,000 [8,00,000 × 2.5%]	
Works contract service for repair of office [ITC is available since the repair amount is	30,000	2,700 [30,000 × 9%]	2,700 [30,000 × 9%]	

debited in the profit & loss account and not capitalized in the books of account.]				
Legal services availed [ITC of services used in the course/ furtherance of business is available	50,000	4,500 [50,000 × 9%]	4,500 [50,000 × 9%]	
Total		**27,200**	**27,200**	

(b) ITC to be claimed by Renuka Sales in its GSTR-3B for the month of January to be filed by 20th February will be computed as under-

Invoices	**Amount of ITC involved in the invoices (₹)**	**Amount of ITC that can be availed (₹)**
80 invoices furnished in GSTR-1	6 lakh	6 lakh [Refer Note 1]
20 invoices not furnished in GSTR-1	4 lakh	Nil [Refer Note 2]
Total	10 lakh	6 lakh

Notes:

(1) 100% ITC can be availed on invoices furnished by the suppliers in their GSTR-1.

(2) Input tax credit in respect of any supply of goods or services or both is available to a registered person only, inter alia, if the details of the invoice/debit note in respect of said supply has been furnished by the supplier in the statement of outward supplies (GSTR-1) and such details have been communicated to the recipient of such invoice/debit note in the manner specified under section 37 of the CGST Act, 2017. Thus, in respect of 20 invoices not furnished in GSTR-1s, no ITC is available.

2. (a)

S. No.	**Particulars**	**Taxability**
(i)	Service provided by a private transport operator to Vintage Girls Higher Secondary School by way of transportation of students to and from the school. [Services provided TO an educational institution by way of transportation of students are exempted from GST]	Exempt
(ii)	Services provided by way of vehicle parking to general public in a shopping complex.	Taxable

	[Services provided by way of vehicle parking to general public are not exempted from GST. Therefore, it would be taxable.]	
(iii)	Food supplied by the canteen run by a hospital to the in-patients as advised by the doctors. [Services by way of health care services by a clinical establishment, an authorised medical practitioner or para-medics are exempt from GST. Food supplied to the in-patients by a canteen run by the hospital, as advised by the doctor/nutritionists, is a part of composite supply of healthcare and not separately taxable. Thus, said services are exempt from GST.]	Exempt
(iv)	An RWA in a housing society, registered under GST, collects the maintenance charges of ₹ 6,500 per month per member. [Supply of service by a RWA (unincorporated body or a non-profit entity registered under any law) to its own members by way of reimbursement of charges or share of contribution up to an amount of ₹ 7500 per month per member for providing services and goods for the common use of its members in a housing society/a residential complex are exempt from GST. Hence, in the given case, services provided by the RWA are exempt from GST since the maintenance charges collected per month per member do not exceed ₹ 7500.]	Exempt

(b) (i) If services provided by an individual advocate including a senior advocate or firm of advocates by way of legal services, directly or indirectly, then GST is payable on reverse charge basis.

Accordingly, in this case, GST on legal services supplied by an advocate [Mr. Abhishek] to any business entity [M/s. Navya Trading Company] located in the taxable territory is payable on reverse charge basis.

Therefore, in the given case, person liable to pay GST is the recipient of services, i.e., M/s. Navya Trading Company.

(ii) The part of director's remuneration which is declared as salaries in the books of a company and subjected to TDS under section 192 of the Income-tax Act (IT Act), is not taxable being consideration for services by an employee to the employer in the course of or in relation to his employment in terms of Schedule III of the CGST Act,2017.

Further, the part of employee director's remuneration which is declared separately other than salaries in the company's accounts and subjected to TDS under section 194J of the IT Act as fees for professional or technical services are treated as consideration for providing services which are outside the scope of Schedule III and is therefore, taxable. The recipient of the said services i.e. the company, is liable to discharge the applicable GST on it on reverse charge basis.

In lieu of the above provisions, Rs. 1 Lakh sitting fees paid to Padam Srivastav, an independent director, declared separately other than salaries in the company's accounts and subjected to TDS under section 194J of the IT Act as fees for professional or technical services, which is outside the scope of Schedule III and is therefore, taxable.

Therefore, recipient of the said services i.e. One 4th Private Limited, is liable to discharge the applicable GST on it on reverse charge basis.

3. (a) (i) A supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive intra-State taxable supplies of goods is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the States, namely, States of Arunachal Pradesh, Meghalaya, Puducherry, Sikkim, Telangana and Uttarakhand.

(c) ₹ 40 lakh for rest of India except persons engaged in making supplies of ice cream and other edible ice, whether or not containing cocoa, pan masala and tobacco and manufactured tobacco substitutes, fly ash bricks; fly ash aggregates; fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles.

The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

(a) ₹ 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) ₹ 20 lakh for the rest of India.

Aggregate turnover includes the aggregate value of:

1. all taxable supplies,
2. all exempt supplies,
3. exports of goods and/or services and
4. all inter-State supplies of persons having the same PAN.

The above aggregate turnover is computed on all India basis. Further, the aggregate turnover excludes central tax, State tax, Union territory tax, integrated tax and cess. Moreover, the value of inward supplies on which tax is payable under reverse charge is not taken into account for calculation of 'aggregate turnover'.

CGST is not leviable on five petroleum products i.e. petroleum crude, motor spirit (petrol), high speed diesel, natural gas and aviation turbine fuel. Exempt supply includes non-taxable supply. Thus, supply of high speed diesel in U.P., being a non-taxable supply, is an exempt supply and is, therefore, includible while computing the aggregate turnover.

In the backdrop of the above-mentioned discussion, the aggregate turnover of Right Oils for the month of April is computed as under:

S. No.	Particulars	Amount (in ₹)
(i)	Supply of machine oils in U.P.	15,00,000
(ii)	Add: Supply of high speed diesel in U.P.	10,00,000
(iii)	Add: Supply of machine oil made by Right Oils from its branch located in Punjab	10,00,000
	Aggregate Turnover	35,00,000

Right Oils is making exclusive supply of goods and hence the threshold limit for registration would be ₹ 40,00,000. Since the aggregate turnover does not exceed ₹ 40,00,000, Right Oils is not liable to be registered till April. However, if in remaining months of the financial year, its turnover exceeds the said limit, then it would be liable to be registered.

(ii) In case Right Oils makes the supply in capacity of an agent of Center Oils Ltd.:

Section 24 of the CGST Act, 2017 provides that an agent who is engaged in making taxable supplying of goods on behalf of other taxable persons, shall be liable to obtain registration irrespective of the threshold turnover limit. However, in the present case, if Right Oils supply high speed diesel on behalf of Center Oil Ltd. in U.P. as its agent where invoices to customers are issued in name of Right Oils, it shall still not be liable to obtain registration in U.P. since section 24 comes into play only when agent or in other capacity is making taxable supply of goods on behalf of taxable persons (principal) whereas in the given case, Right Oils is supplying non-taxable goods on behalf of Center Oils Ltd., who is non-registered.

In case if Center Oils Ltd. is registered entity, then also the answer would remain unchanged as attraction of section 24 of the CGST Act, 2017, *inter-alia*, requires that there should be taxable supply by agent and here, Right Oils is supplying non-taxable goods on behalf of Center Oils Ltd.

(b) **(i)** A supplier engaged in the manufacture of notified goods during the preceding financial year is not eligible for composition scheme under section 10(1) and 10(2) of the CGST Act, 2017. Ice cream and other edible ice, whether or not containing cocoa, Pan masala, Tobacco and manufactured tobacco substitutes, aerated waters, fly ash bricks, fly ash aggregate, fly ash blocks, bricks of fossil meals or similar siliceous earths, building bricks, earthen or roofing tiles are notified under this category. However, in the given case, since Shyam Enterprises is engaged in trading of pan masala and not manufacture and his turnover does not exceed ₹ 1.5 crore, he is eligible for composition scheme subject to fulfilment of specified conditions.

(ii) Since supplier of inter-State outward supplies of goods or services is not eligible for composition levy, Sahaj Manufacturers is not eligible for composition levy.

4. (a) section 12 of IGST Act, 2017 deals with the provisions of place of supply of services, where location of supplier of service and the location of the recipient of service is in India.

In accordance with sub-section (13) of section 12 of IGST Act, 2017, The place of supply of insurance services shall:-

(a) to a registered person, be the location of such person;

(b) to a person other than a registered person, be the location of the recipient of services on the records of the supplier of services.

So, in the given case, when insurance service is provided to an unregistered person, Mr. Pappan, the location of the recipient of services on the records of the supplier of insurance services is the place of supply. So, Faridabad is the place of supply.

Or

(a) The statement is not correct. While GST is payable on advance received for supply of services taxable under forward charge, the same is not payable in case of advance received for supply of goods taxable under forward charge.

As per section 13 of the CGST Act, 2017, the time of supply of services taxable under forward charge is –

➢ Date of issue of invoice or date of receipt of payment, whichever is earlier, if the same is issued within 30 days from the date of supply of service;

OR

➢ Date of provision of service or date of receipt of payment, whichever is earlier, if the invoice is not issued within 30 days from the date of supply of service.

Thus, in case of services, if the supplier receives any payment before the provision of service or before the issuance of invoice for such service, the time of supply gets fixed at that point in time and the liability to pay tax on such payment arises. However, the tax can be paid by the due date prescribed with reference to such time of supply.

As regards time of supply of goods taxable under forward charge is concerned, *Notification No. 66/2017 CT dated 15.11.2017* provides that a registered person (excluding composition supplier and registered persons making supply of specified actionable claims) should pay GST on the outward supply of goods at the time of supply as specified in section 12(2)(a) of the CGST Act, 2017, i.e. date of issue of invoice or the last date on which invoice ought to have been issued in terms of section 31 of the CGST Act, 2017. Therefore, in case of goods, tax is not payable on receipt of advance payment.

(b) In accordance with section 37(1) of CGST Act, 2017, GSTR-1 for a particular tax period is filed on or before the 10^{th} day of the immediately succeeding tax period. In other words, GSTR-1 of a month/quarter can be filed any time between 1^{st} and 10^{th} day of the succeeding month/quarter. The due date of filing GSTR-1 may be extended by the Commissioner/ Commissioner of State GST/ Commissioner of UTGST for a class of taxable persons by way of a notification.

So, the statement is partially valid.

A taxpayer cannot file Form GSTR-1 before the end of the current tax period. However, following are the exceptions to this rule:

a. Casual taxpayers, after the closure of their business.

b. Cancellation of GSTIN of a normal taxpayer.

A taxpayer who has applied for cancellation of registration will be allowed to file Form GSTR-1 after confirming receipt of the application.

ANSWERS OF MODEL TEST PAPER 6

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1.	(b)	not a supply at all
2.	(b)	Tax on sponsorship services is payable by WE-WIN Cricket Academy under reverse charge.
3.	(b)	mixed supply & applicable rate of GST is 18%
4.	(b)	₹ 70,000
5.	(a)	₹ 45,000
6.	(a)	Part B need not be filed in respect of transport of consignment from Godown of Anushka to transporter location.
7.	(c)	20th December
8.	(c)	TDS to be deducted on entire order of 70 shields

Division B - Descriptive Questions

1. (a) **Computation of net GST payable in cash by Aashima Ltd. for the month of January 2024**

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Outward intra-State supply of goods made in the State of Bihar [Value of supply is the transaction value of the goods.]	36,000 [4,00,000 × 9%]	36,000 [4,00,000 × 9%]	
Outward supply of goods made to other States [Value of supply is the transaction value of the goods.]			18,000 [1,00,000 × 18%]
Services by way of warehousing of potato chips [Taxable since services by way of warehousing of only cereals, pulses, fruits & vegetables are exempt.]			90,000 [5,00,000 × 18%]
Intra-State stock transfer to Gaya Branch with separate registration	1,800 [20,000 × 9%]	1,800 [20,000 × 9%]	

[Supply of goods between distinct persons in course or furtherance of business qualifies as supply even if made without consideration.]			
Total output tax	**37,800**	**37800**	**1,08,000**
Less: Input Tax Credit [Refer Working Note below] [CGST credit should be utilized for payment of CGST and IGST in that order. Similarly, SGST credit should be utilized for payment of SGST and IGST in that order. ITC of CGST cannot be utilized for payment of SGST and *vice versa*.]	(37,800) (CGST)		(7,200) (CGST)
		(37,800) (SGST)	(7,200) (SGST)
Net GST payable in cash	**Nil**	**Nil**	**93,600**

Working Note:

Computation of ITC available

Particulars	CGST (₹)	SGST (₹)	IGST (₹)
Intra-State inward supply of services [₹ 6,50,000 – ₹1,50,000] [ITC cannot be claimed on the e-invoices without IRN since an e-invoice without IRN is not treated as valid document for claiming ITC.]	45,000 [5,00,000 × 9%]	45,000 [5,00,000 × 9%]	--
Cars taken on rental basis from Mr. Suhaas [Tax on renting of motor car services wherein cost of fuel is included in consideration provided by a non-body corporate to a body corporate and invoice is issued charging CGST/SGST @ 2.5% is payable under reverse charge. Time of supply of such services is 1st February being earlier of date of payment, or date	--	--	--

immediately following 60 days since issue of invoice by the supplier. Since the time of supply of renting of motor car services in the given case does not fall in January, tax liability on the same does not arise in said month. Further, ITC on renting of motor car services received is blocked since the recipient - Aashima Ltd. is not in the same line of business.]			
Total ITC available	**45,000**	**45,000**	**--**

(b) Computation of value of taxable supply made by Shri Narayan Pvt. Ltd. to Shri Ram Pvt. Ltd.

Particulars	Amount (₹)
Price of the goods	1,00,000
Municipal tax [Includible in the value as per section 15(2)(a) of the CGST Act, 2017]	2,000
Inspection charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value as per section 15(2)(c) of the CGST Act, 2017]	15,000
Subsidy received from Shri Shyam Trust [Since the subsidy is received from a non-Government body and directly linked to the supply, the same is includible in the value in terms of section 15(2)(e) of the CGST Act, 2017]	50,000
Late fees for delayed payment [Not includible since the same is waived off]	Nil
Weighment charges paid to Radhe Pvt. Ltd. on behalf of Shri Narayan Pvt. Ltd. [Any amount that the supplier is liable to pay in relation to the supply but has been incurred by the recipient and not included in the price actually paid or payable for the goods, is includible in the value of supply in terms of section 15(2)(b) of the CGST Act, 2017]	2,000
Value of taxable supply	**1,69,000**

2. (a) Determination of time of supply:

	Particulars
(i)	May 12 will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3) of the CGST Act, 2017].
(ii)	June 4, 31st day from the date of supplier's invoice, will be the time of supply, being the earliest of the three stipulated dates namely, receipt of goods, date of payment and date immediately following 30 days of issuance of invoice [Section 12(3) of the CGST Act, 2017].

(b) (i) Schedule I read with section 7(1)(c) of the CGST Act, 2017, *inter alia*, stipulates that supply of goods or services or both between related persons or between distinct persons as specified in section 25 of the CGST Act, 2017, is supply even without consideration provided it is made in the course or furtherance of business. Further, a person who has obtained more than one registration, whether in one State/Union territory or more than one State/Union territory shall, in respect of each such registration, be treated as **distinct persons** [Section 25(4) of the CGST Act, 2017].

In view of the same, factory and depot of Rimjhim, Manufacturers are distinct persons. Therefore, supply of goods from Delhi factory of Rimjhim Manufacturers to Mumbai Depot without consideration, but in course/furtherance of business, is supply under section 7 of the CGST Act, 2017 read with Schedule I.

(ii) Schedule I read with section 7(1)(c) of the CGST Act, 2017, *inter alia*, stipulates that import of services by a taxable person from a **related person** located outside India, without consideration is treated as supply <u>if it is provided in the course or furtherance of business</u>. Explanation to section 15 of the CGST Act, 2017, *inter alia,* provides that persons shall be deemed to be **"related persons"** if they are **members of the same family**. Further, as per section 2(49) of the CGST Act, 2017, family means, —

(a) the spouse and children of the person, and

(b) the parents, grand-parents, brothers and sisters of the person **<u>if they are wholly or mainly dependent on the said person</u>**.

In the given case, Mohan has received free of cost legal services from his brother. However, in view of section 2(49)(ii) of the CGST Act, 2017 above, Mohan and his brother cannot be considered to be related as Mohan's brother is a well-known lawyer and so, not wholly/mainly dependent on Mohan. Further, Mohan has taken legal advice from him in personal matter and not in course or furtherance of business. Consequently, services provided by

Mohan's brother to him would not be treated as supply under section 7 of the CGST Act, 2017 read with Schedule I.

3. **(a)** **(i)** As per section 31 of the CGST Act, 2017 read with the CGST Rules, in case of taxable supply of services, invoices should be issued before or after the provision of service, but within a period of 30 days [45 days in case of insurer/ banking company or financial institutions including NBFCs] from the date of supply of service.

In view of said provisions, in the present case, the tax invoice should have been issued in the prescribed time limit of 30 days from the date of supply of service i.e. upto 3rd February. However, the invoice has been issued on 10th February.

(ii) Section 31 of the CGST Act, 2017 read with the CGST Rules, *inter alia*, provides that tax invoice in addition to other mandatory details shall also contain the amount of tax charged in respect of taxable goods or services (central tax, State tax, integrated tax, Union territory tax or cess). Further, where any supply is made for a consideration, every person who is liable to pay tax for such supply shall prominently indicate in all documents relating to assessment, tax invoice and other like documents, the amount of tax charged in respect of taxable goods or services which shall form part of the price at which such supply is made.

The objection raised by the tax consultant of World Fashions suggesting that the amount of tax charged in respect of the taxable supply of makeover services should be shown separately in the invoice raised by Glamour Beauty Services Ltd., is valid in law.

(b) **(i)** The registered person, whose aggregate turnover in the preceding financial year does not exceed ₹ 1.5 crore, may opt to pay tax under composition levy, under section 10(1) and 10(2) of the CGST Act, 2017.

The scheme can be availed by an intra-State supplier of goods and supplier of restaurant service.

However, the composition scheme permits supply of marginal services (other than restaurant services) for a specified value along with the supply of goods and restaurant service, as the case may be.

Thus, M/s Balaji Electronics can opt for composition scheme for the current financial year as its aggregate turnover is less than ₹ 1.5 crore in the preceding financial year and it is not engaged in inter-State outward supplies.

(ii) The registered person opting for composition scheme, under section 10(1) and 10(2) of the CGST Act, 2017, can also supply services (other than restaurant services) for a value up to 10% of the turnover in the preceding year or ₹ 5 lakh, whichever is higher, in the current financial year.

Thus, M/s Balaji Electronics can supply repair and maintenance services up to a value of ₹ 12 lakh [10% of ₹ 120 lakh or ₹ 5 lakh, whichever is higher] in the current financial year.

4. **(a)** The location of supplier of mobile services cannot be the place of supply as the mobile companies are providing services in multiple states and many of these services are inter-state. The consumption principle will be broken if the location of supplier is taken as place of supply and all the revenue may go to a few states where the suppliers are located.

The place of supply for mobile connection would depend on whether the connection is on postpaid or prepaid basis. In case of postpaid connections, the place of supply is the location of billing address of the recipient of services on the record of supplier of services.

In case of pre-paid connections, if the service is supplied:-

(i) through a selling agent or a re-seller or a distributor of SIM card or re-charge voucher, the place of supply is the place address of the selling agent or re-seller or distributor as per the record of the supplier at the time of supply; or

(ii) by any person to the final subscriber, the place of supply is the location where such prepayment is received or such vouchers are sold;

(iii) in other cases, the place of supply is the address of the recipient as per the records of the supplier of services and where such address is not available, the place of supply shall be location of the supplier of services.

However, if the recharge is done through internet/e-payment, the location of recipient of service on record of the supplier will be taken as the place of supply.

Or

(a) In case of an event, if the recipient of service is registered, the place of supply of services for organizing the event is the location of such person. However, if the recipient is not registered, the place of supply is the place where event is held.

Since the event is being held in multiple states and a consolidated amount is charged for such services, the place of supply will be deemed to be in each State in proportion to the value for services determined in terms of the contract or agreement entered into in this regard.

In the absence of a contract or agreement between the supplier and recipient of services, the proportionate value of services made in each State (where the event is held) will be computed in accordance with rule 5 of the IGST Rules by the application of generally accepted accounting principles.

(b) The person-in-charge of a conveyance has to carry -

(a) the invoice or bill of supply or delivery challan, as the case may be; and

(b) a copy of the e-way bill in physical form or the e-way bill number in electronic form or mapped to a Radio Frequency Identification Device embedded on to the conveyance [except in case of movement of goods by rail or by air or vessel] in such manner as may be notified by the Commissioner

Consignment value of goods shall be the value:

- determined in accordance with the provisions of section 15 of the CGST Act, 2017,
- declared in an invoice, a bill of supply or a delivery challan, as the case may be, issued in respect of the said consignment and
- also includes the Central tax, State or Union territory tax, integrated tax and cess charged, if any, in the document and
- shall exclude the value of exempt supply of goods where the invoice is issued in respect of both exempt and taxable supply of goods.

ANSWERS OF MODEL TEST PAPER 7

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1.	**(c)**	i & iii
2.	**(c)**	i & iii
3.	**(d)**	1st April
4.	**(c)**	₹ 60,000
5.	**(b)**	31st October of the next year
6.	**(c)**	(ii) & (iv)
7.	(c)	(ii) and (iii)
8.	**(c)**	Mint Ltd. is required to issue bill of supply in the given case.

Division B - Descriptive Questions

1. (a) Computation of minimum net GST payable in cash by Evershine Pvt. Ltd. for the month of September 2024

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 supplier, it is a composite supply and thus, freight charges are added to the value of principal supply.]	Place of supply is location where movement of goods terminates	18,50,000	1,66,500	1,66,500	Nil
Inter-State supply to Calc. Exim		35,60,000	Nil	Nil	6,40,800

[Municipal tax is includible in value since it is a tax levied under a law other than GST law and is charged separately.]				
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 is considered as Inter State supply.]	2,00,000	Nil	Nil	36,000
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 [ITC is not available since depreciation has been claimed on the GST component.]		2,00,000	Nil	Nil	Nil
Intra-State purchase of truck [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 [ITC on goods used in construction of immovable property (other		5,00,000	Nil	Nil	Nil

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
Pure 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**

2. (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

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
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.

3. (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[1] 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.

4. (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.

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.

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

ANSWERS OF MODEL TEST PAPER 8

SECTION B – GOODS AND SERVICES TAX (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer	
1.	(A)	5,000
2.	(B)	₹ 1,00,000
3.	(B)	24-09-2024
4.	(A)	04.07.2024
5.	(C)	50,400
6.	(D)	31.01.2025
7.	(B)	₹ 5,10,000
8.	(C)	₹ 9,999 per day

Division B - Descriptive Questions

1. (a) (i) **Computation of output tax liability of DEF Pvt. Ltd. for January, 2025**

Particulars	Value (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Output tax payable				
Intra-State supply of taxable goods	5,00,000	45,000	45,000	
Service of booking of flight tickets [Taxable since service of booking of air tickets is being provided here. Only the service of transportation of passengers in economy class embarking from Bagdogra is exempt. Further, the place of supply of	20,000			3,600

services made to a registered person is the location of such person, viz. Delhi in given case. Thus, same is inter-State supply.]				
Selling of Pune unit as going concern to H Ltd. [Services by way of transfer of a going concern is exempt.]	10,00,000	-	-	-
Service in relation to business exhibition in Dubai [Services by an organiser to any person in respect of a business exhibition held outside India is exempt.]	5,00,000	-	-	--
Inter-State supply of service	10,00,000	-	-	1,80,000
Total output tax liability		45,000	45,000	1,83,600

(ii) Computation of input tax credit available to DEF Pvt. Ltd. for January, 2025

Particulars	Value (₹)	CGST @ 9% (₹)	SGST @ 9% (₹)	IGST @ 18% (₹)
Opening balance		25,000	25,000	30,000
Issue of debit note for post delivery service [ITC on debit notes issued in a financial year can be availed any time till 30th November of the succeeding financial year or the date of filing of the relevant annual return, whichever is earlier, irrespective of the	25,000			4,500

date of original invoice/ supply. Further, place of supply being Pune in given case, same is inter-State supply.]				
Receipt of intra-State services [ITC on services used in the course or furtherance of business is allowed.]	6,00,000	54,000	54,000	
Purchase of confectionery items [ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply.]	1,00,000	-	-	--
Total		**79,000**	**79,000**	**34,500**

(b) Computation of GST payable by the ABC Infra for February

	Particulars	CGST @ 9% (₹)	SGST @ 9% (₹)
(i)	Consideration for agreeing to install effluent plant [Taxable since it is a supply of service of agreeing to the obligation to do an act.]	49,500	49,500
(ii)	Distribution of 500 passes of cricket match [Exempt since consideration for services by way of right to admission to unrecognised sporting event is not more than ₹ 500 per person[1]]	-	-
(iii)	Booking air tickets in economy class [Taxable since service of booking of air tickets is being provided here. Only	10,800	10,800

[1] *Consideration charged is ₹ 485 per person (₹ 2,42,500/500).*

	the service of transportation of passengers in economy class terminating in Manipur is exempt.]		
(iv)	Service of construction of buildings provided to State Government [Taxable since value of supply of goods constitutes more than 25% of the value of the composite supply of goods and services.]	73,800	73,800
	Total GST payable by ABC Infra	1,34,100	1,34,100

2. (a) A registered person is eligible to opt for composition scheme for goods in the current financial year (FY) provided his aggregate turnover does not exceed ₹ 1.50 crore [other than in specified Special Category States] in the preceding FY.

Since aggregate turnover of M/s. T in the preceding FY does not exceed ₹ 1.5 crore, he is eligible for composition scheme for goods under section 10(1) and 10(2) of the CGST Act, 2017 in the current FY.

As per section 10(2A) of the CGST Act, 2017, a registered person who is eligible to pay tax under section 10(1) and (2) is not eligible for opting for composition under section 10(2A) of the CGST Act, 2017.

As per section 10(2A) of the CGST Act, 2017, person engaged in the supply of service is eligible for composition scheme for payment of tax @ 3% CGST and 3% SGST provided his aggregate turnover does not exceed ₹ 50 lakh in the preceding FY.

Since turnover of previous year is ₹ 1.32 crore and firm is not dealing in the service only, M/s T cannot opt for composition scheme under section 10(2A) of the CGST Act, 2017 for FY 2024-25.

A person who opts to pay tax under composition scheme under section 10(1) and 10(2) of the CGST Act, 2017 is also permitted to supply services [other than restaurant services] upto a value not exceeding:

(a) 10% of the turnover in a State/U.T. in the preceding financial year, or

(b) ₹ 5 lakh,

whichever is higher.

Thus, M/s T is permitted to supply services upto a value of ₹ 13,20,000 i.e. 10% of ₹ 1.32 crores, in current FY.

Further, there is no restriction on composition supplier to receive inter-State inward supplies of goods or services.

Thus, it can be concluded that M/s T can opt for composition scheme of goods under section 10(1) of the CGST Act, 2017 for FY 2024-25.

(b) **(i)** Where the supply of goods is made to an unregistered person, the place of supply is the location as per the address of the unregistered person recorded in the invoice.

Further, recording of the name of the State of the unregistered person in the invoice is deemed to be the recording of the address of the unregistered person.

Thus, place of supply is Bhavnagar, Gujarat.

(ii) The hoarding/structure erected on the land should be considered as immovable structure/fixture as it has been embedded in earth.

Therefore, the place of supply of service provided by way of supply of sale of space on hoarding/ structure for advertising or for grant of rights to use the hoarding/ structure for advertising is the location where such hoarding/ structure is located.

The place of supply of any service provided by way of supply/sale of space on an immovable property or grant of rights to use an immovable property is the location at which the immovable property is located, i.e. the location where such hoarding/ structure is located.

Thus, for hoarding located in Udaipur, place of supply is Udaipur, Rajasthan and for hoarding located in Gwalior, place of supply is Gwalior, Madhya Pradesh.

3. **(a)** In case of intra-State supply of goods by a supplier to a PSU, TDS @ 1% each under CGST and SGST is liable to be deducted by PSU only when the total value of supply under a contract exceeds ₹ 2,50,000 (exclusive of tax & cess), from the payment made or credited to the supplier.

Accordingly, in the given case, since the value of supply under the contract excluding taxes and cesses is ₹ 11,50,000 (₹ 13,57,000 × 100/118),

TDS @ 1% on payment of each of the instalment of ₹ 2,30,000 (₹ 11,50,000/5), i.e. ₹ 2,300 each under CGST and SGST is to be deducted even though the individual payment is less than ₹ 2,50,000.

The amount of TDS deducted shall be paid to the Government by the deductor within 10 days after the end of the month in which such deduction is made or by 10th of the succeeding month.

(b) Every registered person executing works contract shall keep separate accounts for works contract showing -

- the names and addresses of the persons on whose behalf the works contract is executed;
- description, value and quantity (wherever applicable) of goods/services received for the execution of works contract;

- description, value and quantity (wherever applicable) of goods/services utilized in the execution of works contract;
- the details of payment received in respect of each works contract; and
- the names and addresses of suppliers from whom he received goods or services.

4. **(a)** As per the provisions of section 7(1)(b), 7(1)(c) and Schedule I of the CGST Act, 2017, import of services for a consideration shall be considered as supply, whether or not in the course or furtherance of business

Import of services by a person from a related person or from any of his other establishments outside India, in the course or furtherance of business shall be treated as supply even if made without consideration.

(b) **(i)** Following entities are exempt from the mandatory requirement of e-invoicing even if their turnover exceeds ₹ 5 crore in any preceding financial year from 2017-18 onwards:

- Special Economic Zone units
- Insurer
- Banking company or financial institution including NBFC
- GTA supplying services in relation to transportation of goods by road in a goods carriage
- Supplier of passenger transportation service
- Person supplying services by way of admission to exhibition of cinematograph films in multiplex screens
- A Government Department
- A local authority

Note: Any two points may be mentioned.

(ii) No act or proceedings of the Goods and Services Tax Council shall be invalid merely by reason of—

(a) any vacancy in, or any defect in, the constitution of the Council; or

(b) any defect in the appointment of a person as a Member of the Council; or

(c) any procedural irregularity of the Council not affecting the merits of the case.

(b) Alternative

Additional accounts/documents to be kept by agent are as follows:

(a) particulars of authorisation received by him from each principal to receive/supply goods/services on behalf of such principal separately;

(b) particulars including description, value and quantity (wherever applicable) of goods/services received on behalf of every principal;

(c) particulars including description, value and quantity (wherever applicable) of goods/services supplied on behalf of every principal;

(d) details of accounts furnished to every principal; and

(e) tax paid on receipts/ supply of goods/services effected on behalf of every principal.