

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

DECEMBER 2016

MODULE 1



**THE INSTITUTE OF
Company Secretaries of India**

IN PURSUIT OF PROFESSIONAL EXCELLENCE
Statutory body under an Act of Parliament

ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003

Phones : 41504444, 45341000; Fax : 011-24626727

E-mail : info@icsi.edu; Website : www.icsi.edu

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.

C O N T E N T S

Page

MODULE 1

| | | |
|---|-----|----|
| 1. Company Law | ... | 1 |
| 2. Cost and Management Accounting (OMR Based Exam) | ... | 20 |
| 3. Economic and Commercial Laws | ... | 46 |
| 4. Tax Laws and Practice (OMR Based Exam) | ... | 62 |

(i)

NOTE: Guideline Answers of the last Sessions may require updation in the light of changes and references given below:

EXECUTIVE PROGRAMME

UPDATING SLIP

COMPANY LAW

MODULE – 1 – PAPER 1

| <i>Examination Session</i> | <i>Question No.</i> | <i>Updatons required in the answers</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. Answers pertaining to Corporate Governance to be updated according to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. |

(ii)

UPDATING SLIP

COST AND MANAGEMENT ACCOUNTING

MODULE – 1 – PAPER 2

| <i>Examination Session</i> | <i>Question No.</i> | <i>Updatons required in the answers</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 are still in force. |

(iii)

UPDATING SLIP

ECONOMIC AND COMMERCIAL LAWS

MODULE – 1 – PAPER 3

| <i>Examination Session</i> | <i>Question No.</i> | <i>Updatons required in the answers</i> |
|--------------------------------|---------------------|---|
| <i>(1)</i> | <i>(2)</i> | <i>(3)</i> |
| All Previous Sessions | — | Foreign Trade Policy 2015-20. Foreign Direct Investment Policy 2016. |

(iv)

UPDATING SLIP

TAX LAWS AND PRACTICE

MODULE – 1 – PAPER 4

| <i>Examination Session</i> | <i>Question No.</i> | <i>Updatons required in the answers</i> |
|----------------------------|---------------------|--|
| (1) | (2) | (3) |
| All Previous Sessions | — | <p>The Income Tax, Service Tax, Sales Tax, Central Excise and Customs Laws 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 December 2016 examination.</p> <ul style="list-style-type: none">(i) For Direct taxes, Finance Act, 2015 is applicable.(ii) Applicable Assessment Year is 2016-17 (Previous Year 2015-16).(iii) Wealth Tax Act, 1957 has been abolished w.e.f. 1st April, 2016. The questions from the same will not be asked in examination from December 2015 session onwards.(iv) For Indirect taxes, all changes made by the Finance Act, 2016 are also applicable.(v) Students are also required to update themselves on all the relevant 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 exams. <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 2016

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 director insists that his note of dissent be recorded in the minutes of the Board meeting which he attended and did not agree to some of the points of the agenda.*
- (b) *A member of a company has statutory right to appoint proxy for attending the general meeting of the company. Similarly, a director can also appoint his proxy for attending the meetings of Board of directors of the company.*
- (c) *Issue of unsecured debentures by a company to another company, where the debentures have an option for compulsory conversion into equity shares within seven years, cannot be termed as deposits.*
- (d) *A meeting of the Board of directors was scheduled to take place at the factory premises of a company and not at the registered office. At the scheduled date and time, the required quorum was not present. The Chairman of the meeting announced that the meeting is dissolved. (5 marks each)*

Answer 1(a)

As per Section 118(4) of Companies Act, 2013 in case of a meeting of the Board of Directors or of a committee of the Board, the minutes shall also contain—

- (a) the names of the directors present at the meeting; and
- (b) in the case of each resolution passed at the meeting, the names of the directors if any, dissenting from, or not concurring with the resolution.

The Secretarial Standards on Meetings of Board of Directors(SS-1) also insist on inclusion of the same in the minutes. It provides that the fact of the dissent and the name of the Director who dissented from the Resolution should be recorded.

Hence the Director who attended the Board meeting and did not agree on certain points can insist that his dissent be recorded in the minutes.

Answer 1(b)

A person who is appointed by a member to attend and vote at a meeting in the absence of the member at the meeting is termed as proxy. Thus, proxy is an agent of the member appointing him. The term 'proxy' is also used to refer to the instrument by

which a person is appointed as proxy. Section 105 of the Companies Act, 2013 provides that a member, who is entitled to attend and vote, can appoint another person as a proxy to attend and vote at the meeting on his behalf.

The Companies Act, 2013 has no provisions to appoint proxy in Board meeting by any Director. Hence, no director can appoint proxy to attend Board meeting.

Answer 1(c)

Section 73 of Companies Act, 2013 read with Rule 2(1) (c) of Companies (Acceptance of Deposits) Rules, 2014 define the term 'deposit'. As per clause (ix) of Rule 2(1)(c), deposit shall not include any amount raised by issue of bonds or debentures secured by first charge or a charge ranking *pari passu* with the first charge on any assets referred to in Schedule III of the Companies Act, 2013 excluding intangible assets of the company or the bonds or debentures compulsorily convertible into shares of the company within 10 years.

In view of comprehensive reading of the above clause the unsecured debenture issued having option of compulsory conversion into shares of the company within 10 years shall not be treated as deposits.

In the given case the unsecured debentures issued by the company having option of compulsory conversion into shares of the company within seven years cannot be treated as deposits.

Answer 1(d)

The meeting of the Board of directors may be held either at the registered office or otherwise. The quorum for board meeting as contained under section 174 of the Companies Act, 2013 provides that where a meeting of the board could not be held for want of quorum, then unless the articles provide otherwise, the meeting shall automatically stand adjourned to the same day at the same time and place in the next week or if that day is a national holiday, till the next succeeding day, which is not a national holiday, at the same time and place.

According to above provision, the announcement of Chairman that the meeting stands dissolved is not tenable. The meeting shall be held at same place i.e. factory premises and at same time in the next week provided it is not a national holiday.

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

Question 2

Distinguish between the following :

- (a) 'Annual general meeting' and 'extraordinary general meeting'.
- (b) 'Associate company' and 'subsidiary company'.
- (c) 'Mortgage' and 'charge'.
- (d) 'Transfer of shares' and 'transmission of shares'. (4 marks each)

OR (Alternate question to Q.No. 2)

Question 2A

- (i) *It has been found that Mrs. Shweta, director of a company, has drawn*

remuneration in excess of the prescribed limits. The Chief Financial Officer of the company has sought your advice in the matter. As the Secretary of the company, advise the Chief Financial Officer, the course of action that may be taken in this regard. (4 marks)

- (ii) *There are seven shareholders in a private limited company having registered office in Chennai. Six shareholders are French nationals and belong to the same family holding an aggregate of 95% voting rights. These shareholders are unable to come down to Chennai and wish to hold the company's annual general meeting in Paris. Advise whether the meeting can be held in Paris. (4 marks)*
- (iii) *Kamal, the promoter of Desire Ltd., has incurred ₹1 lakh for formation of the company. The company refuses to pay all the expenses so incurred by Kamal since the company does not have any provision in the Articles of Association for such payment. Advise Kamal regarding the remedy available to him for his claim.*
- (iv) *Divine Industries (Pvt.) Ltd. has a turnover of ₹350 crore during the financial year 2014-15. The bankers of the company have advised the company to compulsorily appoint a woman director in the company as required under the Companies Act, 2013. Referring to the provisions of the Act, examine the validity of the banker's advice. What would be your answer in case the company in question is a public limited company? (4 marks)*

Answer 2(a)

Annual General Meeting

Section 96 of Companies Act, 2013 provides that every company, other than a one person company is required to hold an annual general meeting every year. Secretarial Standard on General Meeting(SS-2) also specifies that the Board shall, every year, convene or authorize convening of a meeting of its members called the Annual General Meeting to transact items of ordinary business specifically required to be transacted at an annual general meeting as well as special business, if any. If the Board fails to convene its Annual General Meeting in any year, any Member of the company may approach the prescribed authority, which may then direct the calling of the Annual General Meeting of the company.

Extra Ordinary General Meeting

There are so many matters relating to the business of a company which require approval or consent of members in general meeting. It is always not possible for consideration of such matters to wait until the next annual general meeting. The articles of association of the company may have provisions for convening general meeting other than the annual general meeting. All general meetings other than annual general meeting are called extraordinary general meetings. Section 100 of Companies Act, 2013 deals with holding of Extra Ordinary General meeting.

Answer 2(b)

Associate Company

As per Section 2(6) of Companies Act, 2013 "Associate Company", in relation to

another company, means a company in which that other company has a significant influence, but which is not a subsidiary company of the company having such influence and includes a joint venture company.

Explanation to section 2(6) provides that “significant influence” means control of at least twenty percent of total share capital, or of business decisions under an agreement.

Subsidiary Company

Section 2(87) of Companies Act, 2013 provides that subsidiary company or subsidiary, in relation to any other company (that is to say the holding company), means a company in which the holding company—

- (i) controls the composition of the Board of Directors; or
- (ii) exercises or controls more than one-half of the total share capital either at its own or together with one or more of its subsidiary companies:

Provided that such class or classes of holding companies, shall not have layers of subsidiaries beyond the prescribed limit. (Proviso is yet to be notified)

Explanation - For the above purpose,—

- (a) a company shall be deemed to be a subsidiary company of the holding company even if the control referred to in sub-clause (i) or sub-clause (ii) is of another subsidiary company of the holding company;
- (b) the composition of a company’s Board of Directors shall be deemed to be controlled by another company if that other company by exercise of some power exercisable by it at its discretion can appoint or remove all or a majority of the directors;
- (c) the expression “company” includes any body corporate;
- (d) “layer” in relation to holding company means its subsidiary or subsidiaries.

Answer 2(c)

Mortgage

1. A mortgage is created by the act of the parties.
2. A mortgage requires registration under the Transfer of Property Act, 1882
3. A mortgage is for a fixed term.
4. A mortgage is a transfer of an interest in specific immovable property.
5. A mortgage is good against subsequent transferees.
6. A simple mortgage carries personal liability unless excluded by express contract.
7. A mortgage is a transfer of an interest in a specific immovable property.

Charge

1. A charge may be created either through the act of parties or by operation of law.

2. A charge created by operation of law does not require registration but a charge created by act of parties requires registration.
3. The charge may be in perpetuity.
4. A charge only gives a right to receive payment out of a particular property.
5. A charge is good against subsequent transferees with notice.
6. In case of charge, no personal liability is created. But where a charge is the result of a contract, there may be a personal remedy.
7. There is no such transfer of interest in the case of a charge. Charge does not operate as transfer of an interest in the property and a transferee of the property gets the property free from the charge provided he purchases it for value without notice of the charge.

Answer 2(d)**Transfer of Shares**

Shares of a company are movable property as provided in Section 44 of the Companies Act, 2013 and are transferable in the manner as provided in the articles of the company and as provided in Section 56 of the Companies Act, 2013. A person can become a member by acquiring shares from an existing member and by having the transfer of shares registered in the books of the company, i.e. by getting his name entered in the register of members of the company.

Transmission of shares

A person may become a member of a company by operation of law i.e. if he succeeds to the estate of a deceased member. Membership by this method is a legal consequence. On the death of a member, his executor or the person who is entitled under the law to succeed to his estate, gets the right to have the shares transmitted and registered in his name in the company's register of members. No instrument of transfer is necessary in this case. If the legal representative of deceased member desires to be registered as a member in place of the deceased member, the company shall do so or in the alternative he may request the company to transfer the shares in the name of another person of his choice. The Official Assignee or Official Receiver is likewise entitled to be a member in place of the shareholder, who has been adjudged insolvent.

Answer 2A(i)

According to Section 197(9), if any director draws or receives, directly or indirectly, by way of remuneration any such sums in excess of the limit prescribed or without the prior sanction of the Central Government, where it is required, he shall refund such sums to the company and until such sum is refunded, hold it in trust for the company. Further as per sub section 10 of section 197, the company shall not waive the recovery of any sum refundable to it under sub-section 9, unless the same is permitted by the Central Government.

As a Secretary of the Company it is recommended that Mrs. Shweta should refund such excess sum to the company and until such sum is refunded, she shall hold the same in trust for the company.

Answer 2A(ii)

Calling of Annual General Meeting (AGM) of a company is governed by the provisions contained in Section 96 of the Companies Act, 2013. Accordingly, AGM can be called during business hours, that is, between 9 A.M. and 6 P.M. on any day that is not a National Holiday. It should be held either at the registered office of the company or at some other place within the city, town or village in which the registered office of the company is situated. Further it is provided that the Central Government may exempt any company from the aforesaid provisions subject to such conditions as it may impose.

Hence in the given case the AGM of the Company shall be held in Chennai where the registered office of the Company is situated however the meeting may be held in Paris subject to exemption granted from the Central Government.

Answer 2A(iii)

A promoter has no legal right to claim promotional expenses for his services unless there is a valid contract. Without such a contract he is not even entitled to recover his preliminary expenses. [*Re. English & Colonial Produce Company (1906) 2 Ch. 435 CA*].

The promoters are entitled to receive all the expenses incurred in setting up and registering the company, from Board of Directors. The articles should contain provision for payment of preliminary expenses to the promoters. The company may pay the expenses to the promoters even after its formation, but such payments should not be *ultra vires* the articles of the company. The Articles may have provision regarding payment of fixed sum to the promoters.

In the present case Mr. Kamal the promoter of Desire Ltd. has incurred Rs. 1 Lakh for incorporation of company. Considering the fact that the AOA of the company does not contain any provision with regard to such payment, The Company may refuse to pay Rs. 1 Lakh to Mr. Kamal.

Answer 2A(iv)

Rule 3 of Companies (Appointment and Qualifications of Directors) Rules, 2014 read with section 149(1) of the Companies Act, 2013, the following companies shall appoint at least one woman director :

1. Every listed company
2. Public Limited Company having:
 - (a) Paid-up share capital of Rs 100 crore or more; or
 - (b) Turnover of Rs. 300 crores or more.

Accordingly a private limited company [Divine Industries (Pvt.) Ltd.] is not required to appoint a woman director under Companies Act, 2013. The advice of the bankers is not tenable in the given circumstance.

In case the company is a public limited company then as per the aforesaid provisions the Company having its turnover Rs. 300 Crore or more is required to appoint a woman director. Hence in that case the banker's advice would stand valid.

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

- (a) *Peculiar Ltd., an unlisted company, did not prepare its financial statements for the year ended 31st March, 2016 in conformity with some of the mandatory accounting standards. With reference to the provisions of the Companies Act, 2013, state the responsibilities of the directors and statutory auditors of the company in this regard.*
- (b) *A three-year old producer company wants to donate some amount. Advise the company as to how and for what purposes such donation can be made. What are the monetary restrictions in this regard ? In this context you are also informed that the net profit of the producer company for the last accounting year was ₹12 lakh.*
- (c) *At the annual general meeting of Soya Ltd., a matter was to be transacted by passing a special resolution. Out of 40 members present, 20 voted in favour of the resolution, 5 voted against it and 5 votes were found invalid. The remaining 10 members abstained from voting. The Chairman of the meeting declared the resolution as passed. Referring to the provisions of the Companies Act, 2013, examine the validity of the Chairman's declaration.*
- (d) *Suresh, a member of Ruchi Ltd., wants to inspect the register of deposits maintained by the company as required under the provisions of the Companies Act, 2013. The company refused to provide the register for inspection without assigning any reason. Referring to the provisions of the Act, examine the validity of the company's refusal. What shall be your answer if the same Register is demanded by the statutory auditors of the company for inspection and for their audit ?* (4 marks each)

OR (Alternate question to Q.No. 3)**Question 3A**

- (i) *Novel LLP, Trademark & Patent Attorneys, have been successfully running their business for the last five years. They have fixed assets in the form of intangibles (software) worth ₹75 lakh in their balance sheet. Advise as to whether their accounts are to be audited.*
- (ii) *Out of 9 directors in Rooftop Ltd., 5 are Indian nationals, 3 are foreign residents and one is a person of Indian origin. The articles of the company stipulate that quorum for a Board meeting shall be 5 directors of which at least one director shall be a foreign resident. Referring to the provisions of the Companies Act, 2013, examine the validity of the above provision in the articles.*
- (iii) *Board of directors of KM Ltd. proposes to transfer 11.3% of the net profits of the company for the financial year 2015-16 to general reserves. Examining the provisions of the Companies Act, 2013, advise the Board whether it can go ahead with its proposal.*
- (iv) *Priya, a nominee director on the Board of Aroma Ltd., a listed company, informed the Board of directors during a Board meeting that the next annual report of the*

company shall contain as 'Management Discussion and Analysis Report'. You being the Company Secretary have been asked by the Board to prepare the said report. State the matters you would include in the report. (4 marks each)

Answer 3(a)

In accordance with the provisions of the Companies Act, 2013 as contained in Section 129 read with Section 133 financial statements of a company shall be prepared in compliance with the accounting standards.

Section 129(5) states that where the financial statements of the company do not comply with accounting standards, such companies shall disclose in its profit and loss account and the balance sheet-

- (a) the deviation from the accounting standards;
- (b) the reasons for such deviation; and
- (c) the financial effects, if any, arising out of such deviation.

The Board of Directors is required under Section 134 of the Companies Act, 2013 to include, in Board's report, a Director's Responsibility Statement indicating therein that in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures. As per this provision the directors need to ensure that the annual accounts are prepared in accordance with the accounting standards. The statutory auditor of the company has a duty to state if, in his opinion, the financial statements are not in compliance comply with accounting standards.

Answer 3(b)

Section 581ZH of the Companies Act, 1956 states that a producer company may by special resolution, make donation or subscription to any institution or individual for the following purposes:

- (a) promoting the social and economic welfare of Producer Members or producer or general public; or
- (b) promoting the mutual assistance principles.

The first proviso lays down the monetary limit for making donation. The aggregate amount of all such donation and subscription in any financial year shall not exceed 3% of net profits of the producer company in the financial year immediately preceding the financial year in which donation or subscription was made. Since the net profit of Producer Company in the last year was Rs. 12 Lakh, it can make a total donation of Rs 36,000 in this year, being 3% thereof.

Answer 3(c)

According to Section 114(2)(c) in case of passing a special resolution, the votes cast in favour of the resolution, whether on a show of hands, or electronically or on a poll, as the case may be, by members who, being entitled so to do, vote in person or by proxy or by postal ballot, are required to be not less than three times the number of the votes, if any, cast against the resolution by members so entitled and voting.

In the given case of Soya Ltd. the votes casted in favour of special resolution is 20 in number, being more than 3 times of the number of votes cast against i.e., if other conditions of Section 114 are satisfied, the decision of the chairman is in order.

Answer 3(d)

According to Rule 14 of Companies (Acceptance of deposits) Rules, 2014, every company accepting deposits shall, from the date of such acceptance, keep at its registered office one or more separate registers for deposits accepted/renewed.

In absence of any enabling provision, this register is not open for inspection by members and company may refuse to open it for inspection.

In the given case Ruchi Limited can refuse to provide the register for inspection without giving any reason because it is not open for inspection but in case of statutory auditors, the company cannot to do so. The Statutory Auditors have a right to inspect and check every register maintained by the company.

Answer 3A(i)

According to Section 34(4) of the Limited Liability Act, 2008 provides that the accounts of a LLP shall be audited in accordance with such rules as may be prescribed. According to Rule 24 of LLP Rules, 2009 a LLP whose turnover does not exceed in any financial year Rs. 40 lakh or whose contribution (whether tangible or non-tangible) does not exceed Rs. 25 lakh is not required to get its accounts audited.

The audit of LLP may be done by a Chartered Accountant in Practice only. An auditor or auditors of a limited liability partnership shall be appointed for each financial year of the LLP for auditing its accounts. [Rule 24(10)]

Considering the contribution in the form of fixed assets (software) amounting to Rs. 75 lakhs Novel LLP Trademark & Patent Attorney are required to get the accounts audited.

Answer 3A(ii)

Section 174 states that quorum for a meeting of the Board of Directors of a company shall be one third of its total strength or two directors, whichever is higher. Any fraction of a number shall be rounded off as one. Further according to Secretarial Standard on Board Meeting (SS-1), where the Quorum requirement provided in the Articles is higher than one-third of the total strength, the company shall conform to such higher requirement.

Hence, in the given case of Rooftop Ltd, the quorum as given in the Articles of the Company stands valid.

Answer 3A(iii)

According to first Proviso to sub – section (1) of Section 123 of the Companies Act, 2013, a company may, before the declaration of any dividend in any financial year, transfer such percentage of its profits for that financial year as it may consider appropriate to the reserves of the company.

Hence, the Board of Director of K.M. Limited may transfer 11.33% of net profit to general reserve.

Answer 3A(iv)

Regulation 34 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 read with Schedule V thereof, provides that the annual report shall contain as a part of director's report or as an addition thereto, a Management Discussion and Analysis Report (MDAR). The MDAR should include discussion on the following matters within the limits set by the company's competitive position:

- a. Industry structure and developments.
- b. Opportunities and Threats.
- c. Segment-wise or product-wise performance.
- d. Outlook
- e. Risks and concerns.
- f. Internal control systems and their adequacy.
- g. Discussion on financial performance with respect to operational performance.
- h. Material developments in Human Resources / Industrial Relations front, including number of people employed.

The Board of Directors of the Company are advised accordingly to include in the report.

Question 4

- (a) *Ria Technologies Ltd. was incorporated 10 years back. The Board of directors now wants to change its name to Ria Systems Ltd. Draft a notice and the explanatory statement for calling an extraordinary general meeting of the company for change of its name, assuming relevant data.*
- (b) *Barkha Ltd. has four directors on its Board. A Board meeting was convened which was attended by only two directors, where Rekha was appointed as an additional director. Rekha is related to both the directors. Referring to the provisions of the Companies Act, 2013, examine the validity of the appointment.*
- (c) *Rise Ltd., a company with diversified interests, has constituted Investor Education and Protection Fund as required under the provisions of the Companies Act, 2013. The company has so far not deposited any amount to the fund. The President (Finance) has asked you, the Company Secretary, to submit a note on amounts payable to the credit of the fund and the period within which amount shall be paid. Prepare the said note.*
- (d) *Six persons are the only members of Tab (Pvt.) Ltd. All of them went to USA on a pleasure trip by aeroplane. On the way, the plane crashed and all the six member died. Does Tab (Pvt.) Ltd. still exist ? Decide. (4 marks each)*

Answer 4(a)**Ria Technologies Ltd.**

CIN: xxxxxxxxxxxxxxxx

12 Vasant Kunj
New Delhi-110001

Notice is hereby given that an Extra Ordinary General Meeting of the company will be held on _____ at 11.00 A.M. at the registered office of the company to transact the following special business:

1. To consider, and if thought fit, to pass, with or without modification the following resolution as a special resolution.

“Resolved that subject to the approval of the Registrar of Companies under Section 21 of the Companies Act, 2013, the name of the company be changed from Ria Technologies Ltd. to Ria Systems Ltd. and accordingly the name Ria Technologies Ltd. wherever it occurs in the Memorandum and Articles of Association of the Company be substituted by the name Ria Systems Ltd.

Place : _____

Date : _____

By Order of the Board of Directors

For Ria Technologies Ltd.*Notes:*

1. A member entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of himself and that the proxy need not to be a member of the company. Proxies in order to be effective must be lodged with the company at least 48 hours before the meeting.
2. Explanatory Statement under Section 102 of the Companies Act, 2013 is annexed.

EXPLANATORY STATEMENT:

For past sometime the directors have been giving thought to changing the name of the company. The new name proposed retains the name “Ria” which has become so widely recognized and accepted over the years in the fields in which the company operates; but it omits the word Technologies because the company is diversifying into many related areas not really confined to technologies. The directors trust that this change of name will have the members approval and support.

The Registrar of Companies has confirmed that the new name is available for registration under Section 4 of the Companies Act, 2013 and subject to the resolution being passed, an application will be made to the Registrar of Companies for approval to the change of name under Section 13 of the Act.

If the change of name is approved share certificates already issued will not be called in only for the purpose of exchange into certificates bearing the new name but

will be so exchanged as and when the existing share certificates come into the possession of the company and in the mean time the existing certificates will continue to be accepted for all purposes as indicating entitlement to share or debenture stock of the company.

The Board places this proposal before you for approval.

None of the directors is interest or concerned in the resolution.

Answer 4(b)

Section 188 of Companies Act, 2013 provides that except with the consent of the Board of Directors given by way of resolution at a meeting of the Board and subject to such conditions as may be prescribed, no company shall enter into any contract or arrangement with a related party with respect to appointment of such related party or any office or place of profit in the company.

Under the given case both the present directors were related to Ms. Rekha who was appointed as additional director at the meeting. Wherein the transaction is at Arm's length basis the appointment stands valid.

Answer 4(c)

Rise Limited

The President (Finance)

Date _____

Sir,

Sub : Details on amount payable to Investor Education & Protection Fund constituted under Companies Act, 2013

According to Section 125(1) of the Companies Act, 2013 the Central Government shall establish a Fund to be called the Investor Education and Protection Fund. Therefore, company is not required to constitute such fund.

According to Section 125(2) of the Companies Act, 2013 the following amounts shall be credited to the Fund established by the Government by the company:

- (a) the amount given by the Central Government by way of grants after due appropriation made by Parliament by law in this behalf for being utilised for the purposes of the Fund;
- (b) donations given to the Fund by the Central Government, State Governments, companies or any other institution for the purposes of the Fund;
- (c) the amount in the Unpaid Dividend Account of companies transferred to the Fund under sub-section (5) of section 124;
- (d) the amount in the general revenue account of the Central Government which had been transferred to that account under sub-section (5) of section 205A of the Companies Act, 1956, as it stood immediately before the commencement of the Companies (Amendment) Act, 1999 and remaining unpaid or unclaimed on the commencement of this Act;
- (e) the amount lying in the Investor Education and Protection Fund under section 205C of the Companies Act, 1956;

- (f) the interest or other income received out of investments made from the Fund;
- (g) the amount received under sub-section (4) of section 38;
- (h) the application money received by companies for allotment of any securities and due for refund;
- (i) matured deposits with companies other than banking companies;
- (j) matured debentures with companies;
- (k) interest accrued on the amounts referred to in clauses (h) to (j);
- (l) sale proceeds of fractional shares arising out of issuance of bonus shares, merger and amalgamation for seven or more years;
- (m) redemption amount of preference shares remaining unpaid or unclaimed for seven or more years; and
- (n) such other amount as may be prescribed:

Provided that no such amount referred to in clauses (h) to (j) shall form part of the Fund unless such amount has remained unclaimed and unpaid for a period of seven years from the date it became due for payment.

This is for your information and record please.

Best Regards

Company Secretary

Answer 4(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 may keep changing from time to time but that shall not affect the company's continuity.

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 members of the company.

Hence, Tab (Pvt.) Ltd. shall continue.

Question 5

- (a) *Board of directors of Progressive Ltd. decides to issue equity shares of the company with differential voting rights. Examining the provisions of the Companies Act, 2013, state the conditions to be complied with by the company in this regard. (8 marks)*
- (b) *Define the term 'deposits' and list out the receipts of money which are not considered as deposits. (8 marks)*

Answer 5(a)

Section 43 of the Companies Act, 2013 enables companies to issue a variety of

equity shares with differential rights, etc. Rule 4 (1) of the Companies (Share Capital and Debenture) Rules, 2014 state the following conditions regarding issues of shares with differential voting rights:

- (a) The articles of association of the company authorize the issue of shares with differential rights;
- (b) The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders: Provided that where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares shall be approved by the shareholders through postal ballot;
- (c) The shares with differential rights shall not exceed twenty-six percent of the total post-issue paid up equity share capital including equity shares with differential rights issued at any point of time;
- (d) The company having consistent track record of distributable profits for the last three years;
- (e) The company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;
- (f) The company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- (g) The company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government;
- (h) the company has not been penalized by Court or Tribunal during the last three years of any offence under the Reserve Bank of India Act, 1934, the Securities and Exchange Board of India Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act, 1999 or any other special Act, under which such companies being regulated by sectoral regulators.

Answer 5(b)

According to the Section 2(31) of the Act read with Rule 2(c) of Companies (Acceptance of Deposits) Rules, 2014 “deposit” includes any receipt of money by way of deposit or loan or in any other form by a company, but does not include-

- (i) any amount received from the Central Government or a State Government, or any amount received from any other source whose repayment is guaranteed by the Central Government or a State Government, or any amount received from a local authority, or any amount received from a statutory authority constituted under an Act of Parliament or a State Legislature;
- (ii) any amount received from foreign Governments, foreign or international banks, multilateral financial institutions (including, but not limited to, International

Finance Corporation, Asian Development Bank, Commonwealth Development Corporation and International Bank for Industrial and Financial Reconstruction), foreign Governments owned development financial institutions, foreign export credit agencies, foreign collaborators, foreign bodies corporate and foreign citizens, foreign authorities or persons resident outside India subject to the provisions of Foreign Exchange Management Act, 1999 (42 of 1999) and rules and regulations made there under;

- (iii) any amount received as a loan or facility from any banking company or from the State Bank of India or any of its subsidiary banks or from a banking institution notified by the Central Government under section 51 of the Banking Regulation Act, 1949, or a corresponding new bank as defined in clause (d) of section 2 of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970 or in clause (b) of section (2) of the Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980, or from a co-operative bank as defined in clause (b-ii) of section 2 of the Reserve Bank of India Act, 1934;
- (iv) any amount received as a loan or financial assistance from Public Financial Institutions notified by the Central Government in this behalf in consultation with the Reserve Bank of India or any regional financial institutions or Insurance Companies or Scheduled Banks as defined in the Reserve Bank of India Act, 1934;
- (v) any amount received against issue of commercial paper or any other instruments issued in accordance with the guidelines or notification issued by the Reserve Bank of India;
- (vi) any amount received by a company from any other company;
- (vii) any amount received and held pursuant to an offer made in accordance with the provisions of the Act towards subscription to any securities, including share application money or advance towards allotment of securities pending allotment, so long as such amount is appropriated only against the amount due on allotment of the securities applied for;

Explanation - For the purposes of this sub-clause, it is hereby clarified that -

- (a) Without prejudice to any other liability or action, if the securities for which application money or advance for such securities was received cannot be allotted within sixty days from the date of receipt of the application money or advance for such securities and such application money or advance is not refunded to the subscribers within fifteen days from the date of completion of sixty days, such amount shall be treated as a deposit under these rules.
 - (b) any adjustment of the amount for any other purpose shall not be treated as refund.
- (viii) any amount received from a person who, at the time of the receipt of the amount, was a director of the company or a relative of the director of the Private company: Provided that the director of the company or relative of the director of the private company, as the case may be, from whom money is received, furnishes to the company at the time of giving the money, a declaration in writing to the effect that the amount is not being given out of funds acquired by him by borrowing or accepting loans or deposits from others and the company shall disclose the details of money so accepted in the Board's report;

- (ix) any amount raised by the issue of bonds or debentures secured by a first charge or a charge ranking *pari passu* with the first charge on any assets referred to in Schedule III of the Act excluding intangible assets of the company or bonds or debentures compulsorily convertible into shares of the company within Ten years:
Provided that if such bonds or debentures are secured by the charge of any assets referred to in Schedule III of the Act, excluding intangible assets, the amount of such bonds or debentures shall not exceed the market value of such assets as assessed by a registered valuer;
- (ixa) any amount raised by issue of non-convertible debenture not constituting a charge on the assets of the company and listed on a recognised stock exchange as per applicable regulations made by Securities and Exchange Board of India;
- (x) any amount received from an employee of the company not exceeding his annual salary under a contract of employment with the company in the nature of non-interest bearing security deposit;
- (xi) any non-interest bearing amount received and held in trust;
- (xii) any amount received in the course of, or for the purposes of, the business of the company,-
 - (a) as an advance for the supply of goods or provision of services accounted for in any manner whatsoever provided that such advance is appropriated against supply of goods or provision of services within a period of three hundred and sixty five days from the date of acceptance of such advance:
Provided that in case of any advance which is subject matter of any legal proceedings before any court of law, the said time limit of three hundred and sixty five days shall not apply;
 - (b) as advance, accounted for in any manner whatsoever, received in connection with consideration for an immovable property under an agreement or arrangement, provided that such advance is adjusted against such property in accordance with the terms of agreement or arrangement;
 - (c) as security deposit for the performance of the contract for supply of goods or provision of services;
 - (d) as advance received under long term projects for supply of capital goods except those covered under item (b) above;
 - (e) as an advance towards consideration for providing future services in the form of a warranty or maintenance contract as per written agreement or arrangement, if the period for providing such services does not exceed the period prevalent as per common business practice or five years, from the date of acceptance of such service whichever is less;
 - (f) as an advance received and as allowed by any sectoral regulator or in accordance with directions of Central or State Government;
 - (g) as an advance for subscription towards publication, whether in print or in electronic to be adjusted against receipt of such publications;

Provided that if the amount received under items (a), (b) and (d) above becomes refundable (with or without interest) due to the reasons that the company accepting the money does not have necessary permission or approval, wherever required, to deal in the goods or properties or services for which the money is taken, then the amount received shall be deemed to be a deposit under these rules:

Explanation.- For the purposes of this sub-clause the amount shall be deemed to be deposits on the expiry of fifteen days from the date they become due for refund.

- (xiii) any amount brought in by the promoters of the company by way of unsecured loan in pursuance of the stipulation of any lending financial institution or a bank subject to fulfillment of the following conditions, namely:-
 - (a) the loan is brought in pursuance of the stipulation imposed by the lending institutions on the promoters to contribute such finance;
 - (b) the loan is provided by the promoters themselves or by their relatives or by both; and
 - (c) the exemption under this sub-clause shall be available only till the loans of financial institution or bank are repaid and not thereafter;
- (xiv) any amount accepted by a Nidhi company in accordance with the rules made under section 406 of the Act.
- (xv) any amount received by way of subscription in respect of a chit under the Chit Fund Act, 1982;
- (xvi) any amount received by the company under any collective investment scheme in compliance with regulations framed by the Securities and Exchange Board of India;
- (xvii) an amount of twenty five lakh rupees or more received by a start-up company, by way of a convertible note (convertible into equity shares or repayable within a period not exceeding five years from the date of issue) in a single tranche, from a person.

Question 6

- (a) *Mrs. Rukmini is the statutory auditor of Energies Ltd. Free reserves of the company are four times more than the paid-up share capital. The company has Rohit, as secretarial auditor. There is a cost auditor, Amit, and an internal auditor, Sunil. Examining the provisions of the Companies Act, 2013 read with the secretarial standards, advise the company as to who is/are required to be present at the forthcoming annual general meeting of the company. (4 marks)*
- (b) *Referring to the provisions of the Companies Act, 2013 relating to 'corporate social responsibility' (CSR), answer the following :*
 - (i) *Which activities would not qualify as CSR ?*
 - (ii) *Whether the average net profit criteria for CSR is before tax or after tax ? (4 marks)*

- (c) *Five Board meetings were held in Asha Ltd. during the period from January to June in the calendar year 2016. Rajeev, an additional director, attended none of these meetings. For the first two meetings he sought leave of absence from the Board but did not inform the Board for the remaining three meetings. Examining the provisions of the Companies Act, 2013, decide whether he is disqualified to act as a director.* (4 marks)
- (d) *Examining the provisions of the Companies Act, 2013, explain the powers of the Central Government to order amalgamation of companies in public interest.* (4 marks)

Answer 6(a)

The Auditors and Secretarial Auditors as referred to in SS-2 unless exempted by the company, shall, either by themselves or through their authorised representative, attend the General meetings of the company and shall have the right to be heard at such Meetings on that part of the business which concerns them as Auditors and Secretarial Auditor. The authorised representative who attends the General Meeting of the company shall also be qualified to be an Auditor. The Chairman may invite the Secretarial Auditor or his authorised representative to attend any other General Meeting, if he considers it necessary.

There is no requirement for presence of cost auditor and internal auditor in the annual general meeting of the Company. The information of free reserves being four times that of paid up share capital is not relevant.

Hence, Mrs. Rukmini, Statutory Auditor and Mr. Rohit, Secretarial Auditor are required to be present in the annual general meeting of Energies Ltd.

Answer 6(b)

- (i) Activities which would not be classified as CSR :
- The CSR projects or programs or activities that benefit only the employees of the company and their families.
 - One-off events such as marathons/awards/charitable contribution/advertisement/ sponsorships of TV programmes etc.
 - Expenses incurred by companies for the fulfillment of any other Act/Statute of regulations (such as Labour Laws, Land Acquisition Act, 2013, Apprentice Act, 1961 etc.)
 - Contribution of any amount directly or indirectly to any political party.
 - Activities undertaken by the company in pursuance of its normal course of business.
 - The project or programmes or activities undertaken outside India.
- (ii) Computation of Net Profit for Section 135 is as per Section 198 of the Companies Act, 2013 which is primarily profits before tax.

Answer 6(c)

Section 167(1)(b) states that the office of a director shall be vacated if he absents

himself from all the meetings of the Board of Directors held during a period of 12 months with or without seeking leave of absence of the Board.

Mr. Rajeev absented from all the meetings of the Board for 6 months by seeking leave of absence in first two and not seeking leave of absence in last three. It is not that he did not attend all the meetings for a period of 12 months. Thus, his office does not become vacant and he can continue to be a director on the Board of the Company.

Disqualification of Directors is dealt with under section 164 of the Companies Act, 2013 and is different from vacation of the office of directors under section 167.

Answer 6(d)

Section 237(1) states that when the Central Government is satisfied that it is essential in the public interest that two or more companies should amalgamate, the Central Government may, by order notified in the Official Gazette, provide for the amalgamation of those companies into a single company with such constitution, with such property, powers, rights, interests, authorities and privileges, and with such liabilities, duties and obligations, as may be specified in the order.

COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

1. Which one is not the objective of Cost Accounting Standards -
 - (A) To bring uniformity and consistency in the principles and methods
 - (B) To help industry and the Government towards better cost management
 - (C) To control accounting policies of companies so as to protect investors' interest
 - (D) To determine the pollution control costs with reasonable accuracy.
2. Which of the following is/are tool(s) and technique(s) of management accounting-
 - (A) Ratio analysis
 - (B) Linear programming
 - (C) Trend analysis
 - (D) All of the above.

3. Match the following :

| Statements | Objects |
|--|--------------------------|
| (P) Collection of cost information and recording them under suitable heads | 1. Budgeting |
| (Q) Monitoring idle time, workers efficiency and labour turnover | 2. Cost reduction |
| (R) Estimation (both quantities and value) before the start of activity | 3. Ascertainment of cost |
| (S) Procedures and techniques used to bring down the estimated cost | 4. Cost control |

Select the correct answer from the options given below -

- | | | | | |
|-----|-----|-----|-----|-----|
| | (P) | (Q) | (R) | (S) |
| (A) | (3) | (4) | (2) | (1) |
| (B) | (3) | (4) | (1) | (2) |
| (C) | (3) | (1) | (2) | (4) |
| (D) | (4) | (3) | (2) | (1) |
4. Statement - I
Sunk cost is one that has already been incurred and cannot be avoided by decisions in the future.

Statement - II

For decision making, it is required that such cost should be incurred.

Select the correct answer from the options given below -

- (A) Both statements are correct
 - (B) Both statements are incorrect
 - (C) Statement-I is incorrect, but Statement-II is correct
 - (D) Statement-I is correct, but Statement-II is incorrect
5. The prime function of management accounting is to -
- (A) Record business transactions
 - (B) Interpret financial data
 - (C) Assist the management in performing its functions effectively
 - (D) Assist tax authorities.
6. Multiple costing is followed in -
- (A) Biscuit factory
 - (B) Steel industry
 - (C) Brick making
 - (D) Cycle manufacturing
7. Following information relates to the production department of a factory :
- Materials used : ₹80,000
Direct labour : ₹60,000
Overheads : ₹40,000
- On an order carried out in the department, materials consumed amounted to ₹16,000. The overheads chargeable to this order on the basis of direct materials will be —
- (A) ₹8,000
 - (B) ₹9,000
 - (C) ₹8,500
 - (D) ₹9,800
8. When the amount of overheads absorbed is less than the amount of overheads incurred, it is called -
- (A) Under-absorption of overheads
 - (B) Over-absorption of overheads
 - (C) Proper absorption of overheads
 - (D) None of the above.
9. A common absorption rate used throughout a factory for all jobs and units of output irrespective of the department in which they were produced is called -
- (A) Machine hour rate
 - (B) Department absorption rate
 - (C) Overall absorption rate
 - (D) Blanket absorption rate.

10. Raj Ltd. furnishes the following information :

| | | |
|---------------|---|-------------------|
| Production | : | 10,000 units |
| Sales | : | 5,000 units |
| Selling price | : | ₹12 per unit |
| Variable cost | : | ₹6 per unit |
| Fixed costs | : | ₹40,000 per annum |

Profit/loss under marginal costing method will be -

- (A) ₹10,000 (Profit)
- (B) ₹10,000 (Loss)
- (C) ₹20,000 (Profit)
- (D) ₹20,000 (Loss).

11. Following information is available :

| | | |
|--|---|---------------------------|
| Input of raw material | : | 1,000 unit @ ₹25 per unit |
| Direct material | : | ₹7,500 |
| Direct wages | : | ₹4,500 |
| Production overheads | : | ₹6,000 |
| Actual output transferred to next process | : | 900 units |
| Normal loss | : | 5% |
| Value of scrap | : | ₹10 per unit |

The cost of output transferred to next process will be -

- (A) ₹38,700
- (B) ₹40,263
- (C) ₹38,250
- (D) ₹43,500

12. A company reported current year profit of ₹12,00,000 which includes the following:

| | | |
|---------------------------------------|---|-----------|
| Profit on sale of equipment | : | ₹2,00,000 |
| Share issue expenses | : | ₹1,50,000 |
| Dividend income | : | ₹80,000 |
| Tax | : | ₹90,000 |
| Profit on revaluation of fixed assets | : | ₹2,50,000 |

The amount of funds from operations will be -

- (A) ₹11,90,000
- (B) ₹8,20,000
- (C) ₹10,70,000
- (D) ₹10,50,000

13. A radio manufacturer finds that while it costs ₹6.25 per unit to make a component,

the same is available in the market at ₹5.75 each. Continuous supply is also fully assured. The break-up of costs per unit is as follows :

| | | |
|------------------------------------|---|-------|
| Materials | : | ₹2.75 |
| Labour | : | ₹1.75 |
| Other variable expenses | : | ₹0.50 |
| Depreciation and other fixed costs | : | ₹1.25 |

The best option for the manufacturer will be -

- (A) To make
- (B) To buy
- (C) To sell
- (D) None of the above.

14. Following data is obtained from the cost records of Moon Ltd. :

| Year | Sales (₹) | Total Cost (₹) |
|------|-----------|----------------|
| 2015 | 1,00,000 | 80,000 |
| 2016 | 1,20,000 | 90,000 |

P/V ratio will be -

- (A) 40%
- (B) 46%
- (C) 52%
- (D) 50%.

15. Following information is obtained from a standard cost card :

| | | |
|----------------|---|-------------------|
| Labour rate | : | 90 paise per hour |
| Standard hours | : | 3 hours per unit |

Actual production data :

| | | |
|----------------|---|----------------|
| Units produced | : | 250 |
| Labour rate | : | ₹1.05 per hour |
| Hours worked | : | 800 |

The labour cost variance will be -

- (A) ₹175 (A)
- (B) ₹165 (A)
- (C) ₹190 (A)
- (D) ₹165 (D).

16. Standard set for material consumption was 100 kgs. @ ₹2.25 per kg. In a cost period, opening stock was 100 kgs. @ ₹2.25 per kg.; purchases made 500 kgs. @ ₹2.15 per kg; and actual consumption 110 kgs.

The material usage variance will be -

- (A) ₹24.25 (A)

- (B) ₹22.50 (A)
(C) ₹32.50 (A)
(D) ₹23.75 (A).
17. Material quantity variance arises due to -
(A) Frequent breakdown of machines
(B) Improper inspection and supervision of workers
(C) Excessive wastage, leakages, shrinkages, etc.
(D) All of the above.
18. Cost of abnormal wastage is charged to -
(A) Production cost
(B) Costing profit and loss account
(C) Partly to the product and partly to costing profit and loss account
(D) Selling and distribution cost.
19. Following information is given :
- | | ₹ |
|---------------------------|------------|
| Direct material purchased | : 6,00,000 |
| Direct material consumed | : 7,00,000 |
| Direct labour | : 3,00,000 |
| Direct expenses | : 2,50,000 |
| Manufacturing overheads | : 3,00,000 |
- Prime cost will be -
(A) ₹14,50,000
(B) ₹11,50,000
(C) ₹12,50,000
(D) ₹15,50,000
20. Which of the following is the main cost driver of customer order processing activity -
(A) Flow of the product from assembly line
(B) Order Value
(C) Number of problem suppliers
(D) Number of machine charges.
21. Income from investments is a cash flow from -
(A) Operating activities
(B) Investing activities
(C) Financing activities
(D) None of the above.

22. Return on investment (ROI) is calculated to measure -
- (A) Long-term solvency of business
 - (B) Earning power of net assets of business
 - (C) Short-term liquidity position of business
 - (D) Goods sold and inventory level of business.
23. The ascertainment of costs after they have been incurred is called -
- (A) Marginal costing
 - (B) Historical costing
 - (C) Differential costing
 - (D) None of the above.
24. Which of the following is considered as normal loss of material -
- (A) Pilferage
 - (B) Loss due to flood
 - (C) Loss due to accident
 - (D) Loss arising from careless handling of material.
25. The maximum and minimum lead time is 4 weeks and 3 weeks respectively. If the maximum and minimum weekly consumption is 25 units and 20 units respectively, the re-ordering level will be —
- (A) 100 Units
 - (B) 110 Units
 - (C) 120 Units
 - (D) 140 Units.
26. The budget which usually takes the form of budgeted profit and loss account and balance sheet is known as -
- (A) Cash budget
 - (B) Master budget
 - (C) Flexible budget
 - (D) Sales budget.
27. While preparing cash budget, which of the following items would not be included-
- (A) Interest paid to debentureholders
 - (B) Salaries and wages
 - (C) Bonus shares issued
 - (D) Income-tax paid.
28. Interest coverage ratio is obtained by dividing EBIT by -
- (A) Interest
 - (B) Tax
 - (C) Income
 - (D) Sales.

29. If price-earnings ratio is 0.05 and earnings per share is ₹8, the market price of share will be -
 (A) ₹120
 (B) ₹100
 (C) ₹160
 (D) ₹0.40
30. In a purely competitive market, 10,000 pocket transistors can be manufactured and sold and certain profit is generated. It is estimated that 2,000 pocket transistors need to be manufactured and sold in a monopoly market to earn the same profit. Profit under both the conditions is targeted at ₹2,00,000. The variable cost per transistor is ₹100 and total fixed costs are ₹37,000. Unit selling price per transistor under monopoly condition will be -
 (A) ₹218.50
 (B) ₹234.50
 (C) ₹267.25
 (D) ₹274.35
31. A technique where standardised principles and methods of cost accounting are employed by a number of different companies is termed as -
 (A) Uniform costing
 (B) Absorption costing
 (C) Standard costing
 (D) ABC costing.
32. A cost centre is -
 (A) A production or service location, function, activity or item of equipment whose costs may be attributed to cost units
 (B) A centre for which an individual budget is drawn-up
 (C) A centre where cost is classified on the basis of variability
 (D) An amount of expenditure attributable to an activity.
33. As on 31st March, 2016, the profit of a company was ₹36,450 as per financial records. The following summary of transactions is given for the same period :
- | | ₹ |
|---|-------|
| Obsolescence loss in respect of machinery charged in financial accounts | 2,450 |
| Administrative overheads over recovered in cost accounts | 1,650 |
| Closing stock understated in cost accounts | 4,600 |
- The amount of profit as per cost accounts will be
 (A) ₹36,950
 (B) ₹35,950

- (C) ₹32,650
(D) ₹41,850

34. Sun Ltd. has furnished the following relevant data of financial statements as on 31st March, 2016 :

| | ₹ |
|---|-----------|
| Equity share capital (1,00,000 equity shares of ₹10 each) | 10,00,000 |
| General reserve | 2,00,000 |
| 15% Debentures | 2,80,000 |
| Current liabilities | 8,00,000 |
| Fixed assets | 30,00,000 |
| Current assets | 18,00,000 |
| Additional information : | |
| Annual fixed cost excluding interest | ₹2,80,000 |
| Variable cost ratio | 60% |
| Total assets turnover ratio | 2.5 times |
| Tax rate | 30% |

Earnings per share (EPS) will be -

- (A) ₹31.35
(B) ₹15.80
(C) ₹20.00
(D) None of the above.
35. A firm requires 12,800 units of a certain component which it buys @ ₹60 each. The cost of placing an order and following it up is ₹150 and annual storage charges work out to 10% of the cost of items. Number of units to be ordered to get maximum benefit to the firm are -
- (A) 1,000
(B) 900
(C) 800
(D) 320
36. Which of the following are advantages of perpetual inventory system :
- (i) No interruption of production process
(ii) More wastage of material
(iii) Detect loss of stock due to theft, shrinkage, fire, etc.
(iv) Ascertain stock without physical verification
- Select the correct answer from the options given below -
- (A) (i), (ii) and (iii)
(B) (ii), (iii) and (iv)

- (C) (i), (ii) and (iv)
 (D) (i), (iii) and (iv).

37. Following statements are either true (T) or false (F) :

- (P) FIFO method of valuing material issues is suitable in time of rising prices
 (Q) Valuation of closing stock is same under both FIFO and LIFO method
 (R) Bin card makes a record of the quantity and value of materials kept in the stores
 (S) A bill of material gives a complete list of all material required with quantities for a particular job.

Select the correct answer from the options given below —

- | | (P) | (Q) | (R) | (S) |
|-----|-----|-----|-----|-----|
| (A) | (F) | (F) | (T) | (T) |
| (B) | (T) | (T) | (F) | (F) |
| (C) | (F) | (F) | (F) | (T) |
| (D) | (T) | (F) | (T) | (F) |

38. Match the following :

- | | |
|--|---------------|
| (P) Visible or invisible loss that cannot be collected and in certain cases it involves further costs of disposing | 1. Defectives |
| (Q) Residue which is measurable and has a minor value | 2. Spoilage |
| (R) Components so damaged in process and cannot be repaired | 3. Scrap |
| (S) Imperfections may arise because of sub-standard work, can be made perfect by paying some additional expenses | 4. Waste |

Select the correct answer from the options given below -

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

39. The relevant data from financial statements of Ross Ltd. as on 31st March, 2016 is given below :

| | ₹ |
|---------------------------|-----------|
| Cash | 1,50,000 |
| Trade receivables | 4,00,000 |
| Investment (short - term) | 3,30,000 |
| Stock | 25,00,000 |

| | |
|---------------------|-----------|
| Prepaid expenses | 50,000 |
| Current liabilities | 10,00,000 |

The quick ratio will be -

- (A) 0.88 : 1
- (B) 0.93 : 1
- (C) 3.43 : 1
- (D) 3.1 : 1

40. A written comprehensive order, with specification, material code and quantity sent to inform the purchase department, of a need for material is called -

- (A) Purchase order
- (B) Bill of material
- (C) Purchase requisition
- (D) Bin card.

41. Choose the correct statements from the following :

- (1) All the indirect taxes are added to the purchase price of material
- (2) Trade and cash discounts are deducted from the cost of material
- (3) ABC analysis is a value based system of material control
- (4) In the garment manufacturing, the cost of thread and buttons are indirect material costs.

Select the answer from the options given below -

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

42. In a factory, the standard output in 8 hours is 220 units. A worker actually produces 242 units in the standard time. Wage rate is ₹8 per hour.

The total wages paid to the worker under Emerson's plan will be -

- (A) ₹83.20
- (B) ₹76.80
- (C) ₹193.60
- (D) ₹99.20

43. Amaze Ltd. had an opening inventory of 5,000 units costing ₹5 per unit on 1st April, 2016. Following receipts and issues took place in April, 2016 :

- 5th April, 2016 : Purchased 800 units @ ₹8 per unit
- 12th April, 2016 : Purchased 200 units @ ₹8 per unit
- 15th April, 2016 : Issued 3,000 units
- 25th April, 2016 : Purchased 1,000 units @ ₹9 per unit

Cost of inventory as on 30th April, 2016 under weighted average basis will be -

- (A) ₹25,500
- (B) ₹27,000
- (C) ₹20,000
- (D) ₹23,500

44. Which of the following is not replacement cost of labour turnover :

- (1) Cost of recruitment/selection
- (2) Cost of providing medical services
- (3) Cost of training
- (4) Retirement benefits
- (5) Decline in quality

Select the answer from the options given below -

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

45. Statement - I

Low time wages do not necessarily mean low cost of production and high wages mean high cost of product.

Statement - II

Time and motion study, which is a function of engineering department, is useless for the determination of wages.

Select the correct answer from the options given below -

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

46. Standard output per day per worker is 40 units. Incentive bonus for efficiency above 80% is ₹50 for every 1% increase up to 90% and above this ₹80 for every 1% increase. Kapil worked for 25 days and produced 910 units.

The amount of incentive paid to him will be -

- (A) ₹580
- (B) ₹550
- (C) ₹450
- (D) ₹530

47. From the books of Raja & Co., following details as on 31st March, 2016 are collected :

| | ₹ | |
|----------------------|---|-----------|
| Equity share capital | : | 20,00,000 |
| Retained earnings | : | 10,00,000 |

| | | |
|--------------------------------|---|-----------|
| 10% Debentures | : | 20,00,000 |
| Current liabilities | : | 10,00,000 |
| Profit before interest and tax | : | 12,00,000 |
| Interest | : | 1,60,000 |
| Tax | : | 3,12,000 |

The rate of return on capital employed will be -

- (A) 30%
- (B) 24%
- (C) 14.56%
- (D) 17.76%.

48. Assertion (A)

Activity based costing is not normally used for external reporting purpose.

Reason (R)

Activity based costing does not conform to generally accepted principles.

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.

49. The net profit margin of Rose Ltd. is 8%, its total assets are ₹6,00,000 and the return on investment is 18%. Total assets turnover will be -

- (A) 2.05
- (B) 3.15
- (C) 2.25
- (D) None of the above.

50. A homogeneous cost pool is one that -

- (A) Does not change over time
- (B) Needs many activity drivers to be allocated to a cost object
- (C) Can be explained with a single activity driver
- (D) Has only one type of material assigned to it.

51. Statement - I

Production departments and service departments are equally important for manufacturing industry.

Statement - II

To calculate cost of a product, service department cost should be redistributed among production department on a reasonable basis.

Select the correct answer from the options given below -

- (A) Both statements are correct

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

52. Match the following service department cost with basis of apportionment :

- | | |
|-------------------------------------|----------------------------|
| (P) Employment/personnel department | 1. Floor area |
| (Q) Store keeping department | 2. No. of requisitions |
| (R) Power house | 3. Rate of labour turnover |
| (S) Payroll or time department | 4. Direct labour hours |
| | 5. Hours worked |

Select the correct answer from the options given below —

- | | | | | |
|-----|-----|-----|-----|-----|
| | (P) | (Q) | (R) | (S) |
| (A) | (1) | (3) | (2) | (4) |
| (B) | (2) | (4) | (1) | (5) |
| (C) | (4) | (5) | (3) | (1) |
| (D) | (3) | (2) | (1) | (4) |

53. Relevant data regarding number of workers on roll is given below for June, 2016:

| | |
|-------------------------------|-----|
| At the beginning of the month | 750 |
| At the end of the month | 850 |

During June, 2016, 10 workers left, 30 workers were discharged and 100 workers were recruited. Of these, 15 workers were recruited in the vacancies of those leaving, while the rest were engaged for an expansion scheme.

The labour turnover rate according to replacement method for June, 2016 is -

- (A) 18.67%
 (B) 16.47%
 (C) 17.50%
 (D) 17.33%

54. Which of the following is not a method of overheads absorption -

- (A) Percentage of direct material cost
 (B) Machine hour rate
 (C) Repeated distribution method
 (D) Labour hour rate.

55. A company produces three joint products A, B and C. The company has chosen 'physical quantity method'. Up to the point of split off, the total production of A, B and C is 80,000 kgs. The quantity of A, B and C produced is 25,000 kgs., 35,000 kgs. and 20,000 kgs. respectively. Total joint cost is ₹5,00,000.

Joint cost allocated to product 'A' is -

- (A) ₹1,25,000
 (B) ₹2,18,750

- (C) ₹1,56,250
(D) ₹1,66,666
- 56.** Following information has been collected from cost records of Bright Ltd. :
- Direct material : ₹5,00,000
Direct labour : ₹3,00,000
Factory overheads : 20% of factory cost
- The amount of factory overheads will be-
- (A) ₹1,60,000
(B) ₹2,00,000
(C) ₹1,80,000
(D) ₹1,96,000
- 57.** In a factory, research and development expenditure is budgeted to ₹9,00,000. This is the normal expenditure on research activities. Due to some reasons, research is unsuccessful. The research and development expenditure will be -
- (A) Treated as deferred expenditure
(B) Written-off to costing profit and loss account
(C) Treated as direct product cost
(D) Treated as factory overheads.
- 58.** A company produces a single product for which following data is available :
- Average production per week : 200 units
Usage per unit : 10 Kgs.
Re-order level : 8,000 Kgs.
Delivery time required : 2 weeks
- The minimum level of stock required will be —
- (A) 3,000 Kgs.
(B) 5,000 Kgs.
(C) 4,000 Kgs.
(D) 2,500 Kgs.
- 59.** Following information is related to Product-A :
- In 2015, variable cost was ₹200 per unit and fixed cost ₹40 per unit. Production was 1,20,000 units. It is expected that production in 2016 will increase to 1,60,000 units. The variable cost will increase by 25% and fixed cost by 10% in 2016.
- The amount of fixed cost in 2016 will be —
- (A) ₹52,80,000
(B) ₹70,40,000
(C) ₹64,00,000
(D) ₹48,00,000

60. Match the following

- | | |
|--|--------------------------------|
| (P) Certain percentage of profit over total cost of work | 1. Escalation clause |
| (Q) Safeguard against any likely changes in the price of material and labour | 2. Cost plus contract |
| (R) Entrusted to other contractor for specialised work | 3. Job costing |
| (S) Cost first allocated to cost centres and then to individual work | 4. Sub contract |
| | 5. Contract near to completion |

Select the correct answer from the options given below

- | | (P) | (Q) | (R) | (S) |
|-----|-----|-----|-----|-----|
| (A) | (1) | (3) | (2) | (4) |
| (B) | (2) | (4) | (1) | (5) |
| (C) | (4) | (5) | (3) | (1) |
| (D) | (2) | (1) | (4) | (3) |

61. Assertion (A)

Cash is withheld by the contractee under the terms of the contract when payment of the value of work certified is being made.

Reason (R)

Retention money is treated as safeguard against any damage or bad quality work in the contract and released after certain time period of completion of the contract.

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.

62. Following information is given for a contract :

| | ₹ |
|--|-----------|
| Estimated profit on completion of contract | 2,20,000 |
| Contract price | 10,00,000 |
| Cash received being 80% of work certified | 6,40,000 |

The amount of profit to be credited to statement of profit and loss will be -

- (A) ₹1,28,000
 (B) ₹1,40,800
 (C) ₹1,76,000
 (D) None of the above.

- 63.** Choose the correct statements from the following :
- (1) Most of the items of costs are direct in contract costing than in job costing
 - (2) Foreseeable losses estimated for a contract should be written-off immediately
 - (3) A debit balance on the contractee account is shown as current liability in the balance sheet
 - (4) Final contract price to be paid is certain in cost plus contract.
- Select the answer from the options given below
- (A) (2) and (4)
 - (B) (3) and (4)
 - (C) (1) and (2)
 - (D) (1), (2) and (3)
- 64.** Which of the following is not a part of job order cost sheet —
- (A) Direct material
 - (B) Direct labour
 - (C) Actual factory overheads
 - (D) Applied factory overheads.
- 65.** A hotel has 200 rooms accommodation. The normal occupancy in summer is 90% and winter 40%. The period of summer and winter is taken 8 months and 4 months respectively. Assume 30 days in each month.
- The total rooms occupancy in a year will be -
- (A) 1,760
 - (B) 52,800
 - (C) 7,800
 - (D) 72,000
- 66.** For a factory, following information is given :
- 8,400 kgs. material @ ₹12.50 per kg. were actually consumed resulting in a price variance of ₹4,800 (A) and usage variance of ₹3,600 (F).
- The standard material cost of actual production will be -
- (A) ₹1,03,800
 - (B) ₹1,06,200
 - (C) ₹1,05,000
 - (D) None of the above.
- 67.** Budgeted standard hours of a factory are 15,000. The capacity utilisation ratio for May, 2016 is 85% and efficiency ratio for the month is 120%. The standard hours for actual production in the month will be -
- (A) 12,750
 - (B) 18,000

- (C) 15,300
(D) 18,000
- 68.** Which of the following statement(s) is/are not correct with reference to labour idle time variance :
- (1) Idle time variance is the portion of labour cost variance which arises due to abnormal idle time of workers specified
 - (2) Idle time variance may be favourable or adverse
 - (3) Idle time variance is calculated as abnormal idle time X actual rate per hour
 - (4) Idle time variance arises due to machine break-down, power failure, etc.
- Select the answer from the options given below -
- (A) (2) and (3)
 - (B) (2) only
 - (C) (1) and (2)
 - (D) (2), (3) and (4)
- 69.** The standard rate of payment is ₹10 per direct labour hour. The actual direct labour cost is ₹39,200 for 4,000 direct labour hours worked. The direct labour price (rate) variance will be -
- (A) ₹800 (A)
 - (B) ₹680 (A)
 - (C) ₹680 (F)
 - (D) ₹800 (F).
- 70.** Assertion (A)
Material yield variance is that portion of direct material usage variance which is due to the difference between standard yield and actual yield obtained.
Reason (R)
Yield variance arises due to wastage of material during the process and standard material yield is determined by subtracting the standard wastage from standard quantity of material.
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.
- 71.** The total cost variance is ₹5,000 (F). The material variance is ₹2,000 (F). The total labour variance is twice the total overheads variance.
The total overheads variance is -
- (A) ₹500 (F)
 - (B) ₹1,000 (F)

- (C) ₹1,500 (F)
- (D) ₹2,000 (F).

- 72.** Following information is given for a product of a manufacturing company :
- Material ₹18 per unit; other variable cost ₹22 per unit; and fixed expenses ₹18 per unit. Selling price is ₹75 per unit. Company is presently producing 80,000 units at 80% capacity. The company received an offer for 20,000 units from a foreign customer.
- The minimum price to be accepted from foreign customer, if the company wants to earn 20% on foreign sales will be -
- (A) ₹50
 - (B) ₹58
 - (C) ₹72.50
 - (D) ₹69.60
- 73.** Satluj Transport Co. is running six buses between two towns which are 60 Kms. apart. Seating capacity of each bus is 50 passengers. Actual passengers carried by each bus were 80% of seating capacity. All buses run on all days of month (30 days). Each bus makes two round trips per day.
- Passenger Kms. per month are -
- (A) 8,64,000
 - (B) 4,32,000
 - (C) 5,40,000
 - (D) 17,28,000
- 74.** Margin of safety in a company can be improved by :
- (1) Reducing the fixed cost and variable cost
 - (2) Increasing sales volume and price of sales
 - (3) Increasing stock of material in the expectation of price rise
 - (4) Expanding business to fulfill the demand of market
 - (5) Changing the product mix to increase contribution.
- Select the correct answer from the options given below -
- (A) (1), (2) and (3)
 - (B) (1), (2) and (5)
 - (C) (1), (3) and (4)
 - (D) (2), (3) and (5)
- 75.** Ram Casting furnished following information for production of 4,800 units:
- | | | |
|----------------------|---|-------------------|
| Standard materials | : | 10 Kgs. per unit |
| | | @ ₹10 per Kg. |
| Actual material used | : | 50,000 Kgs. |
| | | costing ₹5,25,000 |

Material cost variance will be -

- (A) ₹45,000 (A)
- (B) ₹25,000 (F)
- (C) ₹30,000 (A)
- (D) ₹45,000 (F).

76. Statement - I

When there are no inventories, profit figure under marginal costing and absorption costing is identical.

Statement - II

Inventories are valued at cost of production in absorption and marginal costing systems.

Select the correct answer from the options given below :-

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

77. Assertion (A)

The whole budget involving all functions such as sales budget, material budget and production budget will have to be built after assessing the key factor.

Reason (R)

The budget key factor will limit the activities of an undertaking which is taken into account in preparing budget.

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.

78. A company has annual sales of ₹150 lakh entirely on credit. It keeps an average inventory sufficient to meet sales demand for half a month and gives its customers one month credit, Its average current liabilities are ₹10 lakh. The company must maintain cash and bank balance to have current ratio of 2.

The amount of cash balance will be -

- (A) ₹1,25,000
- (B) ₹3,00,000
- (C) ₹13,75,000
- (D) ₹7,50,000

79. Budgeted sales of Product-X for March, 2016 are 25,500 units. At the end of production process, 10% of net production units are scrapped as defective. Opening stock of Product-X for March is budgeted to be 15,000 units and closing

stock will be 12,000 unit . All stock of finished goods must have successfully passed the quality control check.

The production budget of Product-X for March, 2016 is -

- (A) 25,000 Units
- (B) 25,500 Units
- (C) 25,950 Units
- (D) 20,250 Units.

- 80.** Which of the following is not a limitation of financial statements -
- (A) Financial statements are essentially interim reports and therefore, cannot be final because the final gain or loss can be computed only at the termination of the business
 - (B) The values ascribed to the assets presented in the statements depend upon the standards of the person dealing with them
 - (C) Financial statements fail to bring out the significance of non-financial factors
 - (D) Financial statements serve as a useful guide for the stakeholders of the company.
- 81.** Assertion (A)
Accountants do not take into consideration the price level changes while valuing various assets in different period.
Reason (R)
It is difficult to determine the value of assets, as value of assets changes with change in time.
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.
- 82.** In the management information system (MIS), top level management uses -
- (A) Operational information
 - (B) Tactical information
 - (C) Transactional information
 - (D) Strategic information.
- 83.** A cash flow statement is based upon _____ while fund flow statement recognises _____.
- (A) Cash basis of accounting; accrual basis of accounting
 - (B) Accrual basis of accounting; conventional basis of accounting
 - (C) Mercantile basis of accounting; cash basis of accounting
 - (D) Cash basis of accounting; cash basis of accounting.

84. Gross profit ratio for a firm was 20% in the year 2015 and 2016 but the net profit ratio was 15% in the year 2015 and 12% in the year 2016. The reason for such behaviour could be -

- (A) Increase in manufacturing expenses
- (B) Increase in indirect expenses
- (C) Increase in cost of goods sold
- (D) Decrease in sales.

85. The capital of Juhi Ltd. is as follows :

| | | |
|-----------------------------------|---|-----------|
| 10% Preference shares of ₹10 each | : | ₹5,00,000 |
| Equity shares of ₹100 each | : | ₹7,00,000 |
| Other information : | | |
| Profit (after tax @ 50%) | : | ₹1,55,000 |
| Depreciation | : | ₹60,000 |
| P/E ratio | : | 12 times |

The market price of equity share will be -

- (A) ₹265.71
- (B) ₹162.86
- (C) ₹180
- (D) ₹156

86. Match the following :

| List-I | List - II |
|--|-----------------------|
| (P) The standard ratio 2:1 is considered satisfactory | (1) Return on assets |
| (Q) It measures profitability of the firm in terms of assets employed | (2) Current ratio |
| (R) Ratio which measures long-term solvency of a firm | (3) Gearing ratio |
| (S) Ratio which indicates how much of the business is funded by borrowings | (4) Debt-equity ratio |

Select the correct answer from the options given below -

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

87. Following information is given :

| | | |
|-------------|---|------------|
| Total sales | : | ₹24,00,000 |
|-------------|---|------------|

Inventory turnover ratio : 4.80 times on basis of cost of goods sold

Gross profit ratio : 25% on cost of goods sold

Closing inventory is ₹60,000 more than opening inventory.

The amount of opening stock and purchases respectively will be -

- (A) ₹3,70,000 and ₹19,80,000
- (B) ₹3,45,000 and ₹18,60,000
- (C) ₹3,75,000 and ₹19,20,000
- (D) None of the above.

88. Statement - I

Working capital is a short-term capital which is financed from long-term sources.

Statement - II

Working capital turnover measures the relationship of working capital with sales.

Select the correct answer from the options given below -

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

89. Consider the following statements :

- (1) Depreciation reduces tax liability, hence it is a source of funds.
- (2) Decrease in current liabilities during the year results in an increase in working capital.
- (3) The term cash equivalents includes short-term marketable investments.
- (4) Conversion of debentures into equity shares appears in funds flow statement.
- (5) Only non-cash expenses are added to net profit to find out funds from operation.

Select the incorrect statements from the options given below -

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

90. Preference share capital of ₹5,00,000 was redeemed at a premium of 10%, partly out of proceeds of issue of 20,000 equity shares of ₹10 each issued at 10% premium and partly out of profits otherwise available for dividends.

Choose the correct effect on different activities of cash flow statement from the options given below :

- (A) In financing activities, cash outflow ₹5,50,000 and cash inflow ₹2,20,000.

- (B) In financing activities, cash outflow ₹5,50,000 and in investing activities, cash inflow ₹2,20,000
- (C) Net ₹3,30,000 will be outflow in operating activities
- (D) In investing activities cash outflow of ₹5,50,000 and in financing activities cash inflow of ₹2,20,000.

91. Assertion (A)

In integrated accounting system, there is no need of reconciliation of cost accounting profit and financial accounting profit.

Reason (R)

Only one set of books provide information for the ascertainment of cost as well as preparation of a balance sheet as per legal requirement.

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.

92. Following data are given for the month of June, 2016 :

| | Budgeted | Actual |
|--------------------------------------|----------|--------|
| Variable overheads for the month (₹) | 10,000 | 9,000 |
| Output for the month (units) | 5,000 | 4,000 |
| Hours for the month | 1,000 | 820 |

The variable overheads efficiency variance will be -

- (A) ₹2,000 (A)
- (B) ₹200 (F)
- (C) ₹400 (A)
- (D) ₹200 (A).

93. A company has a normal capacity of 120 machines, working 8 hours per day for 25 days in a month. The fixed overheads are budgeted at ₹1,44,000 per month. The standard time required to manufacture one unit of product is 4 hours. In April, 2016, the company worked 24 days of 840 machine hours per day and produced 5,305 units of output. The actual fixed overheads were ₹1,42,000.

The efficiency variance will be -

- (A) ₹6,360 (F)
- (B) ₹6,360 (A)
- (C) ₹6,460 (F)
- (D) ₹6,460 (A).

94. Following information is given :

| | | |
|------------------------------|---|------------|
| Materials purchased | : | 3,000 kgs. |
| Value of materials purchased | : | ₹9,000 |

| | | |
|----------------------------|---|-------------------------------|
| Standard quantity | : | 25 kgs. for one finished unit |
| Standard price | : | ₹2 per kg. |
| Closing stock of materials | : | 500 kgs. |
| Finished goods produced | : | 80 units |

Material cost variance will be -

- (A) ₹3,500 (A)
 (B) ₹3,500 (F)
 (C) ₹3,650 (F)
 (D) ₹3,650 (A).
- 95.** The P/V ratio of Akhil & Co. is 50% and margin of safety is 40%. The company sold 500 units for ₹5,00,000.
 The break-even point sales will be -
 (A) ₹2,50,000
 (B) ₹3,00,000
 (C) ₹3,50,000
 (D) ₹4,00,000
- 96.** The price of material actually used rose by 5%. It was, however, anticipated and was included in setting the standard material cost. This price rise would result in -
 (A) Unfavourable material price variance
 (B) Favourable material price variance
 (C) Favourable material usage variance
 (D) No variance.
- 97.** Which of the following is an irrelevant cost —
 (A) Sunk cost
 (B) Replacement cost
 (C) Opportunity cost
 (D) All of the above.
- 98.** Administrative overheads are absorbed on the basis of -
 (A) Direct materials
 (B) Direct wages
 (C) Prime cost
 (D) Works cost.
- 99.** Match the following :
- | List - I | List - II |
|-------------------|-----------------------|
| (P) Advertising | (1) Operating costing |
| (Q) Sugar company | (2) Job costing |

- (R) Readymade garments (3) Process costing
(S) Transport (4) Batch costing

Select the correct answer from the options given below —

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

100. Following information is available :

| | | |
|--------------------------------|---|-----------|
| Owners' equity | : | ₹1,00,000 |
| Current debt to total debt | : | 0.40 |
| Total debt to owners' equity | : | 0.60 |
| Fixed assets to owners' equity | : | 0.60 |
| Total assets turnover | : | 2 times |
| Inventory turnover | : | 8 times |

Fixed assets will be -

- (A) ₹70,000
(B) ₹60,000
(C) ₹65,000
(D) ₹72,000

ANSWER KEY
COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

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

Q. 53 : None of the option was found to be correct. The correct answer is 1.875%.

Q. 62 : Two options (B & C) are found to be correct.

Note : The inconsistency or ambiguity in the Question(s), if any, is/are taken care of while evaluating the answer sheets.

ECONOMIC AND COMMERCIAL LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : *Answer ALL Questions.*

PART A

Question 1

- (a) *What are the short-term and long-term objectives of India's foreign trade policy?*
- (b) *Write a note on the evolution and development of Indian competition laws.*
- (c) *What is 'trade mark' ? Comment on the benefits of trade mark to all stakeholders.*
- (d) *Describe the essential conditions required for transfer for benefit of unborn person.*
- (e) *Discuss the concept of ignorantia juris non excusat. (5 marks each)*

Answer 1(a)

India's Foreign Trade Policy (FTP) has, conventionally, been formulated for five years at a time and reviewed annually. The focus of the FTP has been to provide a framework of rules and procedures for exports and imports and a set of incentives for promoting exports. The Foreign Trade Policy seeks to achieve the following short term and long term objectives:

- (i) To provide a stable and sustainable policy environment for foreign trade in merchandise and services;
- (ii) To link rules, procedures and incentives for exports and imports with other initiatives such as "Make in India", "Digital India" and "Skills India" to create an "Export Promotion Mission for India";
- (iii) To promote the diversification of India's export basket by helping various sectors of the Indian economy to gain global competitiveness with a view to promoting exports;
- (iv) To create an architecture for India's global trade engagement with a view to expanding its markets and better integrating with major regions, thereby increasing the demand for India's products and contributing to the government's flagship "Make in India" initiative;
- (v) To provide a mechanism for regular appraisal in order to rationalise imports and reduce the trade imbalance.

Answer 1(b)

The first law on competition was enacted in 1969 and was christened as the

Monopolies and Restrictive Trade Practices Act, 1969. The genesis of the MRTP Act, 1969 is traceable to Articles 38 and 39 of the Constitution of India. The Directive Principle of State Policy in those Articles lays down, inter-alia that the State shall strive to promote the welfare of the people by securing and protecting as effectively, as it may, a social order in which justice - social, economic and political- shall inform all the institutions of the national life, and the State shall, in particular, direct its policy towards securing:

1. that the ownership and control of material resources of the community are so distributed as best to subserve the common good; and
2. that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment.

Legal framework dealing with competition in India spread over other legislations, besides the Monopolies and Restrictive Trade Practices Act, 1969, other legislations dealing with competition include Consumer Protection Act, 1986, the Patents Act 1970 etc. To prevent practices having adverse effect on competition, to promote and sustain competition in the markets and to protect the interest of consumers, in 2002, Parliament enacted Competition Act, 2002.

Answer 1(c)

A trade mark is a visual symbol which may be a word signature, name, device, label, numerals or combination of colors used by one undertaking on goods or services or other articles of commerce to distinguish it from other similar goods or services originating from a different undertaking. The term trade mark has been defined under Section 2(1)(zb) of the Trade Marks Act, 1999 Act as to mean a mark capable of being represented graphically and which is capable of distinguishing the goods or services of one person from those of others and may include shape of goods, their packaging and combination of colours; and

- (i) in relation to Chapter XII (other than section 107), a registered trade mark or a mark used in relation to goods or services for the purpose of indicating or so as to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right as proprietor to use the mark; and
- (ii) in relation to other provisions of this Act, a mark used or proposed to be used in relation to goods or services for the purpose of indicating or so to indicate a connection in the course of trade between the goods or services, as the case may be, and some person having the right, either as proprietor or by way of permitted user, to use the mark whether with or without any indication of the identity of that person, and includes a certification trade mark or collective mark.

Benefits from trade mark to all stakeholders are as under:

Registered Proprietor : The Registered Proprietor of a trade mark can stop other traders from unlawfully using his trade mark, sue for damages and secure destruction of infringing goods and or labels.

Government : The Trade Marks Registry is earning revenue.

Professionals : The Trade Marks Registration system is driven by professionals like Company Secretaries who act as trademark agents for the clients in the processing of the trade marks application.

Answer 1(d)

Section 13 of the Transfer of Property Act lays down that where on a transfer of property, an interest therein is created for the benefit of a person not in existence at the date of transfer, subject to a prior interest created by the same transfer, the interest created for the benefit of such person shall not take effect unless it extends to the whole of the remaining interest of the transferor in the property. Thus if a property is given to an unborn person, two conditions should be satisfied:

- (i) it should be preceded by a life estate in favour of a living person, and
- (ii) it should comprise the whole of the remaining interest of the transferor so that there can be no further interest in favour of others.

Answer 1(e)

Mistakes are of two kinds: (i) mistake of law, and (ii) mistake of fact. If there is a mistake of law of the land, the contract is binding because everyone is deemed to have knowledge of law of the land and ignorance of law is no excuse (*ignorantia juris non excusat*).

But mistake of foreign law and mistake of private rights are treated as mistakes of fact and are excusable.

The law of a foreign country is to be proved in Indian Courts as ordinary facts. So mistake of foreign law makes the contract void. Similarly, if a contract is made in ignorance of private right of a party, it would be void, e.g., where A buys property which already belongs to him.

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

Question 2

- (a) *Who is an 'author' under the provisions of the Copyright Act, 1957 for musical and other classes of work ?*
- (b) *Distinguish between 'English mortgage' and 'mortgage by conditional sale'.*
- (c) *What is 'e-stamping' ? Also, discuss its benefits.*
- (d) *State the difference in rules of making offer and acceptance when the mode of making the same varies from post to telephone and e-mail as governed by the Information Technology Act, 2000.*
- (e) *Discuss briefly the process of money laundering. (3 marks each)*

OR (Alternate question to Q.No. 2)

Question 2A

- (i) *What do you understand by 'restrictive trade practices' ?*
- (ii) *What is meant by 'piracy of a design' ?*

- (iii) *Tarun has two properties, Property-X and Property-Y. He sells his Property-Y to Jolly and puts a condition that Jolly should not construct more than one storey on Property-Y so that Property-X, which he retains, shall have good light and free air.*

Whether the condition imposed by Tarun is 'valid' under the Transfer of Property Act, 1882 ? Give reasons.

- (iv) *What is 'intent and obligation' of foreign direct investment in India under the Foreign Exchange Management Act, 1999 ?*

- (v) *Explain briefly the terms 'conciliation' and 'mediation'. (3 marks each)*

Answer 2(a)

Author under the provisions of the Copyright Act, 1957 in relation to a musical work is the composer. "Composer", in relation to a musical work, means the person who composes the music regardless of whether he records it in any form of graphical notation.

Author under the provisions of the Copyright Act, 1957 other class of the work as under:

- (i) in relation to a literary or dramatic work, the author of the work;
- (ii) in relation to an artistic work other than a photograph, the artist;
- (iii) in relation to a photograph, the person taking the photograph;
- (iv) in relation to a cinematograph or sound recording the producer; and
- (v) in relation to computer generated, the person who causes the work to be created.

Answer 2(b)

1. In English mortgage there is a personal liability undertaken by the mortgagor to pay the debt. In a mortgage by conditional sale there is no personal covenant agreement for payment of the mortgage money and mortgagee has his remedy against the mortgaged property only;
2. In English mortgage the ownership in the mortgaged property is absolutely transferred to the creditor (i.e. mortgagee) which however, may be divested on repayment of the loan on the fixed day. In a mortgage by conditional sale, the mortgagee gets only a qualified ownership which may, however, ripen into an absolute ownership in default of payment of the mortgage money.

Answer 2(c)

E-Stamping is a computer based application and a secured way of paying Non-Judicial stamp duty to the Government.

The benefits of e-Stamping are:-

- e-Stamp Certificate can be generated within minutes;
- e-Stamp Certificate generated is tamper proof;
- Easy accessibility and faster processing;

- Security;
- Cost savings and User friendly.

Answer 2(d)**Contracts by Post**

- An offer by post may be accepted by post, unless the offeror indicates anything to the contrary.
- An offer is made only when it actually reaches the offeree and not before, i.e., when the letter containing the offer is delivered to the offeree.
- An acceptance is made to offeror correct address; it binds the offeror, but not the acceptor.
- An offer may be revoked before the letter containing the acceptance is posted. An acceptance can be revoked before it reaches the offeror.

Contracts over the Telephone

Contracts over the telephone are regarded the same in principle as those negotiated by the parties in the actual presence of each other. In both cases an oral offer is made and an oral acceptance is expected. It is important that the acceptance must be audible, heard and understood by the offeror. If during the conversation the telephone lines go “dead” and the offeror does not hear the offerees word of acceptance, there is no contract at the moment. If the whole conversation is repeated and the offeror hears and understands the words of acceptance, the contract is complete [*Kanhaiyalal v. Dineshwarchandra* (1959)] AIR, M.P. 234. AIR, M.P. 234.

Contracts over the e-mail**(a) Attribution of electronic records**

An electronic record shall be attributed to the originator—

- if it was sent by the originator himself;
- by a person who had the authority to act on behalf of the originator in respect of that electronic record; or
- by an information system programmed by or on behalf of the originator to operate automatically.

(b) Acknowledgment of receipt

Where the originator has not agreed with the addressee that the acknowledgment of receipt of electronic record be given in a particular form or by a particular method, an acknowledgment may be given by—

- any communication by the addressee, automated or otherwise; or
- any conduct of the addressee, sufficient to indicate to the originator that the electronic record has been received.

Where the originator has stipulated that the electronic record shall be binding only

on receipt of an acknowledgment of such electronic record by him, then unless acknowledgment has been so received, the electronic record shall be deemed to have been never sent by the originator.

Where the originator has not stipulated that the electronic record shall be binding only on receipt of such acknowledgment, and the acknowledgment has not been received by the originator within the time specified or agreed or, if no time has been specified or agreed to within a reasonable time, then the originator may give notice to the addressee stating that no acknowledgment has been received by him and specifying a reasonable time by which the acknowledgment must be received by him and if no acknowledgment is received within the aforesaid time limit he may after giving notice to the addressee, treat the electronic record as though it has never been sent.

Answer 2(e)

The process of money laundering can be classified into three stages, namely, placement, layering and integration.

In the initial or placement stage of money laundering, the launderer introduces his illegal profits into the financial system, by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments that are later collected and deposited into accounts at another location.

After the funds are entered into the financial system, the layering takes place. In this stage, the launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channeled through the purchase and sale of investment instruments, or the launderer might simply wire the funds through a series of accounts at various banks across the globe.

After successful processing of criminal profits through the first two phases of the money laundering process, the launderer moves them to integration. In this stage the funds re-enter the legitimate economy. The launderer might choose to invest the funds into real estate, luxury assets, or business ventures.

Answer 2A(i)

Restrictive trade practice means a practice which obstructs the free play of competitive forces or impedes the free flow of capital or resources into the stream of production or of the finished goods in the stream of distribution at any point before they reach the hands of the ultimate consumer.

According to Section 2(1)(nn) of the Consumer Protection Act, 1986, Restrictive Trade Practice means a trade practice which tends to bring about manipulation of price or its conditions of delivery or to affect flow of supplies in the market relating to goods or services in such a manner as to impose on the consumers unjustified costs or restrictions and shall include—

- (a) delay beyond the period agreed to by a trader in supply of such goods or in providing the services which has led or is likely to lead to rise in the price;

- (b) any trade practice which requires a consumer to buy, hire or avail of any goods or, as the case may be, services as condition precedent to buying, hiring or availing of other goods or services.

Answer 2A(ii)

Piracy of a design means the application of a design or its imitation to any article belonging to class of articles in which the design has been registered for the purpose of sale or importation of such articles without the written consent of the registered proprietor. Publishing such articles or exposing terms for sale with knowledge of the unauthorized application of the design to them also involves piracy of the design.

Answer 2A(iii)

The Condition imposed by Mr. Tarun is valid under the provisions of the Transfer of Property Act, 1882.

Here Mr. Tarun has imposed condition for the benefit of another property 'Y', He Can do so. There are certain "restraints" that have been declared 'Valid' by the courts. Section 11 of the Transfer of Property Act, 1882 embodies a rule which is based on the principle that restraint on the enjoyment of the property is invalid. The section lays down that where land is transferred by one to another, the transferor should not impose conditions as to how and in what manner the transferee should enjoy the property.

Section 12 also makes the transfer void if a property is transferred to any person adding a condition that if such person becomes insolvent he ceases to hold that property. Such a condition is not recognised as valid in law. Again, this is subject to the exception that if a landlord leases his property he can impose a condition on the lessee that if the lessee becomes insolvent the lease should come to an end.

Thus, it is clear in this case that the condition which is imposed by Tarun is for the benefit of another property which he retains. Such a condition is valid.

Answer 2A(iv)

It is the intent and objective of the Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. Foreign Direct Investment (FDI) is a category of cross border investment made by a resident in one economy (the direct investor) with the objective of establishing a 'lasting interest' in an enterprise (the direct investment enterprise) i.e. resident in an economy other than that of the direct investor.

Foreign Direct Investment (FDI) in India is undertaken in accordance with the FDI Policy which is formulated and announced by the Government of India. The FDI Policy governed by the provisions of the Foreign Exchange Management Act (FEMA), 1999 and prescribes amongst other things the mode of investments i.e. issue or acquisition of shares / convertible debentures and preference shares, manner of receipt of funds, pricing guidelines, sectorial cap and reporting of the investments to the Reserve Bank of India.

Answer 2A(v)

Conciliation is an informal process in which the conciliator (the third party) tries to bring the disputants to agreement. He does this by lowering tensions, improving

communications, interpreting issues, providing technical assistance, exploring potential solutions and bringing about a negotiated settlement.

Mediation is a structured process in which the mediator assists the disputants to reach a negotiated settlement of their differences. Mediation is usually a voluntary process that results in a signed agreement which defines the future behaviour of the parties. The mediator uses a variety of skills and techniques to help the parties reach the settlement, but is not empowered to render a decision.

Question 3

(a) *Sohan has a truck which was driven by a driver, Shyam, but Shyam did not have valid licence for driving the truck. The truck was insured with an insurance company. On the way, all of a sudden the truck started burning. Sohan filed a claim with the insurance company. The insurance company repudiated the claim on the ground that driver of the said truck did not have valid driving licence. The truck owner pleaded that the claim is not related to 'driving' of the truck but the insurance company did not change its earlier decision. Sohan filed a complaint with the District Consumers' Disputes Redressal Forum.*

Will Sohan succeed ? Discuss with reference to decided case, if any. (5 marks)

(b) *A young boy ran away from his father's home. His father issued a pamphlet offering a reward of ₹5 lakh to anybody who would bring the boy home. Arun saw the boy at a railway station and sent an e-mail to the boy's father.*

(i) Is Arun entitled for reward ?

(ii) In the light of the above case, explain the rules governing offer. (5 marks)

(c) *Discuss the objectives and functions of the Financial Action Task Force (FATF). (5 marks)*

Answer 3(a)

The pleading of the truck owner Mr. Sohan is justified and sustainable. The valid licence for driving has no relevance or connection with the 'fire' which took all of a sudden in the truck, if the fire has occurred due to mechanical failure and not due to any act or omission of the driver. Thus the Insurance Company cannot repudiate the claim because of valid driving licence.

Hence Mr. Sohan, truck owner shall succeed.

The Supreme Court in the case of Jitender Kumar V/s Oriental Insurance Company Ltd. pronounced the decision in favour of the claimant and laid down the said principle for deciding the claim relating to lack of valid driving license.

Answer 3(b)

It was an offer open to the world at large and was capable of acceptance by any person who fulfilled the conditions contained in the offer. The plaintiff substantially performed the conditions and was entitled to the reward offered.

A valid offer must comply with the following rules:

(a) An offer must be clear, definite, complete and final. It must not be vague. For example, a promise to pay an increased price for a horse if it proves lucky to the promisor, is too vague and is not binding.

- (b) An offer must be communicated to the offeree. An offer becomes effective only when it has been communicated to the offeree so as to give him an opportunity to accept or reject the same.
- (c) The communication of an offer may be made by express words-oral or written- or it may be implied by conduct. A offers his car to B for Rs. 10,000. It is an express offer. A bus plying on a definite route goes along the street. This is an implied offer on the part of the owners of the bus to carry passengers at the scheduled fares for the various stages.
- (d) The communication of the offer may be general or specific. Where an offer is made to a specific person it is called specific offer and it can be accepted only by that person. But when an offer is addressed to an uncertain body of individuals i.e. the world at large, it is a general offer and can be accepted by any member of the general public by fulfilling the condition laid down in the offer. The leading case on the subject is *Carlill v. Carbolic Smoke Ball Co.*

Answer 3(c)

The Financial Action Task Force (FATF) is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.

The FATF monitors the progress of its members in implementing necessary measures, reviews money laundering and terrorist financing techniques and counter-measures, and promotes the adoption and implementation of appropriate measures globally. In collaboration with other international stakeholders, the FATF works to identify national-level vulnerabilities with the aim of protecting the international financial system from misuse.

Question 4

- (a) *State the salient features of the Special Economic Zones Act, 2005. Also, state the method of appointment and functions of the Development Commissioner.*
(8 marks)
- (b) *What is direct investment outside India ? Discuss the regulations in respect of acquisition and transfer of immovable property outside India.* (7 marks)

Answer 4(a)

The salient features of the Special Economic Zones Act, 2005 are as under:—

- (i) To deal with matters relating to establishment of Special Economic Zone and for setting up of units therein, including requirements, obligations and entitlements;
- (ii) To deal with matters relating to requirements for setting up of off-shore banking units and units in International Financial Service Center in Special Economic Zone, including fiscal regime governing the operation of such units;

- (iii) To the fiscal regime for developers of Special Economic Zones and units set up therein;
- (iv) To single window clearance mechanism at the Zone level;
- (v) To establishment of an Authority for each Special Economic Zone set up by the Central Government to impart greater administrative autonomy; and
- (vi) To designation of special courts and single enforcement agency to ensure speedy trial and investigation of notified offences committed in Special Economic Zones.

Section 11 empowers the Central Government to appoint the Development Commissioner for one or more Special Economic Zones and such Officers and other employees as it considers necessary to assist every Development Commissioner.

The functions of the Development Commissioner include:

- (a) To guide the entrepreneurs for setting up of Units in the Special Economic Zone;
- (b) To ensure and take suitable steps for effective promotion of exports from the Special Economic Zone;
- (c) To ensure proper coordination with the Central Government or State Government Departments concerned or agencies with respect to, or for above purposes;
- (d) To monitor the performance of the Developer and the Units in SEZ;
- (e) To discharge such other functions as may be assigned to him by the Central Government under this Act or any other law for the time being in force; and
- (f) To any other functions as may be delegated to him by the Board of approval.

Answer 4(b)

Direct investment outside India means investment by way of contribution to the capital or subscription to the Memorandum of Association of a foreign entity, signifying a long term interest (setting up a Joint Venture (JV) or a Wholly Owned Subsidiary (WOS)) in the overseas entity and thus does not include portfolio investment.

The Foreign Exchange Management Act, 1999 (FEMA) empowers the Reserve Bank to frame regulations to prohibit, restrict or regulate the acquisition or transfer of immovable property outside India by persons residents in India. The regulations governing acquisition and transfer of immovable property outside India are notified under Foreign Exchange Management (Acquisition and Transfer of Immovable Property outside India) Regulations as amended from time to time.

A person resident in India can, acquire property outside India if so permitted under the FEMA or the regulations framed thereunder or with the general or special permission of the Reserve Bank.

A person resident in India may acquire immovable property outside India by way of purchase out of foreign exchange held in Resident Foreign Currency (RFC) account maintained in accordance with the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations.

According to the Foreign Exchange Management (Acquisition and Transfer of

Immovable Property outside India) Regulations, Reserve Bank is empowered to permit a company incorporated in India having overseas offices, to acquire immovable property outside India for its business and for residential purpose of its staff subject to such terms and conditions as it considers necessary and a person resident in India who has acquired immovable property outside India may transfer it by way of gift to his relative who is a person resident in India, provided there is no outflow of funds from India.

PART B

Question 5

- (a) *What do you understand by International Organisation of Legal Metrology (OIML) Certificate System ?* (3 marks)
- (b) *Write a short note on the doctrine of cypres relating to trusts.* (3 marks)
- (c) *State the circumstances under which a society registered under the Societies Registration Act, 1860 may sue a member of society treating him as a 'stranger'.* (3 marks)
- (d) *What do you mean by 'new article' under the Industries (Development and Regulation) Act, 1951 ?* (3 marks)
- (e) *Explain the constitution of State Pollution Control Board.* (3 marks)

Answer 5(a)

The OIML Certificate System for Measuring Instruments was introduced in 1991 to facilitate administrative procedures and lower the costs associated with the international trade of measuring instruments subject to legal requirements. The System provides the possibility for a manufacturer to obtain an OIML Certificate and a Test Report indicating that a given instrument type (pattern) complies with the requirements of the relevant OIML International Recommendations. Certificates are delivered by OIML Member States that have established one or several Issuing Authorities responsible for processing applications by manufacturers wishing to have their instrument types (patterns) certified. Certificates issued by OIML are accepted by national metrology services on a voluntary basis, and as the climate for mutual confidence and recognition of test results develops between OIML Members, the System serves to simplify the type (pattern) approval process for manufacturers and metrology authorities by eliminating costly duplication of application and test procedures.

Answer 5(b)

Where the object of the charitable trust, specified by the settler, is or subsequently becomes impossible or impracticable or unlawful, the trust will not necessarily fail, but the Court has power to apply the trust to some other charitable object as nearly as possible resembling the intention of the author. This power of the Court is known as "doctrine of cypres". When a particular mode of charity indicated by the author is not capable of being carried out, yet a general intention of charity, is indicated by the author of the trust, the Court would execute it 'cypres' i.e. in a way as nearly as possible to that which testator specified.

Answer 5(c)

A member of the society is liable to be sued as stranger in the following cases:

- (i) When he is in arrear of a subscription which he is bound to pay according to the rules, or
- (ii) When he has detained any property of the society, or
- (iii) When he has destroyed any property of the society.

Answer 5(d)

As per Section 3(dd) of the Industries (Development and Regulation) Act, 1951 new article in relation to an industrial undertaking which is registered or in respect of which a licence or permission has been issued under the Act means:

- (a) any article which falls under an item in the First Schedule other than the item under which articles ordinarily manufactured or produced in the industrial undertaking at the date of registration or issue of the licence or permission as the case may be, fall;
- (b) any article which bears a mark as defined in the Trade Marks Act or which is subject of a patent, if at the date of registration or issue of the licence or permission, as the case may be, the industrial undertaking was not manufacturing or producing such article bearing that mark or which is the subject of that patent.

Answer 5(e)

Section 4 of the Water (Prevention and Control of Pollution) Act, 1974 has empowers the State Government to constitute the State Pollution Control Boards. The composition of a State Pollution Control Board shall be the following, namely:

- (a) a Chairman, being a person having special knowledge or practical experience in respect of matters relating to environmental protection or a person having knowledge and experience in administering institutions dealing with the matters aforesaid, to be nominated by the State Government. However, the Chairman may be either whole-time or part-time, as the State Government may think fit;
- (b) such number of officials not exceeding five, to be nominated by the State Government to represent that Government;
- (c) such number of persons not exceeding five to be nominated by the State Government from amongst the members of the local authorities functioning within the State;
- (d) such number of non-officials not exceeding three, to be nominated by the State Government to represent the interests of agriculture, fishery or industry or trade or labour or any other interests, which, in the opinion of the Government, ought to be represented;
- (e) two persons to represent the companies or corporations owned, controlled or managed by the State Government to be nominated by that Government;
- (f) a full-time member secretary having such qualifications, knowledge and experience of scientific, engineering or management aspects of pollution control to be appointed by the State Government.

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

- (a) What do you mean by 'hazardous substance' under the Environment (Protection) Act, 1986 ? Examine the status of electricity as a hazardous substance. (5 marks)
- (b) Discuss the criteria of classification of enterprises into micro, small and medium enterprises under the Micro, Small and Medium Enterprises Development Act, 2006. (5 marks)
- (c) Discuss 'essential commodities' under the Essential Commodities Act, 1955. (5 marks)

OR (Alternate question Q.No. 6)**Question 6A**

- (i) What do you understand by registration of documents ? State the effect of non-registration of documents required to be registered. (5 marks)
- (ii) Describe the jurisdiction and powers of the Tribunal under the National Green Tribunal Act, 2010. (5 marks)
- (iii) Explain the concept and functions of environmental laboratories. (5 marks)

Answer 6(a)

The term Hazardous Substance under Section 2(e) of the Environment (Protection) Act, 1986 means any substance or preparation which, by reason of its chemical or physico-chemical properties or handling is liable to cause harm to human beings, other living creatures, micro-organism, property or the environment.

In the case of *UP Electricity Board and Another v. District Magistrate, Dehradun and Others* (AIR 1998 All LJ 1) Allahabad High Court observed that Electricity is hazardous substance covered by definition under section 2(d) of the Act. Electricity is the flow of free electrons in a particular direction at the particular moment. The flow can be any wire or even an atmosphere like lightening or in body or in other body. The electron is very small and it has been discovered by the scientist that an electron is a pins about an excess and it has got organic field. The electron is thus a material article and electricity is the flow of all these material particular in particular direction. The flow consequently is the flow of matter having physico chemical properties like when passed through water, it separate the hydrogen form the Oxygen atoms (electrolysis). Thus electricity is a substance having physico chemical process and also hazardous. Accordingly it is hazardous substance covered by definition under the Act.

Answer 6(b)

Section 7 of the Micro, Small and Medium Enterprises Development Act, 2006 empowers the Central Government to classify any class or classes of enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership firm, company or undertaking, by whatever name called,—

- (a) in the case of the enterprises engaged in the manufacture or production of

goods pertaining to any industry specified in the First Schedule to the IDRA as—

- (i) a micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;
 - (ii) a small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees; or
 - (iii) a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;
- (b) in the case of the enterprises engaged in providing or rendering of services, as—
- (i) a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;
 - (ii) a small enterprise, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or
 - (iii) a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

It has been clarified that the cost of pollution control, research and development, industrial safety devices and such other items as may be specified shall not be included in calculating the investment in plant and machinery.

Answer 6(c)

Section 2A of the Essential Commodities Act, 1955 dealing with Essential commodities declaration, etc. defines the "essential commodity" as to mean a commodity specified in the Schedule.

Schedule to the Act lists out following commodities:

- (1) *drugs*: The explanation clarifies that for the purposes of this Schedule, "drugs" has the meaning assigned to it in clause (b) of Section 3 of the Drugs and Cosmetics Act, 1940;
- (2) fertilizer, whether inorganic, organic or mixed;
- (3) foodstuffs, including edible oilseeds and oils;
- (4) hank yarn made wholly from cotton;
- (5) petroleum and petroleum products;
- (6) raw jute and jute textiles;
- (7) (i) seeds of food-crops and seeds of fruits and vegetables;
- (ii) seeds of cattle fodder; and
- (iii) jute seeds.

Answer 6A(i)

Registration means recording of the contents of a document with a Registering

Officer and preservation of copies of the original document. Registration of a document inter alia, ensures its proper preservation and record.

Section 49 of the Act provides that no document required by Section 17 or by any provision of the Transfer of Property Act, 1882 to be registered shall:

- (a) affect any immovable property comprised therein; or
- (b) confer any power to adopt; or
- (c) be received as evidence of any transaction affecting such property or conferring such power unless it has been registered.

Section 49 of the Registration Act, 1908 is mandatory, and a document which is required to be registered cannot be received in evidence as affecting immovable property. An unregistered document which comes within Section 17 cannot be used in any legal proceeding to bring out indirectly the effect which it would have if registered.

However, as provided in Section 49, proviso, an unregistered document affecting immovable property and required by this Act or the Transfer of property Act, 1882 to be registered may be received as evidence of a contract in a suit for specific performance or as evidence of part performance of a contract for the purposes of Section 53A of the Transfer of Property Act, 1882 or as evidence of any collateral transaction not to be effective by registered instrument.

Answer 6A(ii)

Chapter III of the National Green Tribunal Act, 2010 deals with jurisdiction and power of the Tribunal. Section 14 provides that the Tribunal shall have the jurisdiction over all civil cases where a substantial question relating to environment (including enforcement of any legal right relating to environment), is involved and such question arises out of the implementation of the enactments specified in Schedule I to the Act.

Section 15 empower the Tribunal, by an order, to provides (a) relief and compensation to the victims of pollution and other environmental damage arising under the enactments specified in the Schedule I (including accident occurring while handling any hazardous substance) (b) for restitution of property damaged; (c) for restitution of the environment for such area or areas, as the Tribunal may think fit. As per section 16 Tribunal having appellate jurisdiction.

The Tribunal, for the purpose of discharging its functions, has been entrusted with the same powers as are vested in a Civil Court under the Code of Civil Procedure, 1908, while trying a suit and all proceedings before the Tribunal shall be deemed to be the judicial proceedings

Answer 6A(iii)

Section 12 of the Environment (Protection) Act, 1986 empowers the Central Government to establish by notification in the official Gazette, one or more environmental laboratories or recognise one or more laboratories or institutes as environmental laboratories to carry out certain functions under the Act.

Rule 9 of the Environment (Protection) Rules, 1986 specified the following functions of environmental laboratories:

- (i) To evolve standardised methods for sampling and analysis of various types of environmental pollutants;

- (ii) To analyse samples sent by the Central Government or the Officers empowered under Sub-section (1) of Section 11;
- (iii) To carry out such investigations as may be directed by the Central Government to lay down standards for the quality of environment and discharge of environmental pollutants, to monitor and to enforce the standards laid down;
- (iv) To send periodical reports regarding its activities to the Central Government;
- (v) To carry out such other functions as may be entrusted to it by the Central Government from time to time.

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 2016 - 17 unless stated otherwise.

PART A

1. Under the Income-tax Act, 1961 the term 'assessee' means a person -
 - (A) Who is an assessee in default
 - (B) From whom tax is due
 - (C) Against whom any proceeding under the Act has been taken
 - (D) All of the above.
2. Normal rates of income-tax are prescribed in the -
 - (A) Income-tax Act, 1961
 - (B) Income-tax Rules, 1962
 - (C) Finance Act of the current year
 - (D) CBDT circulars.
3. A company incorporated outside India having its control and management fully situated in India in the previous year will be treated as -
 - (A) Resident
 - (B) Not ordinarily resident
 - (C) Non-resident
 - (D) None of the above.
4. Tax holiday under section 10AA in respect of newly established units in SEZ is allowed for a total period of -
 - (A) 5 Years
 - (B) 10 Years
 - (C) 15 Years
 - (D) 20 Years.

5. Pawan, employed in Magic Ltd., was eligible for transport allowance of ₹2,000 per month to meet his travel expenses from residence to office. He actually incurred ₹1,200 per month towards travel. The amount of travel allowance chargeable to tax as perquisite would be -
- (A) ₹24,000
 - (B) ₹14,400
 - (C) ₹4,800
 - (D) Nil.
6. An employee of a public limited company received ₹3,00,000 as encashment of leave salary at the time of retirement. He has 18 months' leave to his credit at the time of retirement and his average salary for last 10 months is ₹24,000. The taxable amount of leave encashment would be -
- (A) ₹2,40,000
 - (B) ₹3,00,000
 - (C) ₹60,000
 - (D) Nil.
7. Allowances and perquisites allowed to an employee for services outside India are tax free in case of -
- (A) All types of employees
 - (B) Government employees only
 - (C) Non-government employees only
 - (D) None of the above.
8. If an LLP claims deduction under section 35AD, the provisions of Alternate Minimum Tax (AMT) under section 115JC will apply when the adjusted total income exceeds -
- (A) ₹10, i.e., no limit
 - (B) ₹10 lakh
 - (C) ₹20 lakh
 - (D) ₹3 crore.
9. Rajat purchased a car for his personal use for ₹5,00,000 in April, 2015 and sold the same for ₹5,50,000 in July, 2015. The taxable capital gains would be-
- (A) Nil
 - (B) ₹5,50,000
 - (C) ₹50,000
 - (D) ₹4,00,000

10. A company incurred capital expenditure on scientific research viz., (i) land ₹5 lakh; (ii) building ₹10 lakh; and (iii) equipments ₹7 lakh. The amount of expenditure eligible for deduction under section 35 would be -
- (A) ₹22 lakh
 - (B) ₹17 lakh
 - (C) ₹15 lakh
 - (D) ₹5 lakh.
11. A lady received gifts worth ₹1,00,000 from her relatives as defined under the Incometax Act, 1961 and ₹60,000 from her office colleagues on her marriage anniversary. The taxable amount of gifts would be -
- (A) ₹1,60,000
 - (B) ₹60,000
 - (C) ₹10,000
 - (D) ₹1,10,000
12. Which of the following is not deductible while calculating taxable income from business -
- (A) Sales tax
 - (B) Income-tax
 - (C) Customs duty
 - (D) Local taxes.
13. Swan (Pvt.) Ltd. acquired machinery for ₹5,75,000 which included excise duty of ₹75,000 eligible for CENVAT credit. It borrowed ₹3,00,000 from a bank for purchase of the said machine. Interest on the bank loan upto the date of usage of machine was ascertained as ₹25,000. The machine was put to use from 15th September, 2015. Assume the rate of depreciation at 15%. The eligible amount of depreciation will be -
- (A) ₹90,000
 - (B) ₹78,750
 - (C) ₹86,250
 - (D) ₹75,000
14. A company has provided laptop worth ₹50,000 to its employee for official as well as personal purposes. The taxable amount of perquisite will be -
- (A) ₹5,000
 - (B) ₹25,000
 - (C) ₹10,000
 - (D) Nil.

15. Ritesh, an Indian citizen, left India for U.K. on 1st September, 2015 to take up a job there. His residential status for the assessment year 2016-17 would be -
- (A) Resident and ordinarily resident
 - (B) Not ordinarily resident
 - (C) Non-resident
 - (D) None of the above.
16. Arul Industries got waiver of value added tax (VAT) of ₹2,20,000 for the financial year 2015-16. The amount of waiver is -
- (A) Exempt income
 - (B) Capital receipt
 - (C) Revenue receipt
 - (D) None of the above.
17. Satish brought into India, in the previous year, past untaxed income which was earned in U.K. The income will be taxable if Satish is -
- (A) An ordinarily resident
 - (B) A not-ordinarily resident
 - (C) A non-resident
 - (D) None of the above.
18. As per section 35DDA, total expenditure in a voluntary retirement scheme is deductible in -
- (A) 5 Equal installments
 - (B) 10 Equal installments
 - (C) 2 Equal installments
 - (D) The same year.
19. Amit received ₹70,000 being winnings from lottery after deduction of tax at source. His gross winnings from lottery to be included in the total income is-
- (A) Nil
 - (B) ₹1,00,000
 - (C) ₹70,000
 - (D) ₹30,000

20. Any capital expenditure incurred on acquiring telecom license is deductible in-
- (A) 5 Equal installments
 - (B) 10 Equal installments
 - (C) 15 Equal installments
 - (D) Equally over the period of the license.
21. If there is an apparent error in the intimation dated 11th June, 2016 issued under section 143(1), the time-limit for filing application for rectification under section 154 is available up to -
- (A) 31st March, 2020
 - (B) 31st March, 2021
 - (C) 31st March, 2017
 - (D) 31st October, 2016.
22. When an advance ruling is obtained, it is applicable to -
- (A) All assesseees
 - (B) The applicant who sought it
 - (C) Those notified
 - (D) None of the above.
23. Provisions of section 115JB are applicable in case of -
- (A) Domestic companies only
 - (B) Foreign companies only
 - (C) All companies
 - (D) Closely held companies.
24. Assesseees who are eligible to approach Dispute Resolution Panel regardless of the transfer pricing adjustment are -
- (A) Co-operative societies
 - (B) Foreign companies
 - (C) Domestic companies
 - (D) Firms and LLPs.
25. Penalty for failure to collect tax at source, as a percentage of tax to be collected is -
- (A) 25%
 - (B) 100%
 - (C) 75%
 - (D) 50%.

26. Loss from speculation business is eligible for carry forward of loss for a period of -
- (A) 4 Years
 - (B) 6 Years
 - (C) 8 Years
 - (D) 12 Years.
27. A survey is conducted in the premises of the assessee and assessments are reopened for some assessment years. An application for settlement could be made to the Settlement Commission when the additional amount of income-tax payable on the income disclosed in the application exceeds -
- (A) ₹50 lakh
 - (B) ₹25 lakh
 - (C) ₹10 lakh
 - (D) ₹100 lakh.
28. Income of a non-resident from shipping business in India is computed at the rate of-
- (A) 5%
 - (B) 7.5%
 - (C) 10%
 - (D) 30%.
29. When an assessee has paid advance tax more than the tax due on the returned income and the return is filed before the 'due date' specified in section 139(1), the refund amount is eligible for interest @ -
- (A) 12% per annum
 - (B) 6% per annum
 - (C) 9% per annum
 - (D) 8% per annum.
30. The liability to deduct tax at source on insurance commission will arise when the commission paid or payable to an agent for the year exceeds -
- (A) ₹5,000
 - (B) ₹10,000
 - (C) ₹15,000
 - (D) ₹20,000

31. Dividend distribution tax under section 115-0 is payable by -
- (A) Domestic companies only
 - (B) Foreign companies only
 - (C) Both domestic and foreign companies
 - (D) None of the above.
32. The monetary limit for aggregate transactions between two enterprises to fall in the category of specified domestic transaction is
- (A) ₹5 crore
 - (B) ₹3 crore
 - (C) ₹20 crore
 - (D) ₹25 crore.
33. No loss can be set-off against -
- (A) Income from salaries
 - (B) Income from house property
 - (C) Income from capital gains
 - (D) Winnings from lotteries, etc.
34. Varun incurred medical expenditure of ₹12,000 towards cataract surgery of his mother (aged 70 years). She also underwent a minor surgery for which he incurred an expenditure of ₹26,000. Deduction under section 80D will be -
- (A) ₹30,000
 - (B) ₹12,000
 - (C) ₹25,000
 - (D) ₹38,000
35. A charitable trust registered under section 12AA has gross receipts of ₹40 lakh. It spent ₹28 lakh towards its objects. The total income of the trust chargeable to income-tax would be -
- (A) Nil
 - (B) ₹12 lakh
 - (C) ₹6 lakh
 - (D) ₹2 lakh.

- 36.** If a person responsible for deduction of tax at source, after deduction fails to deposit the same into the Government treasury, he will be liable to pay interest @ -
- (A) 1% per month or part of the month
 - (B) 1.5% per month or part of the month
 - (C) 2% per month or part of the month
 - (D) 15% per annum.
- 37.** When an assessee fails to furnish any information relating to a specified domestic transaction, the quantum of penalty as a percentage of value of the transaction would be -
- (A) 2%
 - (B) 1%
 - (C) 5%
 - (D) 3%.
- 38.** An advance pricing agreement shall not be valid for more than -
- (A) 3 Years
 - (B) 5 Years
 - (C) 4 Years
 - (D) 7 Years.
- 39.** The order of revision passed by Commissioner under section 264 is -
- (A) Appealable before Commissioner (Appeals)
 - (B) Appealable before Appellate Tribunal
 - (C) Appealable before High Court
 - (D) Not appealable.
- 40.** Deduction available under section 80GG in respect of rent paid cannot be more than -
- (A) ₹6,000 per month
 - (B) ₹5,000 per month
 - (C) ₹2,000 per month
 - (D) ₹10,000 per month.

41. The amount of depreciation not absorbed in the same year can be carried forward -
- (A) For a period of 4 years
 - (B) For a period of 8 years
 - (C) For a period of 6 years
 - (D) Indefinitely.
42. The liability to pay interest under section 234B would arise when the advance tax plus TDS / TCS to the credit of the assessee is less than -
- (A) 75% of the assessed tax
 - (B) 90% of the assessed tax
 - (C) 60% of the assessed tax
 - (D) 100% of the assessed tax.
43. A senior citizen is not liable for advance tax, if he does not get any income from -
- (A) Interest or securities
 - (B) Capital gains
 - (C) Profit and gains from business or profession
 - (D) All of the above.
44. Loss from speculation business can be set-off against -
- (A) Income from salaries
 - (B) Income from house property
 - (C) Income from speculation business only
 - (D) Any head of income.
45. When an employee makes premature withdrawal from employees' provident fund account, the requirement for tax deduction is attracted when the quantum of withdrawal exceeds -
- (A) ₹10,000
 - (B) ₹40,000
 - (C) ₹30,000
 - (D) None of the above.

46. Quoting of PAN is not necessary in the case of -
- (A) Purchase of immovable property valued at ₹50 lakh
 - (B) Payment of hotel bills ₹20,000
 - (C) Deposit of ₹75,000 into bank in a day
 - (D) Payment of ₹5,00,000 for purchase of shares of a company.
47. Any party which is aggrieved by an order passed by the Appellate Tribunal may file an appeal to High Court within -
- (A) 30 Days
 - (B) 60 Days
 - (C) 90 Days
 - (D) 120 Days.
48. A registered trade union earned ₹1,00,000 by way of interest on bank deposits and ₹1,80,000 by way of rent from let-out of its premises. Total income of the trade union chargeable to tax would be -
- (A) ₹2,24,000
 - (B) ₹2,80,000
 - (C) ₹1,80,000
 - (D) Nil.
49. The last date for filing return by a company which is required to furnish a report referred to in section 92E is -
- (A) 31st July of the relevant assessment year
 - (B) 30th September of the relevant assessment year
 - (C) 30th November of the relevant assessment year
 - (D) 31st December of the relevant assessment year.
50. Payment of advance tax on or before due date is termed as _
- (A) Tax planning
 - (B) Tax management
 - (C) Tax avoidance
 - (D) None of the above.

51. Varun Ltd. paid fees for technical services of ₹6 lakh but omitted to deduct tax at source and such omission continued till the 'due date' for filing the return of income specified in section 139(1). The amount of expenditure liable for disallowance would be -
- (A) ₹1,80,000
 - (B) ₹6,00,000
 - (C) ₹1,20,000
 - (D) Nil.
52. Revision of an order which is prejudicial to the revenue is made under -
- (A) Section 264
 - (B) Section 260
 - (C) Section 263
 - (D) Section 262.
53. Two enterprises will be said to be associated if one enterprise holds voting rights in other enterprise of at least -
- (A) 25%
 - (B) 51%
 - (C) 26%
 - (D) 30% .
54. As per section 271A, failure to keep, maintain or retain books of account would attract penalty of —
- (A) ₹10,000
 - (B) ₹1,00,000
 - (C) ₹2,000
 - (D) ₹25,000
55. Mrs. Rose derives ₹5,40,000 by way of income from sale of coffee grown and manufactured in India. The income chargeable to income-tax would be -
- (A) 50%, i.e., ₹2,70,000
 - (B) 25%, i.e., ₹1,35,000
 - (C) 40%, i.e., ₹2,16,000
 - (D) 60%, i.e., ₹3,24,000

56. An Indian company having 30% voting power in a foreign company received dividend of ₹10 lakh from the foreign company. The dividend so received by the Indian company is -
- (A) Exempt
 - (B) Taxable @ 15%
 - (C) Taxable at the regular rates
 - (D) Taxable @ 20%.
57. Cost of acquisition of securities held with depository is to be computed by -
- (A) Average cost method
 - (B) First in first out (FIFO) method
 - (C) Last in first out (LIFO) method
 - (D) Weighted average cost method.
58. Unabsorbed loss from house property can be carried forward for -
- (A) 4 Years
 - (B) 8 Years
 - (C) Indefinite period
 - (D) Can not be carried forward.
59. Under section 80QQB, the maximum deduction in respect of royalty is allowed upto -
- (A) ₹1,00,000
 - (B) ₹1,50,000
 - (C) ₹2,50,000
 - (D) ₹3,00,000
60. A company acquired a motor car for ₹8 lakh on 30th June, 2014. It sold the said motor car to its employee, Jayant, for ₹6 lakh on 10th June, 2015. The company claimed depreciation @ 15% for the year ended 31st March, 2015. The perquisite value in the hands of Jayant on sale of motor car would be —
- (A) ₹80,000
 - (B) Nil
 - (C) ₹2,00,000
 - (D) ₹1,40,000

61. A partnership firm has net profit of ₹6,20,000 before deducting interest on capital to partners @ 15% of ₹1,50,000 and working partner salary of ₹1,80,000 (as per the deed of partnership). The total income of the firm chargeable to tax would be -
- (A) ₹1,10,000
 - (B) ₹3,20,000
 - (C) ₹2,90,000
 - (D) ₹1,00,000
62. One of the benefits of advance pricing agreement is -
- (A) Minimum tax
 - (B) Certainty in tax liability
 - (C) Exemption from tax
 - (D) Exemption from penalty.
63. An amount upto a maximum of ₹10,000 is deductible under section 80TTA from the gross total income of -
- (A) Individual only
 - (B) HUF and individual only
 - (C) Company only
 - (D) All assesseees.
64. A member of Parliament received ₹1,50,000 per month as salary and ₹4,50,000 as daily allowances during previous year 2015-16. The taxable amount will be—
- (A) Salary ₹18,00,000
 - (B) Income from profession ₹22,50,000
 - (C) Income from other sources ₹18,00,000
 - (D) Nil.
65. Murali received ₹1 lakh from the HUF of which he is a coparcener. The HUF consists of four coparceners including his father who is the Karta of the HUF. The amount paid was by way of debit to the capital account of HUF engaged in textile business. Is the amount of receipt chargeable to tax —
- (A) Yes, full amount is taxable
 - (B) 50%, i.e., ₹50,000 is taxable
 - (C) Nil, i.e., it is exempt from tax
 - (D) 25%, i.e., ₹25,000 is taxable.

66. If a payee eligible for commission exceeding ₹5,000 does not furnish his PAN to the payer, tax is deductible at source at -
- (A) Nil rate
 - (B) 20%
 - (C) 10%
 - (D) 30%.
67. Long-term capital gains on sale of a long-term capital asset in October, 2015 is ₹105 lakh. The assessee invested ₹50 lakh in REC bonds in March, 2016 and ₹55 lakh in NHAI bonds in May, 2016. The amount of exemption eligible under section 54EC is -
- (A) Nil
 - (B) ₹50 lakh
 - (C) ₹55 lakh
 - (D) ₹105 lakh.
68. The municipal value of a property is ₹2,10,000; fair rent is ₹1,90,000; standard rent is ₹1,80,000 and the actual rent is ₹2,40,000. The gross annual value of the property would be —
- (A) ₹1,80,000
 - (B) ₹1,90,000
 - (C) ₹2,40,000
 - (D) ₹2,10,000
69. Ekta (Pvt.) Ltd., engaged in manufacturing activity, acquired new plant and machinery for ₹100 lakh for its manufacturing unit located in Bihar. The acquisition and use was from 1st June, 2015. The assessee is eligible for additional depreciation of -
- (A) ₹30 lakh
 - (B) ₹20 lakh
 - (C) ₹35 lakh
 - (D) ₹10 lakh.
70. An association of persons (AOP) has paid tax at the maximum marginal rate. Yash, a member of AOP received ₹1 lakh as his share income. Such income is chargeable to tax in his assessment @ -
- (A) 10%
 - (B) Nil
 - (C) 30%
 - (D) 20%.

PART B

71. As per section 66E of the Finance, Act, 1994 'declared services' include —
- (A) Services by RBI
 - (B) Services relating to agricultural activities
 - (C) Services by way of transportation of goods
 - (D) Renting of immovable property.
72. Service tax is applicable all over India except in the State of -
- (A) Delhi
 - (B) Jammu and Kashmir
 - (C) Haryana
 - (D) Punjab.
73. A resident welfare association formed on 1st June, 2015 received ₹6,000 per month per member as contribution. The aggregate receipts up to March, 2016 were ₹12 lakh. It paid service tax on telephone bills ₹2,000 and service tax on AMC for generator ₹3,000. The net service tax liability @ 14% to the welfare association would be -
- (A) Nil
 - (B) ₹28,000
 - (C) ₹23,000
 - (D) ₹1,68,000
74. Where the location of recipient of service is not traceable, the location of service for the purpose of service tax would be -
- (A) New Delhi
 - (B) Jammu and Kashmir
 - (C) The location of service provider
 - (D) None of the above.
75. An applicator for registration under service tax must be submitted in Form No. ST-1 on becoming liable to pay service tax within -
- (A) One week
 - (B) 15 Days
 - (C) 30 Days
 - (D) Four weeks.

- 76.** The superintendent of central excise must issue certificate of registration under service tax within 7 days of receipt of application in -
- (A) Form No. ST-5
 - (B) Form No. ST-2
 - (C) Form No. ST-3
 - (D) Form No. ST-4.
- 77.** If the payment of service tax is delayed by 4 months, the rate of interest applicable for the delayed payment is -
- (A) 18% per annum
 - (B) 12% per annum
 - (C) 30% per annum
 - (D) 24% per annum.
- 78.** A service provider received payment in advance and paid service tax also. Subsequently, after rendering 50% of the service, the relationship with service receiver got terminated. The excess service tax paid earlier is eligible for adjustment if -
- (A) The assessee has closed his business
 - (B) The recipient has closed his business
 - (C) The assessee has refunded the amount along with service tax
 - (D) The assessee has entered into legal dispute.
- 79.** In case of corporates, the due date for payment of service tax is -
- (A) 6th day of immediately following calendar month
 - (B) 6th day of the month following the respective quarter
 - (C) 5th day of the month following calendar month
 - (D) 5th day of the month following the respective quarter.
- 80.** A service provider rendering services in multiple locations must apply for separate registration -
- (A) When they are spread over various States
 - (B) To minimise service tax liability
 - (C) When there is no centralised accounting system
 - (D) To avail basic exemption limit for each location.

- 81.** A small service provider is not liable to pay service tax unless the value of services in a financial year exceeds -
- (A) ₹5,00,000
 - (B) ₹9,00,000
 - (C) ₹10,00,000
 - (D) ₹15,00,000
- 82.** If a service is received outside India but consumed in India, it will be -
- (A) Taxable in India
 - (B) Taxable outside India
 - (C) Not taxable
 - (D) Taxable at concessional rate.
- 83.** In VAT regime, zero rating means
- (A) Zero per cent rate of VAT
 - (B) Exempted from VAT
 - (C) Rate not declared by State
 - (D) All of the above.
- 84.** Under the scheme of VAT, tax credit is available for purchases made from
- (A) Unregistered dealer
 - (B) Registered dealer under composition scheme
 - (C) Outside the State
 - (D) Registered dealer in the State.
- 85.** When goods purchased within the State with VAT rate of 13.5% are transferred to branch office in another State, the eligible input tax credit for the goods transferred would be -
- (A) 13.5%
 - (B) 4%
 - (C) 10%
 - (D) 11.5%
- 86.** VAT is levied by -
- (A) Central Government
 - (B) State Government
 - (C) Both Central and State Government
 - (D) Either Central or State Government.

87. A dealer in Chennai purchased goods from a dealer in Mysore for ₹70,000 and paid central sales tax @2% being ₹1,400. The goods purchased were used for manufacture of a commodity liable for VAT at 14.5%. The dealer at Chennai is eligible for input tax credit of —
- (A) ₹1,400
 - (B) ₹1,000
 - (C) Nil
 - (D) ₹9,800
88. VAT payable on the sale of goods is ₹6,87,500. The dealer is entitled to avail tax credit on purchase of material costing ₹10,40,000 (inclusive 4% VAT). The net amount of VAT payable by the dealer is -
- (A) ₹6,47,500
 - (B) ₹6,45,900
 - (C) ₹6,87,500
 - (D) Nil.
89. A dealer imported raw material costing ₹12,00,000 inclusive of import duty at 20% rate. He also made purchases locally in the State costing ₹1,04,000 inclusive of 4% VAT. Both the materials were sold at 10% profit on cost and VAT payable by the dealer is 4% on turnover. The dealer is liable to pay VAT amounting to -
- (A) ₹57,200
 - (B) ₹55,000
 - (C) ₹53,200
 - (D) ₹32,200
90. VAT is a -
- (A) First stage tax
 - (B) Last stage tax
 - (C) Multi-stage tax
 - (D) Single stage tax as per the option of the assessee.
91. A unit in SEZ availed taxable service from a service provider. The value of taxable service is ₹2,40,000. The entire service is consumed inside the unit in SEZ, The service tax payable by the unit to the service provider is -
- (A) ₹33,600
 - (B) ₹28,800
 - (C) Nil
 - (D) ₹16,800

92. In 1994, the service tax was levied by the Union Government as per Article 246 of the Constitution of India vide -
- (A) Entry 94 of the Union List
 - (B) Entry 95 of the Union List
 - (C) Entry 96 of the Union List
 - (D) Entry 97 of the Union List.
93. The amount of service tax, interest penalty and fine, etc. shall be rounded off to the nearest -
- (A) One rupee
 - (B) Five rupees
 - (C) Ten rupees
 - (D) One hundred rupees.
94. If an input service distributor fails to obtain registration under section 77(1)(a) of the Finance Act, 1994, he would be liable to penalty upto -
- (A) ₹5,000
 - (B) ₹10,000
 - (C) ₹20,000
 - (D) ₹50,000
95. A person applying for registration under service tax shall pay a registration fee of-
- (A) ₹500
 - (B) ₹1,000
 - (C) ₹5,000
 - (D) Nil.
96. Rule of reverse charge is not applicable in case of -
- (A) Services by an insurance agent
 - (B) Services provided by goods transport
 - (C) Services of recovery agents
 - (D) Services of Company Secretaries.
97. A small service provider completed his service on 20th August, 2015, raised invoice on 30th September, 2015 and received the amount on 10th October, 2015. The point of taxation for the service rendered is -
- (A) 10th October, 2015
 - (B) 30th September, 2015
 - (C) 31st August, 2015
 - (D) 20th August, 2015.

- 98.** When a service provider who is required to pay service tax electronically fails to pay the tax electronically, he can be subjected to a penalty of -
- (A) ₹1,000
 - (B) ₹2,000
 - (C) ₹5,000
 - (D) ₹10,000
- 99.** A dealer has opted for composition scheme and paid input VAT of ₹40,000. The amount of input VAT credit available to the dealer would be -
- (A) ₹40,000
 - (B) ₹20,000
 - (C) Nil
 - (D) ₹10,000
- 100.** If the last day of payment of service tax is a public holiday, payment can be made -
- (A) On the previous working day
 - (B) On the immediately next working day
 - (C) Any day in the next week
 - (D) Both (A) and (B) above.

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

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

PART B

Q. 51 : Two options (A & B) are correct. The question is silent about the residential status of payee, if assumed payee as 'resident', the answer is Rs. 1,80,000 i.e. option A. If assumed payee as 'non-resident', the answer is Rs. 6,00,000 i.e. option B.

Note : The inconsistency or ambiguity in the Question(s), if any, is/are taken care of while evaluating the answer sheets.