

Con. 9561-13.

Direct Tax MN-9751

(New Course)  
(2 Hours)

[Total Marks : 60]

(For regular students admitted in Academic year 2013-14)

- N.B. : (1) Attempt all questions.  
 (2) Each question carries 15 marks.  
 (3) Sub questions would carry equal marks (duly approximated where required) unless indicated to the contrary to their extreme right.  
 (4) Workings / References to statute/standards etc. (not necessary with reference Nos.) to form part of the solutions.

1. (a) The following is the account of Mr. Vijay in the books of Poonawala Bros. :-  
 Vijay's A/c

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Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
<u>2012</u>			<u>2012</u>		
Jan. 1	To Balance b/d	12,000	Jan. 1	By Bills Receivable	8,000
May 20	To Sales	10,000	Jan. 1	By Sales Return	2,000
Sept. 10	To Bills Receivable	5,000	Jan. 1	By Bank	1,900
Sept. 10	To Interest	1,000	Jan. 1	By Discount	100
Sept. 10	To Sales	14,000	June 10	By Bank	4,700
Dec. 10	To Bills Receivable	16,000	June 10	By Discount	300
Dec. 10	To Interest	800	June 10	By Bills Receivable	5,000
Dec. 15	To Sales	10,000	Sept. 10	By Bank	4,000
			Sept. 10	By Bills Receivable	16,000
			Dec. 15	By Bank	16,800
			Dec. 31	By Balance c/fd.	10,000
		<b>68,800</b>			<b>68,800</b>

Scrutinise and interpret the above account.

- (b) As the Statutory Auditor of company, state how would you deal with / respond to / comment on the following situation :-  
 Santosh Ltd., a small company has its registered office in Chennai. During the year it has shifted its corporate head office to Bangalore, though it has retained the registered office in Chennai. The Managing Director is the company wants to shift the books of accounts to Bangalore from Chennai. He thinks that there is no need to comply with any legal formalities for doing so.  
 Express your opinion for the same.

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OR

1. (a) Read and interpret the following Custom Duty Deposit A/C in the books of ABC Ltd. 10

Date	Particulars	Amount ₹	Date	Particulars	Amount ₹
<u>2013</u>			<u>2013</u>		
Apr. 1	To Balance b/fd	15,00,000	Apr. 30	By Customs Duty a/c	5,00,000
May 1	To Bank	5,00,000	May 15	By Customs Duty a/c	4,00,000
June 1	To Bank	6,00,000	May 25	By Customs Duty a/c	2,00,000
July 1	To Bank	11,00,000	June 20	By Customs Duty a/c	7,00,000
			June 30	By Customs Duty a/c	4,00,000
			July 1	By Balance c/fd.	15,00,000
		<b>37,00,000</b>			<b>37,00,000</b>

1. (b) Mr. Kiran, an Audit Assistant of Doshi and Co., Chartered Accountants, wanted to verify the cash in hand and investments held by Raghuveer Ltd. a small company. The Finance Manager of Raghuveer Ltd. suggested that it was not necessary as his staff had done the same only a few days back and there was no discrepancy noted. What is your opinion as the Company's Statutory Auditor? 5

2. Explain the various aspects to be considered in the Audit of an Insurance Company. 15

OR

Explain the procedure adopted by the Auditor in Audit of : (i) Clubs (ii) Hospitals.

3. What are the steps in the audit of following entities? 15
- (a) Educational Institutions;
- (b) Hotels.

OR

As an Auditor of a Bank how will you verify its following Balance Sheet items?

- (a) Investments;
- (b) Advances by a Bank to Companies.

4. (a) Match the items from Column A to Column B selecting on an overall most appropriate basis : 15

A	B
● Contingent Asset	● Comptroller & Auditor General
● Ledger scrutiny	● Accounts of Customers
● Government Audit	● A. S. 2
● Sales Ledger	● Uncalled Share Capital
● Stock valuation	● Interpretation of the Ledger account
● Patent Rights	● Section 44 AB
● Tax Audit	● Controlled by I.R.D.A.
● Insurance business	● Intangible Asset
	● Non-performing Asset
	● Contingent Liabilities

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- (b) Fill in the blanks with most appropriate alternative :-
- (1) Purchase ledger includes \_\_\_\_\_ accounts.
    - (i) Trade Creditors
    - (ii) Nominal
    - (iii) Trade Debtors
    - (iv) Real
  - (2) Claim made on a Bank for compensation pending with the court is \_\_\_\_\_ liability.
    - (i) Fixed
    - (ii) Current
    - (iii) Contingent
    - (iv) Short-term
  - (3) \_\_\_\_\_ is a wasting asset in the case of a firm's audit.
    - (i) Live stock
    - (ii) Copyright
    - (iii) Patents
    - (iv) Mines
  - (4) Arrears of preference dividend is a \_\_\_\_\_ liability.
    - (i) Fictitious
    - (ii) Contingent
    - (iii) Long-term
    - (iv) Short-term
  - (5) Non-performing Assets are those overdue for more than \_\_\_\_\_ days.
    - (i) 30
    - (ii) 60
    - (iii) 90
    - (iv) 120
  - (6) A trading firm's closing stock is valued at \_\_\_\_\_ as per AS 2.
    - (i) Cost price
    - (ii) Market price
    - (iii) Cost or market price whichever is less
    - (iv) None of the above.
  - (7) The tax-auditor has to submit his report to the \_\_\_\_\_.
    - (i) Chartered Accountant
    - (ii) Government
    - (iii) Assessee
    - (iv) Comptroller & Auditor General

**OR**

4. Write short notes on (any three) :-
- (a) Preparation prior to Audit of Banks.
  - (b) Audit of a Partnership firm.
  - (c) Propriety Audit.
  - (d) Conditions to be complied with before declaration of dividend.
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(2 Hours)

[ Total Marks : 60

- N. B. :** (1) **All** the questions are **compulsory**.  
(2) **Figures** to the **right** indicate **full** marks.

1. Attempt any **one** from the following questions :-
- (a) Define Research Methodology. Explain the merits and demerits of scientific method in Research Methodology. **15**
- OR**
- (b) Define Hypothesis. Discuss various types of Hypothesis. What are the characteristics of a good hypothesis ? **15**
2. Attempt any **two** from the following questions :- **15**
- (a) Discuss in brief the techniques involved in formulation of research problem.
- (b) What is research design ? Explain various types of research design in brief.
- (c) What is sampling ? Describe in brief various types of probability sampling methods.
3. Attempt any **two** from the following questions :- **15**
- (a) Critically evaluate 'survey' as a technique of primary data collection.
- (b) Distinguish between Primary and secondary data.
- (c) Define Questionnaire. Explain various types of questions in brief.
4. Write explanatory notes (any **two**) :- **15**
- (a) Types of Research
- (b) Advantages and Disadvantages of sampling
- (c) Internal and External sources of secondary data.

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MN-9742

(2 Hours)

[ Total Marks : 60

- N.B.** (1) All questions are **compulsory** carrying **15 marks each**.  
 (2) **Figures** to the **right** side indicate **full marks**.  
 (3) **Working notes** and **assumptions** should form **part** of your answers.  
 (4) Use of simple calculator is **allowed**.

1. The financial statements of Tata Tea Ltd. for the current year end reveal the following information : **15**

✓ Ratio of current assets to current liabilities	1.75 : 1.0
✓ Liquidity ratio (debtors and bank balances to current liabilities)	1.25 : 1.0
✓ Issued capital in equity shares of ₹ 10 each	₹ 1,20,000
✓ Net current assets (as over current liabilities)	₹ 60,600
✓ Fixed assets (net blocks) - Percentage of Shareholder's equity as on the closing date	60%
✓ Gross profit - Percentage of turnover	20%
✓ Annual rate of turnover of stock (based on cost at March 31)	5.26 times
✓ Average age of outstanding debtors for the current year	2 months
✓ Net profit - Percentage on issued share capital	16 %

On March 31<sup>st</sup> the current assets consisted of stock, debtors and bank balances

You are required to reconstruct, in as much as possible :

- (1) The balance sheet as on March 31<sup>st</sup>, current year and  
 (2) The trading and profit and loss account for the current year ended March 31<sup>st</sup>.

**OR**

1. From the following particulars, draw up the Balances Sheet of a company : **15**

✓ Current Ratio	2.5
✓ Quick Ratio	1.5
✓ Net Working Capital	₹ 90,000
✓ Stock Turnover Ratio (Cost of Sales / Closing Stock)	6 Times
✓ Gross Profit Ratio	20%
✓ Fixed Assets Turnover Ratio (Cost of Sales)	2 Times
✓ Debtors Turnover Ratio	2 Months
Fixed Assets to Shareholders' Net Worth	0.80
Reserve and Surplus to Capital	0.50

**Note :**

- (i) Liquid Liabilities are equal to Current Liabilities  
 (ii) Long Term Liabilities are 75% of Current Liabilities.

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2. A firm has Sales of ₹ 75,00,000, Variable Cos of ₹ 42,00,000 and Fixed Cost of ₹ 6,00,000. 15  
It has a Debt of ₹ 45,00,000 at 9% and Equity of ₹ 55,00,000
- What is the firm's ROI ?
  - Does it have a favourable Financial Leverage ?
  - If the firm belongs to an industry, whose asset turnover is 3, does it have high or low asset leverage ?
  - What are the Operating, Financial and Combined Leverages of the firm ?
  - If the Sales drop to ₹ 50,00,000, what will be the new EBIT ?

OR

2. One-up Ltd. has equity share capital of ₹ 5,00,000 divided into share of ₹ 100 each. It 15  
wishes to raise further ₹ 3,00,000 for expansion-cum-modernisation scheme. The company  
plans the following financing alternatives :
- By issuing equity shares only
  - ₹ 1,00,000 by issuing equity shares and ₹ 2,00,000 through debentures or term loan @ 10% per annum.
  - By raising term loan only at 10% per annum.
  - ₹ 1,00,000 by issuing Equity Shares and ₹ 2,00,000 by issuing 8% Preference Shares.

You are required to suggest the best alternative giving your comment assuming that the estimated earning before interest and taxes (EBIT) after expansion is ₹ 1,50,000 and corporate rate of tax is 35%.

3. TB2 Ltd. requires ₹ 40,00,000 and provides you the following information : 15
- Debt Equity ratio will be 3/5 : 2/5
  - Debt will carry interest of 12% for first ₹ 4,00,000 and 12.5% for the balance
  - EPS for the current year is ₹ 20. Dividend payment ratio is 60%. Dividend Growth rate expected is 5%. Market Price per share is ₹ 90. Cost of floatation is ₹ 6 per share.
  - Present equity capital is ₹ 2,00,000 divided into fully paid shares of ₹ 10 each
  - Corporate tax rate is 30%.

Compute weighted Marginal Cost of Capital.

OR

3. ABC Ltd. wishes to raise additional finance of ₹ 20 Lakhs for meeting its investment plans. The company has ₹ 4,00,000 in the form of retained earnings available for investment purposes. The following are the further details : 15

- (a) Debt equity ratio 25 : 75
- (b) Cost of debt at the rate of 10% (before tax) upto Rs. 2,00,000 and 13% (before tax) beyond that
- (c) Earning per share ₹ 12
- (d) Dividend payout 50% of earnings
- (e) Expected growth rate in dividend 10%
- (f) Current market price per share ₹ 60
- (g) Company tax rate is 30% and shareholder's personal tax is 20%.

**Required :**

- (i) Calculate the post tax average cost of additional debt
- (ii) Calculate the cost of retained earnings and cost of equity
- (iii) Calculate the overall weighted average (after tax) cost of additional finance.

4. (a) Fill in the blanks and re-write with appropriate option :—

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(i) Financial management includes \_\_\_\_\_.

- (1) Tax management
- (2) Human resource management
- (3) Production management
- (4) Marketing management

(ii) The interest paid on the principal for a fixed period of time at a fixed rate of interest if called \_\_\_\_\_.

- (1) Simple interest
- (2) Compound interest
- (3) PV
- (4) FV

(iii) A low inventory turnover ratio indicates \_\_\_\_\_.

- (1) Investment tied up in stock
- (2) Absolute goods on hand
- (3) Adverse liquidity
- (4) All of the above

(iv) The cost which equates the PV of cash inflow with the PV of cash outflow is \_\_\_\_\_.

- (1) Explicit cost
- (2) Historical cost
- (3) Future cost
- (4) Implicit cost

(v) The factor which is not relevant for determination of debt equity mix \_\_\_\_\_.

- (1) Taxation
- (2) Nature of Asset base
- (3) Industry norms
- (4) Viability of cash flows

(vi) Ideal situation for profit maximisation is \_\_\_\_\_.

- (1) Thin financial leverage
- (2) Low operating leverage
- (3) Low operating and high financial leverage
- (4) None of the above

- (vii) Bonus Shares are issued to \_\_\_\_\_.
- (1) Equity shareholders (2) Preference shareholders  
(3) Debenture holders (4) Bond holders
- (viii) Activity ratios include \_\_\_\_\_.
- (1) Capital Turnover ratio (2) Stock Turnover Ratio  
(3) Debtors Turnover Ratio (4) All of the above

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(b) Match the column :-

**Column 'A'**

- (i) Discounting  
(ii) Operating ratio  
(iii) Own capital  
(iv) Combined leverage  
(v) Shares listed on stock exchange  
(vi) Lower liquid ratio  
(vii) Finance

**Column 'B'**

- (a) Equity capital  
(b) Composite leverage  
(c) Life blood of an organisation  
(d) Liquid investment  
(e) Bad liquidity position  
(f) Debt capital  
(g) Operating cost ÷ Sales  
(h) Deciding present value of future amount

OR

4. Write short notes on (any three) :-

- (a) Profit maximisation  
(b) Debt Equity ratio  
(c) Optimum capital structure  
(d) Functions of a financial manager  
(e) Combined leverage.

15



Con. 6980-13.

MN-9761

(2 Hours)

[Total Marks : 60]

- N.B. : (1) Answer all questions.  
 (2) Figures to the right indicate full marks.  
 (3) Working notes from part of answer.  
 (4) Use of simple calculator is permitted.

1. The Profit and Loss Account of Mr. A for the Previous Year 2012-13 is given below :— 15

	₹		₹
To Purchase of goods	✓8,88,000	By Sales	15,15,700
① To Salaries, bonus and commission	✓2,22,000	By Closing stock	40,000
To Rent, rates and taxes	✓50,000	By Interest on company deposits (after deducting tax of ₹ 1,200)	⑧ 8,800
③ To Depreciation (@15% on Written Down Value)	✓28,500	By Interest on securities (Gross)	⑧ 4,000
④ To Travelling expenses	✓98,000	By Agricultural Income from UK	⑧ 20,000
To Interest on capital	✓15,000	By Dividend on shares of Indian companies	⑧ 21,000
② To Advertisement	✓58,000		
To Entertainment expenses	✓14,000		
To Income tax paid (for last financial year)	15,000		
To Wealth tax paid	39,000		
To Net Profit	1,82,000		
	<b>16,09,500</b>		<b>16,09,500</b>

You are further informed :—

- ✓ (1) Salaries, bonus and commission include :  
 (a) Salary to the proprietor- ₹ 22,000.  
 (b) Bonus paid to employees on 31/12/12 - ₹ 18,000.  
 (c) Salary of ₹ 20,000 was paid in India to Mr. B a non-resident employee but neither any tax was deducted at source nor paid thereon.
- ✓ (2) Advertisement includes :  
 (a) A bill paid in cash ₹ 22,000.  
 (b) Advertisement published in a Souvenir, published by a political party- ₹ 8,000.
- ✓ (3) Depreciation as per Income Tax is chargeable @ 10 % p.a.
- ✓ (4) Travelling expenses include a sum of ₹ 48,000 on foreign travel to UK for attending a marriage party by the owner.
- ✓ (5) Annual stock taking revealed a theft of goods costing ₹ 4,200 not accounted in Profit and Loss Account.
- ✗ (6) He incurred the following :  
 (a) Life Insurance premium paid for self ₹ 5,000.  
 (b) Mediclaim Insurance paid by a crossed cheque for self ₹ 4,000.

Compute his taxable income and tax liability for the Assessment Year 2013-14.

OR

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- (8) Satish had during the year received a gift of ₹ 85,000 from his friend.  
(9) Share of profit from a partnership concern ₹ 50,000.  
(10) Salary from a partnership concern ₹ 40,000.

Last year he had borrowed ₹ 20,000 for investing in fixed deposits of bank on which the interest is payable @ 10% p.a. He had also spent ₹ 500 for realizing rent.

You are further informed that he had spent ₹ 10,000 for the purpose of earning lottery prize.

OR

2. Miss Nalini is the owner of 3 house properties. House no. 1 and 2 self occupied whereas property no. 3 is let-out for business purpose. Miss Nalini furnished you the following information pertaining to the assessment year 2013-14 :

Particulars	Property No.1 ₹	Property No.2 ₹	Property No.3 ₹
Municipal Valuation	× 34,000	× 34,000	✓ 50,000
Fair Rental Value	× 40,000	× 40,000	✓ 60,000
Rent Received	× —	× —	✓ 72,000
Municipal taxes paid by her	× 4,300	× 5,000	✓ 8,400
Date of loan taken for construction of house property	1/4/2004	1/4/2008	1/4/2009
Amount of the above loan	1,00,000	2,00,000	3,00,000
Date of completion of construction	1/4/2007	1/4/2010	1/4/2010
Rate of interest	8%p.a.	10 % p.a.	12 % p.a.

You are required to compute the income from house property for the assessment year 2013-14.

3. Mr. Tanay is employed with KK College of Commerce. He furnishes the following information for the previous year ended 31 st March, 2013.

Salary (Net after deduction of Income Tax and Provident Fund)	✓ ₹ 86,000 per month
Dearness allowance	✓ ₹ 5,000 per month
Income tax deducted from the salary during the year N	✓ ₹ 2,000 per month
Provident Fund deducted from salary during the year N.	✓ ₹ 1,000 per month
Arrears of salary (not taxed previously)	✓ ₹ 45,000
House rent allowance (taxable)	✓ ₹ 13,000 per month.
Conveyance allowances received	✓ ₹ 1,000 per month
Conveyance allowances exempt	✓ ₹ 600 per month
Entertainment allowances	✓ ₹ 2,000 per month
Perquisite value of car	✓ ₹ 37,500
Education allowances	✓ ₹ 2,300 per month
Education allowances exempt	✓ ₹ 1,200 per month
Bonus	✓ ₹ 8,000
Compensation for modification of terms and conditions of the contract of service	✓ ₹ 35,000
Leave salary received	✓ ₹ 8,500

Commission of 1% on the turnover of the company of ₹ 15,00,000.

Compute his taxable salary for the Assessment Year 2013-14.

OR

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3. (A) Mr. KK, an Indian citizen furnishes the following particulars of his income earned during the previous year relevant to the assessment year 2013-14. 8

- (i) Pension from a former employer in India, received in Nepal ₹ 50,000.
- (ii) Profit on sale of property in Malaysia ₹ 30,000 received in Malaysia.
- (iii) Dividends from American company received in India ₹ 38,000.
- (iv) Profit earned from a business in Paris which is controlled from India ₹ 80,000.
- (v) Past untaxed foreign income brought in India ₹ 35,200.

Compute his total income for the Assessment Year 2013-14 assuming he is :

- (i) Resident and Ordinary Resident
- (ii) Resident but not Ordinary Resident
- (iii) Non- Resident in India

(B) Mr. Hemant a resident of USA came to India for the first time on 1st May, 2004. He stayed here without break for 3 years and left for Japan on 1st May, 2007. He returned to India on 1st April, 2008 and went back to USA on 1st December, 2008. He was posted back to India on 20th January, 2013 and has been in India since then. 7  
Determine his residential status for the previous year ended on 31st March, 2013 giving explanation for your answer.

4. (A) State whether following statement are True or False :— 8

- (1) Any income accrued or arised in India is taxable in the hands of Non- resident.
- (2) Any expense paid in cash in one installment above ₹ 20,000 is allowed to be deductible while computing taxable income from business.
- (3) Expenses incurred on transfer of capital asset are deducted while calculating Income from Capital Gain.
- (4) Dividend declared by Unit Trust of India is taxable in the hands of shareholders.
- (5) Reserves and contingencies are allowed as deduction from business income.
- (6) Goodwill of a business is treated as capital asset for the purpose of capital gain.
- (7) Unrealized rent recovered is deducted from net annual value of house property.
- (8) Taxable income of an individual is determined on the basis of citizenship.

(B) Match the column :— 7

Column A	Column B
(1) An Indian Company	(a) Artificial Juridical person
(2) Value of rent-free accommodation	(b) Income
(3) Mumbai Port Trust	(c) Deduction U/S 16
(4) Salary received	(d) not a capital asset
(5) Entertainment allowance	(e) Capital assets
(6) Special bearer bonds, 1991	(f) exempt income
(7) Dividend from Indian company	(g) Always resident
	(h) taxable perquisite

OR

4. Write short notes (any three) :— 15

- (a) Deductions from Gross Total Income.
- (b) Income exempt under Section 10.
- (c) Taxability of pension.
- (d) Taxability of receipts without consideration.