

# GUIDELINE ANSWERS

## EXECUTIVE PROGRAMME

DECEMBER 2015

MODULE 1



**THE INSTITUTE OF  
Company Secretaries of India**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**  
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These answers have been written by competent persons and the Institute hopes that the **GUIDELINE ANSWERS** will assist the students in preparing for the Institute's examinations. It is, however, to be noted that the answers are to be treated as model answers and not as exhaustive and the Institute is not in any way responsible for the correctness or otherwise of the answers compiled and published herein.

The Guideline Answers contain the information based on the Laws/Rules applicable at the time of preparation. However, students are expected to be well versed with the amendments in the Laws/Rules made upto **six** months prior to the date of examination.

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(i)

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**NOTE:** Guideline Answers of the last Four Sessions need to be updated in the light of changes and references given below:

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EXECUTIVE PROGRAMME

**UPDATING SLIP**

**COMPANY LAW**

MODULE – 1 – PAPER 1

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<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
All Previous Sessions	—	All answers are based on the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which is still in force.  Answers pertaining to Corporate Governance to be updated according to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

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(ii)

**UPDATING SLIP**

**COST AND MANAGEMENT ACCOUNTING**

MODULE – 1 – PAPER 2

<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</i>
(1)	(2)	(3)
All Previous Sessions	—	All answers are based on the notified provisions of Companies Act, 2013 and the provisions of Companies Act, 1956 which are still in force.

(iii)

**UPDATING SLIP**

**ECONOMIC AND COMMERCIAL LAWS**

MODULE – 1 – PAPER 3

<i>Examination Session</i>	<i>Question No.</i>	<i>Updating required in the answer</i>
<i>(1)</i>	<i>(2)</i>	<i>(3)</i>
All Previous Sessions	—	Foreign Trade Policy 2015-20. Foreign Direct Investment Policy 2015.

(iv)

**UPDATING SLIP**

**TAX LAWS AND PRACTICE**

MODULE – 1 – PAPER 4

<i>Examination Session</i>	<i>Question No.</i>	<i>Updation required in the answer</i>
(1)	(2)	(3)
All Previous Sessions	—	<p>The Income Tax, Service Tax, Sales Tax etc. are subject to changes by the Annual Finance Acts. In order to update all the answers, the students are advised to refer to the latest law keeping in mind the following amendments for June 2016 examination.</p> <p>(i) Finance Act, 2015 relevant to Assessment year 2016-17 (Previous Year 2015-16) is applicabFurther, all the Circulars, Clarifications, Notifications, issued by CBDT / CBEC/ Central Government etc. which became effective, on or before six months prior to the date of the respective examinations are applicable.</p> <p>(ii) Wealth Tax Act, 1957 has been abolished w.e.f. 1<sup>st</sup> April, 2016. The questions from the same will not be asked in examination from December 2015 session onwards.</p> <p>The questions based on case laws, in conflict with the latest law be treated as of academic interest only.</p>

## EXECUTIVE PROGRAMME EXAMINATION

DECEMBER 2015

### COMPANY LAW

*Time allowed : 3 hours*

*Maximum marks : 100*

- NOTE :** 1. Answer ALL Questions.  
2. All references to sections relate to the Companies Act, 2013 unless stated otherwise.

#### Question 1

*Comment on the following :*

- (a) *A company incorporated under the Companies Act, 2013, being an artificial person, is not entitled to sue a natural person or to sue another company incorporated under the same Act.*
- (b) *A company incorporated under the Companies Act, 2013 does not have the right to reduce its share capital on selective basis.*
- (c) *A public limited company incorporated under the Companies Act, 2013 may amend its articles of association so as to confer upon it power to forfeit the shares of those members who have defaulted in the payment of calls made by the company.*
- (d) *A company incorporated under the Companies Act, 2013 never dies except when it is wound-up as per the law. (5 marks each)*

#### Answer 1(a)

A Company is an artificial person created by law. It is recognized as a legal person, which, can enter into contracts, possess properties in its own name, sue and can be sued by others etc. It is capable of enjoying rights and being subject to duties. To sue means to institute legal proceedings against (a person) or to bring a suit in a court of law. All legal proceedings against the company are to be instituted in its name. Similarly, the company may bring an action against anyone in its own name.

Hence a company is entitled to sue a natural person or to sue another company incorporated under the Companies Act, 2013 in its own name.

#### Answer 1(b)

The company has every right to reduce its share capital on selective basis. The statement is incorrect.

#### Reference

The provisions of section 66 have not been enforced so far. Section 100 of Companies Act, 1956 is still applicable in this context. Accordingly, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized by its articles, by special resolution, reduce its share

capital in any way and in particular and without prejudice to the generality of the forgoing power, may:

1. Reduce or extinguish the liability on any of its shares in respect of share capital not paid up e.g., where the shares are of Rs. 100 each with Rs. 75 paid-up reduce them to Rs. 75 fully paid-up shares and thus relieve the shareholders from liability on the uncalled capital of Rs. 25 per share;
2. Either with or without extinguishing or reducing liability on any of its shares, cancels any paid up share capital which is lost, or is unrepresented by available assets or
3. Either with or without extinguishing or reducing liability on any of its shares, pay of any paid up share capital which is in excess of the wants of the company where the shares are fully paid-up, reduce them to Rs. 75 each and pay back, Rs. 25 per share, and
4. By following a combination of any of the preceding methods.

**Answer 1(c)**

Model Articles of Association under Table F of Companies Act, 2013 provides for Forfeiture of shares. A company may, forfeit shares for non-payment of calls only if it is authorised by its Articles of Association. It must be exercised strictly in accordance with the regulations regarding notice, procedure and manner stated therein, otherwise the forfeiture will be void. Forfeiture will be affected by means of Board resolution. The power of forfeiture must be exercised bona fide and in the interest of the Company.

Hence a public limited company incorporated under the Companies Act, 2013 can forfeit its shares only when the Articles so empower. Where the Articles do not contain such a provision, the Articles have to be amended.

**Answer 1(d)**

An incorporated company never dies, except when it is wound up as per law. A company, being a separate legal person is unaffected by death or departure of any member and it remains the same entity, despite total change in the membership. Perpetual succession means that the membership of a company and composition of the Board of Directors may keep changing from time to time, but that shall not affect its continuity. The membership of an incorporated company may change either because one shareholder has sold/transferred his shares to another or his shares devolve on his legal representatives on his death or he ceases to be a member under some other provisions of the Companies Act. Thus, perpetual succession denotes the ability of a company to maintain its existence by the succession of new individuals who step into the shoes of those who cease to be members of the company.

However in case of merger, the transferor company is dissolved without winding up.

***Attempt all parts of either Q.No. 2 or Q.No. 2A***

**Question 2**

*Distinguish between the following :*

- (a) 'Company' and 'limited liability partnership'.



- (b) 'Preference shares' and 'equity shares'.
- (c) 'Memorandum of association' and 'articles of association'.
- (d) 'Red-herring prospectus' and 'abridged prospectus'. (4 marks each)

**OR (Alternate question to Q. No. 2)**

**Question 2A**

- (i) Explain clearly the meaning of 'lifting of corporate veil' in relation to a company incorporated under the Companies Act, 2013. Examining the judicial decisions, state whether 'corporate veil' can be lifted in the following cases :
- (a) Where the corporate veil has been used for improper conduct; and
- (b) Where the acts of a company are opposed to workmen ? (4 marks)
- (ii) As the Company Secretary of Joy Ltd., what steps would you take in case the scheduled Board meeting could not complete the agenda slated thereat. The items of business left untransacted are of extreme importance for the company's growth and the same cannot be deferred until the next Board meeting because of urgency. Advise the Board about the steps to be taken to get the untransacted items passed. (4 marks)
- (iii) ABC Ltd. is a company incorporated under the Companies Act, 2013. The paid-up share capital of the company is held as under :
- Government of India 20%
  - Government of Andhra Pradesh 20%
  - Government of Tamil Nadu 10%
  - Government of Maharashtra 10%
- Explaining the provisions of the Companies Act, 2013, state whether the said company be called a 'Government company' and also state whether the employees of a Government company can claim their salaries from the Government of India. (4 marks)
- (iv) Reliable Ltd. holds 75% of the paid-up share capital in Trust Ltd. Board of directors of Trust Ltd. decides and resolves to hold 10% of the paid-up share capital in Reliable Ltd. The Board's proposal was also approved by Trust Ltd. in its general meeting. However, certain members of Trust Ltd. objected to the decision on the ground that both the Board's proposal and the resolution of the general meeting are in violation of the provisions of the Companies Act, 2013. Examine. (4 marks)

**Answer 2(a)**

A basic difference between an LLP and a joint stock company lies in that the **internal governance structure** of a company is regulated by statute (i.e. Companies Act, 1956 & 2013) whereas for an LLP it would be by a contractual agreement between partners.

The **management-ownership divide** inherent in a company is not there in a limited liability partnership.

LLP will have more flexibility as compared to a company.

LLP will have lesser compliance requirements as compared to a company

LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership. LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.

LLP is a body corporate and a legal entity separate from its partners, having perpetual succession. LLP form is a form of business model which

- (i) is organized and operates on the basis of an agreement in between partners;
- (ii) provides flexibility without imposing detailed legal and procedural requirements;
- (iii) enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner.

### **Answer 2(b)**

#### **Preference shares and Equity Shares**

1. Preference shares are entitled to a fixed rate of dividend, whereas, the rate of dividend on equity shares depends upon the recommendation of the Board of directors which in turn depends on the amount of profit available and the funds requirements of the company for future expansion etc.
2. Dividend on the preference shares is paid in preference to the equity shares,
3. In case of winding up, preference share holder get preference over equity shareholders with regard to the payment of capital.
4. Dividend on preference share may be cumulative, whereas, the dividend on equity shares is paid only after the preference dividend has been paid and it is not cumulative.
5. The voting rights of preference shareholders are restricted, whereas, A preference shareholder can vote only when his special rights as a preference shareholder are being varied, or on any resolution for the winding up of the company or for the repayment or reduction of its equity or preference share capital or their dividend has not been paid for a period of two years or more [section 47(2)]. An equity shareholder can vote on all matters affecting the company.
6. No bonus shares/right shares are issued to preference shareholders, whereas, a company may issue rights shares or bonus shares to the company's existing equity shareholders.
7. Redeemable preference shares may be redeemed by the company, whereas, equity shares cannot be redeemed except under a scheme involving reduction of capital or buy back of its own shares.

### **Answer 2(c)**

#### **Memorandum of Association and Articles of Association**

1. Memorandum of Association is the charter of the company and defines the fundamental conditions and objects for which the company is granted

incorporation. Articles of Association are the rules and regulations framed to govern this internal management of the company.

2. Clauses of the Memorandum cannot be easily altered. They can only be altered in accordance with the mode prescribed by the Act. In some of the cases, alteration requires the permission of the Central Government or the Court. In the case of Articles of Association, members have a right to alter the Articles by a special resolution.
3. Memorandum of Association cannot include any clause contrary to the provisions of the Companies Act. The Articles of Association can not include any clause contrary to the Companies Act as well as the Memorandum of Association.
4. The Memorandum generally defines the relation between the company and the outsiders, while the Articles regulate the relationship between the company and its members and between the members inter se.
5. Acts done by a company beyond the scope of the Memorandum are absolutely void and ultra vires and cannot be ratified even by unanimous vote of all the shareholders. But the acts of the directors beyond the Articles can be ratified by the shareholders.

#### **Answer 2(d)**

#### **Red Herring Prospectus and Abridged Prospectus**

Section 32 of the Companies Act, 2013 deals with Red Herring Prospectus, the Explanation of the Section defines “Red Herring Prospectus” so as to mean a prospectus which does not include complete particulars of the quantum or price of the securities included therein. A company proposing to make an offer of securities may issue a red herring prospectus prior to the issue of a prospectus.

Section 2(1) of Companies Act, 2013 defines “Abridged Prospectus” so as to mean a Memorandum containing such salient features of a prospectus as may be specified by the Securities and Exchange Board of India by making regulations in this behalf.

Section 33 states that no form of application can be issued for the purchase of any securities of a company unless it is accompanied by an abridged prospectus.

#### **Answer 2A(i)**

The separate personality of a company is a statutory privilege and it must be used for legitimate business purposes only. Where a fraudulent and dishonest use is made of the legal entity, the individuals concerned will not be allowed to take shelter behind the corporate personality. The Court will break through the corporate shell and apply the principle/doctrine of what is called as “lifting of or piercing the corporate veil”. The Court will look behind the corporate entity and take action as though no entity separate from the members existed and make the members or the controlling persons liable for debts and obligations of the company.

- (a) *Where the corporate veil has been used for improper conduct*

The Corporate veil may be pierced in case of improper conduct. As decided in *Jones V. Lipman* (1962) where A agreed to sell certain land to B. Pending

completion of formalities of the said deal, A sold and transferred the land to a company which he had incorporated with a nominal capital of £100 and of which he and a clerk were the only shareholders and directors. This was done in order to escape a decree for specific performance in a suit brought by B. The Court held that the company was the creature of A and a mask to avoid recognition and that in the eyes of equity A must complete the contract, since he had the full control of the limited company in which the property was vested, and was in a position to cause the contract in question to be fulfilled.

(b) *Where the acts of a company are opposed to workmen*

It has been decided in *The Associated Rubber Industries Ltd, Bhavnagar & another*, AIR 1986 SC 1 that where the acts of the company are opposed to workmen the corporate veil may be lifted. In this case a new company was created wholly by the principal company with no assets of its own except those transferred to it by the principal company with no, business or income of its own except receiving dividends from share transferred to it by the principal company i.e only for the purpose of splitting the profits into two hands and thereby reducing the obligation to pay bonus. The Supreme Court held that the new company was formed as a device to reduce the gross profits of the principal company and thereby reduce the amount to be paid by way of bonus to workmen. The amount of dividends received by the new company should, therefore be taken into account in assessing the gross profit of the principal company. The corporate veil, therefore was lifted in this case.

**Answer 2A(ii)**

Resolution may be passed in respect of Board approvals in one of the two ways, either at the Board Meeting or by circulation. The items which could not be transacted and decided at the board meeting, if cannot be deferred till the next board meeting may be passed by circulation provided they do not include such items as are required to be passed only at the meeting of directors under Section 179(3) of the Companies Act, 2013.

In order to get the un transacted item pass the Board may consider the following procedure as laid down in section 175 and Point no. 6 of Secretarial Standards on Board Meetings.

1. The resolution in draft form together with the necessary papers may be circulated to the directors or members of committee at their address registered with the company in India by post, hand delivery or through electronic means which may include e-mail or fax.
2. The said resolution must be passed by majority of directors or members entitled to vote.
3. If more than one third of directors require that the resolution must be decided at the meeting, the chairperson shall put the resolution to be decided at the meeting.
4. Each business proposed to be passed by way of Resolution by circulation shall be explained by a note setting out the details of the proposal, relevant material facts that enable the Directors to understand the meaning, scope and implications of the proposal, the nature of concern or interest, if any, of any Director in the

proposal, which the Director had earlier disclosed and the draft of the Resolution proposed.

5. The note shall also indicate how a Director shall signify assent or dissent to the Resolution proposed and the date by which the Director shall respond.
6. Each Resolution shall be separately explained. The decision of the Directors shall be sought for each Resolution separately.
7. Not more than seven days from the date of circulation of the draft of the Resolution shall be given to the Directors to respond and the last date shall be computed accordingly.
8. The Resolution, if passed, shall be deemed to have been passed on the last date specified for signifying assent or dissent by the Directors or the date on which assent from more than two-third of the Directors has been received, whichever is earlier, and shall be effective from that date, if no other effective date is specified in such Resolution.
9. The resolution passed through circulation be noted at a subsequent meeting and made part of the minutes of such meeting.

#### **Answer 2A(iii)**

Section 2(45) defines a "Government Company" as any company in which not less than fifty one per cent of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company.

In the given case Government of India together with government of Andhra Pradesh, Tamil Nadu, and Maharashtra hold 60% in ABC Ltd. Hence this is a Government Company.

Employees of Government companies are not Government servants, they have no legal right to claim that the Government should pay their salary or that the additional expenditure incurred on account of revision of their pay scales should be met by the Government.

This has been decided in *A.K. Bindal v. Union of India* (2003) 114 Com Cases 590 (SC). It was decided that since employees of Government companies are not Government servants.

Hence the employees of ABC Ltd. are not the employees of Government therefore, they cannot claim salaries from the Government. They are the employees of the Government Company.

#### **Answer 2A(iv)**

Section 19 of Companies Act, 2013 provides that no company shall, either by itself or through its nominees, hold any shares in its holding company and no holding company shall 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.

Further this shall not apply in 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:

In the present case Trust Ltd. is the subsidiary of Reliable Ltd. which is holding 75% of the paid-up share capital of Trust Ltd. It does not fall in any of the exceptions given above. A subsidiary cannot hold shares in its holding company. Hence, the objection raised by some of the members that company is in violation of the provisions of Companies Act, 2013 is correct.

**Attempt all parts of either Q.No. 3 or Q.No. 3A**

**Question 3**

- (a) Referring to the provisions of the Companies Act, 2013, state as to when shall a company incorporated outside India be considered as a 'foreign company' within the meaning of the Companies Act, 2013. Also examining the provisions of the Act, state whether in the following cases, the company shall be considered as a 'foreign company':
- (i) A company incorporated outside India has a representative in India, who on behalf of the company merely receives orders from the customers.
  - (ii) A company incorporated outside India holds its Board meetings and general meetings in India. (4 marks)
- (b) Net profits of PQR Ltd. during the following years as disclosed in the statement of profit and loss are as under :

Financial year ended	Net profits (₹ in crore)
31st March, 2013	10
31st March, 2014	12
31st March, 2015	08

The Board of directors of the company at its meeting decides to contribute to a charitable organisation, for charitable purposes, a sum of ₹3 crore out of the net profits of the financial year ended 31st March, 2015. This contribution has been made by the Board without seeking approval of shareholders in general meeting.

In the light of the provisions of the Companies Act, 2013, examine the validity of the contribution made by the company. What shall be your answer in case the Board decides to contribute ₹1 crore only ? (4 marks)

- (c) A group of persons wants to form a company for a future project and acquire the status of a 'dormant company'. The group seeks your advice about the procedure and the conditions to be complied with. State the privileges and exemptions available to such a company under the provisions of the Companies Act, 2013. (4 marks)
- (d) Manohar, the auditor of Belle Ltd. appointed by the company in its last general meeting has resigned from the office of auditor of the company for some personal reasons. Referring to the provisions of the Companies Act, 2013, answer the following :
  - (i) Who is the competent authority to accept and approve the resignation ?



- (ii) State the manner in which the vacancy caused by Manohar's resignation shall be filled in. (4 marks)

OR (Alternate question to Q.No. 3)

**Question 3A**

- (i) Board of directors of Divine Ltd. decides to enter into a contract whereby Manish, a director of the company shall acquire certain assets from the company for consideration other than cash, without seeking approval of the company in its general meeting. Certain shareholders of the company object to the said decision of the Board. Referring to the provisions of the Companies Act, 2013, examine the validity of the Board's decision and state whether the contention of the shareholders shall be tenable. (4 marks)
- (ii) Surprise Ltd. was incorporated under the Companies Act, 2013. The memorandum of association of the company in its objects clause stated that the company was established to make and sell or to carry on the business of mechanical engineers and general contractors. The company entered into a contract with Prominent Ltd., a firm of railway contractors to finance the construction of a railway line in Mumbai. The contract was ratified by the shareholders in general meeting. Subsequently, the contract was repudiated by the company on the ground that the contract was ultra vires the objects clause. Prominent Ltd. filed a suit claiming damages for the breach of contract.
- Explaining the meaning of doctrine of ultra vires, decide whether Prominent Ltd. will succeed. (4 marks)
- (iii) Explain the provisions of the Companies Act, 2013 relating to shifting of the registered office of a company from one State to another. (4 marks)
- (iv) Adorable Ltd., incorporated under the Companies Act, 2013 has on its Board, 5 directors and a Managing Director. The company has also appointed a Company Secretary. The financial statements of the company, viz., balance sheet and statement of profit and loss for the year ended 31st March, 2015, were authenticated under signatures of one director and the Company Secretary.
- Referring to the provisions of the Companies Act, 2013, examine the validity of authentication. What shall be your answer in case the company in question is a 'one person company' ? (4 marks)

**Answer 3(a)**

As per section 2(42) of the Companies Act, 2013, "foreign company" means any company or body corporate incorporated outside India which—

- (a) has 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.
- (i) In case, where a company incorporated outside India has a representative in India, who on behalf of the company receives orders from the customers, shall be treated as "foreign company" only if such company has place of business in India and conducts business activities. Merely having Representative in India

will not be treated as having place of business in India. [(*P.J Johnson vs. Astrofiel Armandorn*, 1990 69 com cases 619 (Ker)]

- (ii) In case, company merely holds Board meetings or General meetings in India, the company shall not be treated as “foreign company”, unless the company carries some business activity and has a place of business in India.

### Answer 3(b)

Section 181 of the Companies Act, 2013 provides that the Board of Directors may contribute to ‘bona fide’ charitable and other funds.

Further, the prior permission of company in general meeting is required if such contribution exceeds five percent of its average net profits for the three immediately preceding financial years.

The average net profits in the case given are Rs 10 crores .

Thus any contribution in excess of Rs 50 Lacs (5% of average net profits for three immediately preceding financial years) would need members’ approval. Board is not empowered to take decisions of contribution in excess of Rs 50 Lacs. Board’s decision is invalid.

Further, if the contribution amount was Rs 1 Crore, then also the company would be required to obtain members’ prior approval.

### Answer 3(c)

As per section 455 (1) of Companies Act, 2013, where a company is formed and registered under this Act for a future project or to hold an asset or intellectual property and has no significant accounting transaction, such a company or an inactive company may make an application to the Registrar in such manner as may be prescribed for obtaining the status of a dormant company.

The Registrar on consideration of the application shall allow the status of a dormant company to the applicant and issue a certificate in form MSC-1.

Further a dormant company shall have minimum number of three directors in case of public company, two directors in case of private company and one director in case of One Person company.

The dormant company shall have to file a Return of Dormant Company annually, inter alia, indicating financial position duly by a chartered accountant in practice along with prescribed annual fee within thirty days from the end of each financial year.

### Privileges of a Dormant Company

The privileges and exemptions enjoyed by a dormant company or its advantages over other companies are as follows:

Section	Nature of exemptions/privileges
2(40)	The financial statement, with respect to a dormant company, may not include the cash flow statement;
173 (5)	It is required to hold at least one meeting of the Board of Directors in each half of a calendar year and the gap between the two meetings should not be less than ninety days.



As per Rule 7 of Companies (Miscellaneous) Rule 2014 a dormant company is required to file return of dormant company in Form MSC-3 .

**Answer 3(d)(i)**

The auditor of the company shall submit the resignation to the Board of Director.

Section 140(2) provides that the auditor who has resigned from the company shall file within a period of thirty days from the date of resignation, a statement in ADT-3 with the company and the Registrar, indicating the reasons and other facts as may be relevant with regard to his resignation.

**Answer 3(d)(ii)**

In terms of section 139(8) (i) vacancy caused due to the resignation of Manohar shall be filled in the following manner:

- (a) The Board of the company shall fill the casual vacancy in the office of auditor within 30 days.
- (b) Such appointment should also be approved by the company in general meeting convened within 3 months of the recommendation of the Board and auditor shall hold the office till the conclusion of the next annual general meeting.
- (c) Appointment of auditors to fill casual vacancy shall be made after taking into account the recommendation of the audit committee where the company is required to constitute such a committee.

**Answer 3A(i)**

Section 192 of the Companies Act, 2013 restricts companies from transacting any non-cash transaction involving directors. It provides that no company can enter into an arrangement by which –

- a. director of the company or its holding, subsidiary or associate company or a person connected with him acquires or is to acquire assets for consideration other than cash, from the company; or
- b. the company acquires or is to acquire assets for consideration other than cash, from such director or person so connected.

However it is further provided that a company can enter into an arrangement only if the prior approval for such arrangement is accorded by a resolution of the company in general meeting.

Considering the above provisions, in the present case, the decision of the Board of Divine Ltd. is not valid. Hence the contention of shareholders is tenable.

**Answer 3A(ii)**

In the case of a company whatever is not stated in the memorandum as the objects or powers is prohibited by the doctrine of ultra vires. As a result, an act which is ultra vires is void, and does not bind the company. Neither the company nor the contracting party can sue on it. The company cannot validate such an act even if every member's assent to it.

The rule is meant to protect shareholders and the creditors of the company. If the act is ultra vires (beyond the powers of) the directors only but intra vires the Memorandum of Association, the shareholders can ratify it. If it is ultra vires the articles of association, the company can alter its articles in the proper way.

The doctrine of ultra vires was first enunciated by the House of Lords in a classic case, *Ashbury Railway Carriage and Iron Co. Ltd. v. Riche*, (1878). The facts of the case were that the memorandum of the company in the said case defined its objects thus: "The objects for which the company is established are to make and sell, or lend or hire, railway plants..... to carry on the business of mechanical engineers and general contractors.....".

In this case, The House of Lords held that the contract was ultra vires the company and, therefore, null and void.

In the given case, the prominent Ltd. will not succeed, since the contract itself was ultra vires.

### **Answer 3A(iii)**

According to Section 13 of the Companies Act, 2013 the change of registered office from one State to another State involves alteration of memorandum, and the change can be effected by a special resolution of the company which must be confirmed by the Central Government on an application made to it.

As per Rule 30 (1) of the Companies (Incorporation) Rules, 2014, such an application shall be filed in form INC 23 accompanied by documents prescribed in sub - rule (1) (a) to 5 of Rule 30.

The company shall at least 14 days before the date of hearing advertise the application in form INC 26 in a vernacular newspaper in the district where the registered office of the company is situated.

It shall also serve notices to each debenture holder and creditor of the company.

It shall send a notice and the copy of the application to the Registrar and to the Securities and Exchange Board of India, (in case the company is listed) and to the regulatory body, if the company is regulated under any special Act or law for the time being in force.

A company shall, in relation to any alteration of its memorandum involving change of registered office from one State to another, file with the Registrar the special resolution passed by it in MGT 14.

The notice of change of the registered office of the company and verification thereof shall be filed with Registrar in form INC 22 within 15 days of the change.

### **Answer 3A(iv)**

In the given case the financial statements have been signed by one director and the Company secretary, which is in violation of the above provisions. However if the director so signing is the Chairperson of the company, this would be a valid manner. If the director so signing is not the Chairperson, the financial statement should have been signed by the managing director and another director and in addition by a Chief financial officer if any. Hence, authentication in the given case is not valid.

In case of One Person Company's the section provides that the financial statements

shall be signed only by one director. Hence in case the company is a One Person Company, the authentication stands valid

### Reference

As per Section 134 of the Companies Act, 2013 Financial statement should be signed on behalf of the board at least by the chairperson of company, where he is duly authorised by the Board or by at least two directors of whom one should be the managing director and chief executive officer, if he is a director in the company, Chief financial officer and Company Secretary, if any in the company.

### Question 4

- (a) *In view of the provisions of the Companies Act, 2013 relating to 'securities premium', state whether the amount lying in securities premium account of a company can be used :*
- (i) *For issuance of bonus shares; and*
  - (ii) *For payment of dividend declared by the company at its general meeting.*
- (4 marks)
- (b) *Board of directors of Pious Ltd. gives you the following information extracted from the company's financial statements as at 31st March, 2015 :*

	₹
<i>Authorised equity share capital (1 crore shares of ₹10 each)</i>	.... 10 crore
<i>Paid-up equity share capital</i>	.... 5 crore
<i>General reserve</i>	.... 5 crore
<i>Debenture redemption reserve</i>	.... 2 crore

- Board of directors by a resolution passed at its meeting decides to go for buy-back of shares to the extent of 20% of the company's paid-up share capital and free reserves. Examine the validity of the Board's resolution with reference to the provisions of the Companies Act, 2013.*
- (4 marks)
- (c) *Explain clearly the meaning of the terms 'fixed charge' and 'floating charge'. State the circumstances under which a 'floating charge' automatically becomes 'fixed'.*
- (4 marks)
- (d) *Examine the validity of transfer and transmission of shares in favour of a minor under the provisions of the Companies Act, 2013.*
- (4 marks)

### Answer 4(a)

#### (i) Sources for issue of Bonus shares

According to section 63(1), 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.

Hence amount securities premium account may be utilized by the company for bonus issue.

**(ii) For payment of dividend declared by the company at its general meeting.**

Securities premium Account since not covered by section 123(1) cannot be utilized for the purpose of declaring dividend

*Reference:*

As per Section 123(1) of Companies Act 2013 provides that no dividend shall be declared or paid by a company for any financial year except—

- (a) out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of sub-section (2), or out of the profits of the company for any previous financial year or years arrived at after providing for depreciation in accordance with the provisions of that sub-section and remaining undistributed, or out of both; or
- (b) out of money provided by the Central Government or a State Government for the payment of dividend by the company in pursuance of a guarantee given by that Government.

**Answer 4(b)**

In the present case since buy-back is upto the extent of 20% of the company's paid up share capital and free reserves, the resolution passed by the Board of Directors needs to be approved by shareholders by means of special resolution at a general meeting of the company.

As per proviso to Section 68(2), Board of directors can approve buy-back up to 10% of the total paid-up equity capital and free reserves of the company by means of a board resolution passed at the meeting.

Shareholder approval by means of special resolution is required when buy-back is up to 25% of the total paid-up capital and free reserves of the company and above 10% of the total paid-up equity capital and free reserves of the company.

Considering the statutory provisions, Board of directors can approve only upto 10% of paid up share capital and free reserves.

**Answer 4(c)****Fixed or specific charge**

A charge is called fixed or specific when it is created to cover assets which are ascertained and definite or are capable of being ascertained and defined, at the time of creating the charge e.g., land, building, or plant and machinery. A fixed charge, therefore, is a security in terms of certain specific property, and the company gives up its right to dispose off that property until the charge is satisfied.

*Floating charge*

A floating charge, as a type of security, is peculiar to companies as borrowers. A floating charge is not attached to any definite property but covers property of a fluctuating type e.g., stock-in-trade and is thus necessarily equitable. A floating charge is a charge on a class of assets present and future which in the ordinary course of business is changing from time to time and leaves the company free to deal with the property as it sees fit until the holders of charge take steps to enforce their security. "The essence of a floating charge is that the security remains dormant until it is fixed or crystallised".

**Answer 4(d)**

The word transfer indicates an act of parties or of the law, by which title to the property is conveyed from one person to another. It is called inter vivos transfer, i.e., between two living persons. Whereas the word transmission is referred to devolution of title by operation of law. It may be by succession or testamentary transfer after the death of the person.

Under section 11 of the Indian Contract Act, 1872 only a person who has attained the age of majority is competent to contract, a minor hence is not competent to enter into any contract.

Since a minor cannot enter into a contract or agreement except through a guardian, and since no notice can be taken of the fact that the guardian holds a share in trust for a minor, it follows that his name cannot be entered in the Register of Members and therefore, he cannot become a member of a company.

There is, however, no objection in law to the guardian of a minor entering into a contract on behalf of a minor, by virtue of the statutory right conferred on him. Since Section 56 of the Companies Act, 2013 enables execution of transfer deed by or on behalf of the transferor or the transferee, the transfer deed can be executed by a minor through his natural guardian as transferee, and the contract so entered into by a minor through his natural guardian is a binding and valid contract.

Where the nominee is a minor, the holder of the securities, making the nomination, may appoint a person in Form No. SH. 14, who shall become entitled to the securities of the company, in the event of death of the nominee, during his minority. On death of the shareholder during the minority of the Nominee, the Shares should be transmitted to the Minor under the guardianship as mentioned in the nomination form till the Minor attains majority; however, the beneficial interest will be with the Minor.

**Question 5**

- (a) *In Bright Ltd., vacancy of a director is caused by the death of Mohan, a director of the company, after three months of his joining the company as director. The Board of the company, therefore, appointed Sumit in his place but did not seek approval of the company in general meeting. Referring to the provisions of the Companies Act, 2013, examine the validity of Sumit's appointment. (4 marks)*
- (b) *Johnson, a director in Disha Ltd. proceeds on leave for 8 months to France for personal reasons. Board of directors at a meeting appoints Peter for a period of two months, as an alternate director. Articles of association of the company do not confer upon the Board of directors any such power to appoint anyone as alternate director. Referring to the provisions of the Companies Act, 2013, examine the validity of the above appointment. What shall be your answer in case the Board appoints Peter for the entire period of Johnson's leave ? (4 marks)*
- (c) *Examining the provisions of the Companies Act, 2013, relating to the constitution of a 'Nomination and Remuneration Committee' and 'Stakeholders Relationship Committee', answer the following :*
- (i) *Is it mandatory for a listed company to constitute such committees ? Also state whether it is mandatory for a non-listed public company having paid-up share capital of ₹5 crore to constitute such committees ?*

- (ii) *What shall be the composition of the committees in case the company is required to constitute such committees ?* (4 marks)
- (d) *In terms of the provisions of the Companies Act, 2013, answer the following :*
- (i) *Which companies are required to have independent directors ?*
- (ii) *What is the tenure of independent directors and the number of terms for which such a director can be appointed ? Are independent directors required to hold meetings of their own without the presence of non-independent directors ?* (4 marks)

**Answer 5(a)**

According to section 161(4), if any vacancy is caused by death or resignation of a director appointed by the shareholders in General meeting, before expiry of his term, the Board of directors can appoint a director to fill up such vacancy subject to any regulations in the articles of the company. The appointed director shall hold office only up to the term of the director in whose place he is appointed.

In the given case Mr. Sumit is appointed against the casual vacancy caused by Mohan's demise, Sumit's appointment is valid and shall continue till Mohan's tenure expires.

**Answer 5(b)**

In this case the appointment of an alternate director is in violation of the provisions of the Companies Act, 2013 because Articles do not authorize the Board to appoint alternate Director nor is the appointment made in general meeting.

The answer would be the same even if Peter is appointed for the entire period of Johnson's leave.

**Reference:**

Following are some relevant conditions which must be satisfied in case of appointment of alternate director. According to section 161(2) of the Act:

1. The Board of Directors of a company must be authorised by its articles or by a resolution passed by the company in general meeting for appointment of alternate director.
2. The person in whose place the Alternate Director is being appointed should be absent for a period of not less than 3 months from India.

**Answer 5(c)(i)**

As per section 178(1) read with Rule 6 of Companies (Meetings of Board and its Powers) Rule, 2014, the Board of Directors of the following companies shall constitute a Nomination and Remuneration Committee

- (a) every listed company
- (b) all public companies with a paid up capital of ten crore rupees or more;
- (c) all public companies having turnover of one hundred crore rupees or more;
- (d) all public companies, having in aggregate, outstanding loans or borrowings or debentures or deposits exceeding fifty crore rupees or more.

As per section 178(5) the Board of Directors of a company which consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year shall constitute a Stakeholders Relationship Committee.

Accordingly, all listed companies are mandatorily required to constitute Nomination and remuneration Committee and Stake holder relationship committee and all unlisted public companies having paid up capital of ten crore rupees or more are only required to constitute the Nomination and remuneration committee.

Further, In case the company consists of more than one thousand shareholders, debenture-holders, deposit-holders and any other security holders at any time during a financial year, whether or not listed, shall have to constitute a Stakeholders Relationship Committee.

**Answer 5(c)(ii)**

The Nomination remuneration Committee shall consist of three or more non-executive directors out of which not less than one-half shall be independent directors.

The Stakeholders Relationship Committee shall consist of a chairperson who shall be a non-executive director and such other members as may be decided by the Board.

**Answer 5(d)(i)**

Section 149(4) read with Rule 4 of Companies (Appointment and Qualification of Directors) Rules 2014 , the following companies shall have Independent Director

- Every listed public company and every
- Public Company having paid up share capital of ten crore rupees or more; or
- Public Company having turnover of one hundred crore rupees or more; or
- Public Company which have, in aggregate, outstanding loans, debentures and deposits, exceeding fifty crore rupees.

**Answer 5(d)(ii)**

**Tenure of Independent Director**

Tenure of Independent Director: a term up to five consecutive years [Section 149(10)]

Number of Term : **Not more than two consecutive term [149(11)]**

Yes, According to Code of Independent Directors (Schedule IV), independent directors are required to hold at least one meetings of their own without the presence of non-independent directors.

**Question 6**

- (a) *Explain with reference to the provisions of the Companies Act, 2013, the meaning and importance of 'secretarial audit'. Which companies are required to get the 'secretarial audit' conducted ?* (4 marks)
- (b) *Who are key managerial personnels (KMPs) ? State the manner in which they can be appointed in a company.* (4 marks)
- (c) *Ms. Jyoti is the Managing Director of Wise (India) Ltd., incorporated under the Companies Act, 2013. Board of directors of the company presents the following*



financial data extracted from the company's financial statements as at 31st March, 2015 :

Particulars		₹(in crore)
Authorised equity share capital	..	60
Paid-up equity share capital	..	10
Debenture redemption reserve	..	10
Securities premium account	..	20
Profit and loss (loss)	..	(10)
Revaluation reserve	..	20

Due to losses in the financial year 2014-15, the company is not in a position to pay any remuneration to Ms. Jyoti, Managing Director of the company. As per the agreement of service between Ms. Jyoti and the company, in case of losses or inadequacy of profits in any financial year, she is to be paid remuneration on the basis of 'effective capital' of the company.

Based on the provisions of the Companies Act, 2013, decide the maximum remuneration payable to Ms. Jyoti for the financial year 2014-15 without the approval of the Central Government. (4 marks)

- (d) Referring to the provisions of the Companies Act, 2013, state the grounds on which the Registrar of Companies can file a petition for winding-up of a company. (4 marks)

#### Answer 6(a)

Secretarial Audit is a compliance audit and it is a part of total compliance management in an organisation. The Secretarial Audit is an effective tool for corporate compliance management. It helps to detect non-compliance and to take corrective measures.

Secretarial Audit is a process to check compliance with the provisions of various laws and rules/ regulations/procedures, maintenance of books, records etc., by an independent professional to ensure that the company has complied with the legal and procedural requirements and also followed the due process. It is essentially a mechanism to monitor compliance with the requirements of stated laws.

Considering the increasing importance of Corporate Governance, Section 204 of the Companies Act, 2013 read with Rule 9 of Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014 mandates every listed company and

- (a) every public company having a paid-up share capital of fifty crore rupees or more; or  
 (b) every public company having a turnover of two hundred fifty crore rupees or more,

to annex a Secretarial Audit Report, given by a company secretary in practice with its Board's report in form MR 3

#### Answer 6(b)

As per section 2(51) "key managerial personnel", in relation to a company, means—

- (i) the Chief Executive Officer or the managing director or the manager;  
 (ii) the company secretary;  
 (iii) the whole-time director;



- (iv) the Chief Financial Officer; and
- (v) such other officer as may be prescribed.

The Key managerial Personnel shall be appointed only by means of Board resolution containing the terms and conditions of the appointment including the remuneration which shall be passed at the meeting of Board of Directors.

**Answer 6(c)**

As per Schedule V, Section II of the Companies Act, 2013, in case of inadequate profits in the company, the company may without Central Government approval, pay remuneration to the managerial person not exceeding the higher limits on the basis of effective capital i.e.

(1)	(2)
Where the effective capital is	Limit of yearly remuneration payable shall not exceed (Rupees)
(i) Negative or less than 5 crores	30 lakhs
(ii) 5 crores and above but less than 100 crores	42 lakhs
(iii) 100 crores and above but less than 250 crores	60 lakhs
(iv) 250 crores and above	60 lakhs plus 0.01% of the effective capital in excess of Rs. 250 crores

Therefore, accordingly, maximum yearly remuneration that can be paid to Ms. Jyoti, Managing Director of Wise (India) Ltd. is Rs. 42 lakhs without permission of the Central Government.

However, by passing Special Resolution her remuneration can be double i.e. Rs. 84 lakhs.

**Answer 6(d)**

On the following grounds under Section 272 read with Section 271 of Companies Act, 2013, the Registrar is entitled to present a petition for winding up of a company under:

- if the company is unable to pay its debts.
- if the company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality.
- if on an application made by the Registrar or any other person authorised by the Central Government by notification under this Act, the Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.
- if the company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding five consecutive financial years.

## COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

1. In a company, weekly minimum and maximum consumption of Material-A is 25 and 75 units respectively. The re-order quantity as fixed by the company is 300 units. The material is received within 4 to 6 weeks from issue of supply order. Maximum level of Material-A is —
- (A) 640 Units
  - (B) 650 Units
  - (C) 175 Units
  - (D) 560 Units.

2. Following data is given for Gopal Ltd. which produces and sells three products X, Y and Z :

Product	Units sold	Selling price per unit (₹)	Marginal cost per unit (₹)
X	1,000	100	60
Y	500	120	90
Z	800	50	25

Overall P/V ratio of the company will be —

- (A) 42.5%
  - (B) 37.5%
  - (C) 42.8%
  - (D) 46.7%.
3. Item(s) excluded from cost sheet are —
- (A) Direct material
  - (B) Administrative overheads
  - (C) Provision for taxation
  - (D) All of the above.
4. Job card is a method of recording details of time with reference to —
- (A) Work orders undertaken
  - (B) Performance
  - (C) Skill
  - (D) Rating.

5. The financial records of a company showed a net profit of ₹6,70,000 for the period ended 31<sup>st</sup> March, 2015. On further examination of cost and financial records, the following facts were discovered :

	₹
Works overheads under-recovered in cost	16,240
Office overheads over-recorded in cost	4,000
Interest on investments not included in cost	16,000
The profit as per cost records is —	

- (A) ₹6,66,250  
 (B) ₹6,66,240  
 (C) ₹6,67,270  
 (D) ₹6,68,250
6. Wage rate : ₹1.50 per hour  
 Time allowed for job : 20 hours  
 Time taken : 15 hours  
 The total earnings of the worker under Halsey plan is —
- (A) ₹26.25  
 (B) ₹26.55  
 (C) ₹27.25  
 (D) ₹27.55
7. The basis of apportionment of overheads which takes into account the profitability of various departments is called —
- (A) FIFO basis  
 (B) LIFO basis  
 (C) Ability to pay basis  
 (D) Activity basis.
8. The functions of a cost auditor involve —
- (A) Examining the inventory records  
 (B) Capacity utilisation  
 (C) Proper utilisation of labour  
 (D) All of the above.
9. \_\_\_\_\_ are necessary for the study of trends and direction of movements in the financial position and operating results of a concern.
- (A) Trend ratios  
 (B) Cash flow statements  
 (C) Common size statements  
 (D) Comparative statements.

10. When stores are issued for maintenance, the accounting entry is to \_\_\_\_\_ production overheads and \_\_\_\_\_ stores ledger control account.
- (A) Debit; credit  
(B) Credit; debit  
(C) Deduct; add  
(D) Divide; multiply.
11. \_\_\_\_\_ account does not record the balance of stores ledger control account.
- (A) Manufacturing  
(B) Trading  
(C) Profit and loss  
(D) Work-in-progress.
12. Under-valuation of closing stock in cost accounts is \_\_\_\_\_ and under-valuation of opening stock in cost accounts is \_\_\_\_\_ while reconciling costing profits with financial profits.
- (A) Deducted, added  
(B) Added, deducted  
(C) Multiplied, divided  
(D) Divided, multiplied.
13. If a contract is almost complete, the amount of profit generally transferred to profit and loss account is equal to —
- (A) Estimated profit  $\times$  Work certified/Contract price  
(B) Cash received/Work certified  
(C) Notional profit  $\times$  Estimated profit/Work certified  
(D) Notional profit  $\times$  Contract price/Work certified.
14. The following information is extracted from the job ledger in respect of Job No. 404 :
- Material : ₹3,400  
Wages : 80 hours @ ₹2.50 per hour  
Variable overheads  
incurred for all jobs : ₹5,000 for 4,000 labour hours  
If the job is billed for ₹4,200 the profit will be —
- (A) ₹600  
(B) ₹500  
(C) ₹700  
(D) ₹650
15. Current ratio is 2.5 and liquid ratio is 1.5. Working capital is ₹75,000. Value of the stock held will be —
- (A) ₹60,000

- (B) ₹1,00,000
  - (C) ₹50,000.
  - (D) None of the above .
16. The most important criterion for distinguishing between scrap, by-product and joint product is \_\_\_\_\_ of the products.
- (A) Related purchase value
  - (B) Relative sales value
  - (C) Production cost
  - (D) Total cost.
17. The two main methods of calculating equivalent production are —
- (A) FIFO method and average cost method
  - (B) LIFO method and standard cost method
  - (C) LIFO method and market price method
  - (D) FIFO method and market price method.
18. Management accounting is basically concerned with —
- (A) The problem of choice
  - (B) Causative relationship
  - (C) Recording of transaction
  - (D) Both (A) and (B) above.
19. Cost accounting is —
- (A) Nothing more than a detailed analysis of expenditure
  - (B) An instrument of management control
  - (C) Useful only in such organisation which has profit as the aim
  - (D) Not needed if prices are beyond the control of the firm.
20. Z Ltd. recorded sales of ₹60 lakh in 2014 as compared to ₹45 lakh in 2013. Profit for 2014 was ₹5 lakh higher than that in 2013. If the annual fixed costs amount to ₹12 lakh, the profit on projected sales of ₹90 lakh will be —
- (A) ₹15 lakh
  - (B) ₹14 lakh
  - (C) ₹12 lakh
  - (D) ₹18 lakh.
21. Conversion cost is the summation of —
- (A) Direct material and direct wages
  - (B) Direct wages and office overheads
  - (C) Direct wages, direct charges and works overheads
  - (D) None of the above.

- 22.** A cost centre which is engaged in production activity by conversion of raw material into finished product is called —
- (A) Production cost centre
  - (B) Impersonal cost centre
  - (C) Process cost centre
  - (D) Production unit.
- 23.** The following particulars relate to production department of a factory :
- Material used : ₹20,000  
Direct labour : ₹10,000  
Overheads : ₹7,500
- On an order carried out in the department, material consumed was ₹4,000 and direct wages paid amounted to ₹2,000.
- The amount of overheads chargeable to this order on the basis of prime cost would be —
- (A) ₹1,500
  - (B) ₹1,510
  - (C) ₹1,700
  - (D) ₹1,710
- 24.** You are given the following information :
- (i) Total number of workers working in a department : 500
  - (ii) Working days in a year : 300
  - (iii) Number of hours worked in a day : 8
  - (iv) Total departmental overheads : ₹68,400
  - (v) Idle time @ 5% of days hours to be deducted from total number of days hours.
- Direct labour hour rate will be —
- (A) 7 paise per labour hour
  - (B) 6 paise per labour hour
  - (C) 8 paise per labour hour
  - (D) 9 paise per labour hour.
- 25.** Determine a firm's total assets turnover, if its net profits margin is 8%, total assets are ₹8,00,000 and the return on investment is 14% —
- (A) 2.05
  - (B) 4.00
  - (C) 1.75
  - (D) 2.00

26. Which method of absorption of factory overheads would you suggest in a concern which produces only one uniform item of product —
- (A) Percentage of direct wage basis
  - (B) Direct labour hour rate
  - (C) Machine-hour rate
  - (D) Rate per unit output.
27. *Statement-I :*  
Departmentalisation of items of costs is known as primary distribution.  
*Statement-II :*  
Redistribution of service department's costs is known as secondary distribution.  
Choose the correct option —
- (A) Statement-I is true but Statement-II is false
  - (B) Both statements are true
  - (C) Statement-I is false but Statement-II is true
  - (D) Both statements are false.
28. Shine Furniture House uses sunmica tops for table making, the following information is available :
- |                                        |   |               |
|----------------------------------------|---|---------------|
| Standard quantity of sunmica per table | : | 4 sq. ft.     |
| Standard price per sq. ft. of sunmica  | : | ₹5            |
| Actual number of tables manufactured   | : | 1,000         |
| Sunmica actually used                  | : | 4,300 sq. ft. |
| Actual price of sunmica per sq. ft.    | : | ₹7            |
- Material cost variance is —
- (A) ₹10,100 (A)
  - (B) ₹10,500 (A)
  - (C) ₹11,000 (A)
  - (D) ₹11,500 (A).
29. *Statement-I :*  
The contribution concept is based on the theory that the fixed expenses of a business is not a joint cost.  
*Statement-II :*  
Fixed expenses can be equitably apportioned to different segments of business.  
Choose the correct option —
- (A) Both statements are correct
  - (B) Both statements are incorrect
  - (C) Statement-I is correct, but statement-II is incorrect
  - (D) Statement-I is incorrect, but statement-II is correct.

30. A worker completes a job in certain number of hours. The standard time allowed for the job is 10 hours and the hourly rate of wages is ₹1. The worker earns a bonus of ₹2 at 50% rate under Halsey plan. His total wages under the Rowan Premium plan is —
- (A) ₹8.30  
(B) ₹8.20  
(C) ₹8.50  
(D) ₹8.40
31. The following information is given about Zac Ltd. dealing in musical instruments :
- |                  |     |
|------------------|-----|
| P/V ratio        | 50% |
| Margin of safety | 40% |
- If the sales volume is ₹50,00,000 the net profit will be —
- (A) ₹15,00,000  
(B) ₹10,00,000  
(C) ₹20,00,000  
(D) ₹5,00,000
32. *Assertion (A) :*  
In management accounting, firm decisions on pricing policy can be taken.  
*Reason (R) :*  
As marginal cost per unit is constant from period to period within a short span of time.  
Select the correct answer from the option given below —
- (A) Both A and R are true and R is the correct explanation of A  
(B) Both A and R are true, but R is not the correct explanation of A  
(C) A is true, but R is false  
(D) A is false, but R is true.
33. FIFO method of valuing material issues is suitable in times of —
- (A) Rising prices  
(B) Falling prices  
(C) Price fluctuation  
(D) Boom period.
34. About 50 units are required every day for a machine. Fixed cost of ₹50 is incurred for placing an order. The inventory carrying cost per unit amounts to ₹0.02 per day. The lead period is 32 days. Economic Order Quantity is —
- (A) 200 Units  
(B) 300 Units  
(C) 500 Units  
(D) 100 Units.



35. Which one of the following industry adopts batch costing in determining the total cost —
- (A) Biscuit making
  - (B) Oil refinery
  - (C) Cycle manufacturing
  - (D) Cement industry.
36. The basic difference between a static budget and a flexible budget is —
- (A) A static budget is based on one specific level of production and a flexible budget can be prepared for any production level within a relevant range
  - (B) A static budget is for an entire production, but a flexible budget is applicable only to a single department
  - (C) Flexible budget allows management latitude in meeting goals, whereas a static budget is based on a fixed standard
  - (D) A flexible budget considers only variable costs, but a static budget considers all costs.
37. Manoj Ltd. manufactures three products P, Q and R. The unit selling price of these products are ₹100, ₹160 and ₹75 respectively. The corresponding unit variable costs are ₹50, ₹80 and ₹30. The proportions (quantity-wise) in which these products are manufactured and sold are 20%, 30% and 50% respectively. Total fixed costs are ₹14,80,000. Overall break-even quantity is —
- (A) 26,195 Units
  - (B) 27,195 Units
  - (C) 27,165 Units
  - (D) 28,165 Units.
38. Net income of a company after payment of preference dividend was ₹63 lakh. The number of equity shares was 1,40,000. The P/E ratio of the company was 8.50 times. Earnings per share and market value per share would be —
- (A) ₹45 and ₹382.50 respectively
  - (B) ₹45 and ₹308.20 respectively
  - (C) ₹33.16 and ₹281.86 respectively
  - (D) ₹45 and ₹5.29 respectively.
39. The original standard rate of pay in a factory was ₹5 per hour. Due to settlement with trade unions, this rate of pay per hour was increased by 20%. During a particular period, 5,000 actual hours were worked whereas work done was equivalent to 4,500 hours. The actual labour cost was ₹35,000. Labour rate variance is —
- (A) ₹10,000 (A)
  - (B) ₹5,000 (A)
  - (C) ₹5,000 (F)
  - (D) ₹10,000 (F).

40. When allocating service department costs to production departments, which one of the following is not a method of re-distribution —
- (A) Floor area based distribution
  - (B) Direct distribution
  - (C) Repeated distribution
  - (D) Trial and error method of distribution.
41. *Assertion (A) :*  
Overheads are recovered in costing based on predetermined rates.  
*Reason (R) :*  
This solves the problem of treatment of under recovery or over recovery of overheads.  
Select the correct answer from the options given below —
- (A) Both A and R are true
  - (B) Both A and R are false
  - (C) A is true, but R is false
  - (D) A is false, but R is true.
42. Profits in a company can be increased by :
- (1) Decreasing the selling price per unit
  - (2) Increasing the selling price per unit
  - (3) Decreasing the volume of sales
  - (4) Increasing the volume of sales
  - (5) Decreasing the fixed or variable expenses
  - (6) Increasing the fixed or variable expenses
  - (7) Giving more weightage for products having higher P/V ratio
  - (8) Giving less weightage for products having higher P/V ratio
- Select the correct answer from the options given below —
- (A) (1), (3), (5) and (7)
  - (B) (2), (4), (6) and (8)
  - (C) (2), (4), (5) and (7)
  - (D) (1), (3), (6) and (8).
43. A business unit is known to be a profit centre —
- (A) If its operations or departments are not directly involved in revenue generating activities, but instead focus on elements of cost control
  - (B) If its management is evaluated not only on revenues and expenses, but also on asset investment
  - (C) If its management is compensated based on the level of profitability
  - (D) If its management is held accountable for both revenues and expenses and has the authority to make decision regarding its products, markets and source of supply.

44. *Assertion (A) :*  
The business earns a surplus of sale revenue over variable costs, which is called contribution.  
*Reason (R) :*  
Once fixed costs are fully recovered such excess contribution is termed as profit.  
Select the correct answer from the options given below —
- (A) Both A and R are true and R is the correct explanation of A
  - (B) Both A and R are true, but R is not the correct explanation of A
  - (C) A is true, but R is false
  - (D) A is false, but R is true.
45. Which of the following are the possible causes of material price variance :
- (1) Change in market price
  - (2) Use of poor quality material
  - (3) Inefficient buying
  - (4) Untimely buying
  - (5) Paying overtime for urgent work
  - (6) Use of substitute material of different prices
- Select the correct answer from the options given below —
- (A) (1), (3), (4) and (6)
  - (B) (2), (3), (5) and (6)
  - (C) (3), (4), (5) and (6)
  - (D) (1), (3), (5) and (6).
46. If the closing stock figures are more in cost books as compared to those in financial books for reconciliation, the difference due to stock valuation is —
- (A) Deducted from costing profit
  - (B) Added to costing profit
  - (C) Ignored
  - (D) None of the above.
47. A manufacturer produces 2,00,000 units of a product at a cost of ₹3.25 per unit. Later on, he produces 2,75,000 units at a cost of ₹3.20 per unit, when its fixed overheads have increased by 10%. Marginal cost per unit and original fixed overheads will be —
- (A) ₹2 and ₹45,000 respectively
  - (B) ₹4 and ₹47,000 respectively
  - (C) ₹3 and ₹50,000 respectively
  - (D) ₹5 and ₹45,000 respectively.

48. The following data is obtained from the records of Mayur Ltd. :

	<i>First Year</i>	<i>Second Year</i>
	(₹)	(₹)
Sales	80,000	90,000
Profit	10,000	14,000

Break-even-point in rupees is —

- (A) ₹45,000  
 (B) ₹52,000  
 (C) ₹55,000  
 (D) ₹55,500
49. Match the following :

<i>List-I</i>	<i>List-II</i>
P. Material cost variance	1. SP (RSQ - AQ)
Q. Material price variance	2. SP (SQ - AQ)
R. Material usage variance	3. AQ (SP - AP)
S. Material mix variance	4. SC - AC

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	2	1	4	3
(C)	4	1	2	3
(D)	3	4	2	1

50. Calculate fixed overheads volume variance from the following data :

	<i>Standard</i>	<i>Actual</i>
Output (in units)	8,000	10,000
Working hours	5,000	4,800
Fixed overheads	₹40,000	₹60,000

Correct answer option is —

- (A) ₹9,000 (F)  
 (B) ₹10,000 (F)  
 (C) ₹11,000 (F)  
 (D) ₹8,000 (F).
51. In ratio analysis, 'proforma analysis' implies —  
 (A) Making a list of all the present ratios of the firm

- (B) Comparison of liquidity ratios with other kind of ratios of the firm
- (C) Comparison of the ratios of the firm relating to the performance of the firm
- (D) Comparison of the firm's past and current ratios with future ratios to ascertain the relative strengths and weaknesses in the past and future.

52. *Assertion (A) :*

Profit volume ratio is considered to be the best indicator of the profitability of the business.

*Reason (R) :*

If profit volume ratio is improved, it will result in better profits.

Select the correct answer from the options given below —

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true, but R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true.

53. Match the following :

<i>List-I</i>		<i>List-II</i>	
<i>(Variances)</i>		<i>(Causes)</i>	
P.	Overheads efficiency variance	1.	Power failure
Q.	Overheads volume variance	2.	Appointing low grade employees
R.	Labour idle time variance	3.	Poor working conditions
S.	Labour efficiency variance	4.	Working days being more or less than budgets

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	3	4	1	2
(C)	3	1	4	2
(D)	2	1	4	3

54. Match the following :

<i>List-I</i>		<i>List-II</i>	
P.	Cash flow statements	1.	Inflow of funds
Q.	Inflow of cash	2.	Short-term financial planning
R.	Investment (maturity period 3 months)	3.	Financing activity
S.	Payment of dividend	4.	Cash equivalent

Select the correct answer from the options given below —

	P	Q	R	S
(A)	2	1	4	3
(B)	2	4	1	3
(C)	4	3	1	2
(D)	3	4	1	2

55. Match the following :

	<i>List-I</i>	<i>List-II</i>
P.	Labour cost variance	1. Actual hours paid × (Standard rate – Actual rate)
Q.	Labour rate variance	2. Standard cost – Actual cost
R.	Efficiency variance	3. Idle hours × Standard rate per hour
S.	Idle time variance	4. Standard rate × (Standard hours – Actual hours worked)

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	2	3	4	1
(C)	4	1	2	3
(D)	2	1	4	3

56. Which of the following are advantages of marginal costing :

- (1) Pricing decision
- (2) True profit
- (3) Difficulty to classify
- (4) Ignores time value
- (5) Break-even analysis
- (6) Contribution is not final
- (7) Control over expenditure

Select the correct answer from the options given below —

- (A) (1), (2), (5) and (7)
- (B) (1), (3), (5) and (7)
- (C) (3), (4), (6) and (7)
- (D) (1), (2), (6) and (7).

57. If sales revenue at 60% capacity is ₹4,50,000, sales revenue at 70% capacity on a fall in selling price by 5% would be —

- (A) ₹4,98,750
- (B) ₹7,50,000

(C) ₹5,25,000

(D) ₹7,12,000

58. Match the following :

*List-I*

*List-II*

P. Prepaid expenses

1. Solvency ratio

Q. Sales ratio

2. Net profit margin × Investment ratio

R. Return on investment

3. Turnover ratio

S. 100 minus Proprietary ratio

4. Current asset

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	1	2
(B)	4	3	2	1
(C)	2	1	4	3
(D)	2	4	1	3

59. Assertion (A) :

Material cost variance is the difference between the standard cost of material allowed for actual output and actual cost of material used.

Reason (R) :

A favourable variance would result if actual cost is less than standard cost.

Select the correct answer from the options given below —

- (A) Both A and R are true and R is the correct explanation of A  
 (B) Both A and R are true, but R is not the correct explanation of A  
 (C) A is true, but R is false  
 (D) A is false, but R is true.

60. In Sapphire Ltd. 1,000 units of raw material were introduced in Process-A. The actual output and normal loss of respective processes are as follows :

Process	Output (units)	Normal loss on input units
A	900	10%
B	680	20%
C	540	25%

Abnormal effectiveness in Process-C is —

- (A) 40 Units  
 (B) 50 Units  
 (C) 45 Units  
 (D) 30 Units.

**61.** Match the following :

	<i>List-I</i>		<i>List-II</i>
P.	Classification of costs into fixed and variable costs	1.	Contribution
Q.	Difference between sales and variable costs	2.	P/V ratio
R.	Both fixed and variable costs are charged to product	3.	Marginal costing
S.	Relative profitability	4.	Absorption

Select the correct answer from the following options —

	P	Q	R	S
(A)	4	3	1	2
(B)	3	4	1	2
(C)	3	1	4	2
(D)	4	3	2	1

**62.** *Statement-I :*

Segregation of expenses as fixed and variable helps the management to exercise control over expenditure.

*Statement-II :*

The management can compare the actual variable expenses with the budgeted variable expenses and take corrective action through variance analysis.

Select the correct answer from the following —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.

**63.** *Statement-I :*

In funds flow analysis, current assets and current liabilities are shown separately in a statement of changes in working capital.

*Statement-II :*

In cash flow analysis, increases and decreases of all current accounts are adjusted in the calculation of cash flow from operating activities.

Select the correct answer from the following —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.



**64. Statement-I :**

Margin of safety represents the difference between sales at break-even point and total sales.

**Statement-II :**

Margin of safety can be expressed as a percentage of total sales or in value or in terms of quantity.

Select the correct answer from the options given below —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.

**65. Match the following :***List-I*

- P. Increase in funds
- Q. Goods purchased on credit
- R. Commission outstanding
- S. Net loss

*List-II*

- 1. Application of funds
- 2. Drain in working capital
- 3. Source of funds
- 4. No flow of funds

Select the correct answer from the options given below —

- |     | P | Q | R | S |
|-----|---|---|---|---|
| (A) | 4 | 3 | 2 | 1 |
| (B) | 4 | 3 | 1 | 2 |
| (C) | 3 | 4 | 1 | 2 |
| (D) | 3 | 4 | 2 | 1 |

**66. Match the following :***List-I*

- P. Excess of actual sales over break-even sale volume
- Q. Sum of fixed cost and profit
- R. Break-even analysis
- S. Break-even point

*List-II*

- 1. Contribution
- 2. Cost-volume profit analysis
- 3. No profit, no loss
- 4. Margin of safety

Select the correct answer from the options given below —

- |     | P | Q | R | S |
|-----|---|---|---|---|
| (A) | 4 | 1 | 2 | 3 |
| (B) | 4 | 3 | 2 | 1 |
| (C) | 4 | 3 | 1 | 2 |
| (D) | 3 | 1 | 4 | 2 |

**67. Statement-I :**

The activities or operations of every cost centre should be homogeneous so as to ensure uniform basis of charging expenses within the centre.

**Statement-II :**

The activities or operation of each cost centre must be well defined and clearly identifiable.

Select the correct answer from the following —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.

**68. Match the following :***List-I*

- P. Performance budgeting
- Q. Zero base budgeting oriented
- R. Summary of all functional budgets
- S. Remain unchanged irrespective of level of activity actually attained

*List-II*

- 1. Fixed budget
- 2. Production
- 3. Jimmy Carter
- 4. Master budget

Select the correct answer from the options given below —

- |     | P | Q | R | S |
|-----|---|---|---|---|
| (A) | 3 | 4 | 1 | 2 |
| (B) | 3 | 4 | 2 | 1 |
| (C) | 2 | 4 | 1 | 3 |
| (D) | 2 | 3 | 4 | 1 |

**69. Which of the following pairs is correctly matched —**

- (A) Administrative expenses + Selling and distribution expenses = Operating expenses
- (B)  $(\text{Gross profit} \div \text{Net sales}) \times 100 = \text{Net profit ratio}$
- (C) Both (A) and (B) above
- (D) None of the above.

**70. Statement-I :**

If any fixed asset remains idle due to abnormal or unusual events, it should be included in capital employed.

**Statement-II :**

Idle machines and tools required for normal operation of plant would not be included in capital employed.

Select the correct answer from the following —

- (A) Both statements are correct

- (B) Both statements are incorrect  
 (C) Statement-I is correct, but Statement-II is incorrect  
 (D) Statement-I is incorrect, but Statement-II is correct.

71. Match the following :

<i>List-I</i>	<i>List-II</i>
P. Cost accounting	1. Change in working capital
Q. Funds flow statement	2. Deals with the cost of production, selling and distribution
R. Cash flow statement	3. Is an important technique of financial analysis
S. Ratio analysis	4. Cash and cash equivalents

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	2	1	4	3
(C)	4	3	1	2
(D)	3	4	2	1

72. Allotment of the entire costs to a cost centre or unit is known as —

- (A) Cost apportionment  
 (B) Cost allocation  
 (C) Cost absorption  
 (D) Machine hour rate.

73. Assertion (A) :

Cash flow statement enhances the comparability of report.

Reason (R) :

Cash flow statement eliminates the effect of using different treatments for same transactions.

Select the correct answer from the following —

- (A) Both A and R are true and R is the correct explanation of A  
 (B) Both A and R are true, but R is not the correct explanation of A  
 (C) A is true, but R is false  
 (D) A is false, but R is true.

74. Match the following :

<i>List-I</i>	<i>List-II</i>
P. Absorption costing	1. Is a logical extension of marginal costing
Q. Fixed expenses	2. Relationship of change in cost and change in profit
R. Marginal costing	3. Contribution = _____ + Profit

- S. Break-even analysis 4. Uses classification of costs according to their functions

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	2	1	4	3
(C)	3	2	4	1
(D)	4	3	1	2

- 75.** Assertion (A) :

Accounting ratios reveal the financial position of a concern.

Reason (R) :

Accounting ratios are not useful in assessing the operational efficiency.

Select the correct answer from the following —

- (A) Both A and R are true and R is the correct explanation of A  
 (B) Both A and R are true, but R is not the correct explanation of A  
 (C) A is true, but R is false  
 (D) A is false, but R is true.

- 76.** Return on investment depends on two ratios —

- (A) Net profit ratio and capital turnover ratio  
 (B) Gross profit ratio and net profit ratio  
 (C) Capital employed ratio and assets turnover ratio  
 (D) Earnings per share and net profit ratio.

- 77.** Assertion (A) :

Funds are not related to working capital.

Reason (R) :

Flow of funds takes place whenever there is change in the funds.

Select the correct answer from the following —

- (A) Both A and R are true and R is the correct explanation of A  
 (B) Both A and R are true, but R is not the correct explanation of A  
 (C) A is true, but R is false  
 (D) A is false, but R is true.

- 78.** Arrange the following categories of cash inflows and cash outflows in the correct order of cash flow statements :

- (1) Cash flows from investing activities  
 (2) Cash flows from financing activities  
 (3) Cash flows from operating activities.

Select the correct answer from the options given below —

- (A) (3), (1), (2)
- (B) (1), (3), (2)
- (C) (3), (2), (1)
- (D) (2), (1), (3).

79. Which of the following pairs is not correctly matched —

- (A) Dividend per equity share / Earnings per share = Payout ratio
- (B)  $[\text{Operating profit} / \text{Capital employed}] \times 100 = \text{Return on capital employed}$
- (C)  $[(\text{Cost of goods sold} + \text{operating expenses}) / \text{net sales}] \times 100 = \text{Operating profit ratio}$
- (D) None of the above.

80. Match the following :

- | <i>List-I</i>            | <i>List-II</i>                                              |
|--------------------------|-------------------------------------------------------------|
| P. Cost control purposes | 1. _____ is a predetermined cost                            |
| Q. Standard cost         | 2. Responsibility accounting fixes responsibility for _____ |
| R. Integrates            | 3. Cost accounting guides future _____                      |
| S. Production policies   | 4. Budgeting system _____ key managerial functions          |

Select the correct answer from the options given below —

- |     | P | Q | R | S |
|-----|---|---|---|---|
| (A) | 4 | 3 | 2 | 1 |
| (B) | 2 | 1 | 4 | 3 |
| (C) | 2 | 3 | 4 | 1 |
| (D) | 3 | 2 | 4 | 1 |

81. *Statement-I* :

According to AS-3, provision for taxation should always be treated as a non-operating charge on profits.

*Statement-II* :

Dividend on shares is an appropriation of profits and not a trading charge.

Select the correct answer from the following —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.

82. Match the following :

- | <i>List-I</i>       | <i>List-II</i>                                                                |
|---------------------|-------------------------------------------------------------------------------|
| P. Operating profit | 1. $\text{Capital employed} = \text{_____} + \text{preference share capital}$ |

- Q. Liquid liabilities            2. \_\_\_\_\_ = Gross profit – Operating expenses  
 R. Capital employed        3. Quick assets = Quick ratio × \_\_\_\_\_  
 S. Equity share capital    4. Fixed assets ratio = fixed assets ÷ \_\_\_\_\_

Select the correct answer from the options given below —

	P	Q	R	S
(A)	2	3	4	1
(B)	3	4	1	2
(C)	4	3	2	1
(D)	2	1	4	3

**83.** Assertion (A) :

Cost accounting hides the relative efficiencies of different workers.

Reason (R) :

Cost accounting does not disclose profitable and non-profitable activities.

Select the correct answer from the following —

- (A) Both A and R are true and R is the correct explanation of A  
 (B) Both A and R are true, but R is not the correct explanation of A  
 (C) A is true, but R is false  
 (D) A is false, but R is true.

**84.** A company sells its product at ₹15 per unit. In a period, it produces and sells 8,000 units and incurs a loss of ₹5 per unit. If the sales volume were to be raised to 20,000 units, it could earn a profit of ₹4 per unit. Break-even point (in units) will be —

- (A) 24,000 Units  
 (B) 12,000 Units  
 (C) 16,000 Units  
 (D) 30,000 Units.

**85.** Which of the following pairs is correctly matched —

- (A) Profitability ratios – Expenses ratios  
 (B) Activity ratios – Total assets turnover ratio  
 (C) Both (A) and (B) above  
 (D) None of the above.

**86.** Statement-I :

At the time of replacement of plant, according to marginal cost technique, the proposal which yields lowest contribution is to be selected.

Statement-II :

According to total cost technique, the proposal which involves the highest costs is to be selected.

Select the correct answer from the following —

- (A) Both statements are correct
- (B) Both statements are incorrect
- (C) Statement-I is correct, but Statement-II is incorrect
- (D) Statement-I is incorrect, but Statement-II is correct.

87. Choose the correct statements from the following :

- (1) Marginal costing and absorption costing are the same
- (2) For decision making, absorption costing is more suitable than marginal costing
- (3) Cost-volume-profit relationship also denotes break-even point
- (4) Marginal costing is based on the distinction between fixed and variable costs.

Correct answer option is —

- (A) (1) and (2)
- (B) (2) and (3)
- (C) (3) and (4)
- (D) (2) and (4).

88. Return on investment is also known as —

- (A) Du-pont chart
- (B) Activity ratio
- (C) P/V ratio
- (D) Market test ratio.

89. Assertion (A) :

Higher the gross profit ratio, the better it is.

Reason (R) :

A low gross profit ratio indicates unfavourable trend in the form of reduction in selling prices.

Select the correct answer from the following —

- (A) Both A and R are true and R is the correct explanation of A
- (B) Both A and R are true, but R is not the correct explanation of A
- (C) A is true, but R is false
- (D) A is false, but R is true.

90. Equity share capital : ₹30 lakh (30,000 shares of ₹100 each); 9% preference shares: ₹10 lakh; profit before tax: ₹24.46 lakh and tax rate 30%. Earnings per share will be —

- (A) ₹54.07
- (B) ₹81.53
- (C) ₹78.53
- (D) ₹57.07

91. Financial statement of X Ltd. shows the following data —

	$\text{₹}$
Opening stock	1,50,000
Total purchases (including cash purchases of ₹1,75,000)	10,50,000
Closing stock	1,20,000

Stock turnover ratio is —

- (A) 6.70 times
- (B) 8 times
- (C) 7.2 times
- (D) 9 times.

92. The sales and profit during the two periods were as follows :

	Sales (₹)	Profit (₹)
Period-I	20,00,000	2,00,000
Period-II	30,00,000	4,00,000

Sales required to earn a profit of ₹5,00,000 is —

- (A) ₹30 lakh
- (B) ₹40 lakh
- (C) ₹35 lakh
- (D) ₹28 lakh.

93. The key area(s) of activity based costing is/are —

- (A) Product cost differentiation
- (B) Identification of non-value added cost
- (C) Distribution between fixed and variable cost
- (D) Both (A) and (B) above.

94. Match the following :

<i>List-I</i>	<i>List-II</i>
P. Marginal cost	1. $\frac{\text{Contribution}}{\text{Sales}}$
Q. P/V ratio	2. $\text{Selling price} - \text{Variable cost}$
R. Profit	3. $\text{Sales} \times (1 - \text{P/V ratio})$
S. Variable cost	4. $\frac{\text{Margin of safety}}{\text{P/V Ratio}}$

Select the correct answer from the options given below —

	P	Q	R	S
(A)	4	3	2	1
(B)	3	1	4	2
(C)	2	1	4	3
(D)	2	3	4	1



95. In contract costing, the whole of the amount shown under architect's certificate is not paid immediately, but a part thereof is paid after the contract is completed. Such amount is known as —
- (A) Retention money
  - (B) Advance money
  - (C) Contract amount
  - (D) Work-in-progress.
96. Actual fixed overhead : ₹22,400  
Budgeted fixed overheads : ₹20,000  
Actual hours worked : 28,000  
Budgeted hours : 40,000  
Fixed overhead expenditure variance is —
- (A) ₹2,800 (A)
  - (B) ₹2,400 (A)
  - (C) ₹2,400 (F)
  - (D) ₹2,800 (F).
97. X Ltd. has forecast its sales for the next three months as follows :
- May : 12,000 units  
June : 20,000 units  
July : 25,000 units
- Opening stock as on 1st April is expected to be 5,000 units. Closing stock should equal 20% of the coming month's sales needs. How many units should be produced in June —
- (A) 20,000 Units
  - (B) 11,000 Units
  - (C) 21,000 Units
  - (D) 25,000 Units.
98. Standard rate of wages ₹0.90 per hour; standard output 20 units per hour; actual wages paid ₹76 for 80 hours (idle time 10 hours). Output produced 1,640 units.  
Direct labour rate variance is —
- (A) ₹4.00 (A)
  - (B) ₹4.00 (F)
  - (C) ₹4.20 (F)
  - (D) ₹4.20 (A).
99. Cost-volume-profit (CVP) analysis is based on several assumptions. Which one of the following is not relevant for such an analysis —
- (A) Inventory quantity changes in the year
  - (B) Sales mix of the products is constant

- (C) Material price and labour rates do not change
  - (D) Behaviour of both sales and variable cost is linear throughout the year.
100. The fixed expenses are ₹4,000 and break-even point is ₹10,000. New break-even point, if selling price is reduced by 20% is —
- (A) ₹14,000
  - (B) ₹15,000
  - (C) ₹16,000
  - (D) ₹17,000

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**ANSWER KEY**  
**COST AND MANAGEMENT ACCOUNTING - SELECT SERIES**

<b>Qno</b>	<b>Ans</b>	<b>Qno</b>	<b>Ans</b>	<b>Qno</b>	<b>Ans</b>
1	B	35	A	69	A
2	B	36	A	70	B
3	C	37	A	71	B
4	A	38	A	72	B
5	B	39	B	73	A
6	A	40	A	74	A
7	C	41	C	75	C
8	D	42	C	76	A
9	D	43	D	77	D
10	A	44	B	78	A
11	C	45	A	79	C
12	B	46	A	80	B
13	A	47	C	81	A
14	B	48	C	82	A
15	C	49	A	83	*
16	B	50	B	84	B
17	A	51	D	85	C
18	D	52	A	86	B
19	B	53	B	87	C
20	D	54	A	88	A
21	C	55	D	89	A
22	A	56	A	90	A
23	A	57	A	91	B
24	B	58	B	92	C
25	C	59	A	93	D
26	D	60	D	94	Either B or C or both
27	B	61	C	95	A
28	A	62	A	96	B
29	B	63	A	97	C
30	D	64	A	98	A
31	B	65	D	99	A
32	A	66	A	100	C
33	B	67	A		
34	C	68	D		

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Q. 83: The correct answer is "Both A and R are false".

Q. 94: Both the options (B & C) are correct.

## ECONOMIC AND COMMERCIAL LAWS

Time allowed : 3 hours

Maximum marks : 100

**NOTE :** Answer ALL Questions.

### PART A

#### Question 1

- (a) Define the term 'authorised person' under the Foreign Exchange Management Act, 1999 and state the powers of the Reserve Bank of India to issue directions to an 'authorised person'.
- (b) What is meant by 'arbitration agreement' under the Arbitration and Conciliation Act, 1996? Should the arbitration agreement be in writing and whether jurisdiction of civil court is barred?
- (c) Can a 'lapsed patent' be restored? If so, state the procedure laid down for disposal of application for restoration of lapsed patent.
- (d) What do you understand by the word 'competition' in the market? In what way does 'competition kill competition'? Discuss briefly.
- (e) Define the term 'bill of lading' under the Indian Stamp Act, 1899.

(5 marks each)

#### Answer 1(a)

As per Section 2 (c) of the Foreign Exchange Management Act, 1999 "authorized person" means an authorized dealer, money changer, off-shore banking unit or any other person for the time being authorized under sub-section (1) of section 10 to deal in foreign exchange or foreign securities.

Section 11 of the Foreign Exchange Management Act, 1999 empowers the Reserve Bank of India to issue directions to the authorised person in regard to making of payment or doing or desist from doing any act relating to foreign exchange or foreign security. Reserve Bank has also been empowered to issue directions to the authorised persons to furnish such information in such manner as it deems fit. If any authorised person contravenes any direction given by the RBI or fails to file the return as directed by RBI, he may be liable to a fine not exceeding Rs. 10,000/- and in the case of continuing contravention, with an additional penalty which may extend to Rs. 2,000 for every day during which such contravention continues.

#### Answer 1(b)

As per Section 2(1)(b) of the Arbitration and Conciliation Act, 1996 "Arbitration

agreement” means an agreement referred to in Section 7 of the Arbitration and Conciliation Act, 1996 .

Under Section 7, the “Arbitration agreement” has been defined to mean an agreement by parties to submit the arbitration or certain disputes which have arisen or which may arise between them in respect of a defined legal relationship whether contractual or not.

Section 7 (2) of the Arbitration and Conciliation Act, 1996 says that an arbitration agreement may be in the form of an arbitration clause in a contract or in the form of a separate agreement. Section 7 (3) specifically states that an arbitration agreement shall be in writing. Section 7 (4) spells out that an arbitration agreement is in writing if it is contained in (a) a document signed by the parties, or (b) an exchange of letters, telex, telegrams or other means of telecommunication, which provide a record of the agreement, or (c) an exchange of statements of claim and defence in which the existence of the agreement is alleged by one party and not denied by the other.

Yes the jurisdiction of Civil Court is barred after an application under Section 8 of the Act is made for arbitration.(As held by the Supreme Court in *Hindustan Petroleum Corporation Ltd. v. M/s Pink City Midway Petroleum*, AIR 2003 SC 2881)

### **Answer 1(c)**

Yes, lapsed patent can be restored.

Section 60 of the Patents Act, 1970 provides that where a patent has ceased to have effect by reason of failure to pay any renewal fee within the period prescribed under section 53 or within period as may be allowed under section 142(4), the patentee or his legal representative and where the patent was held by two or more persons jointly, then with the leave of the Controller one or more of them without joining the others, may within eighteen months from the date on which the patent ceased to have effect, make an application for the restoration of the patent.

### *Procedure*

Section 61 of the Patents Act, 1970 provides that if, after hearing the applicant in cases where the applicant so desires or the Controller thinks fit, the Controller is prima facie satisfied that the failure to pay the renewal fee was unintentional and that there has been no undue delay in the making of the application, he shall publish the application in the prescribed manner; and within the prescribed period, any person interested may give notice to the Controller of opposition thereto on either or both of the following grounds that —

- (a) the failure to pay the renewal fee was not unintentional; or
- (b) there has been undue delay in the making of the application.

If notice of opposition is given within the prescribed period aforesaid, the Controller shall notify the applicant, and shall give to him and to the opponent an opportunity to be heard before deciding the case. If no notice of opposition is given within the prescribed period aforesaid or if in the case of opposition, the decision of the Controller is in favour of the applicant, the Controller shall, upon payment of any unpaid renewal fee and such additional fee as may be prescribed, restore the patent and any patent of addition specified in the application which has ceased to have effect on the cesser of that patent. The

Controller may, if he thinks fit as a condition of restoring the patent, require that an entry shall be made in the register of any document or matter which has to be entered in the register but which has not been so entered.

**Answer 1(d)**

The term “Competition” is not defined in the Competition Act, 2002. However, in the corporate world, the term is generally understood as a process whereby the economic enterprises compete with each other to secure customers for their product.

In the absence of a generally accepted definition of the phenomenon of competition, it has to be regarded as the object fostered and protected by competition policy and law. The World Bank and OECD in its Report A Framework for the Design and Implementation of Competition Law and Policy, broadly defines the competition is “a situation in a market in which firms or sellers independently strive for the buyers’ patronage in order to achieve a particular business objective, for example, profits, sales or market share.”

Competition can also be defined as a process of economic rivalry between market players to attract customers. These market players can be multinational or domestic companies, wholesalers, retailers, or even the neighborhood shopkeeper.

In case where competition is defined as a process of economic rivalry, the enterprises compete to outsmart their competitors, sometimes to eliminate their rivals. Competition in the sense of economic rivalry is unstable and has a natural tendency to give way to a monopoly. Thus, competition kills competition.

**Answer 1(e)**

As per Section 2(4) of the Indian Stamp Act, 1899 “Bill of Lading” includes a ‘through bill lading’ but does not include a mate’s receipt.

A bill of lading is a receipt by the master of a ship for goods delivered to him for delivery to X or his assigns. Three copies are made, each signed by the master. One is kept by the consignor of the goods, one by the master of the ship and one is forwarded to X, the consignee, who, on receipt of it, acquires property in the goods. It is a written evidence of a contract for the carriage and delivery of goods by sea, for certain freight.

When goods are delivered on board a ship, the receipt is given by the person incharge at that time. This receipt is known as the mate’s receipt. The shipper of the goods returns this receipt to the master before the ship leaves and receives from him bill of lading for the goods, signed by the master.

***Attempt all parts of either Q.No. 2 or Q.No. 2A***

**Question 2**

- (a) *"No consideration, no contract; subject to certain exceptions." Explain briefly. (3 marks)*
- (b) *Mention the activities/sectors in which foreign direct investment (FDI) is prohibited. (3 marks)*
- (c) *Alex, a foreign diplomat desires to buy immovable property in India. Is he permitted to do so ? Give reasons in brief. (3 marks)*

- (d) Explain the meaning of the term 'certification trade mark' under the Trade Marks Act, 1999. (3 marks)
- (e) How much foreign exchange is available to a person going abroad on emigration? (3 marks)

**OR (Alternate question to Q.No. 2)**

**Question 2A**

- (i) What are the classes of capital account transactions of persons resident in India? (3 marks)
- (ii) Registration of certain designs is prohibited under the Designs Act, 2000. Explain. (3 marks)
- (iii) Which organisations/individuals are specifically prohibited from receiving foreign contribution under the Foreign Contribution (Regulation) Act, 2010? (3 marks)
- (iv) State the procedure for making an application for renewal of certificate under the Foreign Contribution (Regulation) Act, 2010. (3 marks)
- (v) Whether a registered geographical indication can be assigned or transmitted? Explain briefly. (3 marks)

**Answer 2(a)**

The general rule is that an agreement made without consideration is void. But Section 25 of the Indian Contract Act lays down certain exceptions which make a promise without consideration valid and binding.

Thus, an agreement without consideration is valid under the followings:

1. If it is expressed in writing and registered and is made out of natural love and affection between parties standing in a near relation to each other; or
2. If it is made to compensate a person who has already done something voluntarily for the promisor, or done something which the promisor was legally compellable to do; or
3. If it is a promise in writing and signed by the person to be charged therewith, or by his agent, to pay a debt barred by the law of limitation.

The requirements in the above exceptions are noteworthy. The first one requires written and registered promise. The second may be oral or in writing and the third must be in writing.

**Answer 2(b)**

Activities /Sectors in which foreign direct investment (FDI) is prohibited are as under:

- Lottery Business including Government/private lottery, online lotteries, etc.
- Gambling and Betting including casinos etc.
- Chit funds

- Nidhi company
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business or Construction of Farm Houses
- Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Atomic energy

**Answer 2(c)**

Yes, Alex is permitted to do so.

In terms of Regulation 5A of the Foreign Exchange Management (Acquisition and Transfer of Immovable Property in India) Regulations 2000, Foreign Embassy/ Diplomat/ Consulate General, may purchase/ sell immovable property (other than agricultural land/ plantation property/ farm house) in India provided—

- i. Clearance from the Government of India, Ministry of External Affairs is obtained for such purchase/sale, and
- ii. The consideration for acquisition of immovable property in India is paid out of funds remitted from abroad through the normal banking channels.

**Answer 2(d)**

Section 2(1)(e) of the Trade Marks Act, 1999 defines the term certification trade mark as to mean a mark capable of distinguishing the goods or services in connection with which it is used in the course of trade which are certified by the proprietor of the mark in respect of origin, material, mode of manufacture of goods or performance of services, quality, accuracy or other characteristics from goods or services not so certified and registerable as such in respect of those goods or services in the name, as proprietor of the certification trade mark, of that person.

Sections 69 to 78 of the Trade Marks Act, 1999 deal with registration of certification trade mark. The purpose of certification trade mark is to show that the goods on which the mark is used have been certified by some competent person in respect of certain characteristics of the goods such as origin, mode of manufacture, quality, etc. The proprietor of a certification trade mark does not himself deal in the goods. A certification trade mark may be used in addition to the users own trade mark on his goods. Central Government empower the final authority for registration of certification trade mark to the Registrar.

**Answer 2(e)**

In terms of Schedule III read with Rule 5 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000, Individuals can avail of foreign exchange facility for Emigration purposes within the limit of USD 2, 50,000 or the amount prescribed by the country of emigration only.

Any additional remittance in excess of the above limit require to obtain prior approval of the Reserve Bank of India



**Answer 2A(i)**

According to Foreign Exchange Management (Capital Account Transactions) Regulations, 2000 followings are the Classes of Capital Account Transactions of Persons Resident in India

- (i) investment by a person resident in India in foreign securities.
- (ii) foreign currency loans raised in India and abroad by a person resident in India;
- (iii) transfer of immovable property outside India by a person resident in India;
- (iv) guarantees issued by a person resident in India in favour of a person resident outside India;
- (v) export, import and holding of currency/currency notes;
- (vi) loans and overdrafts by a person resident in India from a person resident outside India;
- (vii) maintenance of foreign currency accounts in India and outside India by a person resident in India;
- (viii) taking out of insurance policy by a person resident in India from an insurance company outside India;
- (ix) loans and overdrafts by a person resident in India to a person resident outside India;
- (x) remittance outside India of capital assets of a person resident in India;
- (xi) sale and purchase of foreign exchange derivatives in India and abroad and commodity derivatives abroad by a person resident in India.

**Answer 2A(ii)**

Designs which are prohibited of registration under Design Act, 2000 are as follows:

- is not new or original; or
- has been disclosed to the public anywhere in India or in any other country by publication in tangible form or by use or in any other way prior to the filing date, or where applicable, the priority date of the application for registration; or
- is not significantly distinguishable from known designs or combination of known designs; or
- comprises or contains scandalous or obscene matter, shall not be registered.

**Answer 2A(iii)**

According to Section 3 of the Foreign Contribution (Regulation) Act, 2010, no foreign contribution shall be accepted by any-

- (a) candidate for election;
- (b) correspondent, columnist, cartoonist, editor, owner, printer or publisher of a registered newspaper;

- (c) Judge, Government servant or employee of any corporation or any other body controlled or owned by the Government;
- (d) member of any Legislature;
- (e) political party or office-bearer thereof;
- (f) organisation of a political nature as may be specified under sub-section (1) of section 5 by the Central Government;
- (g) association or company engaged in the production or broadcast of audio news or audio visual news or current affairs programmes through any electronic mode, or any other electronic form as defined in clause (r) of sub-section (1) of section 2 of the Information Technology Act, 2000 or any other mode of mass communication;
- (h) correspondent or columnist, cartoonist, editor, owner of the association or company referred to in clause (g).

**Answer 2A(iv)****Procedure for renewal of certificate under FCRA**

- (1) Every person who has been granted a certificate under section 12 of the Foreign Contribution (Regulation) Act, 2010 shall have such certificate renewed within six months before the expiry of the period of the certificate.
- (2) The application for renewal of the certificate shall be made to the Central Government in such form and manner and accompanied by such fee as may be prescribed.
- (3) The Central Government shall renew the certificate, ordinarily within ninety days from the date of receipt of application for renewal of certificate subject to such terms and conditions as it may deem fit and grant a certificate of renewal for a period of five years:
- (4) In case the Central Government does not renew the certificate within the said period of ninety days, it shall communicate the reasons thereof to the applicant.
- (5) The Central Government may refuse to renew the certificate in case where a person has violated any of the provisions of this Act or rules made thereunder.

**Answer 2A(v)**

Section 24 of the Geographical Indications of Goods (Registration & Protection) Act, 1999 prohibits assignment or transmission of geographical indication.

A geographical indication is a public property belonging to the producers of the concerned goods. It shall not be the subject matter of assignment, transmission, licensing, pledge, mortgage or such other agreement. However, when an authorised user dies, his right devolves on his successor in title.

**Question 3**

- (a) *Pawan booked an air ticket for New York with Skyhigh airlines. At New Delhi*

airport, authorities found visa in order; but at Amsterdam, when his visa was checked it was found that the visa bears the photocopy of photograph. Thus, Pawan missed his flight to New York. However, the airlines helped him to reach New York on the same day.

After reaching New York, Skyhigh airlines tendered an apology to Pawan for the inconvenience caused to him and paid as a goodwill gesture, a sum of ₹2,500. Pawan filed a complaint with National Commission under the Consumer Protection Act, 1986. Will Pawan succeed? Give reasons with reference to case law, if any. (5 marks)

(b) What is meant by 'privity of contract'? Discuss briefly the exceptions to privity of contract. (5 marks)

(c) X and Y are husband and wife, respectively. X, by a registered document, after referring to quarrels and disagreement between himself and his wife Y, promised to pay his wife, a sum of money for her maintenance and separate residence.

Whether this document is a contract enforceable by law? Give reasons with reference to decided case law, if any. (5 marks)

### Answer 3(a)

The fact of the present case is similar to the case of *Ravneet Singh Bagga v. KLM Royal Dutch Fintimes* [1999(7) SCALE 43]. In this case the Supreme Court held that the KLM Royal Dutch Fintimes could not be held to be guilty of deficiency in service. The staff of the airline acted fairly and in a bona fide manner, keeping in mind security and safety of passengers and the Aircraft. The photograph on visa documents was a photo copy and not the original which was unusual. In the circumstances, the staff took some time to ascertain the truth and helped the appellant to reach New York the same day.

In the light of the above case, Mr. Pawan will not succeed in his complaint.

### Answer 3(b)

A contract is entered into by two or more persons, thereby creating rights and obligations for them. It is a party to the contract only who can enforce his rights as against the other party. The doctrine of privity in the common law of contract provides that a contract cannot confer rights or impose obligations arising under it on any person or agent except the parties to it. Privity is the legal term for a close, mutual, or successive relationship to the same right of property or the power to enforce a promise or warranty.

A stranger to a contract cannot sue both under the English and Indian law for want of privity of contract. Both the Indian law and the English law recognize certain exceptions to the rule that a stranger to a contract cannot sue on the contract.

In the following cases, a person who is not a party to a contract can enforce the contract:

- (i) A beneficiary under an agreement to create a trust can sue upon the agreement, though not a party to it, for the enforcement of the trust so as to get the trust executed for his benefit. In *Khawaja Muhammad v. Hussaini Begum*, (1910) 32 All. 410, it was held that where a Mohammedan lady sued her father-in-law to

recover arrears of allowance payable to her by him under an agreement between him and her own father in consideration of her marriage, she could enforce the promise in her favour insofar as she was a beneficiary under the agreement to make a settlement in her favour, and she was claiming as beneficiary under such settlement.

- (ii) An assignee under an assignment made by the parties, or by the operation of law (e.g. in case of death or insolvency), can sue upon the contract for the enforcement of his rights, title and interest. But a mere nominee (i.e., the person for whose benefit another has insured his own life) cannot sue on the policy because the nominee is not an assignee.
- (iii) In cases of family arrangements or settlements between male members of a Hindu family which provide for the maintenance or expenses for marriages of female members, the latter though not parties to the contract, possess an actual beneficial right which place them in the position of beneficiaries under the contract, and can therefore, sue.
- (iv) In case of acknowledgement of liability, e.g., where A receives money from B for paying to C, and admits to C the receipt of that amount, then A constitutes himself as the agent of C.
- (v) Whenever the promisor is by his own conduct estopped from denying his liability to perform the promise, the person who is not a party to the contract can sue upon it to make the promisor liable.
- (vi) In cases where a person makes a promise to an individual for the benefit of third party and creates a charge on certain immovable property for the purpose, the third party can enforce the promise though, he is stranger to the contract.

### **Answer 3(c)**

The general rule is that an agreement made without consideration is void. But Section 25 of the Indian Contract Act lays down certain exceptions which make a promise without consideration valid and binding.

Thus, an agreement without consideration is valid:

1. If it is expressed in writing and registered and is made out of natural love and affection between parties standing in a near relation to each other; or
2. If it is made to compensate a person who has already done something voluntarily for the promisor, or done something which the promisor was legally compellable to do; or
3. If it is a promise in writing and signed by the person to be charged therewith, or by his agent, to pay a debt barred by the law of limitation.

The requirements in the above exceptions are noteworthy. The first one requires written and registered promise. The second may be oral or in writing and the third must be in writing.

In the case of *Rajlucky Deb v. Bhootnath* (1900) 4 C.W.N. 488 where a husband by a registered document, after referring to quarrels and disagreement between himself and

his wife, promised to pay his wife a sum of money for her maintenance and separate residence, it was held that the promise was unenforceable, as it was not made for love and affection.

Hence contract executed by Mr. X in favour of Mrs. Y is not enforceable by law.

#### **Question 4**

- (a) *How is the Competition Commission of India established and what is its composition? Discuss the procedure laid down for the selection of Chairperson and other members alongwith their term of office under the provisions of the Competition Act, 2002.* (8 marks)
- (b) *Define the term 'money laundering'. How does it impact the development of a growing economy? Discuss.* (7 marks)

#### **Answer 4(a)**

##### **Establishment of Competition Commission of India**

The Central Government under Section 7 of the Competition Act, 2002 has been empowered to establish a Commission to be called “Competition Commission of India” by issue of a Notification. The Commission is a body corporate having perpetual succession and a common seal. The Commission has power to acquire, hold movable or immovable property and to enter into contract in its name and by the said name, sue or be sued. The Central Government established the Competition Commission of India having its Head Office at New Delhi. The Commission has also been authorized to establish its office at other places in India. Thus, the law provides for setting up of CCI’s offices at places other than that of its Headquarter.

##### **Composition of Commission**

The composition of the Commission as spelled out under Section 8 of the Act consists of a Chairperson and not less than two and not more than six other Members. The Chairperson and other Members are to be appointed on whole time basis.

##### **Selection of Chairperson and Members of Commission**

Section 9(1) of the Competition Act, 2002 envisages that the Chairperson and other Members of the Commission shall be appointed by the Central Government from a panel of names recommended by a Selection Committee consisting of the Chief Justice of India or his nominee, as Chairperson; and the Secretary in the Ministry of Corporate Affairs, Member; the Secretary in the Ministry of Law and Justice, Member; and two experts of repute as member.

##### **Term of office of Chairperson and other Members**

The Act stipulates that the Chairperson and every other Member shall hold office as such for a term of five years from the date on which he enters upon his office and shall be eligible for re-appointment. However, the Chairperson or other Members shall not hold office as such after he has attained the age of sixty-five years.

#### **Answer 4(b)**

Money laundering is the processing of criminal proceeds to disguise its illegal origin.

As per section 2(1)(p) of the Prevention of Money Laundering Act, 2002 "money-laundering" has the meaning assigned to it in section 3.

Section 3 of the Prevention of Money Laundering Act, 2002 states that whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or actually involved in any process or activity connected with the proceeds of crime including its concealment, possession, acquisition or use and projecting or claiming it is an untainted property shall be guilty of offence of money laundering.

Economies with growing or developing financial centers, but inadequate controls are particularly vulnerable to money laundering, as against the established financial center countries, which implement comprehensive anti-money laundering regimes. The gaps in a national anti-money laundering system are exploited by launderers, who tend to move their networks to countries and financial systems with weak or ineffective countermeasures. As with the damaged integrity of an individual financial institution, there is a damping effect on foreign direct investment when a country's commercial and financial sectors are perceived to be subject to the control and influence of organised crime.

In times of decelerating growth, an infusion of hard currency can bolster a country's foreign reserves; ease the hardship associated with budget tightening policies and moderate foreign indebtedness. While these are short-term benefits associated with an inflow of criminal monies, the long-term effects are mostly negative. One difference between official borrowing and laundered funds is that the former can be controlled by Government, whereas the funds owned by criminals escape the governments ability to control and regulate the economy.

The possible social, economic and political effects of money laundering, if left unchecked or dealt with ineffectively, are serious. Through the process of money laundering, organised crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments. Thus, the economic and political influence of criminal organisations can weaken the social fabric, ethical standards and ultimately the democratic institutions of society.

## PART B

### Question 5

- (a) Define the term 'trust' under the Indian Trusts Act, 1882. How does it differ from a contract ? Explain briefly. (3 marks)
- (b) Whether 'tea' is a food stuff under the Essential Commodities Act, 1955 ? Does it have any nutritional value ? Discuss in reference with leading case law, if any. (3 marks)
- (c) Define the term 'stamp' under the Legal Metrology Act, 2009. (3 marks)
- (d) Who is a 'member' of society registered under the Societies Registration Act, 1860 ? What are his rights and liabilities ? (3 marks)
- (e) Raman bequeaths certain property to Mohan, desiring him to divide the bulk of it among Kapil's children. Does this create a trust ? Give reasons. (3 marks)

**Answer 5(a)**

The Indian Trust Act 1882 defines the term 'trust' in Section 3 as (i) an obligation annexed to the ownership of property and (ii) arising out of confidence reposed in and (iii) accepted by the owner or declared and accepted by him, (iv) for the benefit of another or of another and the owner.

The word 'trust' in its legal sense has a technical and definite meaning which is very much different from the sense in which this word is used in daily parlance. Trust connotes a legal concept or relationship similarly as other relationships created by law, e.g., Contract, Agency.

Trust in its origin was a form of contract distinctively enforced in equity. A contract creates a trust where it has brought into existence an obligation annexed to the ownership of property for the benefit of a person other than the owner. No technical words are required to create a trust. There is always a fiduciary relationship between trustee and beneficiary, but not between the parties to a contract.

**Answer 5(b)**

In the case of *S. Samuel, AID. Harrisons Malayava v. Union of India*, AIR 2004 SC 218, the Supreme Court held that Tea is not foodstuff. Even in a wider sense, foodstuffs will not include tea as tea either in the form of the leaves or in the form of beverage, does not go into the preparation of food proper to make it more palatable and digestible. Tea leaves are not eaten. Tea is a beverage produced by steeping tea leaves or buds of the tea plants in the boiled water. Such tea is consumed hot or cold for its flavour, taste and its quality as a stimulant. The stimulating effect is caused by the presence of caffeine therein. Tea neither nourishes the body nor sustains nor promotes its growth.

It does not have any nutritional value. It does not help formation of enzymes nor does it enable anabolism. Tea or its beverage does not go into the preparation of any foodstuff. In common parlance, any one who has taken tea would not say that he has taken or eaten food.

Thus tea is not a food.

**Answer 5(c)**

Section 2(t) of the Legal Metrology Act, 2009 defines "stamp" as to mean a mark, made by impressing, casting, engraving, etching, branding, affixing pre-stressed paper seal or any other process in relation to, any weight or measure with a view to-

- (i) certifying that such weight or measure conforms to the standard specified by or under this Act, or
- (ii) indicating that any mark which was previously made thereon certifying that such weight or measure conforms to the standards specified by or under this Act, has been obliterated;

**Answer 5(d)**

As per Section 15 of the Societies Registration Act, 1860 member means a person who has —

- (a) been admitted to the society according to its rules and regulations;



- (b) paid subscription provided in the rules;
- (c) signed the roll or list of members of the society, and
- (d) not resigned or ceased from the membership of the society.

The members of a society have rights to —

- receive notice of all special and annual general meetings;
- vote at all meetings.
- resolve all disputes among members and society or inter se;
- receive copies of the rules and regulations and bye-laws.

Members liabilities are –

- A member may be sued as a stranger by the society.
- Member, guilty of an offence to the society, is punishable as a stranger;
- Member causing breach of any rule or regulation or bye-law of the society is liable to pay penalty under the Bye-Laws.
- Member who is guilty of misfeasance or breach of trust or misapplication of funds in relation to the society shall be accountable to make good the loss so caused to the society.

#### **Answer 5(e)**

This does not create a trust, for the trust property is not indicated with sufficient certainty.

The subject matter of the trust must be clear, i.e., the property, in respect of which a trust is created, must be shown clearly. Purpose of the trust should be certain. There must be certainty in words and certainty in object of the trust.

#### ***Attempt all parts of either Q.No. 6 or Q.No. 6A***

#### **Question 6**

- (a) *What are the 'circumstances' under which the Central Government can assume management or control of an industrial undertaking without any investigation into circumstances or notice to the management? Whether it violates the principle of natural justice? Comment with reference to a leading case.*

(10 marks)

- (b) *Discuss briefly the composition of National Green Tribunal under the National Green Tribunal Act, 2010.*

(5 marks)

#### ***OR (Alternate question to Q.No. 6)***

#### **Question 6A**

- (i) *Define the term 'substantial question relating to environment' under the National Green Tribunal Act, 2010.*

(5 marks)



- (ii) Enumerate the documents, registration of which is optional under the provisions of the Registration Act, 1908. (5 marks)
- (iii) Whether taking insurance policy is compulsory by the owner of the enterprise before starting the handling of hazardous substance under the provisions of the Public Liability Insurance Act, 1991 ? If yes, what should be the sum assured ? (5 marks)

### Answer 6(a)

Section 18AA of the Industries (Development and Regulation) Act, 1951 empowers the Central Government to take over industrial undertakings without investigation under certain circumstances. Section 18AA of the Act empowers the Central Government to authorise, by a notified order, any person or body of persons to take-over the management of whole or part of any industrial undertaking and to exercise prescribed functions of control, provided the Government is satisfied on the basis of documentary or other evidences in its possession that

- the persons in charge of such industrial undertaking have, by reckless investments or creation of encumbrances on the assets of the industrial undertaking, or by diversion of funds, brought about a situation which is likely to affect the production of articles manufactured or produced in the industrial undertaking and that immediate action is necessary to prevent such a situation; or
- it has been closed for a period of not less than three months (whether by reason of the voluntary winding up of the company owning the industrial undertaking or for any other reason) and such closure is prejudicial to the concerned scheduled industry and that the financial condition of the company owning the industrial undertaking and the condition of the plant and machinery of such undertaking are such that it is possible to restart the undertaking and such restarting is necessary in the interests of the general public.

In the case of *Swadeshi Cotton Mills v. Union of India* AIR (1981) SC 818, the Supreme Court held that in respect of such take overs without investigation, hearing at pre decisional stage must be given and the rule of audi alterem partem could not be dispensed with.

The principles of natural justice consist of two basic elements, namely (i) audi alteram partem (Opportunity of being heard) and (ii) nemo debet esse judex in propria causa (Nobody should be a judge in his own cause). Irrespective of whether the power conferred on a statutory body or tribunal is administrative or quasi-judicial, a duty to act fairly, that is, in consonance with the fundamental principles of substantive justice is generally implied, because the presumption is that in a democratic polity wedded to the rule of law, the State or the Legislature does not intend that in the exercise of their statutory powers, its functionaries should act unfairly and unjustly.

The Court thus concluded that a hearing should be given to the undertaking concerned before passing an order under Section 18AA. Observance of this fundamental principle is necessary if the courts and tribunals and the administrative bodies are to command public confidence in the settlement of disputes or in taking quasi-judicial or administrative decisions affecting civil rights or legitimate interests of the citizens.

**Answer 6(b)**

As per section 4 of the National Green Tribunal Act, 2010, the National Green Tribunal shall consist of a full time Chairperson; and not less than ten but subject to maximum of twenty full time Judicial Members as the Central Government may, from time to time, notify; and not less than ten but subject to maximum of twenty full time Expert Members, as the Central Government may, from time to time, notify.

The Chairperson of the Tribunal may, if considered necessary, invite any one or more person having specialised knowledge and experience in a particular case before the Tribunal to assist the Tribunal in that case.

**Answer 6A(i)**

According to Section 2(m) of the National Green Tribunal Act, 2010 the term "substantial question relating to environment" shall include an instance where,—

- (i) there is a direct violation of a specific statutory environmental obligation by a person by which,—
  - (A) the community at large other than an individual or group of individuals is affected or likely to be affected by the environmental consequences; or
  - (B) the gravity of damage to the environment or property is substantial; or
  - (C) the damage to public health is broadly measurable;
- (ii) the environmental consequences relate to a specific activity or a point source of pollution.

**Answer 6A(ii)**

Section 18 of the Registration Act, 1908 specifies documents, registration of which is optional. It provides that any of the following documents may be registered under this Act, namely:

- (a) instruments (other than instruments of gift and wills) which purport or operate to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest whether vested or contingent, of value less than one hundred rupees, to or in immovable property;
- (b) instruments acknowledging the receipt or payment of any consideration on account of the creation, declaration, assignment; limitation or extinction of any such right, title or interest;
- (c) leases of immovable property for any term not exceeding one year and leases exempted under Section 17;
- (d) instruments transferring or assigning any decree or order of a court or any award when such decree or order or award purports or operates to create, declare, assign, limit or extinguish, whether in present or in future, any right, title or interest, whether vested or contingent of a value less than one hundred rupees, to or in immovable property;
- (e) instruments (other than wills) which purport or operate to create declare, assign, limit or extinguish any right, title or interest to or in movable property;

- (f) wills; and
- (g) other documents not required by Section 17 to be registered.

**Answer 6A(iii)**

Section 4 of the Public Liability Insurance Act, 1991 requires the owner to take out one or more insurance policies, before starting the handling of hazardous substance. Such insurance policy should provide for contract of insurance, whereby he is insured against liability to give relief under Section 3(1) of the Act. The amount of insurance policy should not be less than the amount of paid up capital of the undertaking handling any hazardous substance and more than the amount, not exceeding rupees fifty crore, as may be prescribed.

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## TAX LAWS AND PRACTICE - SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

Note : All references to sections mentioned in Part-A of the question paper relate to the Income-Tax Act, 1961 and relevant Assessment Year 2015 - 16 unless stated otherwise.

### PART A

1. A private limited company engaged in manufacturing activity had general reserve of ₹20 lakh. It granted a loan of ₹5 lakh to a director who held 13% shareholding cum voting rights in the company. The said loan was re-paid by him before the end of the year. The amount of deemed dividend arising out of the above transaction is —
  - (A) ₹2,60,000
  - (B) ₹2,40,000
  - (C) ₹5,00,000
  - (D) Nil.
2. A residential house is sold for ₹90 lakh and the long-term capital gains computed are ₹50 lakh. The assessee bought two residential houses for ₹30 lakh and ₹20 lakh respectively. The amount eligible for exemption under section 54 would be —
  - (A) ₹50 lakh
  - (B) ₹20 lakh
  - (C) ₹30 lakh
  - (D) Nil.
3. Kapil gets salary of ₹12,000 p.m. and is provided with rent-free unfurnished accommodation at Pune (population 20 lakh). House is owned by employer, fair rental value of which is ₹1,400 p.m. House was provided with effect from 1st July, 2014. Value of the perquisite of rent-free accommodation will be —
  - (A) ₹21,600
  - (B) ₹10,800
  - (C) ₹16,200
  - (D) ₹12,600.
4. Residential status of an Indian company is resident and ordinarily resident for the year —
  - (A) If the entire control and management is wholly in India
  - (B) If part of the control and management is in India

- (C) Regardless of the place of control and management  
(D) If it is listed on recognised stock exchange.
5. A new business was set-up on 1st July, 2014 and trading activity was commenced from 1st September, 2014, the previous year would be the period commencing from —  
(A) 1st April, 2014 to 31st March, 2015  
(B) 1st July, 2014 to 31st March, 2015  
(C) 1st September, 2014 to 31st March, 2015  
(D) 1st October, 2014 to 31st March, 2015.
6. HUF of Ashwin consisting of himself, his wife and 2 sons is assessed to income-tax. The residential status of HUF would be non-resident, when —  
(A) The management and control of its affairs is wholly in India  
(B) The management and control of its affairs is wholly outside India  
(C) The status of karta is non-resident for that year  
(D) When majority of the members are non-residents.
7. Ram who was born and brought up in India left for employment in Dubai on 20th August, 2014. His residential status in respect of the assessment year 2015-16 would be —  
(A) Resident and ordinarily resident  
(B) Non-resident  
(C) Not ordinarily resident  
(D) None of the above.
8. A charitable trust acquired two air-conditioners for ₹1,40,000 on 10<sup>th</sup> June, 2014. It claimed the acquisition as application of income. The amount it can claim by way of depreciation for the said air-conditioners for the assessment year 2015-16 is —  
(A) ₹21,000  
(B) ₹1,40,000  
(C) ₹35,000  
(D) Nil.
9. The voluntary contributions received by an electoral trust during the year is not included in its income —  
(A) When 85% of contribution is distributed in the year  
(B) When 95% of contribution is distributed in the year  
(C) To the extent of ₹10 lakh  
(D) To the extent of 50% of contribution or ₹100 lakh whichever is less.
10. Alternate minimum tax under section 115JC is not applicable to —  
(A) Company

- (B) Individual  
(C) Partnership firm  
(D) Association of persons.
11. Anil is employed in a company with annual salary of ₹8,60,000 (computed). The company paid income-tax of ₹37,000 on his non-monetary perquisites. He paid ₹1,20,000 to recognised provident fund during the year 2014-15. His total income would be —  
(A) ₹7,77,000  
(B) ₹7,40,000  
(C) ₹7,97,000  
(D) ₹7,60,000.
12. When a house property is let-out throughout the year for a monthly rent of ₹22,000 and municipal tax paid for current year is ₹24,000 and for the earlier year paid now is ₹16,000, the income from house property would be —  
(A) ₹1,68,000  
(B) ₹1,56,800  
(C) ₹1,84,800  
(D) ₹2,24,000.
13. When share of each co-owner in a house property is not definite, the income from such property shall be —  
(A) Taxed equally  
(B) Exempt from tax  
(C) Taxed as association of persons  
(D) Taxed as body of individuals.
14. Rohan retires from private service on 30th April, 2014 and his pension has been fixed at ₹1,500 p.m. He gets 1/2 of his pension commuted during January, 2015 and receives ₹75,000. He also gets ₹60,000 as gratuity. The total pension taxable including commuted value will be —  
(A) ₹16,500  
(B) ₹41,500  
(C) ₹39,250  
(D) ₹14,250.
15. X Marine Lines Inc., a Singapore company engaged in shipping business collected ₹150 lakh towards carrying goods from Chennai Port. Its presumptive income chargeable to tax in India would be —  
(A) ₹15 lakh  
(B) ₹11.25 lakh  
(C) ₹12 lakh  
(D) Nil.

16. Rajiv (aged 28 years) received cash gift of ₹2 lakh on the occasion of his marriage. It includes gift from non-relative of ₹80,000. His income by way of lottery winnings is ₹3 lakh. His net income tax liability (ignoring TDS) would be —
- (A) ₹92,700  
(B) ₹22,660  
(C) ₹12,360  
(D) ₹25,750.
17. Pawan reports net income of ₹5 lakh from the activity of growing and manufacturing rubber. How much of such income is to be treated as non-agricultural income —
- (A) ₹1,75,000  
(B) ₹2,00,000  
(C) ₹1,25,000  
(D) Nil.
18. Govt. of India paid salary of ₹5 lakh and allowances/perquisites valued at ₹2.20 lakh to a person who is citizen of India for the services rendered by him outside India for 5 months during the previous year. His total income chargeable to tax would be —
- (A) ₹7,20,000  
(B) ₹5,00,000  
(C) ₹6,10,000  
(D) Nil.
19. Sunil acquired a building for ₹15 lakh in June, 2012 in addition to cost of land beneath the building of ₹3 lakh. It was used for personal purposes until he commenced business in June, 2014 and since then it was used for business purposes. The amount of depreciation eligible in his case for the assessment year 2015-16 would be —
- (A) ₹1,50,000  
(B) ₹75,000  
(C) ₹37,500  
(D) ₹1,21,500.
20. X Ltd. paid ₹10 lakh to an approved college to be used for scientific research unrelated to its business. The amount eligible for deduction under section 35(1)(ii) is —
- (A) ₹5 lakh  
(B) ₹10 lakh  
(C) ₹17.50 lakh  
(D) Nil.

- 21.** Saraswath Ltd. made provision of ₹12 lakh for bonus payable for the year ended 31<sup>st</sup> March, 2015. It paid ₹7 lakh on 31st July, 2015; ₹3 lakh on 30th September, 2015; and ₹2 lakh on 15th December, 2015. The amount eligible for deduction under section 43B would be —
- (A) ₹10 lakh
  - (B) ₹12 lakh
  - (C) ₹7 lakh
  - (D) ₹3 lakh.
- 22.** Laxmi & Co. paid ₹6,10,000 as contract payments to Monu Ltd. during the financial year 2014-15. It did not deduct tax at source under section 194C. The amount liable for disallowance is —
- (A) ₹6,10,000
  - (B) ₹3,05,000
  - (C) ₹12,200
  - (D) ₹1,83,000.
- 23.** The maximum penalty leviable for failure to get accounts audited or to furnish report under section 44AB is —
- (A) ₹75,000
  - (B) ₹1,00,000
  - (C) ₹1,50,000
  - (D) ₹3,00,000.
- 24.** When an LLP has book profit of ₹6 lakh, the maximum amount allowable towards the salary of working partners would be —
- (A) ₹4,50,000
  - (B) ₹6,00,000
  - (C) ₹3,00,000
  - (D) Nil.
- 25.** When a cash payment of ₹30,000 is made on 10<sup>th</sup> May, 2014 towards purchase of raw material effected in the earlier year, i.e., on 5<sup>th</sup> June, 2012, the amount liable for disallowance under section 40A(3A) would be —
- (A) Nil
  - (B) 100% of payment
  - (C) 20% of such payment
  - (D) 30% of such payment.
- 26.** An order passed by the Commissioner (Appeals) should be communicated to—
- (A) Assessee
  - (B) C.I.T. who has jurisdiction over the case



- (C) Both the assessee and C.I.T.  
(D) The assessee through C.I.T.
27. When a partnership firm has total sales of ₹90 lakh, the maximum amount deductible as salary of working partners on the basis of presumptive income determined under section 44AD is —
- (A) ₹4,92,000  
(B) ₹3,60,000  
(C) ₹3,30,000  
(D) ₹5,22,000.
28. When a person carries on the business of carrying goods for hire for the whole year with 5 self-owned and 3 leasehold heavy goods vehicles, the presumptive income chargeable to tax under section 44AE would be —
- (A) ₹4,80,000  
(B) ₹7,20,000  
(C) ₹3,96,000  
(D) ₹3,36,000.
29. The tax on the income of non-resident can be/may be recovered :
- (1) By deduction of tax at source  
(2) From his associates  
(3) From his agents
- Select the correct answer from the options given below —
- (A) (1) only  
(B) (1) & (2) only  
(C) (1), (2) & (3)  
(D) None of the above.
30. When shares of a listed company held for more than 36 months are transferred privately for ₹8 lakh, with original cost of acquisition of ₹1 lakh whose indexed cost of acquisition is ₹2 lakh, the income-tax payable would be —
- (A) ₹1,44,200  
(B) ₹72,100  
(C) ₹1,23,600  
(D) ₹61,800.
31. Aman entered into an agreement with Brij for sale of a building for ₹20 lakh in June, 2014. Aman received advance of ₹2 lakh. Subsequently, the agreement was cancelled and Aman forfeited the advance money. The advance money is—
- (A) To be reduced from the cost of acquisition  
(B) To be reduced from indexed cost of acquisition

- (C) Taxable as capital gains  
(D) Taxable as income under the head 'income from other sources'.
- 32.** Ramesh received ₹7 lakh by way of enhanced compensation in March, 2015. A further sum of ₹2 lakh decreed by the court is due but not received till 31<sup>st</sup> March, 2015. The amount of income chargeable to tax for the assessment year 2015-16 would be —
- (A) ₹3,50,000  
(B) ₹7,00,000  
(C) ₹9,00,000  
(D) ₹4,50,000
- 33.** If a person is eligible to claim :
- (1) unabsorbed depreciation  
(2) current scientific research expenditure  
(3) current depreciation  
(4) brought forward business loss
- The order of priority to set-off would be —
- (A) (4), (3), (2) & (1)  
(B) (2), (3), (4) & (1)  
(C) (3), (4), (1) & (2)  
(D) (1), (2), (3) & (4).
- 34.** A legal entity that exists in one jurisdiction but is owned or controlled primarily by taxpayers of different jurisdiction is called —
- (A) Collaborative foreign corporation  
(B) Controlled foreign corporation  
(C) Customised future company  
(D) Co-operative control society.
- 35.** Monetary limit for deduction in respect of royalty on patents received by a resident individual is —
- (A) ₹1,00,000  
(B) ₹3,00,000  
(C) ₹5,00,000  
(D) Nil.
- 36.** A partnership firm with 4 equal partners brought forward depreciation of ₹3 lakh and business loss of ₹3 lakh relating to assessment year 2014-15. On 1st April, 2014, two partners retired. The amount that assessee-firm can set-off against its income for the assessment year 2015-16 would be —
- (A) Unabsorbed depreciation of ₹3 lakh plus brought forward business loss of ₹3 lakh

- (B) Unabsorbed depreciation 'nil' plus brought forward business loss ₹3 lakh
- (C) Unabsorbed depreciation ₹3 lakh plus brought forward business loss 'nil'.
- (D) Unabsorbed depreciation ₹3 lakh plus brought forward business loss of ₹1.50 lakh.
- 37.** Double taxation relief for incomes taxed in the countries with which no agreement exists is governed by —
- (A) Section 91
- (B) Section 89
- (C) Section 93
- (D) None of the above.
- 38.** A limited company declared ₹20 lakh as dividend on its paid-up capital of ₹100 lakh. The dividend distribution tax payable by it would be —
- (A) ₹3 lakh
- (B) ₹3.33 lakh
- (C) ₹4.09 lakh
- (D) ₹6.18 lakh.
- 39.** Steam (P) Ltd. reports total income of ₹20 lakh for the year ended 31<sup>st</sup> March, 2015. The total tax liability payable before 15<sup>th</sup> September, 2014 by way of advance tax is —
- (A) ₹92,700
- (B) ₹2,78,100
- (C) ₹1,85,400
- (D) ₹3,09,600.
- 40.** Interest for deferment in payment of advance tax under section 234C is calculated on the tax liability computed on —
- (A) Assessed income
- (B) Returned income
- (C) Disputed income
- (D) Appealed income.
- 41.** The 'due date' specified under section 139(1) for filing the return of income in case of companies engaged in international transactions and who have to furnish a report under section 92E is —
- (A) 31<sup>st</sup> July
- (B) 31<sup>st</sup> August
- (C) 30<sup>th</sup> September
- (D) 30<sup>th</sup> November.

42. Authority for Advance Rulings shall not allow an application where the question raised —
- (A) Is already pending before the Supreme Court
  - (B) Involves determination of fair market value of any property
  - (C) Relates to a transaction designed prima facie for the avoidance of income tax
  - (D) All of the above.
43. A return of income when notified as defective, has to be rectified within —
- (A) 30 Days
  - (B) The financial year
  - (C) 15 Days
  - (D) 60 Days.
44. Penalty for failure to file return of income before the end of the relevant assessment year is —
- (A) ₹1,000
  - (B) ₹0,000
  - (C) ₹5,000
  - (D) ₹2,000.
45. X, Manager of XYZ Ltd. since 2001 was terminated by the company on 1<sup>st</sup> August, 2014 by paying a compensation of ₹200 lakh. Such compensation is—
- (A) Chargeable under the Wealth-Tax Act, 1957
  - (B) Not chargeable under the Income-Tax Act, 1961
  - (C) Chargeable under section 17(3)(i)
  - (D) Chargeable under section 28(ii)(a).
46. HSK, an LLP had taken keyman insurance policy on the life of its managing partner. The policy got matured on 13<sup>th</sup> September, 2014 and an amount of ₹75 lakh was paid by the insurers to the managing partner. The amount so received on maturity of the policy by the managing partner is —
- (A) Fully exempt under section 10(10D)
  - (B) 50% of ₹75 lakh exempt
  - (C) ₹75 lakh taxable
  - (D) ₹25 lakh exempt and ₹50 lakh taxable.
47. Ramji Charitable Trust had sold a capital asset costing ₹70,000 on 13<sup>th</sup> June, 2014 for ₹1,50,000. It purchased new assets on 1<sup>st</sup> July, 2014 for ₹1,20,000. The amount taxable as capital gains for Ramji Charitable Trust in assessment year 2015-16 is —
- (A) ₹80,000

- (B) Nil, because of charitable trust  
(C) ₹30,000  
(D) ₹40,000.
48. Pankaj joins service on 1<sup>st</sup> April, 2010 in the grade of 15,000-(1,000)-18,000-(2,000)-26,000. He shall be paying tax for the year ended on 31<sup>st</sup> March, 2015 on the total salary of —  
(A) ₹2,16,000  
(B) ₹2,40,000  
(C) ₹2,28,000  
(D) ₹1,80,000.
49. Ramesh let-out his house on 1<sup>st</sup> April, 2014 on rent of ₹15,000 p.m. The fair rent and the municipal value of house are ₹13,500 p.m. and ₹16,000 p.m. respectively. Municipal taxes paid for the year were ₹12,000. Income from house property for the assessment year 2015-16 will be —  
(A) ₹1,26,000  
(B) ₹1,76,000  
(C) ₹1,05,000  
(D) None of the above.
50. Ms. Sitara is in receipt of family pension of ₹15,000 p.m. during 2014-15. Income chargeable to tax for assessment year 2015-16 of Ms. Sitara is —  
(A) ₹1,80,000  
(B) ₹1,20,000  
(C) ₹,65,000  
(D) Nil.
51. Rohit (a Chartered Accountant) is working as Accounts Officer in Raj (P) Ltd. on a salary of ₹20,000 p.m. He got married to Ms. Pooja who holds 25% shares of this company. What will be the impact of salary paid to Rohit by the company in the hands of Ms. Pooja —  
(A) 100% salary to be clubbed  
(B) 50% salary to be clubbed  
(C) No amount be clubbed  
(D) 25% salary be clubbed.
52. An individual has made investments in the schemes approved under section 80C, and 80CCD of ₹2,50,000 and ₹1,00,000 respectively during the year ended 31<sup>st</sup> March, 2015. Amount that can be claimed by him as deduction out of income in assessment year 2015-16 is —  
(A) 50% of ₹3,50,000  
(B) ₹1,50,000 under section 80C and ₹1,00,000 under section 80CCD

- (C) ₹1,50,000  
(D) None of the above.
53. Raghu's father is dependent on him and suffering with 90% disability. Raghu has incurred an amount of ₹72,500 in maintaining and medical treatment of his father. The deduction he can claim in his income-tax return for assessment year 2015-16 is —
- (A) ₹72,500  
(B) ₹50,000  
(C) ₹1,00,000  
(D) None of the above.
54. From tax point of view, a limited liability partnership (LLP) is treated as —
- (A) Sole trader concern  
(B) General partnership firm  
(C) Private limited company  
(D) Public limited company.
55. Where a foreign institutional investor received income in respect of securities other than income by way of dividend referred to in section 115-O or received in respect of securities other than units referred to in section 115AB, such income is taxable @ —
- (A) 15%  
(B) 10%  
(C) 20%  
(D) 30%.
56. Income of non-resident when attributed from operations in India relating to the following is taxable in India :
- (1) Profits of business  
(2) Fee for technical services  
(3) Royalty  
(4) Income from house property in India
- Select the correct answer from the options given below —
- (A) (1) and (4)  
(B) (1), (3) and (4)  
(C) (1) and (3)  
(D) (1), (2), (3) and (4).
57. The income of non-resident from the business of operation of aircraft in respect of carrying of cargo or passenger in India shall be taxable as per section 44BBA @ —
- (A) 5% of the amount received/receivable

- (B) 10% of the amount received/ receivable  
(C) 15% of the amount received/ receivable  
(D) 7.5% of the amount received/ receivable.
- 58.** The person responsible for paying any income by way of winnings from lottery an amount exceeding ₹10,000, shall deduct —  
(A) TDS @30%  
(B) TDS @30.9%  
(C) TDS @10%  
(D) No TDS.
- 59.** An assessee is required to make payment of interest where he failed to make the payment of demand before the expiry of 30 days from the service of notice of demand @ —  
(A) 1% for every month or part thereof till the date of payment  
(B) 2% p.m. till the date of payment  
(C) 1.5% p.m. till the date of payment  
(D) 1.25% for every month or part thereof till the date of payment.
- 60.** The premises of an assessee within the jurisdiction of an Assessing Officer can be surveyed by such Income-tax Authority —  
(A) After sun-set and before sunrise  
(B) After sunrise but before sun-set  
(C) Any time during 24 hours  
(D) After 11 AM.
- 61.** The order passed by the Assessing Officer when challenged before the Commissioner (Appeals) under section 246A, memorandum of appeal should be filed in —  
(A) Form No. 35  
(B) Form No. 36  
(C) Form No. 36A  
(D) Form No. 38.
- 62.** Quoting of PAN is mandatory when a person is entering into following transactions :  
(1) Sale of immovable property of ₹5 lakh or more  
(2) Deposit of ₹50,000 or more in Post Office Savings Bank  
(3) Deposit of cash aggregating ₹40,000 in one day in a bank  
(4) Contract of sale and purchase of securities exceeding ₹1 lakh  
Select the correct answer from the options given below —  
(A) (1), (2) and (3)

- (B) (1), (2) and (4)  
(C) (1), (3) and (4)  
(D) (1), (2), (3) and (4).
- 63.** XYZ Ltd. filed its return of income for the assessment year 2014-15 on 1<sup>st</sup> February, 2015. The return was selected for scrutiny assessment under section 143(3). The Assessing Officer is required to serve upon the assessee a notice under section 143(2) upto —  
(A) 31<sup>st</sup> July, 2015  
(B) 30<sup>th</sup> September, 2015  
(C) 31<sup>st</sup> July, 2016  
(D) 30<sup>th</sup> September, 2016.
- 64.** The Commissioner of Income-tax is empowered to revise the assessment order of the Assessing Officer when the same is erroneous and pre-judicial to the interest of revenue. Such power is vested in the Commissioner of Income-tax under —  
(A) Section 263  
(B) Section 246C  
(C) Section 264  
(D) Sections 263 and 264.
- 65.** Tax planning is honest and right approach to attain the maximum benefit of taxation laws within its framework only. Objectives of tax planning are :  
(1) Productive investment  
(2) Un-healthy growth of economy  
(3) Minimisation of litigation  
(4) Increase in tax liability  
Select the correct answer from the options given below —  
(A) (1), (2) and (3)  
(B) (1) and (3)  
(C) (1), (2) and (4)  
(D) (1), (2), (3) and (4).
- 66.** The provisions of transfer pricing are applicable with effect from 1<sup>st</sup> April, 2012 to specified domestic transactions entered into by the assessee in the previous year in aggregate of —  
(A) ₹300 lakh  
(B) ₹500 lakh  
(C) ₹2,000 lakh  
(D) ₹1,000 lakh.
- 67.** A partnership firm having 9 trucks engaged in the business of plying these



trucks on hire is to file its return of income for the assessment year 2015-16 on the basis of provisions of section 44AE. The partnership firm is required to file its return of income in —

- (A) Form ITR-4  
 (B) Form ITR-3  
 (C) Form ITR-2  
 (D) Form ITR-4S.
- 68.** XYZ has sold a machine to ABC (associate enterprise) for ₹3 lakh which was sold by ABC to PQR, an unrelated party, on the sale margin of 30% for ₹5,00,000 and has also incurred an amount of ₹10,000 in sending the machine to PQR. The arm's length price of this transaction will be —
- (A) ₹3,40,000  
 (B) ₹3,50,000  
 (C) ₹3,00,000  
 (D) ₹5,00,000.
- 69.** ABC Ltd. entered into international transactions with Allen Inc. of USA during the year ended on 31<sup>st</sup> March, 2015 totalling ₹1,000 lakh, but failed to keep and maintain the information and documents in respect of such international transactions. The Assessing Officer can levy a penalty on ABC Ltd. for this default under section 271AA upto —
- (A) ₹10,00,000  
 (B) ₹20,00,000  
 (C) ₹50,00,000  
 (D) ₹1,50,000.
- 70.** The advance ruling pronounced by the Authority for Advance Ruling as per section 245 is binding :
- (1) In respect of transaction for which ruling has been sought  
 (2) On income-tax authorities  
 (3) On the applicant  
 (4) On all other persons having similar transaction.
- Select the correct answer from the options given below —
- (A) (1), (2) and (3)  
 (B) (1) and (3)  
 (C) (2) and (3)  
 (D) (1), (2), (3) and (4).

#### PART B

- 71.** 'Service' means an activity which constitutes —
- (A) A transaction in money

- (B) A transfer of title in immovable property
  - (C) A provision of service by an employee to the employer
  - (D) None of the above.
- 72.** As per service tax law, the activities in relation to delivery of goods on hire-purchase come under —
- (A) Negative list
  - (B) Exempted service
  - (C) Declared service
  - (D) None of the above.
- 73.** Raj let-out a building consisting of both residential and commercial units. He received rent ₹55,000 per month for residential units and ₹85,000 per month for commercial units. The let-out was for the whole year. The value of taxable service is —
- (A) ₹6,60,000
  - (B) ₹16,80,000
  - (C) ₹10,20,000
  - (D) Nil.
- 74.** On the basis of which of the following entry of the Union list, the service tax is levied —
- (A) Entry 80
  - (B) Entry 97
  - (C) Entry 92C
  - (D) Entry 95.
- 75.** The certificate of registration is to be issued from the date of filing of application for registration by the service provider within —
- (A) 7 Days
  - (B) 10 Days
  - (C) 15 Days
  - (D) 30 Days.
- 76.** Manish gave his 3 buses on hire to State transport undertaking for a monthly rent of ₹1 lakh. It was given on hire for full 2 months. The service tax liability would be —
- (A) ₹24,720
  - (B) ₹1,32,360
  - (C) Nil
  - (D) ₹12,360.
- 77.** Any amount payable or refundable under Service Tax Laws shall be rounded off to the nearest —
- (A) One rupee

- (B) Ten rupees
  - (C) One hundred rupees
  - (D) None of the above.
- 78.** When service provider is located in a non-taxable territory and the service receiver is in a taxable territory, the service tax liability must be discharged by —
- (A) Service provider
  - (B) None
  - (C) Service provider and receiver equally
  - (D) Service receiver.
- 79.** The time-limit for filing application for registration under service tax in the case of a taxable service is —
- (A) 2 Months
  - (B) 60 Days
  - (C) 30 Days
  - (D) 15 Days.
- 80.** When rendering of service was completed on 15<sup>th</sup> July, 2014; the invoice was raised on 25<sup>th</sup> August, 2014 and the payment was received on 31<sup>st</sup> August, 2014, the point of taxation will be —
- (A) 15<sup>th</sup> July, 2014
  - (B) 25<sup>th</sup> August, 2014
  - (C) 31<sup>st</sup> August, 2014
  - (D) 30<sup>th</sup> September, 2014.
- 81.** The due date for e-payment of service tax for the quarter ended 30<sup>th</sup> September would be —
- (A) 30<sup>th</sup> September
  - (B) 6<sup>th</sup> October
  - (C) 31<sup>st</sup> October
  - (D) 10<sup>th</sup> October.
- 82.** Sale price under the Central Sales Tax Act, 1956 does not include —
- (A) Excise duty
  - (B) Central sales tax
  - (C) Packing charges
  - (D) Trade discount.
- 83.** In case where the location of service recipient is not available, the 'place of provision of service' would be —
- (A) Location where service is rendered
  - (B) Location of service provider
  - (C) Where the registration is recorded under service tax
  - (D) None of the above.

- 84.** What would be the value of taxable service, if the gross amount charged by a service provider on 10<sup>th</sup> March, 2015 is ₹42,000 —
- (A) ₹42,000  
(B) ₹37,800  
(C) ₹37,380  
(D) ₹36,960.
- 85.** For delay in filing the service tax return by 28 days under Rule 7(c) of the Service Tax Rules, 1994, the penalty to be paid is —
- (A) ₹100 Per day  
(B) ₹500 Per day  
(C) ₹1,000 Per day  
(D) ₹1,500 Per day.
- 86.** Anil of Chennai made sale of goods to B Ltd. of Mumbai who bought the same to meet pre-existing export order. The sale by Anil to B Ltd. is —
- (A) Taxable as inter-State sale  
(B) Exempt as deemed export  
(C) Intra-State sale  
(D) Exempted sale.
- 87.** X purchased goods from a manufacturer on payment of ₹4,16,000 (including VAT) and earned a profit of 20% on purchase price. VAT rate on both purchase and sale is 4%. The net VAT payable on sale price is —
- (A) ₹16,000  
(B) ₹6,400  
(C) ₹3,200  
(D) ₹19,200
- 88.** X & Co. purchased goods during the month of January, 2015 :
- (i) ₹1,20,000 at 4% VAT  
(ii) ₹2,50,000 at 12.5% VAT
- Sold goods during the month :
- (i) Sale of ₹3,50,000 at 4% VAT  
(ii) Sale of ₹3,00,000 at 12.5% VAT
- The eligible input tax credit and VAT payable for the month is —
- (A) ₹36,050 and ₹31,250 respectively  
(B) ₹36,050 and ₹15,450 respectively  
(C) ₹31,050 and ₹18,800 respectively  
(D) ₹36,050 and ₹14,000 respectively.
- 89.** Under which method of computation of VAT, the tax rate is applied to the difference between the value of output and the cost of input —
- (A) Tax credit method

- (B) Bonus method
  - (C) Addition method
  - (D) Subtraction method.
- 90.** Services by way of training or coaching in recreational activities relating to arts, culture and sports is covered under —
- (A) Declared services
  - (B) Mega exemption notification
  - (C) Negative list
  - (D) None of the above.
- 91.** The revenue neutral rate of VAT means the rate of —
- (A) 1%
  - (B) 4%
  - (C) 20%
  - (D) 12.5%.
- 92.** For goods transferred between branches located in other State, the input tax credit for goods transferred is reduced by —
- (A) 3%
  - (B) 2%
  - (C) 5%
  - (D) Nil.
- 93.** Which of the following service comes under the purview of 'continuous service' —
- (A) Supply of farm labour
  - (B) Any process amounting to manufacture
  - (C) Services by RBI
  - (D) Internet communication.
- 94.** 'Zero rate' sale is advantageous than 'exempt sale' in VAT, since the zero rate sale is —
- (A) Exempt from VAT levy
  - (B) Eligible for refund of VAT on inputs used
  - (C) Export sale
  - (D) Unsaleable goods.
- 95.** Balaji bought raw material by paying VAT of ₹20,000. He produced a different commodity which is exempt from VAT. He is eligible for refund of VAT paid on raw material to the extent of —
- (A) ₹20,000
  - (B) Nil
  - (C) ₹10,000
  - (D) ₹5,000.

96. (i) Input tax credit availed during the month of April, 2015 is ₹20,500  
(ii) Output tax payable for April, 2015 is ₹16,000  
(iii) CST payable on inter-State sales for April, 2015 is ₹3,800  
From the above, amount of VAT credit that can be carried over to next month is —  
(A) ₹4,500  
(B) Nil  
(C) ₹700  
(D) None of the above.
97. If Lakshman has collected any amount of service tax from Ramu which is not required to be collected, Lakshman shall pay the amount so collected to —  
(A) Ramu  
(B) The Central Government  
(C) Keep it with himself  
(D) None of the above.
98. Under section 77 of the Finance Act, 1994, any person who issues invoice with incorrect or incomplete details or fails to account for an invoice in his books of account, shall be liable to a penalty which may be extended upto —  
(A) ₹20,000  
(B) ₹10,000  
(C) ₹5,000  
(D) ₹50,000.
99. E-payment of service tax is compulsory in the case of assessee —  
(A) Who has paid service tax in the preceding financial year equal to at least ₹10 lakh  
(B) Who has paid service tax in the preceding financial year equal to at least ₹40 lakh  
(C) Who has paid service tax in the preceding financial year equal to at least ₹50 lakh  
(D) All assesseees.
100. Which method of VAT computation is generally adopted by the Indian States —  
(A) Tax credit method  
(B) Addition method  
(C) Subtraction method  
(D) Bonus method.

**ANSWER KEY**  
**TAX LAWS AND PRACTICE - SELECT SERIES**

<b>Qno</b>	<b>Ans</b>	<b>Qno</b>	<b>Ans</b>	<b>Qno</b>	<b>Ans</b>
Q1	C	Q35	B	Q69	B
Q2	C	Q36	D	Q70	A
Q3	B	Q37	A	Q71	D
Q4	C	Q38	C	Q72	C
Q5	B	Q39	B	Q73	C
Q6	B	Q40	B	Q74	B
Q7	B	Q41	D	Q75	A
Q8	D	Q42	D	Q76	C
Q9	B	Q43	C	Q77	A
Q10	A	Q44	C	Q78	D
Q11	B	Q45	C	Q79	C
Q12	B	Q46	C	Q80	A
Q13	C	Q47	C	Q81	B
Q14	C	Q48	B	Q82	D
Q15	B	Q49	A	Q83	B
Q16	A	Q50	C	Q84	Either A or C or both
Q17	A	Q51	C	Q85	**
Q18	B	Q52	C	Q86	B
Q19	D	Q53	C	Q87	C
Q20	C	Q54	B	Q88	B
Q21	A	Q55	C	Q89	D
Q22	D	Q56	D	Q90	B
Q23	C	Q57	A	Q91	D
Q24	A	Q58	A	Q92	B
Q25	B	Q59	A	Q93	D
Q26	C	Q60	B	Q94	B
Q27	D	Q61	A	Q95	B
Q28	B	Q62	B	Q96	C
Q29	C	Q63	B	Q97	B
Q30	B	Q64	A	Q98	B
Q31	D	Q65	B	Q99	D
Q32	B	Q66	B	Q100	A
Q33	B	Q67	*		
Q34	B	Q68	A		

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Note :

Q67 \*Correct Answer is ITR 5.

Q70 'Section 245' mentioned in the question be read as 'Section 245S'.

Q84 Both the options (A & C) are correct.

Q85 \*\*Correct Answer is Rs. 1000/-