

GUIDELINE ANSWERS

EXECUTIVE PROGRAMME

JUNE 2019

MODULE 1



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

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

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EXECUTIVE PROGRAMME EXAMINATION

JUNE 2019

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 statements :

- (a) *A company is an artificial juristic person. It does not have citizenship, residence and domicile.*
- (b) *A holder of a Global Depository Receipt is a member of the company.*
- (c) *Directors can be removed only by passing a special resolution.*
- (d) *Establishment of Vigil Mechanism and Sexual Harassment Complaints Committee is mandatory only for listed companies. (5 marks each)*

Answer 1(a)

In terms of Section 2(20) of the Companies Act, 2013 a “company” means a company incorporated under this Act or under any previous company law. Further, as per Section 9 of the Companies Act, 2013, from the date of incorporation, the company shall have perpetual succession with power to acquire, hold and dispose of property, both movable and immovable, tangible and intangible, to contract and to sue and be sued, by the said name. Since a corporate body (i.e. a company) is the creation of law, it is an artificial juridical person (i.e. created by law) and it is clothed with many rights, obligations, powers and duties prescribed by law. It is not a human being but it acts through human beings. It is considered as a legal person which can enter into contracts, possess properties in its own name, sue and can be sued by others etc. It is called an artificial person since it is invisible, intangible, existing only in the contemplation of law. It is capable of enjoying rights and being subject to duties. The company, though a legal person, is not a citizen under the Citizenship Act, 1955 or the Constitution of India.

In *State Trading Corporation of India Ltd. v. C.T.O.*, A.I.R. 1963 S.C. 1811, the Supreme Court held that the State Trading Corporation though a legal person, was not a citizen and can act only through natural persons. Nevertheless, it is to be noted that certain fundamental rights enshrined in the Constitution for protection of “person”, e.g., right to equality (Article 14) etc. are also available to company. Section 2(f) of Citizenship Act, 1955 expressly excludes a company or association or body of individuals from citizenship. Though it is established through judicial decisions that a company cannot be a citizen, yet it has nationality, domicile and residence.

In *Gasque v. Inland Revenue Commissioners*, (1940) 2 K.B. 88, Macnaghten. J. held that a limited company is capable of having a domicile and its domicile is the place of its registration and that domicile clings to it throughout its existence. A body corporate

has no domicile. It is quite true that a body corporate cannot have a domicile in the same sense as an individual. But by analogy with a natural person the attributes of residence, domicile and nationality can be given to a body corporate

Answer 1(b)

As per Section 2(55) of the Companies Act, 2013, member in relation to a company means:

- (i) the subscriber to the memorandum of the company who shall be deemed to have agreed to become member of the company, and on its registration, shall be entered as member in its register of members;
- (ii) every other person who agrees in writing to become a member of the company and whose name is entered in the register of members of the company;
- (iii) every person holding shares of the company and whose name is entered as a beneficial owner in the records of a depository;

Since, holder of Global Depository Receipts is neither the subscriber to the Memorandum nor a holder of the shares, his name cannot be entered in the Register of Members. Therefore, a holder of Global Depository Receipts cannot be called a member of the company. The Overseas Depository Bank as referred in the 'Scheme' is neither the Depository as defined in the Companies Act and the Depository Act nor holding the share capital, therefore, it cannot be deemed to be a member of the company. A holder of Global Depository Receipts may become a member of the company only on transfer/redemption of the GDR into underlying equity shares after following the procedure provided in the "Scheme"/ provisions of the Companies Act, 2013.

Answer 1(c)

According to Section 169 of the Companies Act, 2013 a company may, by ordinary resolution, remove a director, not being a director appointed by the Tribunal under section 242, before the expiry of the period of his office after giving him a reasonable opportunity of being heard. The provision relating to removal shall not apply where the company has availed itself of the option to appoint not less than two – thirds of the total number of directors according to the principle of proportional representation.

The company has to follow the prescribed procedure in section 169 of the Companies Act, 2013 for the removal of director. A special notice is required of any resolution, to remove a director under Section 169. Further the director concerned shall be entitled to be heard on the resolution at the meeting.

Proviso to section 169(1) of the Companies Act, 2013 provides that an independent director re-appointed for second term under section 149(10) shall be removed by the company only by passing a special resolution and after giving him a reasonable opportunity of being heard.

Hence the statement that 'Directors can be removed only by passing a special resolution is not correct.

Answer 1(d)

Section 177(9) read with Rule 7 of the Companies (Meeting of Board and its Powers)

Rules, 2014 provides that every listed company and the following class or classes of companies shall establish a vigil mechanism for their directors and employees to report their genuine concerns or grievances.

Class or Classes of companies are as follows:

- (a) Companies which accept deposits from the public;
- (b) Companies which have borrowed money from banks and public financial institutions in excess of fifty crore rupees.

Section 4(1) of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013 mandates that every employer of a workplace shall by an order in writing constitute a committee to be known as the "Internal Complaint Committee".

It may be noted that where the offices or administrative units of the workplace are located at different places or divisional or sub-divisional level, the Internal Committee shall be constituted at all administrative units or offices.

As per section 6(1) of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013, every District Officer shall constitute in the district concerned, a committee to be known as the "Local Complaints Committee" to receive complaints of sexual harassment from establishment where the Internal Complaints Committee has not been constituted due to having less than ten workers or if the complaint is against the employer himself.

As per section 2(O) of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013 "workplace" includes ·

- (i) any department, organisation, undertaking, establishment, enterprise, institution, office, branch or unit which is established, owned, controlled or wholly or substantially financed by funds provided directly or indirectly by the appropriate Government or the local authority or a Government company or a corporation or a co-operative society;
- (ii) any private sector organisation or a private venture, undertaking, enterprise, institution, establishment, society, trust, non-governmental organisation, unit or service provider carrying on commercial, professional, vocational, educational, entertainment, industrial, health services or financial activities including production, supply, sale, distribution or service;
- (iii) hospitals or nursing homes;
- (iv) any sports institute, stadium, sports complex or competition or games venue, whether residential or not used for training, sports or other activities relating thereto;
- (v) any place visited by employee arising out of or during the course of employment including transportation provided by the employer for undertaking such journey
- (vi) a dwelling place or a house

Therefore the statement that Vigil Mechanism and Sexual Harassment Complaints Committee is mandatory only for listed company is incorrect.

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

Distinguish between the following :

- (a) *Alteration of Share Capital and Reduction of Share Capital.*
- (b) *CIN and DIN.*
- (c) *Minority Shareholders and Dissenting Shareholders.*
- (d) *Pre-fill in e-forms and Pre-scrutiny in e-forms.* (4 marks each)

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

- (i) *ABC Ltd. is a non-listed public company with a paid-up share capital of ₹50 crore. It has deposits of ₹10 crore. Its turnover in the last financial year was ₹101 crore. It has 800 equity shareholders and 500 deposit holders. Does it mandatorily require to have :*
 - (a) *A Nomination & Remuneration Committee*
 - (b) *Stakeholders Relationship Committee ?*
- (ii) *A was appointed as the Managing Director of OPQ Ltd. for a period of 4 years on his 66th birthday on 1st June, 2016. A Board Resolution was passed to extend his term of office by another five years and the same was approved by the members in the AGM of the company held on 21st May, 2019, by an ordinary resolution. Is the re-appointment of A as M.D. valid ?*
- (iii) *EFG Pvt. Ltd. is a holding company of HIJ Ltd. and KLM Ltd. which are its subsidiary companies. Is the company required to prepare a consolidated financial statement (including the details of the Subsidiary Cos.) and lay it before the AGM of the company ?*
- (iv) *RST Ltd.'s annual general meeting should have been held on 30th Sept., 2018. However, as the accounts for the year 2017-2018 were not ready, the AGM could not be held. In order to avoid legal action against himself and the company what are the compliances required to be met by the Company Secretary under Section 92 of the Companies Act 2013 ?* (4 marks each)

Answer 2(a)

The following are the key differences between Alteration of Share Capital and Reduction of Share Capital :

<i>Alteration of Share Capital</i>	<i>Reduction of Share Capital</i>
Section 61 of the Companies Act, 2013 deals with alteration of share capital	Section 66 of the Companies Act, 2013 deals with reduction of share capital
Alteration of share capital by way of place in a company	Reduction of share capital in case of company limited by shares or limited by guarantee and having a share capital by way of-
a. increase its authorised share capital by such amount as it thinks expedient	a. extinguish or reduce the liability on any
b. consolidate and divide all or any of	

<p>its share capital into shares of a larger amount than its existing shares</p> <p>c. convert all or any of its fully paid-up shares into stock, and reconvert that stock into fully paid-up shares of any denomination</p> <p>d. sub-divide its shares, or any of them, into shares of smaller amount than is fixed by the memorandum</p> <p>e. cancel shares which have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled.</p> <p>f. cancellation of share capital under Section 61 shall not be treated as reduction of share capital</p>	<p>of its shares in respect of the share capital not paid-up</p> <p>b. either with or without extinguishing or reducing liability on any of its shares-</p> <p>(i) cancel any paid-up share capital which is lost or is unrepresented by available assets</p> <p>(ii) pay off any paid-up share capital which is in excess of the wants of the company</p>
<p>Passing of special resolution is not required</p>	<p>Passing of special resolution is required for reduction of share capital</p>
<p>Confirmation of NCLT is not required</p>	<p>Confirmation of NCLT is required</p>

Answer 2(b)

CIN

It stands for Corporate Identification Number. It is issued by the Registrar of Companies (ROC) on incorporation of the company. It is issued to a company and serve as its identity. Once issued it cannot be cancelled. It is 21 digit alpha numeric code issued to every company incorporated in India.

DIN

DIN is a unique Identification Number allotted to an individual who is appointed as a director of a company, upon making an application in form DIR-3 pursuant to section 153 & 154 of the Companies Act, 2013.

Application for allotment of DINs to the proposed first Directors in respect of new companies shall be made in SPICe form only.

DIR-3 Form : Any person intending to become a director in an existing company shall have to make an application in eForm DIR-3 for allotment of DIN. Further, no person can get DIN without board resolution proposing his appointment as director.

DIR-6 Form : Any changes in the particulars of the directors shall be filed in form DIR-6.

Answer 2(c)

Following are the main differences between Minority Shareholders and Dissenting Shareholders-

<i>Minority Shareholders</i>	<i>Dissenting Shareholder</i>
<p>Minority shareholders / shareholding is collectively ascertained and regarded as having non-controlling stake in the company. However, small shareholders can be included in and/or regarded as minority shareholders by virtue of their small shareholding amounting to non-controlling stake in the company are also known as small shareholder.</p> <p>Minority Shareholders are the collective body of shareholders who do not have majority voting powers in a company</p> <p>The majority of the members enjoy supreme authority to exercise the powers of the company. However, the powers are circumscribed by rules of fair play</p> <p>The court / NCLT will not generally intervene at the instance of minority shareholders in the matter of internal administration</p> <p>In case of corporate restructuring including merger and amalgamation, the majority shareholders holding 90% of the equity share capital shall give an offer to the remaining 10% (minority share holders a buyout offer</p>	<p>Dissenting shareholder is one who disagrees with a fundamental transaction being contemplated by the majority shareholders.</p> <p>Dissenting Shareholders are those shareholders who do not agree with a proposal in a meeting of members which have been agreed to by the required majority</p> <p>The Dissenting Shareholders may not call the shots but they have been given specific remedies by law. The Dissenting Shareholders can take up their grievances and can file petition in the NCLT</p> <p>NCLT may intervene and provide relief only when the rights of Dissenting Shareholders are prima facie compromised by oppression otherwise NCLT may give only exit option to the dissenting shareholders. Any relief to the dissenting shareholders can be given only by the NCLT.</p> <p>The majority shareholders have no compulsion to agree to the wishes of the Dissenting Shareholders.</p>

Answer 2(d)**Pre-fill**

Pre-fill function in an e-Form is used for filling requisite information automatically from the system database, the requisite data are stored in the system to avoid repeatedly entering the same. For example, by entering the CIN of the company, the name and registered office address of the company automatically pre-filled by the system without any fresh entry.

Pre-scrutiny

Pre-scrutiny is a functionality that is used for checking whether certain core aspects are properly filled in the e-Form. The user has to login on MCA portal to perform the pre-scrutiny of E-form. The necessary attachments and digital signatures should be affixed before submitting the E-form for pre-scrutiny.

The difference between pre-fill and pre-scrutiny is that the pre-fill is done by internal features of the form which ensure that all the mandatory and required field are filled up, while Pre-Scrutiny is a complete technical scrutiny of an e-form relating to mandatory field, attachment etc. done by the MCA portal before uploading the same on MCA Portal.

Answer 2A(i)

According to Section 178(1) of the Companies Act, 2013 the following companies are required to constitute a nomination and remuneration Committee:

- (a) All listed companies
 - (b) All public companies with a paid up capital of Rs.10 crores or more
 - (c) All public companies having a turnover of Rs.100 crores or more
 - (d) All public companies having in aggregate outstanding loans or borrowings or debentures or deposits exceeding Rs. 50 crores.
- (a) Accordingly, ABC Ltd being a Public company with a paid-up capital of Rs. 50 crores and also having a turnover of Rs 101 crores, will be required to appoint a Nomination & Remuneration Committee under Section 178 (1) of Companies Act, 2013.
- (b) According to Section 178(5) of the Companies Act, 2013, the Board of every company that has more than one thousand shareholders, debenture –holders, deposit holders and any other security holders at any time during a financial years required to constitute a stakeholders relationship Committee.

In the instant case, ABC Ltd. has 1300 stakeholders (800 equity shareholders +500 deposit holders). Therefore, ABC Ltd. is required to constitute a stakeholders relationship committee.

Answer 2A(ii)

According to Section 196(1) of the Companies Act, 2013, a re-appointment of any person as managing director, whole-time director or manager cannot be made earlier than one year before the expiry of his term as managing director. According to Section 196(3) of the Companies Act, 2013, the managing director can be continued in employment after he has attained the age of 70 years only by passing a special resolution in which case the explanatory statement annexed to the notice for such motion shall indicate the justification for such re-appointment.

In the instant case, the term of office of managing director comes to an end on 31st May, 2020. The re-appointment of managing director is sought to be made on 21st May, 2019 i.e. more than one year before the expiry of his term of office. Therefore, the re-appointment of managing director is not in order as the same is not in line with Section 196(1). Further, as the managing director completes 70 years on 31st May, 2020, his re-appointment requires special resolution.

In the instant case, his re-appointment has been made by passing an ordinary resolution and not by special resolution as mandated by Section 196 (3) which is also not in order.”

Answer 2A(iii)

According to Section 129(3) of the Companies Act, 2013, where a company has one or more subsidiaries or associates or joint ventures, it shall, in addition to its financial statement for the financial year, prepare a consolidated financial statement of the company of all the subsidiaries or associates or joint ventures in the same form and manner as that of its own which shall also be laid before the annual general meeting of the company along with the laying of its financial statement. The company is also required to attach along with the financial statement, a separate statement containing the salient features of the financial statement of the subsidiaries/associates/joint ventures in Form AOC-1

In the given case, based on the above provision the EFG Pvt. Ltd, being a holding company of the HIJ Ltd and KML Ltd. is required to prepare a consolidated financial statement with its subsidiaries and lay it before the AGM of the company. The company is also required to attach a separate statement containing the salient features of the financial statement of the HIJ Ltd and KML Ltd in Form AOC-1

Answer 2A(iv)

According to section 92(1) of the Companies Act, 2013, every company shall prepare an annual return in the prescribed form containing the particulars as they stood on the close of the financial year. According to Section 92(4) of the said Act, the annual return must be filed within 60 days from the date on which the annual general meeting is held or where the AGM is not so held within 60 days from the last day on which the AGM should have been held together with the statements, specifying the reason for not holding the AGM.

If a company fails to file the annual return as above, the company shall be punishable with the fine which shall not be less than Rs.50,000 but may extend to Rs.5 lakhs and every officer of the company who is in default shall be punishable with imprisonment for a term which may extend to 6 months or with fine which shall not be less than Rs.50,000 but which may extend to Rs.5 lakhs or with both.

The Company Secretary must, therefore, ensure that the annual return is filed by him within 60 days from the last day on which the AGM should have been held i.e 30th September 2018 to avoid legal action against himself and the company.

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

Question 3

- (a) *Y, the M.D. of UVW Ltd. deposited a cheque of ₹5 crore drawn in favour of the company, in his personal account. The bank credited the said amount in Y's personal account. The company filed a suit against the bank for recovery of the money wrongly credited to Y's personal account. Will the company succeed ?*
- (b) *A company has just received applications for shares in response to a public issue, which has been fully subscribed. How would you ensure that the shares are validly allotted ?*

- (c) *An Inter-State Co-operative Society was incorporated on 1st June, 2019, as a producer company.*

The producer company proposes to have 18 directors on its Board of directors. Further, a member of the company wants to transfer a part of his shares to a person who is not a producer. Advise the company.

- (d) *When may a company be given a “dormant” status ? (4 marks each)*

OR (Alternate question to Q. No. 3)

Question 3A

- (i) *A subscriber to the shares of a company, wherein the shares were only partly called up, paid all the money due on the shares held by him in advance. Later, the shareholder claimed interest on the money advanced by him and also voting rights in respect of the advance money paid. Is his claim justified ? (4 marks)*

- (ii) *The promoters of a company engaged in the formation of a software company approach you as a Company Secretary in practice to advise them about the details of declaration required to be made by :*

(a) *the professional involved in the formation of the company and*

(b) *subscribers to the Memorandum of Association while filing documents for incorporation of a company.*

Advise them. (4 marks)

- (iii) *A limited liability partnership was formed by B, a resident individual with 2 more body corporates as its partners. The Registrar refused registration.*

Is the Registrar justified in so doing ? Explain with reference to the relevant legal provisions. (4 marks)

- (iv) *Under what circumstances can the National Company Law Tribunal order winding-up of a company ? (4 marks)*

Answer 3(a)

According to the doctrine of indoor management as laid down in *Royal British Bank Vs. Turquand* (1856) 119 E.R. 886 persons dealing with a company having satisfied themselves that the proposed transaction is not in its nature inconsistent with the memorandum and articles are not bound to inquire about the regularity of an internal proceedings. In other words, while persons contracting with a company are presumed to know the contents of the Memorandum and Articles, they are entitled to assume that the provisions of the articles have been observed by the officers of the company. It is no part of the duty of an outsider to see that the company carried out its own internal regulations. However, the doctrine of indoor management, in no way, rewards those who behave negligently. Thus where an officers of a company does something which shall not ordinarily be within his powers, the person dealing with him must make proper enquires and satisfy himself as to the officers authority.

In the instant case, the bank manager should have realised that the managing director has no right to collect the amount of a cheque drawn payable to the company.

Before crediting the amount of the cheque into the personal account of the managing director he should have made inquiries as to the power of the managing director.

In the light of the above, the bank will be liable to the company for the amount of the cheque wrongly credited into the account of the managing director and the company will succeed.

Answer 3(b)

“Allotment” of shares means the act of appropriation by the Board of directors of the company out of the previously un-appropriated capital of a company of a certain number of shares to persons who have made applications for shares (In Re Calcutta Stock Exchange Association, AIR 1957 Cal. 438). It is on allotment that shares come into existence

The following general principles should be observed with regard to allotment of securities:

1. The allotment should be made by proper authority i.e. the Board of directors or committee authorities to allot securities on behalf of the Board.
2. Allotment of securities must be made within a reasonable time as specified in section 56 of the Companies Act, 2013.
3. The allotment must be communicated. This is done by sending a letter of allotment to the applicant.
4. Allotment can be only against an application. Section 2(55) of the Act requires that a person should agree in writing to become a member.
5. Allotment should not be in contravention of any law e.g. if securities (not fully paid up) are allotted to a minor, the allotment could be void.
6. The allotment should be absolute and unconditional. Securities must be allotted on same terms on which they were applied for and as they are stated in the application for securities. Allotment of securities subject to certain conditions is also not valid. Similarly, if the number of securities allotted is less than those applied for, it cannot be termed as absolute allotment.

Answer 3(c)

According to section 465 of the Companies Act, 2013 the provisions of the part IXA of the Companies Act, 1956 shall be applicable mutatis mutandis to a producer company in a manner as if the Companies Act, 1956 has not been repeated, until a Special Act, is enacted for producer companies. The membership of producer companies is only open to persons who are primary producers of specified goods and related services.

Section 581 B of the Companies Act, 1956 specifically states that every producer company shall deal primarily with the produce of its active members for carrying out the objectives specified under section 581 B of the Companies Act, 1956. According to section 581 O of the Companies Act, 1956, every producer company shall have minimum five directors but not more than 15 directors. However, an inter-state co-operative society registered as a producer company may have more than fifteen directors for a period not exceeding one year.

Thus, the inter-state Co-operative Society registered as a producer company cannot have more than 15 directors beyond a one year transition period. Secondly, a member of a producer company can transfer his shares only to an active member of the producer company but after obtaining prior approval of the Board of Directors. Therefore, the transfer to a non-member is invalid.

Answer 3(d)

According to section 455(1) of the Companies Act, 2013 when a company is formed and registered under this Act:

- (i) For a future project; or
- (ii) To hold an asset or intellectual property and has no significant accounting transactions

OR

- (iii) An inactive company.

Such a company may make an application to the Registrar of Companies in such a manner as may be prescribed in form MSC-1 to have it declared as a dormant company.

For the above purpose

“Significant accounting transaction” means any transaction other than

- (i) Payment of fees by a company the Registrar
- (ii) Payment made by it to fulfil the requirements of this Act or any other law
- (iii) Allotment of shares to fulfil the requirements of this Act; and
- (iv) Payment for maintenance of its office and records

“Inactive company means—

A company which has not been carrying on any business or operation or has not made any significant accounting transaction or has not filed financial statements and annual returns during the last two financial years.

The Registrar shall, after considering the application filed in Form MSC-1, issue a certificate in Form MSC-2 allowing the status of a Dormant Company to the applicant.

In case of a company which has not filed financial statements or annual returns for two financial years consecutively, the Registrar shall issue a notice to that company and enter the name of such company in the register maintained for dormant companies. (Section 455 (4))

Answer 3A(i)

According to section 50(1) of the Companies Act, 2013 a company may if authorized by its articles accept from any member the whole or a part of the amount remaining unpaid or any shares held by him, even if no part of that amount has been called up.

Section 50(2) of the said Act provides that a member of the company limited by

shares shall not be entitled to any voting rights in respect of the amount paid by him until that amount has been called up.

The amount so received in advance will be treated as a loan with a specific purpose, where the company goes into liquidation, calls in advance will be repaid first, before the capital is returned.

Interest on the calls-in-advance may be paid, if authorized by the articles of association.

Accordingly, in the instant case, the shareholder can claim interest on the amount advanced by him, if authorized by the articles of association. However, he shall acquire voting rights on the amount paid up in advance only when the amount is called by the company.

Answer 3A(ii)

- (a) According to Section 7(1) of the Companies Act, 2013, the declaration required to be made by an advocate, chartered accountant/cost accountant or a company secretary in practice who is engaged in the formation of the company and by a person named in the articles as a director, manager or secretary in Form No.INC.8. should state that :

“all requirements of this Act (Companies Act, 2013) and the Rules made there under in respect of registration and matters precedent or incidental thereto have been complied with”

- (b) The declaration by the subscribers to the memorandum and articles must state that:

“he is not convicted of any offensive in connection with the promotion formation or management of any company or that he has not been found guilty of any fraud or misfeasance or any breach of duty to any company under this Act or any provisions of company law during the preceding 5 years" and that “all the documents filed with the registrar for registration of the company contain information that is correct and complete and true to the best of his knowledge and belief" .

Answer 3A(iii)

According to section 7 of the limited liability partnership Act, 2008 every limited liability partnership shall have at least two designated partners who are individuals and at least one of them should be a resident of India. However, in case of a limited liability partnership in which all the partners are body corporates, at least two partners shall nominate their respective individuals who are to act as designated partners and one of the nominees shall be a resident of India. In the instant case, both there is only one resident individual who is designated as partner and other two are body corporates.

For the purposes of this section, the term "resident in India" means a person who has stayed in India for a period of not less than one hundred and eighty-two days during the immediately preceding one year.

In the instant case, the LLP is formed with one resident individual who is designated

as partner and other two are body corporates which does not fulfil the requirement of the Act- and B should bring another designated partner nominated by one of the body corporate who is Partner in the LLP to fulfil the requirement of the Act.

Answer 3A(iv)

According to section 271 of the Companies Act, 2013 a company may be wound up by the Tribunal under the following circumstances:

- (a) If the company has, by special resolution, resolved that the company be wound up by the Tribunal
- (b) If the company has acted against the interests of the sovereignty and integrity of India, the security of the state, friendly relations with foreign states, public order, decency or morality
- (c) If on an application made by the registrar or any other person authorised by the central government by notification under this Act, the Tribunal is of the opinion that the affairs of the company have been conducted in a fraudulent manner or the company was formed for a fraudulent or unlawful purpose or the persons concerned in the formation or management of the affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company be wound up.
- (d) If the company has made a default in filing with the Registrar, its financial statements or annual returns for immediately preceding five consecutive financial years or
- (e) If the Tribunal is of the opinion that it is just and equitable that the company should be wound up.

Question 4

- (a) *XYZ Ltd. has a paid-up capital of ₹ 50 crore and free reserves of ₹30 crore. It provided a guarantee for repayment of a loan of ₹40 crore borrowed by its wholly owned subsidiary company. It did not pass any resolution for the same in the general meeting. Is the guarantee valid ?*

Answer with reference to the relevant legal provisions. (4 marks)

- (b) *The prospectus issued by a company contained a false statement that B a very wellknown successful businessman was on its Board of directors. C acting upon this statement applied to the company for its shares. D who did not rely upon this statement but on the basis of other information about the company given in the prospectus applied for its shares.*

C and D were allotted shares by the company. E was a subscriber to the Memorandum of Association of the company.

F bought the shares through the stock exchange later on.

Each of them wants to know whether they can seek remedies for mis-statement in the prospectus.

Advise them. (4 marks)

- (c) *You have joined as a compliance officer of a company on 1st June, 2019. You realize that a charge which was created on 15th Feb., 2019 has not yet been registered. What immediate steps would you take to avoid legal action due to non-compliance ?* (4 marks)
- (d) *1000 shares of a company are presently held jointly by A, B and C their names appearing in the share certificates in this order. The joint shareholders want a transposition of the names in the order C, B and A. Can it be effected ?*
Explain the procedure.
Will your answer be different if the changes were required to be made only in respect of 500 shares ? (4 marks)

Answer 4(a)

According to section 186(2) of the Companies Act, 2013 no company shall directly or indirectly —

- (a) Give any loan to any person or other body corporate
- (b) Give any guarantee or provide any security in connection with a loan to any other body corporate or person
- (c) Acquire by way of subscription, purchase or otherwise, the securities of any other body corporate, exceeding 60% of its paid-up share capital & free reserves and securities premium account or 100% of its free reserves and securities premium account whichever is more

According to section 186(3) of the said Act where the giving of any loan or giving any guarantee or providing any security acquisition or purchase exceeds the limits specified above, prior approval by means of a special resolution passed at general meeting is necessary.

However, according to Rule 11 of the Companies (Meetings of Board and its Powers) Rules 2014.

Where a loan or guarantee is given or security has been provided by a company to its wholly owned subsidiary or a joint venture company the provisions of section 186(3) shall not apply. However, Section 186(4) provides that the company shall disclose to the members in the financial statement the full particulars of the loans given, investment made or guarantee given or security provided and the purpose for which the loan or guarantee or security is proposed to be utilised by the recipient of the loan or guarantee or security.

Accordingly, in the present case, the guarantee given by XYZ Ltd. to its wholly owned subsidiary company without passing any resolution in the General meeting is valid. However the company is required to make disclosure to its members the particulars and the purpose of such guarantee as per the requirement of section 186(4).

Answer 4(b)

Section 35 of the Companies Act, 2013 dealing with civil liability for misstatement in prospectus.

In the present case the prospectus containing a statement that B a very well-known

successful businessman was on the board of directors of the company. The fact is “he was not a director of the company”. Obviously the statement in the prospectus is untrue statement.

The burden of proof in a suit by an allottee that he has been misled by the misstatement in the prospectus lies on the allottee. He must prove the following:-

- (i) The misrepresentation was of a fact
- (ii) It was in respect of a material fact
- (iii) He acted on the misrepresentation and
- (iv) He suffered damages in consequence.

In the present case only C will have remedies because he satisfies all the four conditions mentioned above.

D cannot seek any relief because his consent was not caused by misrepresentation as he did not rely on the statement.

E was a subscriber obviously he has not become a member on the basis of prospectus.

F has not bought the shares from the company on the basis of the prospectus. Therefore he cannot claim that his consent was caused by the company by misrepresentation.

C may apply to the court to have the contract set a side and striking off his name from the register of members and claim his money back. However he must act within a reasonable time. The allottee here C may recover the damages from the company for any loss he may have suffered because of the misrepresentation of the prospectus.

Answer 4(c)

As per section 77 of the Companies Act, 2013 as amended by the ordinance w.e.f 02.11.2018 in respect of a charge created on or after 02.11.2018, the registration is required to be done within a time limit of 30 days from the date of creation of charge, upon payment of normal fee. A further period of 30 days shall be allowed upon payment of additional fee as may be prescribed. However, if the company fails to register within the above 60 days the creation of charge, a further period of 60 days is allowed subject to payment of such ad valorem fee as may be prescribed. Accordingly, the charge created should have been registered by the company with payment of ad valorem fees within 120 days from the date of creation of the charge i.e. 15.02.2019.

Therefore, the company should be advised to take immediate steps to ensure registration of charge with the aforesaid time frame.

Answer 4(d)

In the case of joint shareholders one or more of them may require the company to alter or re-arrange the order of their names in the register of members of the company. If the company provides in its articles that the senior most amongst the joint shareholders will be recognised for all processes like service of notice, a copy of balance sheet, P&L account, voting at the meeting etc the request of the transposition may be duly considered

and approved by the board or other authorised officer of the company. Since no transfer of any interest in the shares taken place on such transposition, it does not require payment of stamp duty. The stock exchange division of the Department of Economic Affairs has clarified that there is no need of execution of transfer deed for transposition of names if the request for the change of the order of name is made in writing by all the joint holders. If transposition is required in case of part of the holding execution of transfer deed will be required.

Accordingly in the present case a joint application by all the shareholders will be sufficient if it is for the entire holding. However if the request is for a part of the holding the transfer deed (including payment of stamp duty) will be required.

Question 5

- (a) *Explain the provisions contained in the Cos. Act, 2013 and the Companies (Acceptance of Deposits) Rules, 2014, which are primarily aimed at protecting the interests of the depositors.*
- (b) *Under what circumstances may the National Company Law Tribunal (NCLT) order an investigation of a company under S. 213 of the Cos. Act, 2013 ? What is the security, if any, required to be provided by the applicants towards the cost and expenses of such investigation ? Is it refundable ? (8 marks each)*

Answer 5(a)

Following are the provisions which are primarily aimed at protecting the interest of the depositors:

- (i) *Creation of Security* – Every company accepting deposits is required to provide a security to the deposit holders by a charge on its assets referred to in schedule III of the Act excluding intangible assets for due repayment of the amount of deposit and interest thereon. The amount of deposits and the interest payable secured by a charge on the assets shall not exceed the market value of such assets as assessed by a registered valuer. The security for the deposit shall be created in favour of the trustee for depositors on specific moveable property and specific immovable property of the company wherever situated.
- (ii) *Trustee for Depositors* – Every company accepting deposits from the public is required to appoint a trustee for depositors to safeguard the interest of the depositors. The trustee for depositors is required to protect the interest of the depositors. In this direction a number of duties have been entrusted to the trustees.
- (iii) Section 76 A of the Companies Act, 2013 states that Where a company accepts or invites or allows or causes any other person to accept or invite on its behalf any deposit in contravention of the manner or the conditions prescribed under section 73 or section 76 or rules made there under or if a company fails to repay the deposit or part thereof or any interest due thereon within the time specified under section 73 or section 76 or rules made there under or such further time as may be allowed by the Tribunal under section 73,—
- (a) the company shall, in addition to the payment of the amount of deposit or part thereof and the interest due, be punishable with fine which shall not be less than one crore rupees or twice the amount of deposit accepted by the company, whichever is lower but which may extend to ten crore rupees; and

- (b) every officer of the company who is in default shall be punishable with imprisonment which may extend to seven years and with fine which shall not be less than twenty-five lakh rupees but which may extend to two crore rupees

Provided that if it is proved that the officer of the company who is in default, has contravened such provisions knowingly or wilfully with the intention to deceive the company or its shareholders or depositors or creditors or tax authorities, he shall be liable for action under section 447 of the Companies Act, 2013.

Answer 5(b)

As per section 213 of the Companies Act, 2013, the Tribunal may-

- (a) on an application made by—
- (i) not less than one hundred members or members holding not less than one-tenth of the total voting power, in the case of a company having a share capital; or
 - (ii) not less than one-fifth of the persons on the company's register of members, in the case of a company having no share capital, and supported by such evidence as may be necessary for the purpose of showing that the applicants have good reasons for seeking an order for conducting an investigation into the affairs of the company; or
- (b) on an application made to it by any other person or otherwise, if it is satisfied that there are circumstances suggesting that—
- (i) the business of the company is being conducted with intent to defraud its creditors, members or any other person or otherwise for a fraudulent or unlawful purpose, or in a manner oppressive to any of its members or that the company was formed for any fraudulent or unlawful purpose;
 - (ii) persons concerned in the formation of the company or the management of its affairs have in connection therewith been guilty of fraud, misfeasance or other misconduct towards the company or towards any of its members; or
 - (iii) the members of the company have not been given all the information with respect to its affairs which they might reasonably expect, including information relating to the calculation of the commission payable to a managing or other director, or the manager, of the company, order, after giving a reasonable opportunity of being heard to the parties concerned, that the affairs of the company ought to be investigated by an inspector or inspectors appointed by the Central Government.

Provided that if after investigation it is proved that—

- (i) the business of the company is being conducted with intent to defraud its creditors, members or any other persons or otherwise for a fraudulent or unlawful purpose, or that the company was formed for any fraudulent or unlawful purpose; or
- (ii) any person concerned in the formation of the company or the management of its affairs have in connection therewith been guilty of fraud, then, every officer of the company who is in default and the person or persons concerned in the formation of the company or the management of its affairs shall be punishable for fraud in the manner as provided in section 447.

The Central Government may require the applicants to provide a security, towards the costs and expenses of the investigation as shown below:

<i>Turnover of the company as per last Balance Sheet</i>	<i>Amount of security</i>
Up to Rs.50 crores	Rs.10,000/-
More than Rs.50 crores but less than Rs.200 crores	Rs.15,000/-
Exceeding Rs.200 crores	Rs. 25,000/-

The security shall be refunded if the investigation results in prosecution.

Question 6

- Explain the terms “IFSC” and “specified IFSC private company”.*
- A person holds 90% of the issued shares of a company. He wants to acquire the balance 10% of the shares from the existing shareholders. As a Company Secretary in practice, advise him.*
- A company has appointed you as a scrutinizer in respect of a resolution required to be passed through a postal ballot. Describe your functions as a scrutinizer.*
- You have been appointed as a Debenture Trustee in respect of debentures issued by a company. How would you protect the interests of its debenture holders? (4 marks each)*

Answer 6(a)

International Financial Service Centre (IFSC) is a hub of financial services within a country, which has laws and regulations different from the rest of the country. Usually these centres have low tax rates and flexible regulations for securities and currency trading, banking and insurance, which makes them attractive for foreign investment. It can be said that these centres deal mainly with the flow of money, financial products and services across borders. An IFSC caters to customers outside the jurisdiction of the domestic economy. Such centres deal with flows of finance, financial products and services across borders. London, New York and Singapore can be counted as global financial centres. Many emerging IFSCs around the world, such as Shanghai and Dubai, are aspiring to play a global role in the years to come. India announced in budget 2015 that the first IFSC centre in India shall be set up in Gujarat International Finance Tec-City (GIFT City), near Ahmedabad. It will be set up under Section 18(1) of Special Economic Zones Act, 2005. Establishment of an IFSC in Special Economic Zones means that separate regulations shall be formed for an IFSC which shall be different from the rest of India

Specified IFSC private company: A private company which is licensed to operate by the RBI or the SEBI or the IRDAI from the International Financial Services Centre located in an approved multi services Special Economic Zone set-up under the Special Economic Zones Act, 2005 are referred to as “Specified IFSC private company”.

Answer 6(a)

Section 236 of Companies Act, 2013, provides following provisions for the purchase of minority shareholding-

- (1) In the event of an acquirer, or a person acting in concert with such acquirer, becoming registered holder of ninety per cent or more of the issued equity share capital of a company, or in the event of any person or group of persons becoming ninety per cent majority or holding ninety per cent of the issued equity share capital of a company, by virtue of an amalgamation, share exchange, conversion of securities or for any other reason, such acquirer, person or group of persons, as the case may be, shall notify the company of their intention to buy the remaining equity shares.
- (2) The acquirer, person or group of persons under sub-section (1) shall offer to the minority shareholders of the company for buying the equity shares held by such shareholders at a price determined on the basis of valuation by a registered valuer in accordance with such rules as may be prescribed.
- (3) Without prejudice to the provisions of sub-sections (1) and (2), the minority shareholders of the company may offer to the majority shareholders to purchase the minority equity shareholding of the company at the price determined in accordance with such rules as may be prescribed under subsection (2).
- (4) The majority shareholders shall deposit an amount equal to the value of shares to be acquired by them under sub-section (2) or sub-section (3), as the case may be, in a separate bank account

Accordingly, by following the aforesaid steps the person can acquire the balance 10% shares from the existing shareholders subject to fulfilment of requirement of the minimum number of members in the company.

Answer 6(c)

The scrutiniser may be a Company Secretary in Practice, a Chartered Accountant in Practice, a Cost Accountant in Practice, an Advocate or any other person of repute who is not in the employment of the company and, who can in the opinion of the Board, scrutinise the postal ballot process in a fair and transparent manner.

Following are the main functions of the scrutinizer:-

- (i) Postal ballot received back from the shareholders shall be kept in the safe custody of the scrutinizer and after the receipt of assent or dissent of the shareholder in writing on a postal ballot, no person shall deface or destroy the ballot paper or declare the identity of the shareholder.
- (ii) The scrutinizer shall submit his report as soon as possible after the last date of receipt of postal ballots but not later than seven days thereof.
- (iii) The scrutinizer shall maintain a register either manually or electronically to record their assent or dissent received, mentioning the particulars of the shareholder and details of postal ballots which are received in defaced or mutilated form and postal ballot forms which are invalid.
- (iv) The postal ballot and all other papers relating to postal ballot including voting by electronic means, shall be under the safe custody of the scrutinizer till the

chairman considers, approves and signs the minutes and thereafter, the scrutinizer shall return the ballot papers and other related papers or register to the company who shall preserve such ballot papers and other related papers or register safely.

Answer 6(d)

As per Section 71(6) of the Companies Act, 2013 a debenture trustee shall take steps to protect the interests of the debenture holders and redress their grievances in accordance with such rules as may be prescribed. Rule 18(3) of Companies (Share Capital and Debentures) Rules, 2014, prescribes the following duties which shall be adhered by every debenture trustee to protect interest of its debenture holders -

- (a) satisfy himself that the letter of offer does not contain any matter which is inconsistent with the terms of the issue of debentures or with the trust deed;
- (b) satisfy himself that the covenants in the trust deed are not prejudicial to the interest of the debenture holders;
- (c) call for periodical status or performance reports from the company;
- (d) communicate promptly to the debenture holders defaults, if any, with regard to payment of interest or redemption of debentures and action taken by the trustee therefore;
- (e) appoint a nominee director on the Board of the company in the event of-
 - (i) two consecutive defaults in payment of interest to the debenture holders; or
 - (ii) default in creation of security for debentures; or
 - (iii) default in redemption of debentures.
- (f) ensure that the company does not commit any breach of the terms of issue of debentures or covenants of the trust deed and take such reasonable steps as may be necessary to remedy any such breach;
- (g) inform the debenture holders immediately of any breach of the terms of issue of debentures or covenants of the trust deed;
- (h) ensure the implementation of the conditions regarding creation of security for the debentures, if any, and debenture redemption reserve;
- (i) ensure that the assets of the company issuing debentures and of the guarantors, if any, are sufficient to discharge the interest and principal amount at all times and that such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders;
- (j) do such acts as are necessary in the event the security becomes enforceable;
- (k) call for reports on the utilization of funds raised by the issue of debentures-
- (l) take steps to convene a meeting of the holders of debentures as and when such meeting is required to be held;
- (m) ensure that the debentures have been converted or redeemed in accordance with the terms of the issue of debentures;
- (n) perform such acts as are necessary for the protection of the interest of the debenture holders and do all other acts as are necessary in order to resolve the grievances of the debenture holders.

COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

1. Which of the following is included in both the prime cost and conversion cost ?
 - (A) Direct Material
 - (B) Direct Labour
 - (C) Indirect Material
 - (D) Indirect Labour
2. The cost which has already been incurred and cannot be avoided by decisions taken in the future is :
 - (A) Fixed cost
 - (B) Sunk cost
 - (C) Opportunity cost
 - (D) Imputed cost
3. Which of the following institute defined cost as "the amount of expenditure (actual or notional) incurred on, or attributable to a specified thing or activity" ?
 - (A) The Institute of Cost and Management Accountants, London
 - (B) The Institute of Management Accountants, London
 - (C) The Chartered Institute of Management Accountants, London
 - (D) The Chartered Institute of Cost Accountants, London
4. This method of costing is useful for the assembly department in a factory producing a mechanical article :
 - (A) Terminal Costing
 - (B) Composite Costing
 - (C) Departmental Costing
 - (D) Single-output Costing
5. Which one of the following is *not* a practical difficulty in the installation of a cost accounting system ?
 - (A) Lack of support from departmental heads
 - (B) Resistance from the existing financial accounting staff
 - (C) Huge expenditure
 - (D) Availability of qualified staff

6. Principles to determine production overheads relates to :
- (A) CAS 5
 - (B) CAS 7
 - (C) CAS 3
 - (D) CAS 2
7. Based on cost accounting information, which is the tool of Management Accounting for decision-making ?
- (A) Marginal Costing
 - (B) Standard Costing
 - (C) Differential Costing
 - (D) All of the above
8. _____ is concerned with historical records, while _____ is concerned with historical cost with pre-determined cost.
- (A) Cost Accounting, Financial Accounting
 - (B) Financial Accounting, Cost Accounting
 - (C) Financial Accounting, Management Accounting
 - (D) Management Accounting, Cost Accounting
9. A centre where raw materials are handled and converted into saleable product is known as :
- (A) Unproductive cost centre
 - (B) Operation cost centre
 - (C) Productive cost centre
 - (D) Process cost centre
10. If costs are classified 'by changes in activity or volume' then which of the following is the *correct* classification ?
- (A) Fixed Cost, Variable Cost and Semi-variable Cost
 - (B) Historical Cost, Pre-determined Cost, Standard Cost, Estimated Cost
 - (C) Production Cost, Administration Cost, Selling Cost, Distribution Cost, Research and Development Cost
 - (D) Material, Labour and Expenses
11. The following informations are given :
- 10,000 units of material are consumed per year; per unit cost is ₹20; cost of processing an order is ₹50; Annual interest rate is 5%; Annual carrying cost of

material per unit is 15% (other than interest). What would be the Economic Order Quantity (EOQ) ?

- (A) 200 units
 - (B) 500 units
 - (C) 400 units
 - (D) 100 units
12. Which of the following is the objective of inventory management ?
- (A) To ensure timely delivery of inventory for production
 - (B) To avoid under or over production
 - (C) To maintain investment in inventories at lowest level
 - (D) All of the above
13. V Ltd. is the manufacturer of picture tubes for TV. The following are details of their operation. Minimum usages 50 tubes per week, Maximum usages 200 tubes per week; Normal usages 100 tubes per week; lead time to supply 4-6 weeks; and Re-order quantity 400 tubes. What would be the maximum and minimum level of stock ?
- (A) 1400 units and 700 units
 - (B) 1200 units and 700 units
 - (C) 1300 units and 600 units
 - (D) 1100 units and 600 units
14. Smoke, dust, gases and loss of weight due to seasoning are examples of _____
- (A) Scrap
 - (B) Spoilage
 - (C) Defectives
 - (D) Waste
15. **Statement I :**
- Losses or gains arising out of atmospheric conditions are the losses or gains due to unavoidable causes.
- Statement II :**
- Differences due to unavoidable causes should be valued and adjusted through the stores consumption account and recovered in cost as an item of stores overhead expenses.
- 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
16. Which one is *not* a correct accounting treatment of normal defectives ?
- (A) Charged to good units
- (B) Charged to costing profit and loss account
- (C) Charged to factory overheads
- (D) Charged to specific job/department
17. The following information is given for receipts and issues of a material in the month of March, 2019.
- | Date | Description | Quantity
(kg) | Rate
(₹) |
|----------|-------------|------------------|-------------|
| 1 March | Receipt | 400 | 5.00 |
| 5 March | Receipt | 600 | 6.00 |
| 8 March | Issue | 700 | — |
| 20 March | Receipt | 500 | 4.50 |
| 30 March | Issue | 600 | — |
- What is the value of closing stock under FIFO and LIFO method ?
- (A) ₹800 and ₹900
- (B) ₹900 and ₹800
- (C) ₹1,000 and ₹900
- (D) ₹900 and ₹1,000
18. Weekly time sheets are used as a method for:
- (A) Time Keeping
- (B) Time Booking
- (C) Preparation of Payrolls
- (D) Measuring Idle Time
19. Idle time arises due to administrative causes are charged to _____ and over time arises due to the negligence of workers of a particular department is charged to _____.
- (A) Department overheads, Costing P&L account
- (B) General works overheads, Concerned department
- (C) Department overheads, Concerned department
- (D) Costing P&L account, Costing P&L account

20. Under inflated price method of pricing of material issues, _____ are included with actual price of materials.
- (A) Ordering Costs
 - (B) Carrying Costs
 - (C) Transporting Costs
 - (D) All of the above
21. Cost of labour welfare activities is an example of:
- (A) Preventive Cost
 - (B) Replacement Cost
 - (C) Material Cost
 - (D) None of the above
22. Labour turnover rate for the quarter ended 31st Dec. 2018 as 16%, 8% and 6% under flux, replacement and separation methods respectively. If the number of workers replaced during the quarter is 60. What number of workers left and discharged and what number of workers recruited and joined ?
- (A) 48 and 112
 - (B) 45 and 75
 - (C) 45 and 15
 - (D) 40 and 100
23. Which one is *not* a merit of piece rate system ?
- (A) The quality of work is improved
 - (B) Idle time is automatically controlled
 - (C) It increases efficiency
 - (D) The reward is related to effort
24. X executes a piece of work in 128 hours as against 160 hours allowed to him. Hourly rate is ₹40 and gets dearness allowance of ₹100 per day of 8 hours, in addition to his wages. Bonus is given on basic wages.
- What would be the amount of bonus under Emerson's Efficiency Plan ?
- (A) ₹2304
 - (B) ₹1280
 - (C) ₹2560
 - (D) ₹2506

25. The meaning of apportionment of overheads is :
- (A) A charging of discrete identifiable items of cost to cost centres or cost units
 - (B) The collection of cost attributable to cost centres and cost units using costing methods and principles.
 - (C) The division of costs amongst two or more cost centres in proportion to the estimated benefit received.
 - (D) The process of establishing the overheads of cost centres and cost units.
26. Legal charges is an example of :
- (A) Prime Cost
 - (B) Production Overheads
 - (C) Selling and Distribution Overheads
 - (D) Office and Administration Overheads
27. Pay roll or time department cost will be apportioned on the basis of :
- (A) Direct material cost
 - (B) Direct labour hours
 - (C) Floor area
 - (D) Number of requisitions
28. The following data has been extracted from the records of a manufacturing company :
- | | | |
|--------------------------|-----------|-----------|
| Machine Hours | 9,00,000 | 4,00,000 |
| Manufacturing Overhead ₹ | 57,00,000 | 42,00,000 |
- Total manufacturing overhead for an activity level of 5,50,000 machine hours = ?
- (A) ₹42,00,000
 - (B) ₹46,50,000
 - (C) ₹57,00,000
 - (D) ₹49,50,000
29. Work out machine hour rate from the following:
- Cost of machine : ₹90,00,000
 - Scrap value : NIL
 - Freight & Installation charges : ₹10,00,000
 - Working Life : 10 years
 - Working hours : 2,000 per year
 - Repairing charges : 50% of depreciation
 - Power : 10 units of per hour @ ₹10 per unit

Lubricating oil : ₹200 per day of 8 hours

Consumable stores : ₹1,000 per day of 8 hours

Wages of operator : ₹400 per day

- (A) ₹1075 per hour
 (B) ₹875 per hour
 (C) ₹950 per hour
 (D) ₹1050 per hour
30. Which method of re-distribution of service department costs to production departments is *not* a part of reciprocal service method ?
- (A) Simultaneous equation method
 (B) Step method
 (C) Repeated distribution method
 (D) Trial and error method

31. The following data are related to overheads of a particular period :

	Budgeted	Actual
Fixed overheads		
(₹)	30,000	28,000
Direct labour hours	40,000	39,000

Overheads are absorbed on the basis of labour hours. What will be the under or over absorbed overheads ?

- (A) Over absorbed ₹1,250
 (B) Under absorbed ₹1,250
 (C) Over absorbed ₹1,000
 (D) Under absorbed ₹1,000
32. Which of the following methods is not applied for segregation of semi-variable expenses into fixed and variable ?
- (A) Graphical Presentation Method
 (B) Maximum Absorption Point
 (C) High and Low Point Method
 (D) Least Square Method

33. In ABC system, the allocation basis that are used for applying costs to services or procedures are called :
- (A) Cost Pool
 - (B) Cost Absorption
 - (C) Cost Object
 - (D) Cost Driver
34. A company is switching from traditional overhead allocation system based on machine hours to activity based costing system using machine hours and production setups as measure of activity. The following information is given :
Machine hours 40,000 and per hour overhead rate ₹5.
Number of production setups 2000 and per setup overhead rate ₹20.
A job for current year required 28 machine hours and 2 production setups. Would this job have been over costed or under costed, under the traditional system and how much ?
- (A) Over costed by ₹12
 - (B) Under costed by ₹12
 - (C) Under costed by ₹20
 - (D) Over costed by ₹40
35. **Statement I :**
Cost ledger control account is opened in non- integrated system to record all transactions of income and expenditure which originate in the financial accounts.
- Statement II :**
The total of cost ledger control account should be tallied with total of balances of all impersonal accounts.
- 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
36. When indirect material is issued from store to production department then _____ account is debited and _____ account is credited in non-integrated system.
- (A) WIP control and Stores ledger control
 - (B) Costing P&L and Stores ledger control
 - (C) Costing P&L and Cost ledger control
 - (D) Overhead control and Stores ledger control

37. Under integrated system of accounting, purchase of raw materials is debited to which account ?
- (A) WIP Control Account
 - (B) Stores Ledger Control Account
 - (C) Purchase Account
 - (D) None of the above
38. When actual expenses are more than recovered in cost accounts, it is known as :
- (A) Over absorption
 - (B) Over valued
 - (C) Under absorption
 - (D) Over applied
39. In non-integrated system unproductive wages will be debited to :
- (A) WIP Ledger Control A/c
 - (B) Finished Stock Ledger Control A/c
 - (C) General Ledger Adjustment A/c
 - (D) Factory Overheads Control A/c
40. The following details are given to you :
- | | |
|------------------------|---------------------|
| Raw materials consumed | ₹1,60,000 |
| Direct wages | ? |
| Factory overheads | 60% of direct wages |
| Office overheads | 10% of factory cost |
| Cost of production | ₹3,52,000 |
- The amount of direct wages will be :
- (A) ₹1,36,000
 - (B) ₹1,20,000
 - (C) ₹1,00,000
 - (D) ₹1,76,000
41. ABC Ltd. calculates the price of product by adding overheads to the prime cost as 20% of total cost and adding 25% to total costs as a profit margin. The product was sold for ₹2,450. Prime cost of the product will be _____ .
- (A) ₹1,470
 - (B) ₹1,306.67
 - (C) ₹1,568
 - (D) ₹2,352

42. Which of the following is *not* a characteristic of the Production Account ?
- (A) Expenses are not classified to ascertain Prime Cost, Factory Cost etc.
 (B) It is based on estimated figures of expenses.
 (C) It is prepared for each manufacturing department.
 (D) No figures of previous period provided.
43. Q company manufactures ring binders which are embossed with the customer's own logo. A customer has ordered a batch of 700 binders. The following illustrates the cost of a typical batch of 100 binders :

	₹
Direct Material	70
Direct Labour	25
Machine set up	10
Design and Art work	35
Prime Cost	<u>140</u>

Direct employees are paid on a piecework basis.

Q company absorbs production overheads at a rate of 24% of direct wages cost. 6% is added to the total production cost of each batch to allow for selling, distribution and administration overheads.

Q company requires a profit margin of 20% on sales value.

The selling price for 700 units (to the nearest ₹) will be :

- (A) ₹1,354
 (B) ₹1,300
 (C) ₹1,083
 (D) ₹1,325
44. The following information relates to manufacturing of a component "ZIP" in a cost centre. Cost of material ₹6 per component, Operator's wages ₹7.20 per hour, Machine hour rate ₹1.50 per hour, setting up time of machine (productive) 5 hours, manufacturing time 10 minutes per component. Company producing 50 batches consist of 100 components in each batch. What will be the cost per batch and total setting up cost ?
- (A) ₹740.87 and 43.50
 (B) ₹745.87 and 43.50
 (C) ₹745.72 and 36
 (D) ₹74.57 and 36

45. Contract price ₹18,00,000, 70% of the contract was completed. Architect gave certificate for 60% of the contract price on which 80% was paid. Cost incurred till date ₹10,50,000. Cost of work uncertified will be :
- (A) ₹1,50,000
 - (B) ₹1,80,000
 - (C) ₹2,10,000
 - (D) ₹3,90,000
46. **Assertion (A) :**
- When work certified is less than 1/4 of the contract price, a zero value of attributable profit taken into account.
- Reason (R) :**
- The profit outcome of the contract cannot be estimated with reasonable accuracy and amount of carried forward as provision against future losses, increase in prices and other contingencies.
- 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 and (R) is not the correct explanation of (A)
 - (C) (A) is true, but (R) is false
 - (D) (A) is false, but (R) is true
47. When value of contract is ascertained by adding a certain percentage of profit over the total cost of work. It is known as :
- (A) Subcontract
 - (B) Cost plus contract
 - (C) Escalation clause
 - (D) Work certified
48. When an abnormal gain in a process occurs, the accounting entry is to be made:
- (A) Process account debit and Abnormal gain account credit
 - (B) Abnormal gain account debit and P&L account credit
 - (C) Abnormal gain account debit and Normal wastage account credit
 - (D) Normal wastage account debit and abnormal gain account credit
49. In process A, 20,000 units are introduced during a particular month. The normal loss is estimated to be 4% of the input. At the end of the month 2,400 units were

lying as incomplete. The stagewise completion of the inventory was given as under :

Materials : 80% complete

Labour : 60% complete

Overheads : 50% complete

16,600 units were transferred to finished stores. Equivalent units in respect of material = ?

- (A) 20,000 units
- (B) 18,000 units
- (C) 18,240 units
- (D) 18,720 units

50. P Ltd. operates a process costing system. The process is expected to lose 20% of input and this can be sold for ₹10 per kg. Inputs for the month of April, 2019 are : Direct material 4,000 kg at a total cost of ₹66,000, Direct labour ₹11,120 for the month. There is no opening and closing WIP. Actual output was 3,600 kg. What is the valuation of the output ?

- (A) ₹62,208
- (B) ₹77,760
- (C) ₹69,120
- (D) ₹85,120

51. Cars, jeeps, buses etc. produced by an automobile industry are classified as :

- (A) Joint products
- (B) By-products
- (C) Co-products
- (D) None of the above

52. In a manufacturing concern, the joint expenses of products X, Y and Z are ₹25,000. Subsequent expenses of products X, Y and Z are ₹ 5,900, 4,000 and 4,450 respectively. Sales values are : X ₹ 30,000, Y ₹ 20,000 and Z ₹15,000. Estimated profit on sales are : X 40%, Y 30% and Z 25%. What is the amount of share in the joint expenses of product X, Y and Z respectively if the selling expenses are 6% on sales value ?

- (A) ₹12,100, ₹10,000 and ₹6,800
- (B) ₹10,300, ₹8,800 and ₹5,900
- (C) ₹11,538, ₹7,692 and ₹5,769
- (D) ₹10,405, ₹8,092 and ₹6,503

53. The following information is given :

Input of raw material

@ ₹ 50 per unit :	1,000 units
Direct Material	₹15,000
Direct Wages	₹9,000
Production overheads	₹12,000
Actual output transferred to next process :	900 units
Normal Loss	5%
Value of Scrap	₹20 per unit

The amount of abnormal loss would be transferred to costing profit and loss account (calculation to the nearest rupee) :

- (A) ₹3,474
 (B) ₹4,474
 (C) ₹4,300
 (D) ₹4,250
54. In service costing, costs are classified as :
- (A) Fixed cost, Normal cost and Standard cost
 (B) Standard cost, Marginal cost and Variable cost
 (C) Variable cost. Fixed cost and Marginal cost
 (D) Standard charges, Running charges and Maintenance charges
55. Which of the following 'Cost Unit' is not used by the organisation engaged in providing services ?
- (A) Per Metre
 (B) Tonne Km
 (C) Passenger Km
 (D) Kilowatt Hour
56. A hotel has a capacity of 100 single bed-rooms and 40 double bed-rooms. The average occupancy for single bed-room is 80% and for double bed-rooms is 60% throughout the year of 365 days. The rent for double bed-room has been fixed 1.50 times of rent of single bed-room. Total operational cost of the year is ₹1,96,45,760 and hotel earns margin of safety of 20% on chargeable price. Chargeable room rent per day for single and double bed-room will be :
- (A) ₹556.80 and ₹835.20
 (B) ₹580 and ₹870
 (C) ₹646.90 and ₹970.40
 (D) ₹517.50 and ₹776.30

57. The effect of sale price reduction is always reduce the P/V ratio to raise _____ and to shorten the _____ .
- (A) BEP and Margin of Safety
 (B) Fixed Cost and BEP
 (C) Margin of Safety and BEP
 (D) Profit and BEP
58. ABC Ltd. had a marginal costing profit of ₹1,25,500 in April, 2018. Opening stock were 1,800 units and closing stock were 1,260 units. The company is considering changing to absorption costing system. Fixed overhead absorption rate is ₹6 per unit. Profit under absorption costing will be _____ .
- (A) ₹1,28,740
 (B) ₹1,22,260
 (C) ₹1,14,700
 (D) ₹1,33,060
59. The following information is given :
- | | Sales (₹) | Profit (₹) |
|----------|-----------|------------|
| Period 1 | 20,000 | 4,000 |
| Period 2 | 30,000 | 8,000 |
- Sales to earn a profit of? 16,000 will be :
- (A) ₹40,000
 (B) ₹60,000
 (C) ₹50,000
 (D) ₹75,000
60. P/V Ratio is 25% and margin of safety is ₹6,00,000, the amount of profit is :
- (A) ₹2,00,000
 (B) ₹1,60,000
 (C) ₹1,50,000
 (D) ₹1,20,000
61. The following information is given :
- Selling price ₹20 per unit, Variable cost ₹15 per unit and Fixed cost ₹48,000. What will be BEP sales (in ₹) and Profit if actual sales is 40% more than BEP sales ?
- (A) ₹1,92,000 and ₹20,800
 (B) ₹1,80,000 and ₹18,000
 (C) ₹96,000 and ₹9,600
 (D) ₹1,92,000 and ₹19,200

62. **Statement I :**

When a factory operates at full capacity, Fixed cost also becomes relevant for make or buy decision.

Statement II :

Margin of safety is the difference of actual sales and standard 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

63. The total cost and profit during two periods are as follows :

	Period I	Period II
Total cost (₹)	4,50,000	6,50,000
Profit (₹)	50,000	1,00,000

Profit volume ratio will be :

- (A) 15%
 - (B) 25%
 - (C) 20%
 - (D) 33 1/3%
64. If profit, fixed cost and margin of safety are ₹19,20,000; ₹25,60,000 and ₹64,00,000 respectively, then break-even point will be :
- (A) ₹44,80,000
 - (B) ₹85,33,333
 - (C) ₹38,40,000
 - (D) ₹48,00,000
65. Selling price per unit ₹20, Trade discount 5% of selling price, cash discount 2% on sales, Material cost ₹3, Labour cost ₹4, Fixed overheads ₹22,000 and variable overheads 80% of labour cost. What would be the net profit if sales are 10% above the BEP ?
- (A) ₹2,000
 - (B) ₹2,500
 - (C) ₹2,200
 - (D) ₹1,850

66. The following information is given :
- Standard : 196 kg material for 140 units of finished output @ ₹2 per kg.
Actual: Output 4,200 units, material used 5600 kg., cost of material ₹1,00,800.
Material usage variance will be
- (A) ₹560 (F)
(B) ₹600 (A)
(C) ₹650 (F)
(D) ₹720 (A)
67. Records of Zed Ltd. reveal the following data :
- Fixed overhead capacity variance = 3,000 (F)
Fixed overhead efficiency variance = 3,000 (F)
Fixed overhead expenditure variance=2,000 (A)
Fixed overhead cost variance will be:
- (A) ₹6,000 (F)
(B) ₹2,000 (A)
(C) ₹4,000 (F)
(D) ₹2,000 (F)
68. Which one is *not* a method of disposing cost variances ?
- (A) Transfer to costing P&L account
(B) Transfer to reserve account
(C) Pro rata allocation of variances to finished stock, WIP and cost of sales
(D) No treatment, only shown in report for the purpose of control variances
69. Standard which is established for use, unaltered over a long period of time is known as :
- (A) Ideal standard
(B) Basic standard
(C) Expected standard
(D) Current standard
70. For producing one unit of product X, standard labour hours are 20. Wages rate is ₹2 per hour. In June, 2018, output was 2,000 units. 38,000 labour hours actually paid, costing ₹79,800. These 38,000 hours include 200 hours arise due to machine breakdown. Labour rate variance was :
- (A) ₹3,000 (A)
(B) ₹3,600 (A)
(C) ₹3,800 (F)
(D) ₹3,800 (A)

71. PQR Ltd. has normal monthly machine hour capacity of 120 machines working 8 hours per day for 25 working days in a month. The budgeted fixed overhead is ₹ 3,00,000. The actual production was 4,500 units. The actual fixed overhead was ₹3,20,000. Expenditure variance = ?
- (A) 30,000 (A)
(B) 20,000 (A)
(C) 20,000 (F)
(D) 18,000 (A)
72. Direct labour cost data are as follows :
- Actual hours worked 25,000, Total direct labour cost ₹1,25,400, Direct labour rate variance ₹2,900 (A), Direct labour efficiency variance ₹3,528 (F)
- Standard labour hour rate will be _____
- (A) ₹5.02
(B) ₹5.26
(C) ₹4.90
(D) ₹5.16
73. A firm manufactures 15,000 units per annum, each taking 1.5 direct labour hours. The direct labour rate is ₹8 per hour and pay rise of 15% is awarded half way through the year.
- What is the total annual direct labour budget amount ?
- (A) ₹1,20,000
(B) ₹1,93,500
(C) ₹1,80,000
(D) ₹2,07,000
74. The following information extracted from the records of P Ltd.
- Sales for October, November and December, 2018 are ₹90,000, ₹1,10,000 and ₹80,000 respectively. 40% of its sales are expected to be for cash. Of its credit sales 70% are expected to pay in the month after sales and take 2% discount on it. Balance is expected to pay in second month after sales and 3% of it is expected to bad debts.
- What are the sales receipts to be shown in cash budget for the month of December?
- (A) ₹92,990
(B) ₹1,23,174
(C) ₹95,609
(D) ₹1,25,793

75. Which of the following is not a step for successful implementation of the budgetary control system ?
- (A) Budget manual
 - (B) Budget controller
 - (C) Budget period
 - (D) Budget standard
76. **Assertion (A) :**
- The purpose of performance budgeting is to focus on work to be done and services to be rendered.
- Reason (R) :**
- The main purpose of performance budgeting is not to inter-relate physical and financial aspects of every programme, project or activity.
- 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 and (R) is not the correct explanation of (A)
 - (C) (A) is true, but (R) is false
 - (D) (A) is false, but (R) is true
77. A budget designed for a specific planned output level and is not adjusted to the level of activity attained is known as :
- (A) Fixed budget
 - (B) Master budget
 - (C) Zero base budget
 - (D) Flexible budget
78. The following information are given :
- Normal loss in production is 2.50% of input; Sales target is 9,600 units; Closing stock is 1,650 units which has been estimated 10% more than previous year quantity.
- Input quantity required for production will be _____
- (A) 8,000 units
 - (B) 11,500 units
 - (C) 10,000 units
 - (D) 8,500 units

79. A factory is presently working at 50% capacity and producing 4,000 units. The cost data are as follows :
- Material and labour cost per unit ₹15, Factory overheads (40% variable) ₹30,000. What will be the works cost for 60% capacity ?
- (A) ₹1,04,400
(B) ₹1,12,400
(C) ₹1,18,600
(D) ₹1,22,200
80. Maintenance of cost records relating to the utilisation of materials, labour and other items of cost, in the manner as prescribed by specified class of companies engaged in the _____ .
- (A) Production of goods only
(B) Providing services only
(C) Production of such goods and providing such services as may be prescribed
(D) Production of such goods or providing such services as may be prescribed
81. Every cost auditor, who conducts an audit of the cost records of a company, shall submit report in :
- (A) General form
(B) Form-CRA 1
(C) Form-CRA 2
(D) Form-CRA 3
82. 'Cost benefit analysis' falls under :
- (A) Scientific techniques
(B) Accounting or economic techniques
(C) Personnel techniques
(D) Statistical techniques
83. Which is not a social purpose of cost audit ?
- (A) Promoting corporate governance
(B) Facilitate in fixation of reasonable prices of goods and services
(C) Improvement of human productivity
(D) Pinpointing areas of inefficiency

84. Dividing net credit sales by average debtors would yield _____ .
- (A) Current Ratio
 - (B) Return on Sales Ratio
 - (C) Debtors Turnover Ratio
 - (D) Average Receivables
85. ABC Ltd. has earned 12% returns on total assets of ₹8,00,000 and has a net profit ratio of 8%. Sales of the firm shall be :
- (A) ₹96,000
 - (B) ₹6,40,000
 - (C) ₹12,00,000
 - (D) ₹7,36,000
86. The following information is given :
- 9% preference shares of ₹10 each ₹4,00,000, Equity shares of ₹10 each ₹12,00,000, Profit after tax ₹4,20,000, Equity dividend paid 20%, Market price of equity share ₹25 each. What will be the earnings per share ?
- (A) ₹3.50
 - (B) ₹3.20
 - (C) ₹5.40
 - (D) ₹9.60
87. The average creditors are ₹74,000, creditors turnover ratio is 4.80. Amount of credit purchases will be :
- (A) ₹15,417
 - (B) ₹3,52,500
 - (C) ₹3,55,200
 - (D) None of the above
88. What will be the amount of stock if the current ratio is 2 : 1 and quick ratio is 1.5:1 and current liabilities are ₹90,000 ?
- (A) ₹55,000
 - (B) ₹1,80,000
 - (C) ₹1,35,000
 - (D) ₹45,000

89. Conducted to ensure borrowing capacity of a concern to meet contingencies in the near future is :
- (A) Long-term Analysis
 - (B) Vertical Analysis
 - (C) Short-term Analysis
 - (D) Internal Analysis
90. A company has an inventory of ₹58,400, Debtors of ₹48,000 and inventory turnover of 6 times. The gross profit margin is 20% on sales and its credit sales are 40% of the total sales. What will be the credit sales ?
- (A) ₹3,50,400
 - (B) ₹3,53,440
 - (C) ₹4,38,000
 - (D) ₹1,75,200
91. The following information is given for X Ltd.
- Stock velocity 3.75 months, Gross profit ₹80,000 being 20% of sales. The closing stock of the year is ₹25,000 more than the opening stock. What will be the amount of opening and closing stocks ?
- (A) ₹1,00,000 and ₹1,25,000
 - (B) ₹80,000 and ₹1,05,000
 - (C) ₹87,500 and ₹1,12,500
 - (D) ₹85,000 and ₹1,10,000
92. Which of the following statements is false ?
- (A) Financial statements take into consideration only the financial factors.
 - (B) Financial statements are primarily prepared for shareholders.
 - (C) Financial statements not serving any purpose to the probable shareholders, suppliers, lenders and other interested parties.
 - (D) Financial statements are essentially interim reports and therefore, cannot be final because the final gain/loss can be computed only at the termination of business.
93. A company has the following Current Assets :
- Cash ₹40,000, Marketable securities ₹25,000, Debtors ₹20,000 and Inventory ₹18,000. The total current liabilities were ₹65,400 (including the future tax liability of ₹4,800 which will be made after one year)
- What will be the quick ratio of the company ?
- (A) 1.40 : 1
 - (B) 1.81 : 1
 - (C) 1.57 : 1
 - (D) 1.30 : 1

94. The following information of a non-financial enterprise is given :

Purchase of fixed assets ₹40,000; Proceeds from sale of equipments ₹35,000; Interest received ₹3,000; Interest paid ₹6,000, Dividend received ₹4,000 and Dividend paid ₹15,000.

Amount of cash from investing activities will be _____

- (A) ₹1,000
(B) ₹(4,000)
(C) ₹ 2,000
(D) ₹(2,000)
95. Which of the following statement is *correct* ?
- (A) A decrease in current liability during the year results in increase in working capital.
(B) Only non cash expenses are added to net profit to find out funds from operations.
(C) Conversion of debentures into equity shares appears in funds flow statement.
(D) Collection from debtors is a source of fund.
96. **Assertion (A) :**

MIS is a necessity of all the organisations.

Reason (R) :

MIS helps in strategic planning, management control, operational control, transaction processing and decision-making.

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 and (R) is not the correct explanation of (A)
(C) (A) is true, but (R) is false
(D) (A) is false, but (R) is true
97. The following information is given :

Depreciation provided during the year :

Furniture ₹15,000, Building ₹14,000.

The statement of P&L for the year :

Opening balance ₹38,500 *Add* : Profit for the year ₹40,300, *Less* : Goodwill written off ₹15,000, Closing balance ₹63,800.

What will be the amount of funds from operations ?

- (A) ₹69,300
- (B) ₹54,300
- (C) ₹78,800
- (D) ₹25,300

98. Closing debtors are ₹8,00,000 which are 125 percent of opening debtors. Cash sales is 25 percent of total sales. If the debtors turnover ratio is 4 times then the amount of total sales will be _____ .

- (A) ₹36,00,000
- (B) ₹28,80,000
- (C) ₹38,40,000
- (D) ₹48,00,000

99. PQR Ltd. have the following balances :

Investment at the end of the year 2017-18 ₹85,000, Investment at the end of the year 2018-19 ₹70,000. During the year the company had sold 40% of its original investment at a profit of 50%. What will be the amount of cash inflow and cash outflow from the investment:

- (A) ₹51,000 and ₹36,000
- (B) ₹51,000 and ₹19,000
- (C) ₹1,21,000 and ₹85,000
- (D) ₹1,21,000 and ₹19,000

100. According to Activity Based Costing System, use of consumables is :

- (A) Unit level activity
- (B) Batch level activity
- (C) Product level activity
- (D) Facility level activity

ANSWER KEY
COST AND MANAGEMENT ACCOUNTING - SELECT SERIES

Q.no.	Ans	Q.no.	Ans	Q.no.	Ans
1	B	34	B	68	D
2	B	35	A	69	B
3	C	36	D	70	D
4	D	37	B	71	B
5	D	38	C	72	C
6	C	39	D	73	B
7	D	40	C	74	A
8	B	41	C	75	D
9	C	42	B	76	C
10	A	43	A	77	A
11	B	44	B	78	C
12	A	45	A	79	A
13	A	46	A	80	D
14	D	47	B	81	D
15	D	48	A	82	B
16	B	49	D	83	A
17	D	50	B	84	C
18	B	51	C	85	C
19	B	52	B	86	B
20	B	53	A	87	C
21	A	54	D	88	D
22	B	55	A	89	C
23	A	56	B	90	D
24	A	57	A	91	C
25	C	58	B	92	C
26	D	59	C	93	A
27	B	60	C	94	C
28	B	61	D	95	A
29	D	62	D	96	A
30	B	63	C	97	A
31	A	64	B	98	C
32	B	65	C	99	B
33	D	66	A	100	A
		67	C		

ECONOMIC AND COMMERCIAL LAWS

Time allowed : 3 hours

Maximum marks : 100

NOTE : Answer ALL Questions.

PART A

Question 1

- (a) When overseas investment may be made by a registered trust or a society ? State the eligibility criteria which must be satisfied before such overseas investment under Foreign Exchange Management Act, 1999.
- (b) Z Ltd. is enjoying dominant position which came to the notice of Competition Commission of India. Whether the Commission can order to Z Ltd. for "Division" in the manner suggested by Commission ? Can such order be passed by the Commission irrespective of any hurdles in Companies Act, 2013 ?
- (c) State the objectives of KYC policy. What elements should be incorporated in KYC policy. Who may be treated as customer for the purpose of KYC policy ?
- (d) How and when an application for the restoration of the lapsed patent may be made under the Patent Act, 1970 ? State the procedure for disposal of such application.
- (e) What are the types of Intellectual property covered by Trade Related Aspects of Intellectual Property Rights (TRIPs) ? Explain. (5 marks each)

Answer 1(a)

Registered Trusts and Societies engaged in manufacturing/educational sector are allowed to make investment in the same sector(s) in a Joint Venture or Wholly Owned Subsidiary outside India, with the prior approval of the Reserve Bank. Eligibility criteria to be satisfied before such overseas investment under Foreign Exchange Management Act, 1999 is as follows

Eligibility Criteria for Trusts:

- The Trusts should be registered under the Indian Trust Act, 1882;
- The Trust deed permits the proposed investment overseas;
- The proposed investment should be approved by the trustee/s;
- Authorised Dealer Bank is satisfied that the Trust is KYC (Know Your Customer) compliant and is engaged in a bonafide activity;
- The Trust has been in existence at least for a period of three years;

- The Trust has not come under the adverse notice of any Regulatory/ Enforcement agency like the Directorate of Enforcement, CBI etc.

Eligibility Criteria for Society

- The Society should be registered under the Societies Registration Act, 1860;
- The Memorandum of Association and rules and regulations permit the Society to make the proposed investment which should also be approved by the governing body/council or a managing/executive committee;
- The AD Category-I bank is satisfied that the Society is KYC (Know Your Customer) compliant and is engaged in a bonafide activity;
- The Society has been in existence at least for a period of three years;
- The Society has not come under the adverse notice of any Regulatory/ Enforcement agency like the Directorate of Enforcement, CBI etc.

Answer 1(b)

Section 28 of the Competition Act, 2002 deals with division of enterprise enjoying dominant position. It provides that the Competition Commission of India may, notwithstanding anything contained in any other law for the time being in force, by order in writing, direct division of an enterprise enjoying dominant position to ensure that such enterprise or group does not abuse its dominant position.

The order of the Competition Commission of India referred to above may provide for all or any of the following matters, namely-

- a. the transfer or vesting of property, rights, liabilities or obligations;
- b. the adjustment of contracts either by discharge or reduction of any liability or obligation or otherwise;
- c. the creation, allotment, surrender or cancellation of any shares, stocks or securities;
- d. the formation or winding up of an enterprise or the amendment of the memorandum of association or articles of association or any other instruments regulating the business of any enterprise;
- e. the extent to which, and the circumstances in which, provisions of the order affecting an enterprise may be altered by the enterprise and the registration thereof;
- f. any other matter which may be necessary to give effect to the division of the enterprise or group.

In view of the above provision of the Competition Act, 2002, the Competition Commission of India can pass order to Z Ltd for “Division” and such order be passed by the Commission irrespective of any hurdles in the Companies Act, 2013.

Answer 1(c)

The objective of Know Your Customer (KYC) Norms/Anti-Money Laundering (AML) Measures/Combating of Financing of Terrorism (CFT) guidelines is to prevent banks

from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. KYC procedures also enable banks to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently.

Following elements should be incorporated in KYC Policy:

- Customer Acceptance Policy;
- Customer Identification Procedures;
- Monitoring of Transactions; and
- Risk Management.

The following person(s)/entity(s) may be treated as customer for the purpose of KYC Policy:

- a person or entity that maintains an account and/or has a business relationship with the bank;
- one on whose behalf the account is maintained (i.e. the beneficial owner);
- beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors etc. as permitted under the law, and
- any person or entity connected with a financial transaction which can pose significant reputational or other risks to the bank, say, a wire transfer or issue of a high value demand draft as a single transaction.

Answer 1(d)

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

Procedure for disposal of application for restoration of lapsed patents

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

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

If notice of opposition is given within the prescribed period, the Controller shall

notify the applicant, and shall give to him and to the opponent an opportunity to be heard before deciding the case.

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

Answer 1(e)

Types of intellectual property covered by the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement are:

1. *Copyright and related rights* : Copyright as the name suggests arose as an exclusive right of the author to copy the literature produced by him and stop others from doing so. Copyright law has extended protection not only to literary, dramatic, musical and artistic works but also sound recordings, films, broadcasts, cable programmes and typographical arrangements of publications. Computer programs have also been brought within the purview of copyright law.
2. *Trademark* : A Trade Mark distinguishes the goods or services of one manufacturer or service provider from similar goods or services of others and therefore, it seeks to protect the interest of the consumer as well as the manufacturer or service provider.
3. *Geographical indications* : Geographical Indications of Goods refers to a country or to a place situated therein as being the country or place of origin of that product. Typically, such a name conveys an assurance of quality and distinctiveness which is essentially attributable to the fact of its origin in that defined geographical locality, region or country.
4. *Industrial designs* : An industrial design is the ornamental or aesthetic aspect of a useful article, which must appeal to the sense of sight and may consist of the shape and/or pattern and/or colour of article. An industrial design to be protectable, must be new and origin.
5. *Patents* : Patent is a monopoly grant and it enables the inventor to control the output and within the limits set by demand, the price of the patented products. It acts as a stimulus to investment in the Industrial innovation.
6. Layout designs (topographies) of integrated circuits sometimes called topographies of integrated circuits are the three-dimensional placement of some or all of the elements and interconnections that make up an integrated circuit.
7. Undisclosed information including trade secret are confidential business information.

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

Question 2

- (a) *Ram, the owner of a land, entered into a contract for sale with Shyam. Shyam has paid the price and took the possession and is willing to carry out his*

contractual obligations. As registration has not been effected. Ram, the transferor, seeks to evict Shyam from the land.

Can he do so ? Explain briefly with reference to the title of land. (3 marks)

- (b) *What are the obligations of finder of lost goods ? Explain briefly with reference to Indian Contract Act, 1872. (3 marks)*
- (c) *Anthony, the complainant, purchased a ticket for his journey from Chennai to Pune from Blue Sky Airlines Ltd. The time of departure was mentioned on the ticket as 10.45 a.m. and the plane departed at 9.00 a.m. instead of 10.45 a.m. Anthony reached the airport at 9.30 a.m. and missed the flight. Decide, whether Blue Sky Airlines Ltd. is guilty of deficiency under the Consumer Protection Act, 1986 ? Whether Anthony is entitled for the compensation ? State your answers with reason(s). (3 marks)*
- (d) *What is the criteria upon which the Central Government considers and notify any area as a Special Economic Zone (SEZ) under Special Economic Zones Act, 2005 ? (3 marks)*
- (e) *What are the basic principles of General Agreement on Trade in Services (GATS)? (3 marks)*

OR (Alternate question to Q. No. 2)

Question 2A

- (i) *Anup, a heir of an estate borrowed ₹5,000 from Surya to enable him to prosecute his claim, when he was without even with the means of subsistence and gave him a bond for ₹30,000 to be paid after receiving possession of the property. Decide, whether transaction may be treated as unconscionable ? State also the meaning of unconscionable transaction. (5 marks)*
- (ii) *State the functions of the Copyright Board as given under Copyright Act, 1957. (5 marks)*
- (iii) *X, an officer of the Enforcement Directorate along with his team entered into a house, belonging to a reputed and rich person, the person present in house objected to it and demands the order of the competent court for searching the concerned house, i.e. Search Warrant. But the officer ignores and simply shows his ID. Discuss the powers of Enforcement Directorate and its relevant procedure as laid down in the Prevention of Money Laundering Act, 2002. (5 marks)*

Answer 2(a)

No, the transferor of the land i.e. Ram cannot evict Shyam from the land.

Shyam will not be allowed to suffer simply because the formality of registration has not been through. The legislature grants some relief to such a transferee under Section 53A of Transfer of Property Act, which embodies the doctrine of part-performance.

Followings are the essential conditions for the operation of the doctrine of part-performance according to Section 53A.

1. There must be a contract to transfer immoveable property.

2. It must be for consideration.
3. The contract should be in writing and signed by the transferor himself or on his behalf.
4. The terms necessary to constitute the transfer must be ascertainable with reasonable certainty from the contract itself.
5. The transferee should have taken the possession of the property in part performance of the contract. In case he is already in possession, he must have continued in possession in part performance of the contract and must have done something in furtherance of the contract.
6. The transferee must have fulfilled or ready to fulfill his part of the obligation under the contract.

Section 53A does not confer any positive right on the transferee. It only prohibits exercise of the right of ownership in relation to the property in order to evict the transferee from the property because legal requirements have not been satisfied. (*Delhi Motor Co. v. Basurkas*, (1968) SCR 720).

Answer 2(b)

According to Section 71 of the Indian Contract Act, 1872 a person who finds goods belonging to another, and takes them into his custody, is subject to the same responsibility as a bailee. This means that he must take as much care of the goods as a man of ordinary prudence would take of his own goods of the same kind. So far as the real owner of the goods is concerned, the finder is only a bailee and must not appropriate the goods to his own use. If the owner is traced, he must return the goods to him. However, the finder is entitled to get the reward that may have been offered by the owner and also any expenses he may have incurred in protecting and preserving the property.

Answer 2(c)

According to Section 2(1)(g) of the Consumer Protection Act, 1986, deficiency means any fault, imperfection, shortcoming or inadequacy in the quality, nature and manner of performance which is required to be maintained by or under any law for the time being in force or has been undertaken to be performed by a person in pursuance of a contract or otherwise in relation to any service.

Failure to maintain the quality of performance required by the law or failure to provide services as per warranties given, by the provider of the service would amount to 'deficiency'.

As per the definition mentioned above, it is clear that the departure of flight before the schedule time will be treated as deficiency in services and Blue Sky Airlines Ltd. is guilty of deficiency of service under the Consumer Protection Act, 1986 and Anthony is entitled for the compensation.

Answer 2(d)

Section 5 of the Special Economic Zones Act, 2005 stipulates broader guidelines to be considered by the Central Government, while notifying any area as a Special

Economic Zone or an area to be included in the SEZ and in discharging its functions under the Act. These include:

- (a) generation of additional economic activity;
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities; and
- (f) maintenance of sovereignty and integrity of India, the security of the State and friendly relations with foreign States.

Answer 2(e)

Basic Principles of General Agreement on Trade in Services (GATS) are as follows:

- All services are covered by GATS
- Most-favoured-nation treatment applies to all services, except the one-off temporary exemptions
- National treatment applies in the areas where commitments are made
- Transparency in regulations, inquiry points
- Regulations have to be objective and reasonable
- International payments: normally unrestricted
- Individual countries' commitments: negotiated and bound
- Progressive liberalization: through further negotiations.

Answer 2A(i)

Unconscionable transaction is one which makes an exorbitant profit of the others distress by a person who is in a dominant position. Merely the fact that the rate of interest is very high in a money lending transaction shall not make it unconscionable. But if the rate of interest is very exorbitant and the Court regards the transaction unconscionable, the burden of proving that no undue influence was exercised lies on the creditor. It has been held that urgent need of money on the part of the borrower does not itself place the lender in a position to dominate his will.

Relying upon the meaning of unconscionable transaction, it is clear that transaction between Anup and Surya is unconscionable transaction.

Answer 2A(ii)

The main functions of the Copyright Board/Appellate Board are as under:

1. Settlement of disputes as to whether copies of any literary, dramatic or artistic work or records are issued to the public in sufficient numbers.
2. Settlement of disputes as to whether the term of copyright for any work is shorter in any other country than that provided for that work under the Act.

3. Settlement of disputes with respect to assignment of copyright.
4. Granting of compulsory licences in respect of Indian works withheld from public.
5. Granting of compulsory licence to publish unpublished Indian works.
6. Granting of compulsory licence to produce and publish translation of literary and dramatic works.
7. Granting of compulsory licence to reproduce and publish literary, scientific or artistic works for certain purposes.
8. Determination of royalties payable to the owner of copyright.
9. Determination of objection lodged by any person as to the fees charged by Performing Rights Societies.
10. Rectification of Register on the application of the Registrar of Copyright or of any person aggrieved.

Answer 2A(iii)

According to Section 17 of the Prevention of Money Laundering Act, 2002, where the Director or any other officer not below the rank of Deputy Director authorised by him on the basis of information in his possession, has reason to believe (the reason for such belief to be recorded in writing) that any person— (i) has committed any act which constitutes money-laundering, or (ii) is in possession of any proceeds of crime involved in money-laundering, or (iii) is in possession of any records relating to money-laundering, or (iv) is in possession of any property related to crime.

Then Enforcement Director and his authorized officers has authority to exercise following powers: (i) enter and search any building, place, vessel, vehicle or aircraft where he has reason to suspect that such records or proceeds of crime are kept;(b) break open the lock of any door, box, locker, safe, almirah or other receptacle for exercising the powers conferred by clause (a) where the keys thereof are not available;(c) seize any record or property found as a result of such search;(d) place marks of identification on such record or property, if required or] make or cause to be made extracts or copies therefrom;(e) make a note or an inventory of such record or property;(f) examine on oath any person, who is found to be in possession or control of any record or property, in respect of all matters relevant for the purposes of any investigation .

Preconditions for exercising powers of search and seizure are:-

- (i) Search can be conducted in relation to the scheduled offence.
- (ii) A report has been forwarded to a Magistrate under section 157 of the Code of Criminal Procedure, 1973, or a complaint has been filed by a person, authorised to investigate the offence mentioned in the Schedule, before a Magistrate or court for taking cognizance of the scheduled offence, as the case may be, or
- (iii) In cases where such report is not required to be forwarded, a similar report of information received or otherwise has been submitted by an officer authorised to investigate a scheduled offence to an officer not below the rank of Additional Secretary to the Government of India or equivalent being head of the office or Ministry or Department or Unit, as the case may be, or any other officer who may be authorised by the Central Government.

- (iv) The authority, who has been authorised shall, immediately after search and seizure or upon issuance of a freezing order, forward a copy of the reasons so recorded along with material in his possession to the Adjudicating Authority in a sealed envelope, in the manner, as may be prescribed and such Adjudicating Authority shall keep such reasons and material for such period, as may be prescribed.

Question 3

- (a) *Fatima, a student took admission in the 'ABC College', of a Government approved Private University. But, later on Fatima joined another college of Government University. She claimed refund of admission fee from ABC College. The college refused to refund admission fee on the ground that there is no rule in Private University to refund the admission fee.*

She filed a petition before District Consumer Disputes Redressal Forum.

Will she succeed ? Discuss with reference to a decided case in this matter.

(5 marks)

- (b) *Write in brief, about the doctrine of election as given under the Transfer of Property Act, 1882.*

(5 marks)

- (c) *Advise with reason on availing foreign exchange facility under Foreign Exchange Management Act, 1999, for :*

(i) *John desires USD 2,00,000 for a private visit to any country excluding Nepal and Bhutan.*

(1 mark)

(ii) *Jitesh has to maintain his close relative abroad, needs USD 50,000 per year.*

(1 mark)

(iii) *Sohan desires to gift his sister USD 100,000 on her birthday.*

(1 mark)

(iv) *A person who is resident, but not permanently resident in India, this a citizen of a foreign state other than Pakistan desires to remit his total net salary to his spouse without any limit and without being questioned about his expenses for survival in India.*

Can he do so or not ? Is there any limit ?

(2 marks)

Answer 3(a)

The present problem is similar to the case of *Isabella Thoburn College v. Ms. Fatima Effendi* [2001 CTJ 386 (CP) (SCDR)]. In this case the State Commission held that non-refund of admission fee is not a deficiency of service on the part of the university because admission fee is the consideration for admission and respondent herself voluntarily withdrawing admission from one university to join another institute cannot claim refund of admission fee.

In view of the above judgment passed by the State Commission in the case of *Isabella Thoburn College v. Ms. Fatima Effendi* [2001 CTJ 386 (CP) (SCDR)], it is clear that Fatima will not succeed.

Answer 3(b)

Section 35 of the Transfer of Property Act deals with doctrine of election. Election may be defined as “the choosing between two rights where there is a clear intention that both were not intended to be enjoyed”. Suppose, a property is given to you and in the same deed of gift you are asked to transfer something belonging to you to another person. If you want to take the property you should transfer your property to someone else, otherwise you cannot take the property which is transferred to you by someone.

The foundation of doctrine of election is that a person taking the benefit of an instrument must also bear the burden, and he must not take under and against the same instrument. It is, therefore, a branch of a general rule that no one may approbate and reprobate (*Copper v. Copper* (1874) H.L. 53). However doctrine of election could not be applied to deprive a person of his statutory right to appear invoking extraordinary jurisdiction of the Supreme Court under Article 136, (*PR Deshpande v. MB Haribatti* (1995 (2) Scale 804 SC).

Answer 3(c)(i)

Yes, John can do so as the foreign exchange facility is within the limit of USD 2,50,000 prescribed under the Liberalised Remittance Scheme read with Foreign Exchange Management (Current Account Transactions) Rules.

Answer 3(c)(ii)

Yes, Jitesh can do so as the foreign exchange facility is within the limit of USD 2,50,000 prescribed under the Liberalised Remittance Scheme read with Foreign Exchange Management (Current Account Transactions) Rules.

Answer 3(c)(iii)

Yes, Sohan can do so as the foreign exchange facility is within the limit of USD 2,50,000 prescribed under the Liberalised Remittance Scheme read with Foreign Exchange Management (Current Account Transactions) Rules.

Answer 3(c)(iv)

Yes, he may make remittance up to his net salary (after deduction of taxes, contribution to provident fund and other deductions).

If an individual remits any amount under the Liberalised Remittance Scheme in a financial year, then the applicable limit for such individual would be reduced from USD 250,000 (US Dollars Two Hundred and Fifty Thousand Only) by the amount so remitted.

A person who is resident but not permanently resident in India and is a citizen of a foreign State other than Pakistan or is a citizen of India, who is on deputation to the office or branch of a foreign company or subsidiary or joint venture in India of such foreign company, may make remittance up to his net salary (after deduction of taxes, contribution to provident fund and other deductions).

Question 4

- (a) *What is meant by “Arbitration Agreement”? State the constituents of an arbitration agreement under the Arbitration and Conciliation Act, 1996. (8 marks)*

- (b) *When the acts may not be constituted as infringement of trademark, under the Trademarks Act, 1999 ?* (7 marks)

Answer 4(a)

According to Section 2(1)(b) of the Arbitration and Conciliation Act, 1996, “Arbitration agreement” means an agreement referred to in Section 7 of the Act.

Under Section 7 of the Arbitration and Conciliation Act, 1996, the Arbitration agreement has been defined to mean an agreement by the parties to submit to arbitration all or certain disputes which have arisen or which may arise between them in respect of a defined legal relationship, whether contractual or not.

The constituents of an arbitration agreement under the Arbitration and Conciliation Act, 1996 are as follows:

- An arbitration agreement may be in the form of an arbitration clause in a contract or in the form of a separate agreement.
- An arbitration agreement shall be in writing.
- An arbitration agreement is in writing if it is contained in -
 - a document signed by the parties;
 - an exchange of letters, telex, telegrams or other means of telecommunication including communication through electronic means which provide a record of the agreement; or
 - an exchange of statements of claim and defence in which the existence of the agreement is alleged by one party and not denied by the other.
- The reference in a contract to a document containing an arbitration clause constitutes an arbitration agreement if the contract is in writing and the reference is such as to make that arbitration clause part of the contract.

Answer 4(b)

Section 30 of the Trade Marks Act, 1999 enumerates certain acts which do not constitute infringement. This section explicitly states that there will be no infringement, if the use of a mark is in accordance with honest practices in industrial or commercial matters and is not such as to take unfair advantage of or be detrimental to the distinctive character or repute of a trade mark. It further enumerates following acts as not constituting an infringement of trade mark:

- (i) where the use is in relation to goods or services to indicate the kind, quality, quantity, etc. of the goods or of rendering of services, or other characteristics of goods or services.
- (ii) where a trade mark is registered subject to conditions or limitations, the use of the trade mark in a manner outside the scope of registration.
- (iii) where a person uses the mark in relation to goods or services for which the registered owner had once applied the mark, and had not subsequently removed it or impliedly consented to its use.

- (iv) a trade mark registered for any goods may be used in relation to parts and accessories to other goods or services and such use is reasonably necessary and its effect is not likely to deceive as to the origin.
- (v) the use of a registered trade mark being one of two or more registered trade marks which are identical or nearly resemble each other, in exercise of the right to the use of that registered trade mark.

PART B

Question 5

- (a) *Under what circumstances the Central Government is empowered to issue the orders relating to control production, supply and distribution of essential commodities, under the Essential Commodities Act, 1955. (3 marks)*
- (b) *Mohan is a trustee for the benefits of Raman. Mohan delays in investing trust money, causing therewith loss to beneficiary. Whether the trustee Mohan is liable to pay interest thereon for the delay as per Trust Act ? (3 marks)*
- (c) *What is the object and scope of the Essential Commodities Act, 1955 ? Discuss briefly. (3 marks)*
- (d) *State the objectives of industrial policy of the Government relating to development of the industries according to Industries (Development and Regulation) Act, 1951. (3 marks)*
- (e) *What is the time limit for presentation of a document for its registration under the Registration Act, 1908 ? (3 marks)*

Answer 5(a)

Section 3(1) of the Essential Commodities Act, 1955 empowered the Central Government to issue order in the following circumstances providing for regulating or prohibiting the production, supply and distribution of essential commodities and trade and commerce therein:

- (i) when it is necessary or expedient for maintaining or increasing supplies of any essential commodity;
- (ii) for securing the equitable distribution and availability of essential commodities at fair price; or
- (iii) for securing any essential commodity for the defence of India or the efficient conduct of military operations.

Answer 5(b)

If a trustee is guilty of unreasonable delay in investing trust money in accordance with Section 20 of the Indian Trust Act, 1882, or in paying it to the beneficiary then the trustee is liable to pay interest thereon to the beneficiary for the period of the delay.

In view of the Indian Trust Act, 1882, it is clear that trustee Mohan is liable to pay interest thereon for the delay.

Answer 5(c)

The Preamble to the Essential Commodities Act, 1955 says that it is an Act to provide in the interest of the general public for the control of the production, supply and distribution of, and trade and commerce in, certain commodities. The dominant object and intendment of the Act is to secure equitable distribution and availability at fair prices of essential commodities in the interest of the general public. The interest of the general public necessarily connotes the interest of the consuming public and not the interest of the dealer. Essential Commodities Act, 1955 extends to the whole of India.

Answer 5(d)

The objectives of Industrial Policy of the Government relating to development of industries according to Industries (Development and Regulation) Act, 1951 are as follows:

- To maintain a sustained growth in productivity;
- To enhance gainful employment;
- To achieve optimal utilisation of human resources;
- To attain international competitiveness; and
- To transform India into a major partner and player in the global arena.

The focus of Industrial Policy is –

- Deregulating Indian industry;
- Allowing the industry freedom and flexibility in responding to market forces; and
- Providing a policy regime that facilitates and fosters growth of Indian industry.

Answer 5(e)

A document other than a will must be presented within four months of its registration. In cases of urgent necessity, etc. the period is eight months, but in that case higher fee has to be paid. (Sections 23-26 of the Registration Act, 1908)

A copy of a decree or order must be presented within four months from the day on which the decree or order was made, or, where it is appealable, within four months from the day on which it becomes final.

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

- (a) *State the functions of the National Board for Micro, Small and Medium Enterprises (MSME) under the Micro, Small and Medium Enterprises Development Act, 2006.* (5 marks)
- (b) *Who is empowered to make application for claim for relief under Public Liability Insurance Act, 1991 ? State the procedure for the award of relief under this Act.* (5 marks)
- (c) *Advise in the matter of the following, the provisions of registration of documents under the Registration Act, 1908 with reference to section applicable :*
- (i) *Lease agreement for eleven months with rent payable monthly, having an option to the tenant to renew for further for the same period and so on.* (1 mark)

- (ii) Lease agreement is only for a year with a reserved rent for the period granted vis. one year. (1 mark)
- (iii) Lease agreement for one with reserving yearly rent. (1 mark)
- (iv) Lease agreement for a fixed term of five years with yearly rent payable. (2 marks)

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

Question 6A

- (i) X failed to comply with the order of National Green Tribunal. Advise to X the consequences thereof.
- (ii) "Shiksha Samiti" a registered society under Society Act, 1860 has been properly dissolved. It has a surplus assets. Certain members of the society desire, it should be distributed equitably among all members. Advise, according to law relating to Societies Act, 1860.
- (iii) What is meant by noise pollution ? What are its effects ? How it creates pollution? State the ways to control the noise pollution ? (5 marks each)

Answer 6(a)

Section 5 of the Micro, Small and Medium Enterprises Development Act, 2006 empowers the National Board subject to the general directions of the Central Government, to perform all or any of the following functions:

- (a) examine the factors affecting the promotion and development of micro, small and medium enterprises and review the policies and programmes of the Central Government in regard to facilitating the promotion and development of micro, small and medium enterprises and enhancing the competitiveness of such enterprises and the impact thereof on such enterprises;
- (b) make recommendations on matters referred above or on any other matter referred to it by the Central Government which, in the opinion of that Government, is necessary or expedient for facilitating the promotion and development and enhancing the competitiveness of the micro, small and medium enterprises; and
- (c) advise the Central Government on the use of the fund or funds constituted under Section 12.

Answer 6(b)

According to Section 6 of the Public Liability Insurance Act, 1991 followings are empowered to make an application for claim for relief:-

- (i) person who has sustained injury;
- (ii) owner of the property to which damage has been caused; and
- (iii) in the case of death resulting from accident, all or any of the legal representatives of the deceased; or by any agent duly authorised by such person or owner of such property.

Procedure for the award of relief under Public Liability Insurance Act, 1991

Section 7 of the Public Liability Insurance Act, 1991 requires the collector, on receipt of application for claim for relief, to hold an inquiry into the claim or each of the claims, after giving notice of application to owner and after giving the parties an opportunity of being heard and make an award determining the amount of relief payable to person or persons.

Further, Section 7(3) of the Act requires the insurers to deposit, within 30 days from the date of announcement of the award, the amount in such manner as specified by the collector. The collector than arrange to pay from the relief fund to the person or persons such amount in such manner as may be specified in the scheme.

Answer 6(c)(i)

Lease agreement for eleven months with rent payable monthly, having an option to the tenant to renew for further for same period and so on does not require registration of documents in the light of Section 107 of Transfer of Property Act, 1882 and Section 17(1)(d) of Registration Act, 1908.

Answer 6(c)(ii)

If a lease is of a very high value but is neither from year to year, nor for any term exceeding one year, nor reserving a yearly rent, does not require registration of documents under Section 17(1)(d) of Registration Act, 1908.

Answer 6(c)(iii)

Lease agreement for one year with reserving yearly rent, require registration of documents in the light of Section 107 of Transfer of Property Act, 1882 and Section 17(1)(d) of Registration Act, 1908.

Answer 6(c)(iv)

Lease agreement for a fixed term of five years with yearly rent payable, require registration of documents in the light of Section 107 of Transfer of Property Act, 1882 and Section 17(1) (d) of Registration Act, 1908.

Answer 6A(i)

Mr. X has to face the following consequences if he is not complying with the order of National Green Tribunal:

According to Section 26 of the National Green Tribunal Act, 2010 whoever, fails to comply with any order or award or decision of the National Green Tribunal, shall be punishable with imprisonment for a term which may extend to three years, or with fine which may extend to ten crore rupees, or with both and in case the failure or contravention continues, with additional fine which may extend to twenty-five thousand rupees for every day during which such failure or contravention continues after conviction for the first such failure or contravention.

In case a company fails to comply with any order or award or a decision of the National Green Tribunal, such company shall be punishable with fine which may extend to twenty-five crore rupees, and in case the failure or contravention continues,

with additional fine which may extend to one lakh rupees for every day during which such failure or contravention continues after conviction for the first such failure or contravention.

Notwithstanding anything contained in the Code of Criminal Procedure, 1973, every offence under the National Green Tribunal Act, 2010 shall be deemed to be non-cognizable within the meaning of the said Code.

Answer 6A(ii)

Dissolution of a society results in cessation of its activities. Its liabilities are to be settled suitably and its surplus assets are to be given to another society or the Government in terms of its rules and regulations. If the rules do not provide in the matter, the governing body of the society shall take appropriate steps with requisite majority vote or as directed by the Registrar or the Court. But in no circumstances, the surplus assets of the dissolved society can be paid or distributed amongst its members or any of them.

In view of the above it is clear that members of the “Shiksha Samiti” are not eligible for surplus assets of the society.

Answer 6A(iii)

Noise pollution simply connotes unwanted sound in the atmosphere. It is unwanted because it lacks the agreeable musical quality. Noise is therefore, sound, but it is pollution when the effects of sound become undesirable.

Noise not only causes irritation or annoyance but it does also constrict the arteries, and increase the flow of adrenaline and forces the heart to work faster, thereby accelerating the rate of cardiac ailments, the reason of being that continuous noise causes an increase in the cholesterol level resulting in rearmament constriction of blood vessels, making one prone to heart attacks and strokes. The health experts are of opinion that excessive noise can also lead to neurosis and nervous breakdown.

Noise pollution caused from various sources such as industrial activity, construction activity, generator sets, loud speakers, public address system, music systems, vehicular horns and other mechanical devices.

In order to control the noise pollution, Central Government has framed Rules known as ‘The Noise Pollution (Regulation and Control) Rules, 2000. The rules provide for the ambient air quality standard in respect of noise for different areas/zones. Commits any offence of playing music or uses any sound amplifiers, beats a drum or blows a horn, etc. in a silence zone/area shall be liable to a penalty.

TAX LAWS AND PRACTICE - SELECT SERIES

Time allowed : 3 hours

Maximum marks : 100

Total number of Questions : 100

Note : All questions in Part-A relate to the Income-tax Act, 1961 and Assessment Year 2019-20, unless stated otherwise

PART A

1. Mohan, retired from Y & Company Ltd. on 31-08-2018 after rendering services for 31 years and 7 months. He was paid ₹11 lakhs as gratuity under the Payment of Gratuity Act, 1972. His last drawn salary was ₹52,000. How much of the amount of gratuity would be exempt ?
 - (A) ₹10,00,000
 - (B) ₹20,00,000
 - (C) ₹9,30,000
 - (D) ₹9,60,000
2. Green Wood Plantation Ltd. is engaged in cultivation and processing of Tea. Their net income during A.Y. 2019-20 is to the tune of ₹20 Lakhs. What proportion out of the income of ₹20 lakh would be treated as agriculture income ?
 - (A) 10%
 - (B) 25%
 - (C) 40%
 - (D) 60%
3. Application filed before Authority for Advance Ruling (AAR) may be withdrawn within _____ from the date of application.
 - (A) 15 days
 - (B) 30 days
 - (C) 60 days
 - (D) 90 days
4. Short term capital loss can be set-off as per provisions of section 72 of the Income Tax Act, 1961 from :
 - (A) Short term capital gain
 - (B) Short term capital gain and Long term capital gain
 - (C) Long term capital gain
 - (D) Short term capital gain and profit & gain from business

5. Nair, a retired person of 68 years of age obtained ₹10,000 per month from 1st April, 2018 on reverse mortgage of his self-occupied residential property from a bank. The fair rent of the property is ₹15,000 per month. The income chargeable to tax in respect of amount received on reverse mortgage for his self-occupied house property for the F.Y. 2018-19 would be :
- (A) ₹1,20,000
(B) ₹1,26,000
(C) NIL
(D) $(15000 - 10000) \times 12 = 60000$
6. Rohan, an employee of State Government received ₹1,000 per month as entertainment allowance during the financial year 2018-19. His salary excluding any allowance, benefit or other perquisite for the year is ₹8,40,000. The amount of entertainment allowance eligible for deduction is :
- (A) ₹12,000
(B) 1% of salary of ₹8,400
(C) ₹5,000
(D) $(12000 - 8400) = 3600$
7. Appeal against the order of Appellate Tribunal (ITAT) can be filed in High Court within _____ days.
- (A) 30 days from the date of order
(B) 60 days from the date of receipt of order by the assessee
(C) 120 days from the date of receipt of order by the assessee
(D) 180 days from the date of order
8. Narendra engaged in retail trade let out his fully furnished house with lift air conditioners, fridge, security staff and gardener at a rent of ₹1,00,000 per month. The agreement did not provide for separate rent for various facilities but is a composite agreement. The amount received by him would be chargeable to tax under the head :
- (A) Other Sources
(B) Business Income
(C) Income from House Property
(D) Capital Gains
9. John, who recently retired from service of a company on 31st March, 2019 is eligible for a monthly pension of ₹20,000. He has received gratuity on his retirement also. He wants to commute 50% of his pension for ₹6.00 lakh. How much amount of this commuted pension shall be subject to tax in A.Y. 2019-20?
- (A) ₹6,00,000
(B) ₹2,00,000
(C) ₹3,00,000
(D) ₹3,50,000

10. Revision order of the Commissioner of Income Tax passed under section 264 of the Income Tax Act, 1961 can be challenged by the assessee by filing an appeal to :
- (A) Income Tax Appellate Tribunal (ITAT)
 - (B) High Court
 - (C) Commissioner Appeals
 - (D) Dispute Resolution Penal (DRP)
11. A registered political party have income during the year 2018-19 of banks interest ₹5,00,000, rent from letting of building ₹3,00,000 and voluntary contribution by cheque ₹8,00,000. Total income chargeable to tax under section 13A of the Income Tax Act, 1961 for the A.Y. 2019-20 of the political party shall be :
- (A) ₹5,00,000
 - (B) ₹8,00,000
 - (C) ₹16,00,000
 - (D) NIL
12. Raghav Housing Finance Ltd., a NBFC is eligible to claim deduction in the case of provision made for bad and doubtful debts to the extent of _____ total income.
- (A) 10%
 - (B) 5%
 - (C) 2%
 - (D) 1%
13. XYZ Ltd. paid ₹5 lakh on 22-1-2019 to a national level laboratory for carrying scientific research unrelated to the business of the company. The amount of deduction eligible under section 35(2AA) of the Income Tax Act, 1961 is :
- (A) ₹5,00,000 @ 100%
 - (B) ₹6,25,000 @ 125%
 - (C) ₹7,50,000 @ 150%
 - (D) ₹10,00,000 @ 200%
14. Patel, a textile dealer, purchases goods worth ₹65,000 from Anand and made the payments : (i) ₹12,000 by account payee cheque on 5th June, 2018, (ii) ₹8,000 by cash on 16th August, 2018, (iii) ₹15,000 by bearer cheque on 7th November, 2018 and (iv) ₹30,000 by ECS on 21st March, 2019. The amount of expenditure not allowable as per provisions of section 40A(3) would be :
- (A) NIL
 - (B) ₹8,000
 - (C) ₹23,000
 - (D) ₹38,000

15. Deccan Ltd. incurred an amount of ₹16 lakh as preliminary expenses for setting up a project costing ₹100 lakh during financial year 2018-19. The amount of amortization available as deduction during the A.Y. 2019-20 for the preliminary expenses would be :
- (A) ₹1,60,000
 - (B) ₹3,20,000
 - (C) ₹16,00,000
 - (D) ₹1,00,000
16. Tulip & Co. is a partnership firm of two partners. Total turnover of the firm during financial year 2018-19 is ₹160 lakh inclusive of ₹60 lakh made through account payee cheques and ECS. The partnership deed provided for monthly working salary of ₹30,000 to each of the partners. The income of the firm by applying section 44AD for A.Y. 2019-20 would be :
- (A) ₹11,60,000
 - (B) ₹12,80,000
 - (C) ₹5,00,000
 - (D) ₹4,40,000
17. Employer's contribution to Recognized Provident Fund (RPF) in excess of 12% of salary income of an employee shall be treated as :
- (A) Taxable income from salaries
 - (B) Deemed income from salaries
 - (C) Exempted income
 - (D) Income of other sources
18. Zed Ltd. a domestic company engaged in manufacturing activity at Mumbai acquired a plant for ₹5 lakh on 7th January, 2019 which is eligible for depreciation @ 15%. It paid ₹4 lakh through ECS system from bank and balance ₹1 lakh in cash on 23rd February, 2019. The plant was put to use on 12-03-2019. The amount of depreciation (normal and additional) on this plant for A.Y. 2019-20 shall be :
- (A) ₹40,000
 - (B) ₹30,000
 - (C) ₹70,000
 - (D) ₹60,000
19. A professional is required to get his accounts audited under section 44AB of the Income Tax Act, 1961 where the gross receipts from profession during the financial year 2018-19 :
- (A) exceeds ₹100 lakhs
 - (B) equals to or exceeds ₹50 lakh
 - (C) equals to or exceeds ₹100 lakh
 - (D) exceeds ₹50 lakhs

20. 'A' Transport company engaged in the business of plying goods carriage with 4 heavy vehicles and 3 non-heavy vehicles. All the non-heavy vehicles were sold on 10th May, 2018 and 2 heavy vehicles were acquired on the same date. Transporter wants to declare its income for A.Y. 2019-20 as per provisions of section 44AE and the same would be :
- (A) ₹5,70,000
 - (B) ₹5,47,500
 - (C) ₹5,55,000
 - (D) ₹3,60,000
21. As per Income Tax Act, 1961 surcharge @ 12% is payable by a domestic company if the total income exceeds :
- (A) ₹10 lakh
 - (B) ₹1 crore
 - (C) ₹10 crore
 - (D) ₹100 crore
22. B joined Avtar & Co. as a partner on 1 st June, 2018. He contributed his vacant land in the firm as his capital which was recorded in the books of the firm at ₹5 lakh. The land was inherited by B from his father in April, 2010 and the Fair Market Value (FMV) on that date was ₹2 lakh. The land was originally acquired by his father in August, 2005 for ₹1 lakh. The Fair Market Value (FMV) on 1st June, 2018 was ₹10 lakh. The full value of consideration received as a result of transfer of land by B as capital would be taken as :
- (A) ₹1 lakh
 - (B) ₹2 lakh
 - (C) ₹5 lakh
 - (D) ₹10lakh
23. Maintenance of books of accounts in the case of an HUF carrying business is mandatory, if the turnover or gross receipts in any one of the three years immediately preceding the previous year exceeds :
- (A) ₹10 lakh
 - (B) ₹15 lakh
 - (C) ₹25 lakh
 - (D) ₹100 lakh
24. A company engaged in manufacturing of steel balls acquired computers at a cost of ₹3 lakh on 10th July, 2018. The depreciation allowance for the A.Y. 2019-20 under Income Tax, 1961 would be :
- (A) ₹1,80,000
 - (B) ₹1,20,000
 - (C) ₹3,00,000
 - (D) ₹45,000

25. Durafon (P) Ltd.. engaged in steel industry, acquired a vacant piece of land on 15th May, 2016. The company sold the said land in December, 2018. The profit earned on sale of vacant land of ₹10 lakh shall be taxable as :
- (A) Business income
 - (B) Income from other sources
 - (C) Short term capital gain
 - (D) Long term capital gain
26. Aiyer gifted 100 shares to his wife on 1st August, 2013. She received 200 bonus shares from the company in April, 2017. All the shares were sold to a friend for ₹1,50,000 in May, 2018. The 100 shares were originally acquired by Aiyer for ₹5,000. The capital gain on sale of shares in the month of May, 2018 shall be chargeable to tax :
- (A) fully in the hands of Aiyer
 - (B) fully in the hands of Mrs. Aiyer
 - (C) for 100 shares in the hands of Aiyer and balance 200 shares in the hands of Mrs. Aiyer
 - (D) for 200 shares in the hands of Aiyer and balance 100 shares in the hands of Mrs. Aiyer
27. The loss from activity of owning and maintaining race horses is eligible for carry forward and set off for a maximum period of:
- (A) 8 Assessment years
 - (B) 6 Assessment years
 - (C) 4 Assessment years
 - (D) 2 Assessment years
28. D transferred Zero Coupon Bonds on 20th August, 2018. These bonds were acquired during the financial year 2010-11. The capital gain computed on the redemption with indexation benefit is ₹2 lakh and without indexation benefit is ₹3 lakh. The long term capital gain would be chargeable to tax on such Zero Coupon Bonds in A.Y. 2019-20 :
- (A) @ 5%
 - (B) @ 10%
 - (C) @ 20%
 - (D) @ 30%
29. Objective of tax planning cell in an organization is to :
- (A) improve tax collection
 - (B) take advantages of various allowances and deductions
 - (C) make tax avoidance
 - (D) have inflation management

30. The total income of Mrs. Rose for the financial year 2018-19 is ₹3,40,000. Her tax liability for A.Y. 2019-20 on the income of ₹3,40,000 shall be :
- (A) ₹2,080
 - (B) NIL
 - (C) ₹2,500
 - (D) ₹4,700
31. Rao, carrying a business, contributed ₹40,000 in the National Pension Trust account. He also made a tax saving deposit of ₹1,20,000 in his PPF account and ₹40,000 in LIC Premium. The total amount eligible for deduction under various sections enumerated in Chapter VI-A shall be :
- (A) ₹1,90,000
 - (B) ₹1,50,000
 - (C) ₹1,20,000
 - (D) ₹2,00,000
32. Timir, (aged 51 years) subscribed to health insurance for him, wife and son and paid premium of ₹28,000. He also incurred medical expenditure for his parents during the year amounting to ₹32,000. He can claim deduction for these expenses as per section 80D of the Income Tax Act, 1961, of :
- (A) ₹57,000
 - (B) ₹30,000
 - (C) ₹28,000
 - (D) ₹55,000
33. In the case of a non-resident, which of the following income is not taxable in his hand :
- (A) Interest received from Government of India
 - (B) Capital gain on transfer of capital assets situated in India
 - (C) Interest received from a person resident in India on money borrowed and used outside India for carrying a business
 - (D) Royalty received from a person resident in India for the patent rights used in India
34. Kant, is engaged in the business of purchase and sale of pieces of various lands. During the F.Y. 2018-19, he sold pieces of lands for ₹32 lakh. All these sales were made through cheques and Electronic Clearing System (ECS). The valuation of these pieces of lands for stamp duty purpose was ₹41 lakh. He wants to pay tax on the income as per section 44AD. The income as per this section for A.Y. 2019-20 shall be :
- (A) ₹2,46,000
 - (B) ₹3,28,000
 - (C) ₹2,56,000
 - (D) ₹1,92,000

35. Time limit for completion of Assessment/ Re-assessment under section 147 of the Income Tax Act, 1961 is :
- (A) 9 months from the end of the financial year in which notice for re-assessment is served
 - (B) 6 months from the end of the financial year in which notice for re-assessment is served
 - (C) 12 months from the end of the financial year in which notice for re-assessment is served
 - (D) 15 months from the end of the financial year in which notice for re-assessment is served
36. Prakash maintained a recurring deposit by paying 20,000 per month in a bank. The interest accrued and credited during 2018-19 on such deposit is ₹15,000. The amount of TDS required to be deducted by the bank would be :
- (A) NIL
 - (B) ₹1,500 @ 10%
 - (C) ₹3,000 @ 20%
 - (D) ₹500 @ 10% over ₹10,000
37. Sagar engaged in a business, booked a marriage hall of Yash having PAN for conducting mega sale during festival season of F.Y. 2018-19 and paid rent of ₹55,000 for 3 days period. His total turnover for financial year 2018-19 is ₹85 lakh. The amount of Tax Deduction at Source (TDS) to be made by Sagar on the amount of rent paid will be :
- (A) NIL
 - (B) ₹5,500
 - (C) ₹2,750
 - (D) ₹11,000
38. Hindu Undivided Family (HUF) of Vinay consisted of himself, his major son, minor son and his wife. At the time of filing of return of income of the HUF for A.Y. 2019-20, Vinay was out of country. The return of income of the HUF can be signed in this case by :
- (A) Karta
 - (B) Authorized Tax Consultant
 - (C) Major Son
 - (D) Minor Son

39. A tax payer wants to prefer an appeal against the order of the Assessing Officer. He received the order dated 30th April, 2019 on 5th May, 2019. He must prefer an appeal before the CIT (Appeals) under section 246A of the Income Tax Act, 1961, within :
- (A) 30 days from the date of order
 - (B) 30 days from the date of receipt of order
 - (C) 60 days from the date of order
 - (D) 60 days from the date of receipt of order
40. An advance ruling can be sought from the Authority for Advance Ruling (AAR) by :
- (A) Non-resident having transaction with resident
 - (B) Resident having transaction with another resident
 - (C) Foreign Government
 - (D) A Listed Company
41. When a person, who has entered into an international transaction, fails to furnish information or document in relation to his international transaction to the Assessing Officer, he is liable to pay penalty of :
- (A) 1% of the value of International transaction
 - (B) 2% of the value of International transaction
 - (C) ₹1,50,000
 - (D) ₹5,00,000
42. In the case of an individual who is not an ordinarily resident in India, the income chargeable to tax in India out of the following shall be :
- (A) Rental income in foreign country
 - (B) Interest income in foreign country
 - (C) Income from outside India from a business controlled in India
 - (D) All the three above in A, B & C
43. Which of the following is not the objective of safe harbour rules :
- (A) Compliance and Simplicity
 - (B) Reduce Litigation
 - (C) Administration Simplicity
 - (D) Higher collection of Taxes

44. Anil made following transaction for the year ended 31st March, 2019 (a) acquired immovable property for ₹6 lakh; (b) made a term deposit (TDR) of ₹30,000 in a bank (c) paid ₹75,000 to a hotel for his birthday party and (d) deposited ₹45,000 cash in his Savings Bank (SB) account. Quoting of PAN is mandatory in which of these transactions :
- (A) Purchase of immovable property
 - (B) TDR with bank and deposit of cash in bank
 - (C) Payment to hotel for birthday party
 - (D) All the three above in A, B & C
45. M Ltd. has Minimum Alternative Tax (MAT) credit of ₹5,20,000 of the assessment year 2018-19. It can carry forward this MAT credit upto _____ assessment years immediately succeeding the assessment year 2018-19.
- (A) 5
 - (B) 10
 - (C) 15
 - (D) 20
46. The monetary limit for specified domestic transaction in order to be liable for transfer pricing provision should exceed, in aggregate, in a year :
- (A) ₹20 Crore
 - (B) ₹10 Crore
 - (C) ₹5 Crore
 - (D) ₹3 Crore
47. Tom (P) Ltd. availed the services of a foreign company for online advertisement of its products. It has to pay a levy @ _____% of the gross amount paid/ payable to the foreign company when it has no permanent establishment in India.
- (A) 2
 - (B) 5
 - (C) 6
 - (D) 10
48. Kadam sold a vacant land for ₹15 lakh on 20th March, 2019. The indexed cost of acquisition of the land is ₹12,00,000. He received ₹3 lakh being part of the sales consideration in cash and the balance through Electronic Clearance System (ECS). The AO can levy penalty in such case on Kadam of an amount of :
- (A) ₹12,00,000
 - (B) NIL
 - (C) ₹15,00,000
 - (D) ₹ 3,00,000

49. When an Indian company holds 30% of the nominal value of equity capital of a foreign company, the amount of dividend received from the foreign company in the hands of Indian company is :
- (A) Exempt from Tax
 - (B) Taxable @ 15%
 - (C) Taxable @ 10%
 - (D) Taxable @ 30%
50. The secondary adjustment in certain international transaction is required to be made when the amount of primary adjustment exceeds :
- (A) ₹10 Crore
 - (B) ₹5 Crore
 - (C) ₹3 Crore
 - (D) ₹1 Crore
51. The total income of Ram is ₹4,90,000 and due date of filing the return of income for A.Y. 2019-20 is 31st July, 2019. The return by Ram shall be filed on 20th September, 2019. The late fee payable for late filing of return of income shall be:
- (A) ₹1,000
 - (B) ₹5,000
 - (C) ₹10,000
 - (D) No late fee upto income of ₹5 lakh
52. Notice for assessment or re-assessment of the escaped income of non-resident can not be issued to the statutory agent of the non-residential after expiry of _____ years from the end of the relevant assessment year.
- (A) 4
 - (B) 6
 - (C) 2
 - (D) 16
53. Ashish, director of PQR Ltd. is eligible for board sitting fees of ₹10,000 for every meeting attended by him. During the year 2018-19, he had attended six meetings. The amount of tax required to be deducted from such sitting fees to be paid to Ashish by the company shall be :
- (A) ₹12,000 @ 20%
 - (B) ₹1,200 @ 2%
 - (C) ₹3,000 @ 5%
 - (D) ₹6,000 @ 10%

54. Advance Pricing Agreement (APA) shall be valid for a period as specified in the Advance Pricing Agreement but this period will not be for more than _____ consecutive previous years.
- (A) 5
 - (B) 3
 - (C) 2
 - (D) 10
55. Any payment in commutation of pension received from a pension fund setup by the Life Insurance Corporation of India in terms of section 10(23AAB) of the Income Tax Act, 1961, is :
- (A) Liable for tax
 - (B) Fully exempt from tax
 - (C) Partly liable for tax
 - (D) Taxable @ 10%
56. Find out from the following income derived from house property which is being exempt from Income Tax :
- (A) Income from property of a trust for charitable or religious purposes
 - (B) Income from property of a housing society
 - (C) Income from property of a trade association
 - (D) Income from property of a sports association
57. Z an assessee incurs expenditure for acquisition of an asset in respect of which payment (or aggregate of payment made to a person in a day), otherwise than by an account payee cheque/draft or use of ECS through a bank, exceeds ₹_____ such payment shall not be eligible for claiming the amount of depreciation on such asset.
- (A) ₹50,000
 - (B) ₹20,000
 - (C) ₹10,000
 - (D) ₹2,00,000
58. Exemption under section 54G on fulfilling of specified conditions is available on:
- (A) Shifting of industrial undertaking from urban area to a Special Economic Zone (SEZ)
 - (B) Shifting of industrial undertaking from urban Area by government
 - (C) Compulsory acquisition of land and building
 - (D) Transfer of certain capital assets as specified

59. Business loss can be set off from income of any other business but cannot be set off from :
- (A) Salary Income
 - (B) House Property Income
 - (C) Long Term Capital Gains
 - (D) Income from derivatives specified in section 43(5)
60. 100% deduction in respect of donations as per section 80G without any qualifying amount or limit is available in the case of :
- (A) Prime Minister Drought Relief Fund
 - (B) Jawaharlal Nehru Memorial Fund
 - (C) Payment to local authority for promotion of family planning
 - (D) Africa Fund
61. Alternate Minimum Tax (AMT) under section 115JC is payable by a person other than a company on the adjusted total income at the rate of :
- (A) 20% plus cess
 - (B) 18% plus cess
 - (C) 18.5% plus cess
 - (D) 20.5% plus cess
62. Dividend distribution tax by a domestic company under section 115-O shall be paid within _____ days of declaration of dividend.
- (A) 30 days
 - (B) 15 days
 - (C) 10 days
 - (D) 14 days
63. A non-resident is not required to furnish return of income under section 139(1) if his total income during the previous year consists of:
- (A) Income from Technical fee
 - (B) Income from Interest/Dividends
 - (C) Income from Royalty
 - (D) Income from House Rent

64. An income tax authority referred to in section 116 of the Income Tax Act, 1961 may amend with a view to rectify any mistake apparent from the records in respect of :
- (A) Any intimation under sub-section (1) of section 200A
 - (B) Any dispute raised by the assessee in respect of an issue having two views
 - (C) Any order passed by its higher authorities
 - (D) Any section, if required by law
65. X filed his return of income for the A.Y. 2018-19 on 31st July, 2018. The return so filed was selected for scrutiny assessment. The notice under section 143(2) for making scrutiny assessment can be served by :
- (A) 30th September, 2019
 - (B) 31st December, 2018
 - (C) 31st March, 2019
 - (D) 31st December, 2019
66. Income Tax Appellate Tribunal (ITAT) as per section 254(2A) may hear and decide any appeal within a period of :
- (A) 1 year from the end of financial year in which appeal is filed
 - (B) 2 years from the end of financial year in which appeal is filed
 - (C) 3 years from the end of financial year in which appeal is filed
 - (D) 4 years from the end of financial year in which appeal is filed
67. Application to settlement commission can be made only :
- (A) Where the additional amount of income tax payable exceeds ₹10 lakh
 - (B) Where the additional amount of income tax payable exceeds ₹5 lakh
 - (C) Where the additional amount of income tax payable exceeds ₹3 lakh
 - (D) Where the additional amount of income tax payable exceeds ₹1 lakh
68. Maximum amount of penalty for failure to get accounts audited required as per section 44 AB of the Act from an accountant is :
- (A) ₹1,50,000
 - (B) ₹1,00,000
 - (C) ₹50,000
 - (D) 1/2% of turnover or gross receipts of the business or profession or ₹50,000
69. Which one is not a method under transfer pricing for calculating Arm's Length Price (ALP) of the transactions :
- (A) Comparable Uncontrolled Price method (CUP)
 - (B) Profit Method (PM)
 - (C) Resale Price Method (RPM)
 - (D) Profit Split Method (PSM)

70. Agriculture income from agriculture land located in a foreign country is taxable case of :
- (A) Non-resident
 - (B) Not ordinarily resident
 - (C) Resident
 - (D) In all cases stated in A, B & C

PART B

71. Decision of the GST Council will be adopted when it has the support of :
- (A) One-third majority
 - (B) Two-third majority
 - (C) Three-fourth majority
 - (D) Simple majority
72. The Compensation to States for loss of revenue on account of implementation of GST is for _____ years.
- (A) 2
 - (B) 5
 - (C) 8
 - (D) 10
73. When agriculturist supplies tobacco leaves to a factory, registered under GST, the liability to pay GST is on :
- (A) Tobacco leaves seller
 - (B) The buyer under reverse charge
 - (C) The agriculturist
 - (D) Consumer of tobacco leaves
74. When an unregistered dealer supplied goods to a registered dealer, the time of supply under reverse charge shall be earliest of the :
- (A) date of receipt of goods
 - (B) date of supply of goods
 - (C) date of loading of goods in transport
 - (D) date of intimation of supply of goods
75. Composition scheme is not applicable to service providers except the following:
- (A) Consultancy Service
 - (B) Restaurant Service
 - (C) Beauty Parlours
 - (D) Cleaning work

76. To avail input tax credit, which of the following factors is not relevant :
- (A) Tax invoice
 - (B) Furnishing of return by supplier
 - (C) Receipt of goods and services
 - (D) Payment by buyer for supply received
77. Input tax credit cannot be availed after the expiry of _____ from the date of issue of tax invoice of supply.
- (A) 6 months
 - (B) 3 months
 - (C) 1 year
 - (D) 2 years
78. When goods are packed and transported with insurance, the supply of goods, packing materials, transport and insurance as per provisions of CGST Act, 2017, is called as :
- (A) Mixed Supply
 - (B) Uniform Supply
 - (C) Complex Supply
 - (D) Composite Supply
79. A service shall be a continuous supply of service agreed to be provided continuously or on recurrent basis under a contract when the period of service exceeds :
- (A) 1 month
 - (B) 3 months
 - (C) 6 months
 - (D) One year
80. Which of the following is not liable to be registered as per provisions of CGST Act, 2017 :
- (A) Person supplying exempted goods
 - (B) Non-resident making taxable supplies
 - (C) Deductor of tax at source
 - (D) Supplier on behalf of other person
81. Supplier registered under composition scheme must file return within :
- (A) 7 days after end of every month
 - (B) 20 days after end of every month
 - (C) 18 days after end of every quarter
 - (D) 20 days after end of every quarter

82. When the goods are sent to job worker, input tax credit will be reversed if the goods are not received back by the principal after completion of job work within of being sent out.
- (A) 3 months
 - (B) 6 months
 - (C) 1 year
 - (D) 3 years
83. Mr. Pandit is engaged in trading of gifts articles and his annual turnover will exceeds ₹200 lakh. The due date for filing annual return would be _____ of the following financial year.
- (A) 31st October
 - (B) 31st December
 - (C) 30th September
 - (D) 30th November
84. When a movement of goods is of more than _____ in value, the e-way bill must accompany the goods.
- (A) ₹20,000
 - (B) ₹50,000
 - (C) ₹1,00,000
 - (D) ₹2,00,000
85. A registered person of Delhi is buying and selling goods only in Delhi and Pudicherry. The applicable law for GST in his case will be :
- (A) State GST
 - (B) UTGST Act, 2017
 - (C) GST (Compensation to States) Act,
 - (D) CGST Act, 2017
86. When the goods are dispatched to a destination which is 280 kms from the place of dispatch, the e-way bill generated is valid for:
- (A) 1 day
 - (B) 3 days
 - (C) 2 days
 - (D) 5 days

87. Which of the following goods is not exempt from GST :
- (A) Fish seed
 - (B) Ice cream
 - (C) Pappad
 - (D) Plastic Bangles
88. Power to declare certain activities/transactions as neither supply of goods nor of services is given in :
- (A) Schedule IV
 - (B) Schedule III
 - (C) Schedule II
 - (D) Schedule I
89. Input Service Distributor (ISD) may distribute the CGST credit within the State as :
- (A) UTGST
 - (B) CGST
 - (C) SGST
 - (D) Any of the above
90. The proper officer may cancel the GST registration, if any registered person other than a person paying tax under section 10 of CGST Act, 2017 has not furnished the returns for a continuous period of :
- (A) 12 months
 - (B) 9 months
 - (C) 6 months
 - (D) 3 months
91. Goods and Services to be supplied chargeable under the CGST Act, 2017 have been classified under different specified Code Number/s which are known as Harmonized System Nomenclature (HSN) Codes. These HSN codes have been evolved and developed by :
- (A) GST Council
 - (B) HSN/SAC Codes Committee
 - (C) Customs Cooperation Council of Belgium
 - (D) None of the above

92. ABC Ltd. of Mumbai supplied goods to XYZ Ltd. of Delhi under a contract for the goods to be delivered at the factory of the buyers. Goods removed from the factory of ABC Ltd. on 09-08-2018 and were delivered in the factory of XYZ Ltd. of Delhi on 16-08-2018. Invoice for the supplies was raised by ABC Ltd. on 18-08-2018. Payment of the bill was received on 20-09-2018. The time of supply in this case under GST be taken as :
- (A) 09-08-2018
 - (B) 16-08-2018
 - (C) 18-08-2018
 - (D) 20-09-2018
93. The registered person, in case of supply of capital goods or of plant and machinery on which input tax credit (ITC) has been availed/ taken shall pay an amount equal to the Input Tax Credit on such capital goods or plant and machinery which is being arrived at by reducing the Input-tax at _____ percentage points for every quarter or part thereof from the date of issue of invoice of such goods or the tax on the transaction value of such capital goods, whichever is higher.
- (A) 3
 - (B) 5
 - (C) 6
 - (D) 2
94. Section 24 of the CGST Act, 2017 lists categories of persons who are required to take registration even if they are not covered under section 22 of the Act. Find out from the following categories of persons who are being required to take registration as per section 24 of the CGST Act, 2017 :
- (i) Casual taxable person
 - (ii) Non-resident taxable person
 - (iii) Recipient of service under Reverse Charge
 - (iv) Interstate supplier
 - (v) Input service distributor
- (A) (i), (iii) and (v)
 - (B) (i), (ii), (iv) and (v)
 - (C) (i), (ii) and (v)
 - (D) All the 5 in (i) to (v)
95. Section 2(6) of the CGST/SGST Act, 2017 defines aggregate turnover which is being computed on all India basis excluding the taxes charged under CGST

Act, SGST Act, UTGST Act and IGST Act. Aggregate turnover shall include all supplies made by a taxable person comprising of :

- (i) Taxable supply
 - (ii) Exempt supply
 - (iii) Export of goods and or services
 - (iv) All Inter state supply of person having same PAN
 - (v) Supply on which tax is levied on reverse charge basis
 - (vi) Value of all inward supply
- (A) (i), (iii), (iv) and (v)
- (B) (i), (iii), (iv) and (vi)
- (C) All the above in (i) to (vi)
- (D) (i), (ii), (iii) and (iv)
96. The certificate of registration issued to casual taxable person or to a non-resident taxable person shall be valid for the period specified in the application for registration or for _____ days from the effective date of registration whichever is earlier. The validity of registration period on a request made by such taxable person may be further extended by the Proper Officer for a period not exceeding _____ days.
- (A) 60, 45
- (B) 90, 60
- (C) 90, 90
- (D) 90, 30
97. The Proper Officer may make the best judgment assessment of the registered person where he fails to file general return under section 39 or final return under section 45 even after notice given under section 46 of the CGST Act, 2017 within _____ years from the due date of annual return of the period to which the tax not paid relates.
- (A) 5
- (B) 3
- (C) 2
- (D) 1
98. Refund order should be made by the Proper Officer within _____ days from the date of receipt of application which is complete in all respects and where the

Proper Officer is satisfied with the amount so refundable is payable to the applicant, he shall make an order in Form _____ which shall be credited to the account of the applicant.

- (A) 45, GST-RFD-05
 - (B) 90, GST-RFD-04
 - (C) 60, GST-RFD-06
 - (D) 90, GST-RFD-06 1/2019/TLP
99. President of India gave assent to (i) Central Goods and Service Tax Act, 2017 (ii) Integrated Goods and Service Tax Act, 2017 (iii) Union Territory Goods and Service Tax Act, 2017 and (iv) Goods and Service Tax (Compensation to State) Act, 2017 on :
- (A) 13 th May, 2017
 - (B) 13th April, 2017
 - (C) 16th April, 2017
 - (D) 6th June, 2017
100. Radhey & Company registered supplier paying GST under regular scheme had made Interstate Taxable Supply of ₹8,00,000 and Intrastate Taxable Supply of ₹6,00,000 chargeable under CGST, SGST, and IGST at the rates of 9%, 9% and 18% respectively. He is having available amount of ITC under CGST of ₹30,000 and under SGST of ₹20,000. Supplies made are exclusive of taxes. Amount of the total tax payable as CGST, SGST and IGST after availing the amount of ITC by Radhey & Company on such supplies shall be of ?
- (A) 2,30,000
 - (B) 2,00,000
 - (C) 2,22,000
 - (D) 2,26,000

ANSWER KEY
TAX LAWS AND PRACTICE - SELECT SERIES

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

Notes

- Q. No. 4 The question has typo error i.e. "instead of section 72 of the Income Tax Act, 1961 it should be section 74 of the Income Tax Act, 1961. However this would not impact the options of the question.
- Q. No. 10 None of the option is correct. No appeal can be filed under the Income Tax Act, 1961 against the order u/s 264 of the Income Tax Act, 1961.
- Q. No. 14 None of the option is correct. Correct Answer is Rs. 15000.
- Q. No. 17 Option B is correct. However, option A also seems ok as employer contribution in excess of 12% is deemed income as salary income and hence taxable under the head salary income.
- Q. No. 20 None of the option is correct. As per amendments made vide Finance Act, 2018, valuation of heavy vehicle goods is Rs. 1000 per tonne per month. In the question, the weight of heavy vehicle is not given. Therefore valuation could not be made.
- Q. No. 35 The question does not mention the date of serving of notice. If notice has been served before 31.03.2019, then option A is correct. If notice has been served on or after 01.04.2019, then option C is correct.
- Q. No. 56 Both options A and C are correct.
- Q. No. 76 Both options B/D are correct.
- Q. No. 85 A/D both options are correct as both SGST Act, 2017 and CGST Act, 2017 will be applicable.
- Q. No. 88 None of the option is correct. Schedule III contains the list of activities which shall be treated neither as a supply of goods nor a supply of services. Schedule III does not contain the power to declare certain activities/ transactions as neither supply of goods nor of services.
- Q. No. 99 None of the option is correct. Actual date on which the President of India gave assent to CGST Act, 2017, IGST Act, 2017, UTGST Act, 2017, GST (Compensation to States) Act, 2017 is 12th April, 2017.
- Q. No. 100 None of the option is correct. Amount of total tax payable will be Rs. 2,02,000.
