

Code No 404

M.COM. PART II
Semester IV
ADVANCED ACCOUNTING & TAXATION
PAPER VIII: CASE STUDIES IN ACCOUNTANCY

CASE NO.1

A public charitable trust was established vide duly registered trust deed dated 1-11-2008. One of the objects of the trust is to promote education. The received voluntary contributions of Rs. 10 lakhs in December 2009 and with the same, plot of land was purchased in February 2010, with an intention to construct a school building thereon and for carrying other activities of general public utility. There is no other activity of the trust till now.

The point of time when the trust was obliged to apply for registration u/s 12A(a) of Income Tax Act?

The registration u/s 12A(a) of the Act to a public charitable trust has been refused.

Following are the details of income and expenditure, furnished before Commissioner of Income Tax during registration proceedings:

FINANCIAL YEAR 2009-10

Administrative Expenses (salary to staff, Rent of Premises & other exp.	3,00,000	Voluntary contributions	10,00,000
Income applied for charitable purposes as per trust deed	9,00,000	Corpus donations	2,00,000
Savings	400	Bank Interest	400
Total Rs.	12,00,400	Total Rs.	12,00,400

What is the income of the trust, which is chargeable to Tax?

CASE NO 2

Shri Abhishek had a passion for collection of paintings. He has been collecting paintings for the past 2 decades. During the previous year 2009-10 he sold five paintings for Rs. 5 lakhs and claimed that those paintings were held by him for the past 20 years and hence are personal effects, not chargeable to tax under the Income Tax Act.

Give your opinion as to whether sale of paintings is chargeable to tax as Capital Gain or as income from other sources.

CASE. NO. 3

Y & CO. Ltd. provided for remuneration to its Directors in accordance with Schedule XIII of the Companies' Act, 1956. However, the remuneration was subjected to a revision to more than the limits prescribed in Schedule XIII of Companies' Act, 1956 by means of commission paid based on profits of the Company.

The Directors of the Company decided to forgo additional remuneration before the end of the previous year and well before any approval was submitted to the Central Government

The assessing officer wants to tax additional remuneration foregone by the directors in their assessment on the ground that it had accrued in their favor. What is your opinion of such inclusion?

CASE NO 4

ABC & Co. decided to set up an industry in a backward area in the State of Maharashtra. The subsidy scheme of the Government of Maharashtra provides for a subsidy of 15% on the cost of capital assets with the objective of industrialization of the State. The company received Rs. 30 lakhs as subsidy in January 2008, though the commercial production of the company was from April 2009. Decide whether the subsidy received subsequent to commencement of production, is chargeable to tax as revenue receipt.

Case No 5

How would you value the inventory per kg of finished goods from following details, as per A.S. 2

Material Cost	Rs.100
Direct Labour Cost	Rs. 20
Direct Variable production Overhead	Rs 10

Fixed production charges for the year on normal capacity of one-lakh kgs. is Rs.10 lakhs.2000kgs. Of finished goods are on stock at the year-end.

CASE NO 6

The Company deals in various products which are neither similar nor interchangeable. At the time of closing of annual accounts for the year 2004-2005 the Historical Cost and net

Realizable values of the items of closing stock are determined as below:

ITEMS	HISTORICAL COST (RS IN LAKHS)	NET REALISABLE VALUE (RS. IN LAKHS)
VALVE NO 1	200	180
VALVE NO 2	42	42
VALVE NO 3	180	210
VALVE NO 4	150	185
VALVE NO 5	140	199

What will be the value of closing stock?

CASE NO. 7

Briefly explain any four, as per relevant Accounting Standard.

- a. XYZ Ltd sells agricultural products to dealers. One of the conditions of sale is that interest is payable at the rate of 2% per month for delayed payments. Percentage of recovery is only 10% on such overdue outstanding due to various reasons. During the year 2008-09 the Company wants to recognize the entire interest receivable. Do you agree?
- b. AMD Ltd. Was making provision for non-moving stocks based on issues for the last 12 months upto 31-3-2009. The Company wants to provide during the year ending 31-03-2010 based on technical evaluation.

Total value of stock	Rs. 22,50,000
Provision required based on 12 months issue	Rs. 5,00,000
Provision required based on technical evaluation	Rs. 3,50,000

Does this amount to change in Accounting Policy? Can the Company change the method of provision?
- c. Assets and Liabilities and Income and Expenditure items in respect of Foreign Branches are translated into Indian Rupees at the prevailing rates of exchange at the end of the year. The resultant exchange differences in the case of profit are carried to other liabilities account and the loss, if any, is charged to revenue. Is this treatment is correct as per Accounting Standards? (Ans- AS 11 NO)
- d. Vebro Ltd is a Company engaged in a manufacturing activities and having 500 workers. In final accounts for the year ended 31st March 2009, the Company has accounted for Leave Encashment benefits to workers, as per Pay as You Go method. Whether Company's Accounting Policy is correct? Comment
- e. NCL Ltd purchased machine costing Rs. 2,00,000/- for manufacturing operations and paid shipping costs of Rs. 25,000/-. NCL Ltd spends an additional amount of Rs. 15,000/- on account of Testing and Preparing the machine ready for use. What amount should NCL Ltd record as the cost of the machine? (AS 10)
- f. Baroda Co. Ltd lodges a claim with Railways in March 2003 for loss of goods of Rs. 1,50,000/-. In March 2005, Railways passed the claim for Rs. 1,20,000/-. No entry was passed in the books of account of the company, when the claim was lodged. Advice the Company about treatment of this claim in the final statement of accounts for the year ended 31st March 2010.
- g. Baba Tea Estates Ltd uses horses to transport material from one place to another place in the hilly area where tea is grown. It purchased horses worth Rs. 4,00,000/- for transporting Tea on 1.4.2004. Useful life of horses was estimated to 5 years, therefore Company decided to write off depreciation on horses as per SLM over 5 years. Whether Company's depreciation accounting is correct? Comment.

- h. A Ltd has invested Rs. 75 lakhs in the shares of another Company B Ltd which is under same management. The market price of the shares of B Ltd is about Rs. 40 lakhs. The management is not prepared to provide for the fall in the value of shares on the ground that the loss is only notional till the time the shares are actually sold. Give your comments on the stand taken by the Company

CASE NO. 8

M/s. Mehta & Sons intends to supply goods on credit to Jay Ltd and Vijay Ltd. The relevant financial data relating to the companies for the year ended 31st March 2005 are as under:

	Jay Ltd	Vijay Ltd
Terms of Payments (stated)	3 Months	3 Months
Stock	16,00,000	20,00,000
Debtors	3,40,000	2,80,000
Cash in hand	60,000	1,20,000
Trade Creditors	6,00,000	3,20,000
Bank Overdraft	80,000	60,000
Creditors for Expenses	1,20,000	20,000
Total Purchases	18,60,000	13,20,000
Cash Purchases	60,000	40,000

Advise with reasons, as to which of the Companies he should prefer to deal with. Give your comments (Hint: Ratio, Current, Liquidity, Creditors - prefer Vijay Ltd.)

CASE NO. 9

Vimal Mills Ltd is engaged in manufacturing Ready-made Garments for Men. During the last year, Chairman & Managing Director of the Company Mr. Vimalkumar Kapoor has launched a successful programme of increasing sales under the brand mark of Excellent, which has received a good response from the market.

Mr. Vimalkumar was very happy with the operating results of the year ended, which showed increase in profits by 100% (approx) over the last year. However, he was surprised to note that the Company's Bank account with Citi Bank has been heavily overdrawn and the Company was facing a financial crunch. This situation disappointed him sadly. In spite of all the good performance and growth, the Company was facing a tight money situation. He called for the meeting of finance manager to understand the situation.

The finance manager presented the following financial information.

Income Statement (Rs. In lakhs)

	2009-10 Rs	2008-09 Rs
Sales	300	176
Less: Cost of goods sold	180	96
Gross Profit	120	80
Less: Operating expenses		
Factory	24	20
Administration	18	16
Selling	24	16
Depreciation	8	4
Profit before Tax	46	24
Taxes	14	8
Profit after Tax	32	16

Balance Sheet (Rs. In lakhs)

	2009-10 Rs	2008-10 Rs
Share Capital	60	60
Retained Earnings	58	32
Long Term Debt	4	22
Bank Overdraft	18	0
Current Liabilities	20	12
Total Liabilities	160	126
Fixed Assets	118	100
Stock	24	12
Debtors	16	8
Cash	2	6
Total Assets	160	126

Additional Information:

1. New machines have been added during the year.
2. A portion of Long Term Loan fell due and was paid during the year.
3. A Dividend of 10% was paid during the year

You as an Financial Advisor is requested to help the Finance Manager in explaining the reasons for such a situation to the Managing Director and give suggestions to improve the situation

Case No: 10

Hans Corporation Ltd. is proposed to be capitalized at Rs. 20 lakhs by any one of the following capital structures:

(figures. in Rs.)

	Structure I	Structure II	Structure III	Structure IV
Equity Capital	5,00,000	8,00,000	6,00,000	14,00,0000
8% Preference Shares	9,00,000	5,00,000	10,00,000	6,00,000
9% Mortgage Debentures	6,00,000	7,00,000	4,00,000	-
Total Rs.	20,00,000	20,00,000	20,00,000	20,00,000

Profit Before Debenture Interest and Tax @ 30% of Net Profit are expected to be 18% of the capitalization with a possible variation of +/- 3 in the percentage. You are required to evaluate these structures showing the necessary computation under the variation in profit.

CASE NO: 11

Stock Co has 100 switchboards in stock at the Balance sheet date 31st March 2010. The switchboards are valued at net realizable value since their cost of manufacturing is very high. Of the 100 switchboards, 60 were sold at Rs. 5000 each before signing accounts. 40 switchboards were in stock at the date of signing the accounts when the sale price was estimated at Rs. 4500. Of the 40 switchboards, 20 were under contract at Rs. 4000 each and the other 20 were to be sold in the following month when the price is expected to be at Rs. 4,800 each. Determine the value of stock on 31st March 2010.

Case No: 12

A limited company closes its accounts on 31st March every year. It issued a cheque in favor of its customers towards the refund of advances in December 2008. In April 2009, the cheque was returned to the company by the customer without presentation to the Bank while accounts of the company for that year were being finalized. Since the cheque was cancelled, the reversal entry was passed in the books of account as on 31-3-2009 with a view to disclose the correct balance as on that date, instead of showing the Bank balance lower by treating the cheque as “ issued but not encashed as on 31-3-2009.” Whether the reversal entry passed in the books of account of the company as on 31-3-2009 was proper since the cheque was cancelled before closing of the accounts for the year?

CASE NO: 13

As an Auditor, state your views on the following situation: Y Ltd. purchased an exiting bottling unit. The method of charging the Depreciation on Machinery of the acquired unit was different than that of followed by the Company in other units. The company wants to continue to charge the Depreciation for the acquired Unit, in the method followed earlier by them and which was not consistent with their own method.

CASE NO: 14

Give your comments in following situations:

- A. The Auditor of a limited company has given a clean Report on the financial statement on the basis of Xerox copies of the books of account, Vouchers and other records, which were taken away by the Income Tax Department in search under Section 132 of the Income Tax Act, 1961.
- B. Asmita is a member of the Institute of Chartered Accountants of England and Wales. Is she qualified to be appointed as an auditor of a company registered in Pune under the Companies Act, 1956
- C. Prakash who is a member of the Institute of India does not hold a Certificate of Practice. Is his appointment as an Auditor of the Company will be valid?
- D. Mr. Harish owes Rs. 1001 to City Ltd., of which he is an auditor. Is his appointment valid? Will it make any difference, if the advance is taken out for meeting out travelling expenses?

Case No. 15:

State with reasons, whether the following expenses are admissible as a deduction while computing income from business or profession

- 1 Stock in trade was lost by fire, amounting to Rs. 12 lacs and was debited to Profit and Loss Account
- 2 Interest paid to bank Rs. 15 lacs in connection with overdraft obtained for paying dividend
- 3 Capital expenditure of Rs. 10 lacs has been incurred towards promotion of family planning amongst employees of A Ltd.
- 4 Rs. 5 lacs compensation paid to the widow and children of deceased employee of the factory on the order of labour court.
- 5 Income tax paid Rs. 5 lacs

Case No. 16

Rickey Ponting, an Australian cricketer has been coming to India for 100 days every year since 1997-98.

- a Determine his residential status for A Y 2010-11
- b Will your answer be different if he has been coming to India for 110 days instead of 100 days every year?
(Hint: a) Resident but not ordinary resident
b) Resident and ordinary resident)

Case No 17:

As an auditor, state your views on the following situation.

Included under current assets of ABC Ltd. is inventory aggregating to Rs. 20 crores. A part of the said inventory manufactured for export had to be sold earlier at a discounted price off-shore due to moisture content present at the time of delivery. A part of similar inventory is included in 20 crores

(Hint: Issue based on AS-2 (Revised) on valuation of inventories)

Case No. 18:

How would you, as a statutory auditor, deal with the following situation?

The company deals in purchase and sale of timber and has included notional interest charges (calculated on the paid up share capital and free reserves) in the value of stock of timber as at the Balance Sheet as part of Holding of timber

(Hint: Problem is based on AS-2)

Case No 19:

“There is no need to provide for gratuity in the accounts; gratuity can be recognized in the accounts as and when it is actually paid”

(Hint: AS-15)

Case No 20:

A Ltd. Manufactures machinery used in steel plant. It quotes prices in various tenders issued by steel plants. As per terms of contract, full price of machinery is not released by the steel plant, but 10% thereof is retained and paid after 1 year if there is satisfactory performance of the machinery supplied. The company accounts for only 90% of the invoice value as sales income and the balance amount in the year of receipt to the extent of actual receipts only.

Is the practice adopted by A Ltd in consonance with AS-9 on “Revenue Recognition”? Comment.