



INTER CA – MAY 2018

Sub: COSTING & DIRECT TAX

Topics – Cost Sheet, Operating Costing, Process Costing, Introduction to Direct Tax, Residence of an assessee, Income from House Property

Test Code – M7

Branch: MULTIPLE Date: 17.12.2017

(50 Marks)

Note: All questions are compulsory.

Question 1 (8 marks)

Cost Sheet for the year ended 31st October

Particulars	Computation	
Opening Stock of Raw Materials	(given)	20,000
Add: Purchases & Carriage Inwards	(given)	2,50,000
Less: Closing Stock of Raw Materials	(balancing figure)	2,70,000 (94,500)
Direct Materials Consumed (by reverse working)	Prime Cost Less Labour	1,75,000
Add: Direct Labour	(given)	2,22,250
PRIME COST	(given)	3,97,750
Add: Factory Overheads (See Note below)	$\frac{2,22,250}{60\%} \times 40\%$	1,48,167
GROSS FACTORY COST		5,45,917
Add: Opening Stock of Working-in-Progress	(given)	40,000
Less: Closing Stock of Working-in-Progress	(balancing figure)	(67,892)
FACTORY COST (by reverse working)	5,18,025 – Nil	5,18,025
Add: Quality Control, R&D, Attributable AOH, etc.	(Not given in Question, hence Ignored)	Nil
COST OF PRODUCTION (by reverse working)	5,55,775 - 37,750	5,18,025
Add: Opening Stock of Finished Goods	(given)	37,750
Sub – Total = Cost of Goods Available for Sale	(given)	5,55,775
Less: Closing Stock of Finished Goods	(balancing figure)	(30,775)
COST OF GOODS SOLD (by reverse working)	5,25,000 – Nil	5,25,000
Add: Administration Overheads	(Not given in Question, hence Ignored)	Nil
Add: Selling and Distribution Overheads	(Not given in Question, hence Ignored)	Nil
COST OF SALES	(Sales Less 30%)	5,25,000
Add: Profit / (Loss)	(30% of Sales given)	2,25,000
SALES	(given)	7,50,000

Note: Cost Sheet format is first written, and the figures available in the question are filled up. The other figures are derived by reverse working and / or as balancing figures, Computation of Factory OH is as under –

- Conversion Cost = Factory OH (i.e. Indirect Manufacturing Costs) + Direct Labour
100% = 40% of Conversion Costs (Given) + 60% of Conversion Costs (bal. figure)
- Since Direct Labour = 60% of Conversion Costs = 2,22,250 (given), Factory OH is calculated at 40% proportionately.

Question 2 (8 marks)

Particulars	10-MT Truck	8-MT Truck
(a) Number of trips per truck per month	5 trips x 24 days = 120 trips.	5 trips x 24 days = 120 trips
(b) Coal quality required to be brought (Given)	24,000 MT	24,000 MT
(c) Quality per trip	120 trips x 10 = 1,200 MT	120 trips x 8 = 960 MT
(d) Number of Trucks required (b ÷ c)	20 trucks	25 trucks
(e) Number of Drivers required (d) x 2	40 Drivers	50 Drivers
(f) Driver's Salary ` 6,000 pm [(e) x ` 6,000)	` 2,40,000	` 3,00,000
(g) Depreciation per truck per month (Note) So, Depreciation for 20 and 25 trucks	` 16,667 ` 3,33,340	` 14,167 ` 3,54,175
(h) Kilometres covered per truck per month = 5 trips x 2 ways x 24 days x 6 kms = 1,440 kms		
(i) Kilometres covered by 20 and 25 Trucks	1,440 x 20 = 28,800 kms	1,440 x 25 = 36,000 kms
(j) Diesel Cost	$\frac{28,800 \text{ kms}}{3 \text{ kms}} \times ` 45 = ` 4,32,000$	$\frac{36,000 \text{ kms}}{4 \text{ kms}} \times ` 45 = ` 4,05,000$

Working Notes on Cost Items

Note: Depreciation per truck per month is calculated as under –

$$10 - \text{MT Truck: } \frac{10,00,000 - \text{Nil}}{5 \text{ years}} \times \frac{1}{2} = 16,667. \quad 8 - \text{MT Truck: } \frac{8,50,000 - \text{Nil}}{5 \text{ years}} \times \frac{1}{2} = 14,167$$

2. Statement of Operating Costs per month

Particulars	Computation	10 Mt Truck	8 Mt Truck
Driver's Salary	Note (f)	2,40,000	3,00,000
Depreciation	Note (g)	3,33,340	3,54,175
Diesel	Note (j)	4,332,000	4,05,000
Repairs & Maintenance		$` 60,000 \times \frac{1}{12} \times 20 \text{ trucks} = 1,00,000$	$` 48,000 \times \frac{1}{12} \times 25 \text{ trucks} = 1,00,000$
Other Fixed Expenses		$` 60,000 \times \frac{1}{12} = 5,000$	$` 36,000 \times \frac{1}{12} = 3,000$
Staff Expenses		$` 1,08,000 \times \frac{1}{12} = 9,000$	$` 1,08,000 \times \frac{1}{12} = 9,000$
Total		11,19,340	11,71,175
Quality handled		24,000 MT	24,000 MT
Cost per MT		` 46.64	` 48.80

Decision: Between 10MT and 8 MT Truck, 10 MT Truck is more economical. Hence, the company should switch over from existing carrier at ` 50 per MT to own fleet of 10 Mt trucks at ` 46.64 per MT.

Question 3 (8 marks)

1. Process I

(a) Statement of Equivalent Production (1 mark)

Particulars	Input	Particulars	Output	Material		Labour		Overheads	
				%	E.U	%	E.U	%	E.U
Fresh Units	40,000	Transfer to Pr- II	36,000	100%	36,000	100%	36,000	100%	36,000
		Normal Loss	2,000	-	-	-	-	-	-
		Closing WIP	2,000	100%	2,000	50%	1,000	50%	1,000
TOTAL	40,000	TOTAL	40,000		38,000		37,000		37,000

(b) Computation of cost per Equivalent Unit (1 mark)

Cost Element	Total Cost	Equivalent Units	Cost Per equivalent Unit
Direct Material	Rs. 60,000	38,000	1.5789=1.58
Labour	Rs. 12,000	37,000	0.3243=0.32
Factory Overheads	Rs. 24,000	37,000	0.6487=0.65
TOTAL	Rs. 96,000		2.5519=2.55

(c) Statement of Cost Apportionment (1 mark)

Item	Mati at Rs. 1.58/EU	Lab at Rs.0.32/EU	OH at Rs.0.65/EU	Total
Transfer to P-II	36,000*1.58=56,840	36,000*0.32=11,680	36,000*0.65=23,350	91,870
Closing WIP	2,000*1.58=3,160	1,000*0.32=320	1,000*0.65=650	4,130
TOTAL	60,000	12,000	24,000	96,000

(d) Process I Account (1 mark)

Particulars	Quantity	Rs.	Particulars	Quantity	Rs.
To Direct Materials	40,000	60,000	By Process II transfer	36,000	91,870
To Labour		12,000	By Normal Loss	2,000	Nil
To Factory Overheads		24,000	By Closing WIP	2,000	4,130
TOTAL	40,000	96,000	TOTAL	40,000	96,000

2. Process II

(a) Statement of Equivalent Production (1 mark)

Particulars	Input	Particulars	Output	Material		Labour		Overheads	
				%	E.U	%	E.U	%	E.U
Fresh Units	36,000	Transfer to FG	32,000	100%	32,000	100%	32,000	100%	32,000
		Normal Loss	1,500	-	-	-	-	-	-
		Closing WIP	2,500	100%	2,500	50%	1,250	50%	1,250
TOTAL	36,000	TOTAL	36,000		34,500		33,250		33,250

(b) Computation of cost per Equivalent Unit (1 mark)

Cost Element	Total Cost	Equivalent Units	Cost Per equivalent Unit
Material	Rs. 91,870	34,500	2.6629=2.66
Labour	Rs. 16,000	33,250	0.4812=0.48
Factory Overheads	Rs. 20,000	33,250	0.6015=0.60
TOTAL	Rs. 1,27,870		3.7456=3.74

(c) Statement of Cost Apportionment (1 mark)

Item	Mati at Rs. 2.66/EU	Lab at Rs.0.48/EU	OH at Rs.0.60/EU	Total
Transfer to FG	32,000*2.66=85,220	32,000*0.48=15,400	32,000*0.60=19,250	1,19,870
Closing WIP	2,500*2.66=6,650	1,250*0.48=600	1,250*0.60=750	8,000
TOTAL	91,870	16,000	20,000	1,27,870

(d) Process II Account (1 mark)

Particulars	Quantity	Rs.	Particulars	Quantity	Rs.
To Process I Transfer	36,000	91,870	By FG Control - transferred	32,000	1,19,870
To Labour		16,000	By Normal Loss	1,500	Nil
To Factory Overheads		20,000	By Closing WIP	2,500	8,000
TOTAL	36,000	1,27,870	TOTAL	36,000	1,27,870

Question 4 (5 marks)

Section 6(3) has been substituted by the Finance Act, 2016 with effect from A.Y.2017-18 to provide that a company would be resident in India in any previous year, if-

it is an Indian company; or

its place of effective management, in that year, is in India .

In this case, ABC Inc. is a foreign company. Therefore, it would be resident in India for P.Y.2016-17 only if its place of effective management, in that year, is in India. (1 mark)

Explanation to section 6(3) defines “place of effective management” to mean a place where key management and commercial decisions that are necessary for the conduct of the business of an entity as a whole are, in substance made. In the case of ABC Inc., its place of effective management for P.Y.2016-17 is not in India, since the significant management and commercial decisions are, in substance, made by the Board of Directors outside India in Sweden. (1 mark)

ABC Inc. has only a liaison office in India through which it looks after its routine day to day business operations in India. The place where decisions relating to day to day routine operations are taken and support functions that are preparatory or auxiliary in nature are performed are not relevant in determining the place of effective management. (1 mark)

Hence, ABC Inc., being a foreign company is a non-resident for A.Y.2017-18, since its place of effective management is outside India in the P.Y.2016-17. (1 mark)

Question 5 (5 marks)

As per section 2(7), assessee means a person by whom tax or any other sum of money is payable under the Income-tax Act, 1961.

In addition, the term includes –

- Every person in respect of whom any proceeding under the Act has been taken for the assessment of –
 - (a) his income; or
 - (b) the income of any other person in respect of which he is assessable; or
 - (c) the loss sustained by him or by such other person; or
 - (d) the amount of refund due to him or to such other person.
- Every person who is deemed to be an assessee under any provision of this Act;
- Every person who is deemed to be an assessee in default under any provision of this Act.

Question 6 (8 marks)

Particulars	`
Gross Annual Value = Actual Rent Receivable (` 40,000 x 12 months)	4,80,000
Less: Municipal Taxes (deductible only on actual payment basis, during previous year 01.05.2016)	(18,000)
Net Annual Value	4,62,000
Less: Deductions u/s 24	
(a) Standard Deductions at 30% of Net Annual Value	(1,38,600)
(b) Interest on loan borrowed: Current Year Interest: ` 15,00,000x 15% = 2,25,000	
Pre-Construction Interest at 1/5 th of ` 1,50,000 = 30,000	(2,55,000)
Income from House Property	68,400

Note:

- Pre-Construction Period Interest = ` 15, 00,000 x 15% x $\frac{8}{12}$ (from 01.08.2015 to 31.03.2016) = ` 1, 50,000.
- This is deduction in 5years from PY 2016-2017 onwards. Hence, share of this Interest for PY 2017-2018 = 1/5th.

Question 7 (8 marks)

Computation of Interest u/s 24

Particulars	₹	₹
1. Prior Period: 01.11.2016 to 31.03.2017		
2. Prior Period Interest Calculation: Loan-1: ₹ 7,00,000 x 5/12 x 16%	46,667	
3. 1/5 th of Prior Period interest: (1/5 x 46,667)		9,333
4. Interest for Current Year: Loan – 1: ₹ 7,00,000 x 16%	1,12,000	
Loan – 2: ₹ 10,00,000 x 16% 6/12	80,000	1,92,000
5. Total Interest (3 + 4)		2,01,333
6. Deduction Allowable u/s 24 in respect of Interest on Borrowed Capital (see Note below)		2,00,000

Note: In case of Self Occupied Property, the maximum permissible interest deduction is ₹ 2,00,000.
