

Free of Cost

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# SCANNER™ Appendix

CA Final Gr. II (New Course)

May - 2010

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## PAPER'S

### Paper - 5 : Advanced Management Accounting

#### Chapter-1 : Developments in the Business Environment

**2010 - May [2]** (a) AML Ltd. is engaged in production of three types of ice-cream products : Coco, Strawberry and Vanilla. The company presently sells 50,000 units of Coco @ Rs. 25 per unit, Strawberry 20,000 @ Rs. 20 per unit and Vanilla 60,000 units @ Rs. 15 per unit. The demand is sensitive to selling price and it has been observed that every reduction of Re. 1 per unit in selling price, increases the demand for each product by 10% to the previous level. The company has the production capacity of 60,500 units of Coco, 24,200 units of Strawberry and 72,600 units of Vanilla. The company marks up 25% on cost of the product.

The Company management decides to apply ABC analysis. For this purpose it identifies four activities and the rates as follows :

|                |                            |
|----------------|----------------------------|
| Activity       | Cost Rate                  |
| Ordering       | Rs. 800 per purchase order |
| Delivery       | Rs. 700 per delivery       |
| Shelf stocking | Rs. 199 per hour           |

Customer support and assistance Rs. 1.10 p.u. sold.

The other relevant information for the products are as follows :

|                            | Coco | Strawberry | Vanilla |
|----------------------------|------|------------|---------|
| Direct Material p.u. (Rs.) | 8    | 6          | 5       |
| Direct Labour p.u. (Rs.)   | 5    | 4          | 3       |
| No. of purchase orders     | 35   | 30         | 15      |
| No. of deliveries          | 112  | 66         | 48      |
| Shelf stocking hours       | 130  | 150        | 160     |

Under the traditional costing system, store support costs are charged @ 30% of prime cost. In ABC these costs are coming under customer support and assistance.

Required :

- (i) Calculate target cost for each product after a reduction of selling price required to achieve the sales equal to the production capacity.
- (ii) Calculate the total cost and unit cost of each product at the maximum level using traditional costing.
- (iii) Calculate the total cost and unit cost of each product at the maximum level using activity based costing.
- (iv) Compare the cost of each product calculated in (i) and (ii) with (iii) and comment on it. (12 marks)

**2010 - May [3]** (b) What is Backflushing in JIT ? State the problems that must be addressed for the effective functioning of the system. (4 marks)

**2010 - May [5]** (c) Brief the principles associated with synchronous manufacturing. (5 marks)

**Chapter-2 : Cost Concepts, CVP Analysis and Decision Making**

**2010 - May [1]** (a) E Ltd. is engaged in the manufacturing of three products in its factory. The Following budget estimates are prepared for 2009 - 10 :

|                                  | Products |        |        |
|----------------------------------|----------|--------|--------|
|                                  | A        | B      | C      |
| Sales (Units)                    | 10,000   | 25,000 | 20,000 |
| Selling Price p.u. (Rs.)         | 40       | 75     | 85     |
| Direct Materials p.u. (Rs.)      | 10       | 14     | 18     |
| Direct wages p.u. @ Rs. 2 p. hr. | 8        | 12     | 10     |
| Variable overhead p.u. (Rs.)     | 8        | 9      | 10     |
| Fixed overhead (Rs.) p.u.        | 16       | 18     | 20     |
| Profit/Loss                      | - 2      | 22     | 27     |

After the finalisation of the above manufacturing schedule, it is observed that presently only 80% capacity being utilised by these three products. The production activities are made at the same platform and it may be interchangeable among products according to requirement. In order to improve the profitability of the company the following three proposals are put for consideration :

- (a) Discontinue product A and capacity released may be used for either product B or C or equally shared. The fixed cost product A is avoidable. Expected changes in material cost and selling price subject to the utilisation of product A's capacity are as under :
  - Product B : Material cost increased by 10% and selling price reduced by 2%.
  - Product C : Material cost increased by 5% and selling price reduced by 5%.

- (b) Discontinue product A and divert the capacity so released and the idle capacity to produce a new product D for meeting export demand whose per unit cost data are as follows :

|                             | Rs.      |
|-----------------------------|----------|
| Selling Price               | 60       |
| Direct material             | 28       |
| Direct wages @ Rs. 3 p. hr. | 12       |
| Variable overheads          | 6        |
| Fixed cost (Total)          | 1,05,500 |

- (c) Product A, B and C are continuously run and hire out the idle capacity fixing a price in such a way that the same rate of profit per direct labour hour is obtained in the original budget estimates.

Required :

- (i) Prepare a statement of profitability of products A, B and C in existing situation.
- (ii) Evaluate the above proposals independently and calculate the overall profitability of the company under each proposal.
- (iii) What proposal should be accepted, if the company wants to maximise its Profit ? (10 marks)

**2010 - May [4]** (b) What are the applications of incremental/differential costs ? (5 marks)

**2010 - May [6]** (a) X Ltd. supplies spare parts to an air craft company Y Ltd. The production capacity of X Ltd. facilitates production of any one spare part for a particular period of time. The following are the cost other information for the production of the two different spare parts A and B :

| Per unit                 | Part A   | Part B    |
|--------------------------|----------|-----------|
| Alloy usage              | 1.6 kgs. | 1.6 kgs.  |
| Machine Time : Machine A | 0.6 hrs. | 0.25 hrs. |
| Machine Time : Machine B | 0.5 hrs. | 0.55 hrs. |
| Target Price (Rs.)       | 145      | 115       |

Total hours available : Machine A 4,000 hours  
Machine B 4,500 hours

Alloy available is 13,000 kgs. @ Rs. 12.50 per kg.

Variable overheads per machine hours :

Machine A : Rs. 80

Machine B : Rs. 100

You are required to identify the spare part which will optimise contribution at the offered price.

If Y Ltd. reduces target price by 10% and offers Rs. 60 per hour of unutilised machine hour, what will be the total contribution from the spare part identified above ? (8 marks)

**Chapter-3 : Pricing Decisions**

**2010 - May [6]** (c) What is Price Discrimination ? Under what circumstances it is possible ? (4 marks)

**Chapter-4 : Budget and Budgetary Control**

**2010 - May [1]** (b) A Company is engaged in manufacturing two products A and B. Product A uses one unit of component X and two units of component Y. Product B uses two units of component X and one unit of component Y and two units of component Z. Component Z which is assembled in the factory uses one unit of component Y.

Components X and Y are purchased from the market. The company has prepared the following forecast of sales and inventory for the next year :

|                                    | Product A<br>(Units) | Product B<br>(Units) |
|------------------------------------|----------------------|----------------------|
| Sales                              | 80,000               | 1,50,000             |
| Stock at the end of the year       | 10,000               | 20,000               |
| Stock at the beginning of the year | 30,000               | 50,000               |

The production of both the products and the assembling of the component Z will be spread out uniformly throughout the year. The company at present orders its inventory of X and Y in quantities equivalent to 3 months production. The company has compiled the following data related to the two components :

|                                    | X     | Y     |
|------------------------------------|-------|-------|
| Price per unit (Rs.)               | 20    | 8     |
| Order placing cost per order (Rs.) | 1,500 | 1,500 |
| Carrying cost per annum            | 20%   | 20%   |

Required :

- (i) Prepare a budget for production and requirements of components for the next year.
- (ii) Suggest the optimal order quantity of components X and Y.

(7 marks)

**Chapter-5 : Standard Costing**

**2010 - May [3]** (a) X Ltd. produces and sells a single product. Standard cost card per unit of the product is as follows :

|                               |                          |               |
|-------------------------------|--------------------------|---------------|
|                               |                          | (Rs.)         |
| Direct materials :            | A 10 kg @ Rs. 5 per kg   | 50.00         |
|                               | B 5 kg @ Rs. 6 per kg    | 30.00         |
| Direct wages                  | 5 hours @ Rs. 5 per hour | 25.00         |
| Variable production overheads | 5 hours @ 12 per hour    | 60.00         |
| Fixed production overheads    |                          | <u>25.00</u>  |
| Total standard cost           |                          | <u>190.00</u> |
| Standard gross profit         |                          | <u>35.00</u>  |
| Standard selling price        |                          | <u>225.00</u> |

A fixed production overhead has been absorbed on the expected annual output of 25,200 units produced evenly throughout the year. During the month of December, 2009, the following were the actual results for an actual production of 2,000 units :

|  | (Rs.)           |
|--|-----------------|
| Sales 2,000 units @ Rs. 225                              | <u>4,50,000</u> |
| Direct materials :    A 18,900 kg                        | 99,225          |
| B 10,750 kg  | 61,275          |
| Direct Wages 10,500 hours (actually worked 10,300 hours) | 50,400          |
| Variable production overheads                            | 1,15,000        |
| Fixed production overheads                               | <u>56,600</u>   |
| Total  | <u>3,82,500</u> |
| Gross profit   | <u>67,500</u>   |

The material price variance is extracted at the time of receipt of materials. Material purchase were A 20,000 kg. @ Rs. 5.25 per kg; B 11,500 kg @ Rs. 5.70 per kg.

Required :

- (i) Calculate all variances.
- (ii) Prepare an operating statement showing Standard gross profit, Variances and Actual gross profit.
- (iii) Explain the reason for the difference in actual gross profit given in the question and calculated in (ii) above. (12 marks)

**Chapter-8 : Uniform Costing & Inter Firm Comparison**

**2010 - May [2]** (b) What are the essential requisites for the installation of Uniform costing system ? (4 marks)

**Chapter-11 : Transportation Problem**

**2010 - May [6]** (b) What do you mean by Degeneracy in transportation problem ? How this can be solved ? (4 marks)

**Chapter-14 : Program Evaluation and Review Technique**

**2010 - May [5]** (b) A small project is composed of seven activities, whose time estimates are listed below. Activities are identifies by their beginning (i) and ending (j) note numbers :

| Activity<br>(i-j) | Estimated durations (in days) |             |             |
|-------------------|-------------------------------|-------------|-------------|
|                   | Optimistic                    | Most likely | Pessimistic |
| 1-2               | 2                             | 2           | 14          |
| 1-3               | 2                             | 8           | 14          |
| 1-4               | 4                             | 4           | 16          |
| 2-5               | 2                             | 2           | 2           |
| 3-5               | 4                             | 10          | 28          |
| 4-6               | 4                             | 10          | 16          |
| 5-6               | 6                             | 12          | 30          |

(a) Draw the project network.

(b) Find the expected duration and variance for each activity. What is the expected project length ?

|         |   |        |        |        |        |        |
|---------|---|--------|--------|--------|--------|--------|
| Given : | Z | 0.50   | 0.67   | 1.00   | 1.33   | 2.00   |
|         | P | 0.3085 | 0.2514 | 0.1587 | 0.0918 | 0.0228 |

(4 marks)

**Chapter-15 : Simulation**

**2010 - May [5]** (a) ABC Cooperative Bank receives and disburses different amount of cash in each month. The bank has an opening cash Balance of Rs. 15 crores in the first month. Pattern of receipts and disbursements from past data is as follows :

| Monthly Cash receipts |             | Monthly Cash disbursements |             |
|-----------------------|-------------|----------------------------|-------------|
| Rs. in Crores         | Probability | Rs. in Crores              | Probability |
| 30                    | 0.20        | 33                         | 0.15        |
| 42                    | 0.40        | 60                         | 0.20        |
| 36                    | 0.25        | 39                         | 0.40        |
| 99                    | 0.15        | 57                         | 0.25        |

Simulate the cash position over a period of 12 months.

Required :

- (i) Calculate probability that the ABC Cooperative Bank will fall short in payments.
- (ii) Calculate average monthly shortfall.
- (iii) If ABC Bank can get an overdraft facility of Rs. 45 crores from other Nationalized banks.

What is the probability that they will fall short in monthly payments?

Use the following sequence (rowwise) of paired random numbers.

1778 4316 7435 3123 7244 4692 5158 6808 9358 5478 9654 0977

(7 marks)

**Chapter-16 : Learning Curve Theory**

**2010 - May [4]** (a) An electronics firm which has developed a new type of fire-alarm system has been asked to quote for a prospective contract. The customer requires separate price quotations for each of the following possible orders :

| Order  | Number of fire-alarm systems |
|--------|------------------------------|
| First  | 100                          |
| Second | 60                           |
| Third  | 40                           |

The firm estimates the following cost per unit for the first order :

Direct Materials Rs. 500

Direct Labour

Deptt. A (Highly automatic) 20 hours at Rs. 10 per hour.

Deptt. B (Skilled labour) 40 hours at Rs. 15 per hour.

Variable overheads absorbed 20% of direct labour

Fixed overheads absorbed

Deptt. A Rs. 8 per hour

Deptt. B Rs. 5 per hour

Determine a price per unit for each of the three orders, assuming the firm uses a mark up of 25% on total costs and allows for an 80% learning curve. Extract from 80% learning curve table :

|       |       |      |      |      |      |      |      |      |      |
|-------|-------|------|------|------|------|------|------|------|------|
| X     | 1.0   | 1.3  | 1.4  | 1.5  | 1.6  | 1.7  | 1.8  | 1.9  | 2.0  |
| Y (%) | 100.0 | 91.7 | 89.5 | 87.6 | 86.1 | 84.4 | 83.0 | 81.5 | 80.0 |

X represents the cumulative total volume produced to date expressed as a multiple of the initial order.

Y is the learning curve factor, for a given X value, expressed as a percentage of the cost of the initial order. (11 marks)

#### Chapter-18 : Time Series Analysis & Forecasting

**2010 - May [1]** (c) Identify the characteristics movement such as regular, irregular, cyclical, seasonal, long-term trend, short-term etc. of time series in the following situations :

- A factory delaying its production due to demolition of factory shed in earthquake.
- An era of depression in business.
- The country needs more and more food grains due to constant growth of population.
- Decline in death rate due to availability of proper health care facilities.
- A continuous increase in demand of small cars.
- A demand of gold products is increasing during the festival time.

(3 marks)

### Paper - 6 : Information Systems Control and Audit

#### Chapter-1 : Information System Concepts

**2010 - May [4]** (c) Give some important advantages of Information System in business. (5 marks)

**2010 - May [5]** (c) Briefly describe any three of the characteristics of the types of information used in Executive Decision making. (5 marks)

#### Chapter-2 : System Development Life Cycle Methodology

**2010 - May [2]** (b) How would you use Data Dictionary as a tool for file security and audit trails ? (5 marks)

#### Chapter-3 : Control Objectives and Testing

**2010 - May [2]** (c) The management of ABC Ltd. wants to design a detective control mechanism for achieving security policy objective in a computerised

environment. As an auditor explain, how audit trails can be used to support security objectives. (10 marks)

**2010 - May [3]** (c) Explain the role of IS auditor in evaluating logical access controls. (5 marks)

**2010 - May [4]** (a) Describe some of the advantages of continuous audit techniques. (5 marks)

**2010 - May [5]** (d) Discuss the benefits and limitations of unit testing. (5 marks)

**Chapter-4 : Risk Assessment Methodologies and Applications**

**2010 - May [2]** (a) What are common threats to the computerised environment other than natural disasters, fire and power failure ? (5 marks)

**2010 - May [5]** (a) What are the two primary questions to consider when evaluating the risk inherent in a business function in the context of the risk assessment methodologies ? Give the purposes of risk evaluation. (5 marks)

**Chapter-5 : Business Continuity Planning and Disaster Recovery Planning**

**2010 - May [3]** (b) A company has decided to outsource a third party site for its alternate back-up and recovery process. What are the issues to be considered by the security administrator while drafting the contract. (5 marks)

**Chapter-6 : Enterprise Resource Planning (ERP)**

**2010 - May [3]** (a) How will you get over the impediments for the successful implementation of ERP ? Mention any five. (10 marks)

**2010 - May [5]** (b) If you are the CEO of a company, what factors would be considered before undertaking implementation of an ERP system ? (5 marks)

**Chapter-7 : Information Systems Auditing Standards, Guidelines, Best Practices**

**2010 - May [1]** ASK International proposes to launch a new subsidiary to provide e-consultancy services for organisations throughout the world, to assist them in system development, strategic planning and e-governance areas. The fundamental guidelines, programmes modules and draft agreements are all preserved and administered in the e-form only.

The company intends to utilize the services of a professional analyst to conduct a preliminary investigation and present a report on smooth implementation of the ideas of the new subsidiary. Based on the report submitted by the analyst, the company decides to proceed further with three specific objectives (i) reduce operational risk, (ii) increase business efficiency and (iii) ensure that information security is being rationally applied. The company has been advised to adopt BS 7799 for achieving the same.

(a) What are the two primary methods through which the analyst would have collected the data ? (5 marks)

(b) To achieve their objectives, what are the points BS 7799 has to ensure ? (5 marks)

- (c) Suppose an audit policy is required, how will you lay down the responsibility of audit ? (5 marks)
- (d) To retain their e-documents for a specified period, what are the conditions laid down by Section 7, Chapter III of Information Technology Act, 2000 ? (5 marks)

**2010 - May [4]** (d) What is COBIT ? Give three vantage points from which the issue of control can be addressed by this framework. (5 marks)

**Chapter-9 : Information Technology Act,2000**

**2010 - May [4]** (b) Define the following terms related to Information Technology Act, 2000 :

- (i) Computer contaminant
- (ii) Cyber café
- (iii) Electronic form
- (iv) Traffic data
- (v) Asymmetric crypto system. (5 marks)

**Paper - 7 : Direct Tax Laws**

**Chapter-2 : Basic Concepts, Residence and Scope of Total Income**

**2010 - May [3]** (b) (i) An electoral trust approved by the Central Board of Direct Tax is not liable in income tax in respect of voluntary contribution received and other income—Discuss the correctness of the statement.

(2 marks)

- (ii) What is the effect of contribution made by an individual to electoral trust on his taxable income ? (1 mark)

**2010 - May [6]** (c) Asha Memorial Trust running hospitals is registered under Section 12A. Following particulars relevant for the previous year ended 31<sup>st</sup> March, 2010 are furnished to enable you to compute tax liability of the trust.

- (i) Income from running of hospitals Rs. 14.25 lacs.
- (ii) Donation received (including anonymous donation Rs. 3 lacs) Rs. 5.75 lacs.
- (iii) Amount applied for the purposes of hospital Rs. 13 lacs.
- (iv) The trust had accumulated Rs. 15 lacs under Section 11(2) in the Financial year 2003- 04 for a period of five years for extension of one of its hospitals. The trust has spent Rs. 13.50 lacs for the said purpose till 31<sup>st</sup> March, 2009.

Compute the taxable income of the trust and tax payable by Asha Memorial Trust for the assessment year 2010-11. (6 marks)

**Chapter-3 : Income from Salaries**

**2010 - May [4]** (b) Discuss the taxability of the Balance amount withdrawn by an employee from the recognized provident fund at the time of leaving the service ? (5 marks)

**Chapter-5 : Profits and Gains of Business or Profession**

**2010 - May [2]** (a) Explain in brief, the treatment as to their taxability and or allowability, under the provisions of Income Tax Act, 1961, for the assessment year 2010-2011 in the following cases :

- (i) 'A' Ltd., an Investment Company received dividend income of Rs. 1,00,000 on its investment in shares. It incurred interest expenditure of Rs. 2,00,000 on the borrowed capital utilized in the investment of shares. (4 marks)
- (ii) 'B' Ltd. is a Company engaged in the business of Financing and Investment in Shares. It suffered loss in an amount of Rs. 3,00,000 on account of futures and options, a transaction in the form of derivatives in which the underlying asset was shares. (3 marks)
- (iii) 'C' Ltd., which did not have any active business carried on by it incurred capital expenditure on Scientific Research amounting to Rs. 5,00,000 that related to its Subsidiary Companies. (3 marks)

**2010 - May [3]** (a) Indian Gas Limited commenced its operation of the Business of laying and operating a cross country natural gas pipeline net work for distribution on 1<sup>st</sup> July, 2008. The Company incurred capital expenditure of Rs. 300 lacs (including cost of land Rs. 45 lacs and cost of financial instrument Rs. 5 lacs) during the period from 1<sup>st</sup> April, 2007 to 30<sup>th</sup> June, 2008. The Company did not claim deduction for such expenditure in the earlier assessment years. The entire expenditure was capitalised on 1<sup>st</sup> July, 2008. Further, during the Previous year 2009-10, the company incurred capital expenditure of Rs. 200 lacs exclusively for the said business.

- (i) Compute the amount of deduction allowable Under Section 35AD assuming that the company has fulfilled all the conditions specified in Section 35AD.
- (ii) If the company has loss from such business in the assessment year 2010-11, how the same is to be set off and carried forward ? (6 marks)

**Chapter-6 : Capital Gains**

**2010 - May [3]** (c) Kala purchased a residential flat from her friend Bala at Rs. 10 lacs in the city of Jaipur on 3<sup>rd</sup> October, 2009. The value determined by the Stamp Duty Authority for stamp duty purpose amounted to Rs. 15 lacs. Bala had purchased the flat on 1<sup>st</sup> January, 2007 at a cost of Rs. 3.50 lacs. Kala sold the flat for Rs. 20 lacs on 30<sup>th</sup> March, 2010.

Determine the effect of the above transactions on the assessments of Bala and Kala for assessment year 2010-11, assuming that value for stamp duty purpose in case of the second sale was not more than the sale consideration.(5 marks)

**Chapter-8 : Income of other persons included in Assessee's Total Income**  
**2010 - May [2]** (b) State the situation under which the clubbing provisions of Income tax operate as to the incomes of husband and wife. (4 marks)

**Chapter-10 : Deductions from Gross Total Income**

**2010 - May [5]** (c) Following issues have been raised by Navi Limited in connection with its eligibility for claiming deduction under Section 80-IB for your consideration; and advise, for the assessment year 2010-2011.

- (i) It operates two separate industrial units, One unit is eligible for deduction under Section 80-IB, while the other unit is not eligible for such deduction. If the eligible unit has profit and the other unit has loss, should it claim deduction after setting off the loss of the other unit against profit of the eligible unit ?
- (ii) Its profit from one unit includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction on these items of income ? (7 marks)

**Chapter-14 : Double Taxation Relief**

**2010 - May [6]** (b) Cosmos Limited, a company incorporated in Mauritius has a branch office in Hyderabad opened in April, 2008. The Indian branch has filed return of income for assessment year 2009-10 disclosing income of Rs. 50 lacs. It paid tax at the rate applicable to domestic company i.e. 30% plus education cess of the basis of paragraph 2 of the Article 24 (Non-Discrimination) of the Double Tax Avoidance Agreement between India and Mauritius, which reads as follows :

*"The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances."*

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a Foreign Company i.e. 40% plus education cess.

Is the action of the Assessing Officer in accordance with law ? (4 marks)

**Chapter-17 : Business Restructuring**

**2010 - May [1]** Aditya, Avirup and Avigyan carried on business of running hotels in partnership from 1<sup>st</sup> April, 2000 to 31<sup>st</sup> March, 2007. In order to increase its scale of operation and meet its fund requirement the firm decided to carry on its business through Corporate route. For that purpose, a company under the name and style "Triple A Hospitality Private Limited" was formed on 1<sup>st</sup> April, 2008 and the business of the partnership firm as a whole was succeeded to by the Company with effect from 1<sup>st</sup> June, 2008.

The Company's Profit and Loss Account for the year ended 31<sup>st</sup> March, 2010 shows a net profit of Rs. 450 lacs after debit/credit of the following items :

- (a) Interest of Rs. 3 lacs paid to Allahabad Bank on a term loan taken for the purpose of acquiring a land at Bhubaneswar for a new hotel to be set up.

- (b) Depreciation charged Rs. 40 lacs.  
 (c) Rs. 2 lacs credited on account of waiver of dues obtained from a supplier of the erstwhile firm against supply of certain materials.  
 (d) Rs. 1.18 lacs being the aggregate of amounts paid in cash to Rajaram, a transport contractor as follows :

| Date of Payment                  | Rs. in Lacs |
|----------------------------------|-------------|
| 5 <sup>th</sup> June, 2009       | 0.15        |
| 20 <sup>th</sup> July, 2009      | 0.21        |
| 20 <sup>th</sup> September, 2009 | 0.22        |
| 3 <sup>rd</sup> November, 2009   | 0.26        |
| 5 <sup>th</sup> November, 2009   | 0.36        |

Tax was not deducted at source as Rajaram submitted a certificate Under Section 197(1), which he had obtained from the TDS circle of the Income-tax Department.

- (e) Rs. 0.50 lac, being proportionate part of the cost of animals (purchased and kept for entertainment of the guests of hotel) amortised as per the accounting policy of the company.  
 (f) Rs. 0.10 lacs credited on account of sale proceeds of carcass of animal which died during the year.  
 (g) Provision for bad and doubtful debts Rs. 12 lacs.  
 (h) Payment of Rs. 25 lacs to some employees as compensation for voluntary retirement, as per scheme.  
 (i) Foreign exchange fluctuation loss (net) amounting to Rs. 30 lacs arising from restatement of the year-end liabilities to foreign suppliers of provisions and beverages as per the requirement of Accounting Standard 11 of the Institute of Chartered Accountants of India.

Other Information :

- (i) Depreciation as per the Income-tax Act Rs. 65 lacs.  
 (ii) Cost of animal died as referred to in (f) above was Rs. 2 lacs.  
 (iii) Debt of Rs. 4 lacs due from one corporate customer for three months has been written off during the year after giving few reminders by debiting provision for bad and doubtful debts account.  
 (iv) The erstwhile firm was allowed exemption of Rs. 50 lacs Under Section 47 (xiii) in respect of long-term capital assets transferred to the company.  
 (v) The Company's voting rights till 31<sup>st</sup> March, 2009 were held as follows :
- |         |     |
|---------|-----|
| Aditya  | 40% |
| Avirup  | 30% |
| Avigyan | 15% |
| Others  | 15% |

During the year shares constituting 36% voting rights were sold by Aditya to his son-in-law, Avishek.

- (vi) Unabsorbed business loss and unabsorbed depreciation of Rs. 10 lacs each have been carried forward from Assessment Year 2008-09.
- (vii) The Company has a subsidiary Company, Tours & Travels Private Limited (A Closely Held Company). During the year the company obtained a temporary loan of Rs. 12 lacs from its subsidiary company. Accumulated profit of the subsidiary company was Rs. 30 lacs at the time of payment of the loan. The loan was repaid by the company before the end of the year.

Compute total income of Triple A Hospitality Private Limited for the Assessment Year 2010-11 indicating reason for treatment of each of the items. Ignore the provisions relating to minimum alternate tax. (20 marks)

**Chapter-20 : Assessment Procedure**

**2010 - May [4]** (c) The Assessing officer has the power to make an assessment to the best of his judgement, in certain situations. What are they ? (3 marks)

**2010 - May [5]** (b) Ankit Private Limited in its return of Income claimed a sum of Rs. 40,000 as a deduction on account of payments for stamp duty and registration charges from the Income shown under the head "Income from house property". The Assessing Officer disallowed the claim of the assessee company in the assessment order passed under Section 143(3). Examine the correctness of the action of the Assessing Officer. (3 marks)

**2010 - May [6]** (a) The assessment of CNK Associates, a partnership firm for the assessment year 2007-08 was made under Section 143(3) on 31<sup>st</sup> July, 2009. The Assessing Officer made two additions to the income of the assessee viz. (a) addition of Rs. 2 lacs under Section 40(a)(ia) due to non-furnishing of evidence of payment of TDS and (ii) addition of Rs. 5 lacs on account of unexplained cash credit. The assessee contested addition on account of unexplained cash credit in appeal to the Commissioner (Appeals). The appeal was decided in January, 2010 against the assessee. The assessee approaches you for your suggestion as to whether it should apply for revision to the Commissioner under Section 264 or rectification to the Assessing Officer under Section 154 as regards disallowance under Section 40(a)(ia). What should be your suggestion ? (4 marks)

**Chapter-23 : Appeals & Revision**

**2010 - May [5]** (a) Does the Income-tax Appellate Tribunal have the following powers ?

- (i) Power to allow the assessee to urge any ground of appeal which was not raised by him before the Commissioner (Appeals);
- (ii) Power to review its own order. (4 marks)

**Chapter-26 : Deduction, Collection and Recovery of Tax**

**2010 - May [4]** (a) Explain the applicability of the provision relating to the deduction of tax at source in the following transactions :

- (i) Max Limited pays Rs. 1 lac to Mini Limited, a resident contractor who, under the contract dated 15<sup>th</sup> October, 2009, manufactures a product according to specification of Max Limited by using materials purchased from Max Limited. (2 marks)
- (ii) A Company operating a Television Channel makes payment of Rs. 5 lacs to a former cricketer for making running commentary of a one-day cricket match. (2 marks)
- (iii) EL Limited, a Foreign Company pays outside India salary to its employee, Mr. Raghavan, a Foreign national and a non-resident for services rendered in India. (2 marks)

**Chapter-34 : Wealth Tax**

**2010 - May [7]** (a) NKP Limited engaged in Industrial activity has furnished the following particulars of its assets as at the valuation date 31<sup>st</sup> March, 2010. Compute the Net Wealth Tax and Wealth Tax liability of the company for the assessment year 2010-11.

- (i) One hectare of vacant land was allotted to the company at Ahmedabad by the State Government for industrial purpose in May, 2006 on permanent lease basis on payment of a non-refundable premium of Rs. 4 lacs. The terms of allotment includes that in the event the lessee transfers the lease, 50% of the unearned increase in the value should be made over to the lessor. The construction work for the proposed factory has not been started. The value of the land as on 31<sup>st</sup> March, 2010 is Rs. 50 lacs.
  - (ii) The Company is a partner of a firm with 30% shares whose net assets as on 31<sup>st</sup> March, 2010 is Rs. 150 lacs. Its capital as on that date is Rs. 20 lacs out of total capital of Rs. 70 lacs.
  - (iii) It has let out a building with effect from 1<sup>st</sup> October, 2009 at a monthly rent of Rs. 1 lac for a period of 10 years. The tenant has made a deposit of Rs. 3 lacs. Annual Corporation Tax of Rs. 1 lac is borne by the tenant. The building is on a freehold land. The written down value of the building is Rs. 80 lacs. (7 marks)
- (b) 'H' filed his return of net wealth for the assessment year 2006-07. Penalty proceeding Under Section 18 for concealing particulars of net wealth was initiated by the Assessing Officer in 2008. 'H' died in January, 2009. The estate of 'H' devolved on his wife, 'W', who also died on October, 2009. Thereafter, the estate devolved on their daughter 'D'. The Assessing Officer passed penalty order on 28<sup>th</sup> February, 2010 and served notice of demand for penalty on 'D'. Is the action of the Assessing Officer valid in law ? (3 marks)

## Paper - 8 : Indirect Tax Laws

**Chapter-1 : Basic Concepts**

**2010 - May [3]** (a) Differentiate between “non-excisable goods” and “non-dutiable goods”. (3 marks)

**Chapter-2 : Classification of Excisable Goods**

**2010 - May [2]** (a) An assessee classified his product as per Central Excise Tariff subject to nil rate of duty. The Department contended that when the entries in the Harmonised System of Nomenclature (HSN) and the Central Excise Tariff are not aligned, reliance should be placed upon HSN for the purpose of classification of goods under the said Tariff. Relying upon the HSN for the purpose of classification of the impugned product, the Department classified it under another heading attracting 8% duty. Do you think that Department’s plea is valid in law ? Discuss briefly, with reference to a decided case law, if any. (5 marks)

**Chapter-3 : Valuation of Excisable Goods**

**2010 - May [1]** (a) Compute the assessable value and amount of excise duty payable under the Central Excise Act, 1944 and rules made thereunder from the following information :

| Particulars   | No. of<br>Units | Price at<br>Factory<br>Per Unit | Price at<br>Depot<br>Per Unit | Rate of<br>Duty<br>Advalorem |
|---|-----------------|---------------------------------|-------------------------------|------------------------------|
| (i) Goods transferred from factory to depot on 8 <sup>th</sup> February | 1,000           | Rs. 200                         | Rs. 220                       | 10%                          |
| (ii) Goods actually sold at depot on 18 <sup>th</sup> February          | 750             | Rs. 225                         | Rs. 250                       | 8%                           |

(5 marks)

**(b)** M/s Royal Industries started its production activities on 15<sup>th</sup> March, 2010. In the month of March, 2010, 1,000 units of raw material were purchased at Rs. 150 per unit, paying excise duty @ 8%. 800 units of raw material were consumed in manufacturing process and finished output was sold for Rs. 1,40,000 (excluding excise duty @ 8%). For simplification, you may ignore the conversion cost and assume the rates of excise duty to be inclusive of education cess.

Pass the Journal entries in the books of the assessee and show the balances in Balance Sheet as on 31.3.2010. (5 marks)

**Chapter-8 : Demand Adjudication & Offences**

**2010 - May [2]** (b) M/s Evasions Unlimited, manufacturing excisable goods, paid the differential duty, suo motu, to the Department as the prices of the said goods were revised with retrospective effect. The Revenue took the view that

the assessee was liable to pay interest on differential duty under Section 11AB of the Central Excise Act, 1944 and penalty thereof. The assessee replied that there was no question of charging interest and penalty as the payment of differential duty was made by it at the time of issuing supplementary invoices to the customers.

Discuss, with reference to a decided case law, if any, whether the view taken by the Revenue is justifiable. (5 marks)

**2010 - May [3]** (c) Explain the validity of the following statements with reference to Central Excise Laws, as amended :

- (i) Records seized by department during investigation but not relied upon in the show cause notice should be returned within 30 days of issue of show cause notice. (1 mark)

**Chapter-10 : Appeals**

**2010 - May [3]** (c) Explain the validity of the following statements with reference to Central Excise Laws, as amended :

- (iv) High Court is empowered to condone delay in filing appeal and cross objection filed under Sections 35G and 35H of the Central Excise Act, 1944, beyond the prescribed period. (1 mark)

**Chapter-13 : Exemption Based on Value of Clearances (SSI)**

**2010 - May [1]** (c) Mahesh Ltd., which is engaged in manufacturing of excisable goods started its business on 1<sup>st</sup> June, 2009. It availed SSI exemption during the financial year 2009-10. The following are the details available to you :

|  | Rs.         |
|--|-------------|
| (i) 12,500 kg of inputs purchased @ Rs. 1,190.64 per kg (inclusive of Central excise duty @ 8.24%) | 1,48,83,000 |
| (ii) Capital goods purchased on 31.5.2009 (inclusive of Excise duty @ 14.42%)                      | 80,09,400   |
| (iii) Finished goods sold (at uniform transaction value throughout the year)                       | 3,00,00,000 |

You are required to calculate the amount of excise duty payable by M/s Mahesh Ltd. in cash, if any, during the year 2009-10. Rate of duty on finished goods sold may be taken @ 12.36% for the year and you may assume the selling price exclusive of central excise duty.

There is neither any processing loss nor any inventory of input and output. Output input ratio may be taken as 2 : 1. (5 marks)

**Chapter-15 : Advance Ruling**

**2010 - May [3]** (c) Explain the validity of the following statements with reference to Central Excise Laws, as amended :

- (iii) Authority of Advance Ruling under the Income-tax Act, 1961 will be authority for purposes of Central excise also. (1 mark)

**Chapter-16 : Excise Audit**

**2010 - May [3]** (b) Under Excise Audit, 2000, the selection of unit for audit is based on 'risk factors'. Explain in brief the term 'risk factors' giving any two examples. (3 marks)

**2010 - May [3]** (c) Explain the validity of the following statements with reference to Central Excise Laws, as amended :

- (ii) Special audit under Section 14A and 14AA can be done by a cost accountant only. (1 mark)

**Chapter-17 : Settlement Commission**

**2010 - May [2]** (c) An assessee made an application under Section 32E of the Central Excise Act, 1944 to the settlement commission. The settlement commission was not satisfied saying that the applicant had not made a true and full disclosure of his duty liability and the manner in which same was arrived at was also not correct and rejected the application. The assessee contended that obligation to make truthful disclosure of duty liability would arise only after the application was admitted and not before that. Is plea taken by the assessee acceptable in law ? Explain in brief, with the help of a decided case law, if any. (5 marks)

**Chapter-18 : Service Tax**

**2010 - May [4]** (a) Mr. Happy, a service provider, has provided services of Rs. 100,00,000. Out of this, Rs. 70,00,000 are taxable output services and Rs. 30,00,000 are exempt output services. Mr. Happy has opted not to maintain separate inventory and accounts and pay prescribed amount on value of exempt output services.

Service tax paid on input services, excluding education cess and secondary and higher education cess (EC & SAHEC) is Rs. 6,00,000 which do not include any service specified in rule 6(5) of the CENVAT Credit Rules, 2004. Rate of service tax, excluding EC and SAHEC, is 10%. Calculate the total amount payable including Service tax, EC and SAHEC by Mr. Happy by GAR-7 challan. (5 marks)

**2010 - May [5]** (a) The term 'business auxiliary service' was inserted by Finance Act, 2003 which came into force on 1.7.2003. The Parliament by Finance Act, 2008 inserted an explanation in the relevant sub-clause (ii) of Section 65(19) stating that for the purpose of this sub-clause —

“Service in relation to promotion or marketing of service provided by the client includes any service provided in relation of marketing of games of chance, organised, conducted or promoted by the client, in whatever form or by whatever name called, whether or not conducted online, including lottery, lotto, bingo.”

Discuss, whether the explanation appended to sub-clause (ii) of Section 65 (19) is clarifactory in nature so as to be construed having retrospective effect and retroactive operation. You may take help of a decided case law, if any.

(5 marks)

(b) Mr. Yes is the owner of a collection centre with facilities and trained employees for collection of human blood, urine and stool samples for biological testing. He sends the samples collected to its principal lab for actual test to be done. The assessee received 25% of the price charged by the principal lab. as commission for work of collection etc. The Revenue wants to charge service tax on such collection service as it amounts to promotion or marketing of service provided by its principal lab. Mr. Yes seeks your advise in this regard with reference to a decided case law, if any. (5 marks)

**2010 - May [6]** (a) State, with reasons in brief, whether the following services are taxable, under the provisions of the Finance Act, 1994 relating to Service tax :

- (i) Services in relation to production of alcoholic liquor on job work basis. (2 marks)
- (ii) Services of transport of goods in container by Government Railway. (2 marks)

(b) Whether the value of material supplied by the contractee to the contractor for use in the execution of the works contract shall be included in the value of works contract for payment of Service tax under the composition scheme ? What is the present rate of service tax under this scheme ? Can the service provider avail CENVAT credit also ? (4 marks)

(c) What is the general exemption available to small service providers ? Who are the persons excluded from this exemption ? (4 marks)

#### Chapter-19 : VAT & CST

**2010 - May [4]** (b) The particulars regarding sale, purchase etc, of Shubham Udyog for the last quarter of the year 2009-10 are as under :

|   | Rs.       |
|---|-----------|
| (1) Purchases of raw material within the State  |           |
| (i) taxable @ 1%  | 40,00,000 |
| (ii) taxable @ 4%   | 60,00,000 |
| (iii) taxable @ 12.5%   | 10,00,000 |
| (2) Sale of goods manufactured from raw material purchased @ 4% tax rate  |           |
| (i) Taxable sale within the State (tax rate 4%)   | 20,00,000 |
| (ii) Exempted sale within the State   | 10,00,000 |
| (iii) Sale in the course of Inter-State trade or Commerce (tax rate 4%)   | 10,00,000 |
| (3) Sale of raw material purchased @ 1% tax rate  | 44,00,000 |
| (4) Goods manufactured from the raw material purchased @ 12.5% tax rate were given on lease. The deemed sale price of such goods is Rs. 12,00,000, taxable @ 12.5%. |           |

You may assume that input tax credit of tax on raw material used in manufacture of leased goods is available immediately. Compute the amount of

Value Added Tax (VAT) payable by M/s Shubham Udyog for the relevant quarter. There was no opening or closing inventory.

How can he utilise the balance of input tax credit available, if any ?

(5 marks)

**2010 - May [6]** (d) Explain in brief the disadvantages of composition scheme available for small dealers under VAT system. (4 marks)

(e) What is VAT invoice ? What are the mandatory provisions to be complied with while issuing a VAT invoice by a registered dealer ? (4 marks)

**Chapter-21 : Levy and Exemptions from Customs Duty**

**2010 - May [7]** (b) M/s Marwar Industries imported finishing agents, dye-carriers, printing paste etc. to be used for manufacture of textile articles. The importer claimed exemption for Additional duty of customs (CVD) leviable under Section 3 of the Customs Tariff Act, 1975, on the ground that there was an exemption for excise duty in respect of said goods used in the 'same factory' for manufacture of textile articles. The Department contended that CVD is payable on the ground that the goods which were to be used must also be manufactured in the 'same factory'. You are requested to comment upon the contention of Department, with reference to a decided case law, if any.

(5 marks)

**Chapter-22 : Types of Duty**

**2010 - May [7]** (a) Miss Priya imported certain goods weighing 1,000 kgs. with CIF value US \$ 40,000. Exchange rate was 1 US \$ = Rs. 45 on the date of presentation of bill of entry. Basic customs duty is chargeable @ 10% and education cess as applicable. There is no excise duty payable on these goods, if manufactured in India.

As per Notification issued by the Government of India, anti-dumping duty has been imposed on these goods. The anti-dumping duty will be equal to difference between amount calculated @ US \$ 60 per kg. and 'landed value' of goods. You are required to compute custom duty and anti-dumping duty payable by Miss Priya. (5 marks)

**Chapter-25 : Administrative Aspects of Customs Act, 1962**

**2010 - May [8]** (a) Explain in brief the duty exemption to baggages under Section 79(1) of the Customs Act, 1962. (3 marks)

**Chapter-27 : Warehousing**

**2010 - May [8]** (c) Clearly mention the relevant date in the following cases of goods warehoused under bond :

- (i) Rate of exchange, when goods are removed for home consumption.
- (ii) Rate of duty, when goods are removed for home consumption.
- (iii) Rate of duty if the goods are not removed from warehouse within the permissible period. (4 marks)

**Chapter-32 : Settlement Commission**

**2010 - May [8]** (b) Can an application be withdrawn in the following cases ?  
If yes, state the time limit for withdrawal of such application :

- (i) application for advance ruling
- (ii) application for settlement. (3 marks)

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