

Free of Cost

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SCANNER™ Appendix

CA Final Gr. II (Old Course)
May - 2009

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PAPER'S

Paper - 5 : Cost Management

Chapter-3 : Decision Making

2009 - May [1] {C} (a) TQM Limited makes engines for motor cars for its parent company and for two other motor car manufacturers.

On 31st December, the company has sufficient work order for January and one further order for 21,000 engines. Due to recession in the economy, no further order are expected until May when it is hoped economic prospect for the motor car industry will have improved. Recently factory has been working at only 75% of full capacity and the order for 21,000 engines represents about one month production at this level of activity.

The board of directors are currently considering following two options :

- (i) Complete the order in February and close the factory in March and April.

OR

- (ii) Operate at 25 percent of full capacity for each of three months of February, March and April.

The costs per month at different levels of activities are as follows:

	At 75% (Rs.)	At 25% (Rs.)	Idle (Rs.)
Direct material	5,25,000	1,75,000	—
Direct labour	5,23,600	1,73,250	—
Factory overhead :			
Indirect material	8,400	4,900	4,900
Indirect labour	1,01,500	59,500	—

Indirect expenses :

Repairs and maintenance	28,000	28,000	—
Others expenses	52,500	34,300	26,600

Office overheads :

Staff salaries	1,48,400	98,000	67,550
Other overheads	28,000	19,950	11,200

Other information is as follows :

-) Material cost and labour cost will not be incurred where there is no production.
-) On the reopening of the factory, one time cost of training and engagement of new personnel would be Rs. 65,800 and overhauling cost of plant would be Rs. 14,000.
-) Parent company can purchase engines from open market at reasonable price.

Required :

- (i) To express your opinion, along with calculations, as to whether the plant should be shut down during the month of March and April or operate 25% of full capacity for three months.
- (ii) To list and comment on cost and non-costs factors which might be relevant to the discussion. (11 marks)

2009 - May [5] (b) Fairbilt Furniture Ltd. manufactures three products : Tables, Chairs and Cabinets. The company is in the process of finalizing the plans for the coming year; hence the executives thought it would be prudent to have a look at the product-wise performance during the current year. The following information is furnished :

	Tables	Chairs	Cabinets
Unit selling price	80	60	16
Direct material	28	24	16
Direct labour	20	12	12
Factory overheads :			
Variable	8	6	4
Fixed	8	6	1.28
Cost of production	64	48	33.28
Selling, distribution and general administration expenses :			
Variable	4	2	2
Fixed	4	6	1.52
Unit cost (I)	72	56	36.80
Unit Profit (loss) (II)	8	4	(0.80)
Sales volume (units)	10,000	15,000	15,000
Profit (loss)	80,000	60,000	(12,000)

For the coming period, the selling prices and the cost of three products are expected to remain unchanged. There will be an increase in the sales of tables

by 1,000 units and the increase in sales of cabinets is expected to be 8,000 units. The sales of chairs will remain to be unchanged. Sufficient additional capacity exists to enable the increased demands to be met without incurring additional fixed costs. Some among the executives contend that it will be unwise to go for additional production and sale of cabinets, since it is already making losses at Rs. 0.80 per unit. The suggestion is that cabinets should be eliminated altogether.

Do you agree? Substantiate with necessary analysis and determine the product-wise and overall profits for the coming year. (10 marks)

2009 - May [6] (c) X is a multiple product manufacturer. One product line consists of motors and the company produces three different models. X is currently considering a proposal from a supplier who wants to sell the company blades for the motors line.

The company currently produces all the blades it requires. In order to meet customer's needs, X currently produces three different blades for each motor model (nine different blades).

The supplier would charge Rs. 25 per blade, regardless of blade type. For the next year X has projected the costs of its own blade production as follows (based on projected volume of 10,000 units) :

	Rs.
Direct materials	75,000
Direct labour	65,000
Variable overhead	55,000
Fixed overhead :	
Factory supervision	35,000
Other fixed cost	<u>65,000</u>
Total production costs	<u>2,95,000</u>

Assume (1) the equipment utilized to produce the blades has no alternative use and no market value, (2) the space occupied by blade production will remain idle if the company purchases rather than makes the blades, and (3) factory supervision costs reflect the salary of a production supervisor who would be dismissed from the firm if blade production ceased.

- (i) Determine the net profit or loss of purchasing (rather than manufacturing) the blades required for motor production in the next year.
- (ii) Determine the level of motor production where X would be indifferent between buying and producing the blades. If the future volume level were predicted to decrease, would that influence the decision?
- (iii) For this part only, assume that the space presently occupied by blade production could be leased to another firm for Rs. 45,000 per year. How would this affect the make or buy decision ? (9 marks)

Chapter-5 : Standard Costing and Variance Analysis

2009 - May [5] (a) Global Limited uses standard and marginal costing system. It provides the following details for the year 2007-08 relating to its production, cost and sales :

Particulars	(in Rs.)	
	Budget	Actual
Sales units	24,000	25,600
Sales value	<u>6,000</u>	<u>6,784</u>
Materials	960	1,080
Labour	1,440	1,664
Variable overheads	<u>2,400</u>	<u>2,592</u>
Total variable cost	<u>4,800</u>	<u>5,336</u>

The sales budget is based on the expectation of the company's estimate of market share of 12%. The entire industry's sales of the same product for the year 2007-08 is 2,40,000 units. Further details are as follows :

Particulars	(in Rs.)	
	Standard	Actual
Material price per kg.	8.00	7.50
Labour rate per hour	6.00	6.40

You are required to :

- (a) Prepare a statement reconciling the budgeted contribution with actual contribution on the basis of important material variances, labour variances, variable overhead variances and sales variances.
- (b) Compute market size variance and market share variance. (9 marks)

Chapter-6 : Pricing Decisions, Pareto Analysis

2009 - May [3] (c) What is penetrating pricing ? What are the circumstances in which this policy can be adopted ? (5 marks)

Chapter-7 : Costing of Service Sector

2009 - May [6] (b) Explain the main characteristics of Service sector costing. (5 marks)

Chapter-8 : Transfer Pricing

2009 - May [2] (a) A company is organized on decentralized lines, with each manufacturing division operating as a separate profit centre. Each division manager has full authority to decide on sale of division's output to outsiders or to other divisions. Division AB manufactures a single standardised product. Some output is sold externally and remaining is transferred to division XY where it is a sub-assembly in the manufacture of the division product. The unit cost of division AB product and division XY is as follows :

	Division AB (Rs.)	Division XY (Rs.)
Transfer from division AB to XY)	42.00
Direct material	6.00	35.00
Direct labour	3.00	4.50
Direct expenses	3.00)

Variable manufacturing overheads	3.00	18.00
Fixed manufacturing overheads	6.00	18.00
Variable selling and packing expenses	3.00	2.50
	24.00	120.00

Division AB sold 40,000 units annually at the standard price of Rs. 45 in external market. In additions to the external sales, 10,000 units are transferred annually to division XY at internal price of Rupees 42 per unit. Variable selling and packing expenses are not incurred by supplying division for the internal transfer of the product. Division XY incorporates the transferred goods into more advance product. The manager of division XY disagrees with the basis used to set the transfer price. He argues that transfer price should be made at variable cost since he claims that his division is taking output that division AB should be unable to sell at price Rs. 45.

He also submitted a report of the relationship between selling price and demand to support of his disagreement. The report of customer demand at various selling prices for division AB and for division XY is as follows :

Division AB			
Selling price per unit (Rs.)	30	45	60
Demand (Units)	60,000	40,000	20,000
Division XY			
Selling price per unit (Rs.)	120	135	150
Demand (Units)	15,000	10,000	5,000

The company has sufficient capacity to meet demand at various selling prices. Internal transfer demanded units will be decided by XY division.

Required :

- (i) To calculate divisional profitability and overall profitability of company if division AB transfers demanded units to XY at price of Rs. 42.
- (ii) To calculate divisional profitability and overall profitability of company if division AB transfers demanded units to XY at variable cost .
- (iii) In place of internal transfers, AB division can sell 10,000 units of their product in new external market without effecting existing market, at price Rs.32 per unit and XY division can purchase these units at the rate of Rs. 31 in open market. Calculate company's profit by following above strategies. (12 marks)

Chapter-9 : Target Costing, Life Cycle Costing

2009 - May [2] (c) Meena is a news reporter and feature writer for an economic daily. Her assignment is to develop a feature article on 'Product Life-cycle Costing' including interviews with the Chief Financial Officers(CFO) and operating managers. Meena has been given a liberal budget for travel so as to research into company's history, operations, and market analysis for the firm she selects for the article.

Required :

- (i) Meena has asked you to recommend industries and firms that would be good candidates for the article. What would you advise ? Explain your recommendations. (3 marks)

Chapter-10 : Just in time Approach, Material Requirement Planning and Enterprise Resource Planning

2009 - May [6] (a) What do you mean by back-flushing in JIT system? What are the problems that must be corrected before it will work properly? (5 marks)

Chapter - 11 : Activity Based Cost Management

2009 - May [1] {C} (b) The following are Product Nova Shaft's data for next year budget :

Activity	Cost Driver	Cost Driver volume/year	Cost pool
Purchasing	Purchase orders	1,500	Rs. 75,000
Setting	Batches produced	2,800	Rs. 1,12,000
Materials handling	Materials movements	8,000	Rs. 96,000
Inspection	Batches produced	2,800	Rs. 70,000
Machining costs	Machine hours	50,000	Rs. 1,50,000
Purchase orders			25
Output		15,000 units	
Production batch size		100 units	
Materials movements per batch			6
Machine hours per unit			0.1

Required :

- (i) Calculate the budgeted overhead costs using activity based costing principles.
 (ii) Calculate the budgeted overhead costs using absorption costing (absorb overhead using machine hours).
 (iii) How can the company reduce the ABC for Product Nova Shaft ? (9 marks)

Chapter-13 : Value Chain Analysis

2009 - May [2] (b) Define the term 'value-chain'. Mention three useful strategic frameworks of the value-chain analysis. (4 marks)

Chapter-14 : Budgeting Control and Performance Measurement

2009 - May [1]{C} (c) Explain goals and performance measure for each perspective of Balance Score Card. (4 marks)

2009 - May [3] (a) JBC Limited, a manufacturing company having a capacity of 60,000 units has prepared a following cost sheet :

Direct material (per unit)	Rs. 12.50
Direct wages (per unit)	Rs. 5.00
Semi-variable cost	Rs. 30,000 fixed plus 0.50 per unit
Factory overhead (per unit)	Rs. 10.00 (50% fixed)

Selling and administration overhead

(per unit) Rs. 8.00 (25% variable)

Selling price (per unit) Rs. 40

During the year 2008, the sales volume achieved by the company was 50,000 units.

The company has launched an expansion program as under :

- (a) The capacity will be increased to 1,00,000 units.
- (b) The cost of investment on expansion is Rs. 5 lakhs which is proposed to be financed through financial institution at 12 percent per annum.
- (c) The depreciation rate on new investment is 10 per cent based on straight line.
- (d) The additional fixed overheads will amount to Rs. 2.00 lakhs up to 80,000 units and will increase by Rs. 80,000 more beyond 80,000 units.

After the expansion, the company has two alternatives for operating the expanded plant as under :

- (i) Sales can be increased up to 80,000 units by spending Rs. 50,000 on special advertisement campaign to explore new market.
- (ii) Sales can be increased up to 1,00,000 units subject to the following:
 - (a) Reduction of selling price by Rs. 4 per unit on all the units sold.
 - (b) The direct material cost would go down by 4 per cent due to discount on bulk buying.
 - (c) By increasing the variable selling and administration expenses by 4 percent.

Required :

- (i) Construct a flexible budget at the level 50,000 units, 80,000 units and 1,00,000 units of production and select best profitable level of operation.
- (ii) Calculate break even point both before and after expansion.

(9 marks)

Chapter-17 : The Assignment Problem

2009 - May [4] (b) A factory is going to modify of a plant layout to install four new machines M1, M2, M3 and M4. There are 5 vacant places J, K, L, M and N available. Because of limited space machine M2 cannot be placed at L and M3 cannot be placed at J. The cost of locating machine to place in Rupees is shown below :

	J	K	L	M	N	(Rs.)
M1	18	22	30	20		22
M2	24	18)	20		18
M3)	22	28	22		14
M4	28	16	24	14		16

Required :

Determine the optimal assignment schedule in such a manner that the total costs are kept at a minimum. (7 marks)

Chapter-18 : Critical Path Analysis

2009 - May [4] (a) A project with normal duration and cost along with crash duration and cost for each activity is given below :

Activity	Normal time (Hrs.)	Normal cost (Rs.)	Crash time (Hrs.)	Crash cost (Rs.)
1-2	5	200	4	300
2-3	5	30	5	30
2-4	9	320	7	480
2-5	12	620	10	710
3-5	6	150	5	200
4-5	0	0	0	0
5-6	8	220	6	310
6-7	6	300	5	370

Indirect cost Rs. 50 per hour.

Required :

- (i) Draw network diagram and identify the critical path.
- (ii) Find out the total float associated with each activity.
- (iii) Crash the relevant activities systematically and determine the optimum project completion time and corresponding cost. (12 marks)

Chapter-20 : Simulation

2009 - May [3] (b) State major reason for using simulation technique to solve a problem and also describe basic steps in a general simulation process.

(5 marks)

Paper - 6 : Management Information and Control System

Chapter-2 : Transaction Processing System

2009 - May [1] {C} (d) Briefly explain the four common cycles of business activity along with listing some of the application systems for each cycle.

(5 marks)

Chapter-3 : Basic Concepts of MIS

2009 - May [5] (b) Define top level management. What is the main responsibility of top management? Give the information requirement at top level for making decisions. (8 marks)

- (c) What is a programmed and a non-programmed decision? Distinguish the difference between the two through an example. (4 marks)

Chapter-4 : Systems Approach and Decision Making

2009 - May [5] (a) Consider the problem of long delays between receipts of orders and delivery in a company. Give the six steps in the system approach to find the solution for the above problem. (8 marks)

Chapter-7 : System Development Process

2009 - May [2] (a) State and briefly explain the major categories and the items included therein to estimate the information system costs. (8 marks)
(b) Why organisations fail to achieve their system development objectives ? (8 marks)

Chapter-8 : Systems Design

2009 - May [3] (a) List and describe the contents of a system manual. (8 marks)

Chapter-9: System's Acquisition, Software Development and Testing

2009 - May [3] (b) The Software industry continues to undergo constant changes; users need to be aware of recent trends and issues to be effective in their business and personal life. Explain. (8 marks)

2009 - May [6] (b) Discuss the factors to be considered for validation of a vendor's proposal. (8 marks)

2009 - May [7] (a) List and explain the Software packages that are helpful in analysis of program logic. (5 marks)

(d) Discuss the advantages of pre-written application Software packages. (5 marks)

Chapter-11 : Design of Computerised Commercial Application

2009 - May [3] (c) Draw schematic chart of general form of business applications. (4 marks)

2009 - May [4] (a) State the inputs, processing and the outputs of a "Share accounting system". (8 marks)

Chapter-12 : Enterprise Resource Planning: Redesigning Business

2009 - May [6] (a) List the items of information provided by cash management of Treasury module of SAP. (8 marks)

(c) List the fears that are expected to arise among employees of an organisation during implementation of ERP. (4 marks)

Chapter-13 : Controls in EDP Set-Up : General Controls

2009 - May [4] (b) State the steps to be taken to reduce the threat from destructive programs. (8 marks)

Chapter-15 : Detection of Computer Frauds

2009 - May [1] {C} (c) What is a computer fraud and what type of activities does it include ? (5 marks)

2009 - May [4] (c) List the main threats from hacking. (4 marks)

Chapter-16 : Cyber Laws and Information Technology Act 2000

2009 - May [7] (b) State the entities to which the Information Technology Act, 2000 does not apply. (5 marks)

Chapter-17 : Audit of Information Systems

2009 - May [1] {C} (a) Explain the three tests that can be used to detect unauthorised or erroneous program changes. (5 Marks)

(b) State the objectives on which an Information system auditor should focus. (5 marks)

2009 - May [2] (c) What is an Audit risk ? Distinguish between errors and irregularities. Which do you think concern auditors the most ? (4 marks)

Chapter-18 : Information Security

2009 - May [7] (c) State the methods through which awareness of employees towards security policy can be increased. (5 marks)

Paper - 7 : Direct Taxes

Chapter-2 : Income which do not form part of total income

2009 - May [2] (b) The Finance Act, 2008 brought in a new provision effective from 1st April, 2009 for granting deduction for 100% of profit derived by an undertaking from the business of operating and maintaining a hospital located anywhere in India, other than excluded area, subject to certain conditions. State briefly those conditions. (2 marks)

Chapter- 3 : Charitable or Religious Trusts and Institutions

2009 - May [2] (a) Mr. Bhargava, a leading advocate on corporate law decided to reduce his practice and to accept briefs only for paying his taxes and making charities with the fees received on such briefs. In a particular case he agreed to appear to defend one company in the Supreme Court on condition that he would be provided with Rs.5 lacs for a public charitable trust that he would create. He defended the company and was paid the sum by the company and created a trust of that sum by executing a trust deed. Decide whether the amount received by Mr. Bhargava is assessable in his hands as income from profession. (3 marks)

2009 - May [6] (a) Antaryami settled 1/4 th share of his property under a trust for the education and maintenance of his minor daughter, Poulomi. Under the terms of the trust deed the income accruing to the trust, after meeting the expenses of maintenance and education of Poulomi, was to be accumulated and paid over to her on her attaining majority. The Assessing Officer assessed the income arising from 1/4th share of the property, settled for the benefit of Poulomi, in the hands of Antaryami. Examine the correctness of the assessment. (4 marks)

(b) Happy Home is a public charitable trust created under a trust deed for providing relief to physically challenged persons and registered under Section 12 A of the Income-tax Act. The following are the particulars of receipts of the trust during the year ended 31st March, 2009.

	Rs. In lacs
(i) Income from Properties held by trust (net)	15
(ii) Income (net) from business (incidental to main objects)	14
(iii) Voluntary contributions from public (including the corpus donation Rs. 7 lacs)	18

The trust applied Rs. 18 lacs towards various activities and programmes undertaken for the benefit of physically challenged persons during the year. The trust has also paid Rs. 8 lacs towards repayment of a loan taken two years back for the purpose of construction of its centre for training the handicapped persons in various handicraft works and sports.

Determine the tax liability, if any of the trust for the assessment year 2009-10 and also state how the trust can mitigate such liability.

(6 marks)

Chapter- 5 : Income from House Property

2009 - May [7] (b) Sridhar purchased a residential flat from Devraj in 2005. However, deed of conveyance has not been registered in the name of Sridhar till date. Sridhar has let out the flat at a monthly rent of Rs. 15,000 to Mohan. Sridhar claims that rent received is not chargeable under the head “income from house property”, but the same is chargeable under the head “income from other sources” and he can claim deduction for expenses on repair and insurance premium on actual basis and also depreciation. Examine the correctness of Sridhar’s claim.

(3 marks)

Chapter-6 : Profit and gains of Business or Profession

2009 - May [7] (c) IT Limited under its Employment Stock Option Plan allotted 500 equity shares to its finance manager, Ms. Cynthia on 15th May, 2008, when she exercised her option. The option was granted on 15th January, 2007 and the shares vested with Cynthia on 15th January, 2008. The company’s shares are quoted in Bombay Stock Exchange where the opening price and closing price of the date of vesting were Rs. 250 and 256, respectively. The company recovered Rs. 50 per share from Cynthia. Compute the value of fringe benefit for the assessment year 2009-10. If fringe benefit tax thereon is recovered by the company from Cynthia, can she claim such tax as a part of cost when she sells the shares?

(4 marks)

Chapter-7 : Capital Gains

2009 - May [3] (b) Sri Sajjan, converted the capital asset acquired by him in the year 1988, into stock in trade at the fair market value on 1st March, 2008. Sri Sajjan sold the entire stock in trade so converted, on 25th November, 2008. Sri Sajjan seeks your advice as to the tax implications of the transaction with reference to the provisions of Indian Income-tax Act for the assessment year 2009-2010.

(5 marks)

Chapter-13 : Double Taxation Relief

2009 - May [2] (c) Mr. Bansal, a resident Indian and aged 67 years has derived the following incomes during the previous year 2008-09 :

	Rs.
(i) Income from business in India	2,50,000
(ii) Commission (Gross) from a company in Hong Kong (Tax paid in Hong Kong Rs. 60,000)	3,00,000
(iii) Dividend (Gross) from a company in Hong Kong (Tax paid in Hong Kong Rs. 18,000)	90,000
(iv) Interest on fixed deposit and savings account with banks in India.	2,00,000

India has no double tax avoidance agreement with Hong Kong. Compute the Income and tax payable by Mr. Bansal for assessment year 2009-10

(5 marks)

Chapter- 14 : Transfer Pricing and other Provisions to check avoidance of Tax

2009 - May [7] (a) EF Limited, an Indian company is engaged in manufacturing electronic components. 74% of shares of the company are held by EF Inc., incorporated in USA. EF Limited has borrowed funds from EF Inc. at LIBOR plus 150 points. The LIBOR prevalent at the time of borrowing is 4% for US \$. The borrowings allowed under the External Commercial Borrowings guidelines issued under Foreign Exchange Management Act are LIBOR plus 200 basis points. Discuss whether the borrowing made by EF Limited is at arm's length. ('LIBOR' means London Inter-Bank Offer Rate)

(5 marks)

Chapter-15 : Business Restructuring

2009 - May [4] (a) A shareholder of a Demerged Indian company received shares from the Resulting company in the scheme of Demerger. The shareholder wants to transfer the said shares received subsequent to the Demerger for consideration. Your advice is sought on the tax consequences as to the shares received on Demerger and sought to be transferred. (4 marks)

Chapter- 18 : Assessment Procedure

2009 - May [3] (a) Ayush, an employee of a management consultancy firm was sent to UK in connection with a project of the firm's client for two months in a previous year. In addition to his salary, the firm paid per diem allowance for the period when he worked in UK to meet expenses on boarding and lodging. Tax was not deducted at source from such allowance by the employer. Ayush did not include such allowance in computation of his taxable salary for the relevant assessment year. In course of assessment of Ayush under Section 143(3), the Assessing Officer sent a notice to him asking him to explain why the per diem allowance received by him should not be charged to tax ? Ayush sought your advice. (4 marks)

2009 - May [4] (b) The assessment was made under Section 143 (1) for assessment year 2005-06. The assessee has received a notice under Section 148 on 6th April, 2008 for reopening of assessment. Can the assessee challenge the legality of the notice on the ground of change of opinion? (3 marks)

- (c) Is it possible for the Assessing Officer to initiate proceeding under Section 147 in respect of income involving matters which are the subject matter of an appeal? (2 marks)
- (d) The Assessing Officer has no power to make any adjustment to income returned by the assessee while processing the return of income under Section 143 (1). Examine the correctness of the statement (5 marks)

2009 - May [5] (a) Tai Ltd. filed its return of income for assessment year 2008-09 on 6th June, 2008. The return is selected for regular assessment under Section 143 (3) for which notice under Section 143 (2) is served on the company on 3rd October, 2009. The company responded to the notice u/s 143 (2). State whether the service of the notice is within time and if not, whether the assessment order can be challenged by the assessee. (4 marks)

Chapter-25 : Deduction and Collection of Tax at Source

2009 - May [3] (d) East Bengal Club, a renowned football club has engaged Raghu, a resident in India as its coach at a remuneration of Rs.6 lacs annually. The club wants to know from you whether it is liable to deduct tax at source from such remuneration. (3 marks)

Chapter-28 : Assessment of Individual

2009 - May [5] (b) Ms. J, a Sikkimese – woman married Mr. K., a non-Sikkimese on 1st January, 2008. During the previous year 2008 - 09 she received rent of Rs.12 lacs from letting out of house properties situated in the State of Sikkim. Is she liable to Income-tax for assessment year 2009-10? Will your answer be different, if she married Mr. K on 16th April, 2008? (3 marks)

Chapter-30 : Assessment of Firms and AOP

2009 - May [1] X, Y and HUF of Z (represented by Z) are partners with equal shares in profits and losses of a firm M/s Popular Cine Vision, which is engaged in the production of TV serials and telefilms. In the previous year 2007-08, one partner 'A' retired, but his dues have been settled in the previous year 2008-09.

The earlier Partnership deed did not authorise payment of remuneration or interest to partners. The Partnership deed was revised by the partners on 1st June, 2008 to authorise payment of remuneration of Rs. 1 lac per month to each working partner and simple interest at 15% per annum to X and Y on their capital. X, Y and Z, are actively associated with the affairs of the firm.

The Profit & Loss Account of the firm for the year ended 31st March, 2009 shows a net profit of Rs. 10 lacs after debiting/crediting the following :

- (a) Interest amounting to Rs. 15 lacs paid to X and Y on the balances standing to their capital accounts from 1st April, 2008 to 31st March, 2009.
- (b) Remuneration to the partners including partner in representative capacity Rs.30 lacs.

- (c) Interest amounting to Rs. 2 lacs paid to Z on loan provided by him in his individual capacity at 16% interest.
- (d) Royalty of Rs.5 lacs paid to partner X, who is litterateur and professional script writer, for use of his scripts as per an agreement between the firm and X.
- (e) Two separate payments of Rs. 18,000 and Rs. 15,000 made in cash on 1st February, 2009 to Altaf, a hairdresser against his bill for services rendered in January, 2009 and two payments of Rs. 19,000 and Rs. 10,000 made in cash on 1st February and 2nd February, 2009 respectively to Priyam, assistant cameraman against her bill for services provided in January, 2009.
- (f) Amount of Rs. 5 lacs provided in the books on 31st March 2009 as liability for remuneration to Shreyashi, a film artist and a non-resident. Tax deducted at source under Section 195 from the amount so credited was paid on 3rd June, 2009.
- (g) Amount of Rs. 6 lacs provided as gratuity for the year on the basis of actuarial valuation. Gratuity paid to retired employees is Rs. 1.50 lacs.
- (h) Interest of Rs. 1.20 lacs received on income-tax refund under Section 244(1A) in respect of assessment year 2007-08.

The firm has also provided the following additional information :

The amount due to A, the former partner was Rs. 15 lacs. The dues were settled on 30th September, 2008 by transferring a plot of land purchased two years back having a book value of Rs. 10 lacs. The difference of Rs. 5 lacs was credited to partners' capital accounts in their profit sharing ratio. The fair market value of the plot on the date of transfer was Rs. 16 lacs.

Compute total income of the firm for the assessment year 2009-10 stating the reasons for treatment of each item. (16 marks)

Chapter-31 : Assessment of Companies

2009 - May [3] (c) Intelysis Limited charged depreciation on its fixed assets at the rates prescribed in the Income-tax rules in its accounts consistently. The assessing officer disallowed the same and considered depreciation computed at the rates prescribed in the Companies Act, 1956, for the purpose of computation of 'book profit' under Section 115JB of the Income-tax Act for the assessment year 2008-09. Examine the correctness of the action of the assessing officer. (3 marks)

2009 - May [5] (c) Betki Limited is a company in which 70% shares are held by Ruhu Limited. Betki Limited in its annual general meeting held on 18th May, 2008 declared a dividend amounting to Rs. 40 lacs to its shareholders for the year ended 31st March, 2008 and it paid dividend distribution tax on 28th May, 2008.

Ruhu Limited did not declare any dividend for the year ended 31st March, 2008. It, however, declared an interim dividend amounting to Rs. 60 lacs on 1st December, 2008 for the year ended 31st March, 2009. What is the amount of

tax on dividend payable by Ruhu Limited? What would be your answer, if 60% of shares in Ruhu Limited are held by Hilsha Limited, a domestic company? Does the position further change, if Hilsha Limited is a foreign company?

(6 marks)

Chapter- 37 : Wealth Tax

2009 - May [8] (a) Mr. Manocha has a house property in Delhi, which was lying vacant for last 3 years. He constructed the property in 1990 at a cost of Rs. 40 lacs. He has let out the same at a monthly rent of Rs. 30,000 for a period of three years with effect from 1st January, 2009. The quarterly corporation tax is Rs.30,000. He took a premium of Rs.1,20,000 from the tenant and also security deposit of Rs.1,00,000. The house was constructed on a land measuring 4,000 sft. It has three floors each measuring 960 sft. Compute the value of the house property for wealth tax purpose as at valuation date 31.3.2009.

(7 marks)

(b) An association of persons (AOP) consisting two members Akash and Vikash owns an urban land valued at Rs. 60 lakh on the valuation date 31.3.2009. Examine the tax implications under the Wealth Tax Act.

(3 marks)

Paper - 8 : Indirect Taxes

Chapter 1 : Basic Concepts

2009 - May [2] (a) Assessee purchased duty paid M.S. tubes from its manufacturers and cut into requisite length and were put into the swaging machine for undertaking swaging process whereby dies fitted in the machine imparted 'folds' to flat surface of M.S. Tube/Pipe. Department's view is that 'swaging process' amounts to manufacture whereas assessee denies. Discuss whether the Department's contention is correct by referring to section 2 (f) of the Central Excise Act, 1944. You can take the help of decided case law, if any.

(5 marks)

Chapter 2 : Classification of Excisable Goods

2009 - May [1] {C} (d) Discuss the validity or otherwise of the following statements giving reasons to support your answer :

- (i) Erroneous claim made by the assessee earlier precludes him from subsequently making a claim for correct classification. (3 marks)

Chapter 3 : Valuation of Excisable Goods

2009 - May [1] {C} (b) Explain the provisions of section 3 A of the Central Excise Act, 1944 regarding duty payable on the basis of capacity of production in respect of notified goods. (5 marks)

2009 - May [2] (c) Raj & Co. furnish the following expenditure incurred by them and want you to find the assessable value for the purpose of paying excise duty on captive consumption. Determine the cost of production in terms of rule

8 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000 and as per CAS-4 (cost accounting standard) :

(i) Direct material cost per unit inclusive of excise duty at 10%	Rs. 880
(ii) Direct wages	Rs. 250
(iii) Other direct expenses	Rs. 100
(iv) Indirect materials	Rs. 75
(v) Factory overheads	Rs. 200
(vi) Administrative overhead (25% relating to production capacity)	Rs. 100
(vii) Selling and distribution expenses	Rs. 150
(viii) Quality control	Rs. 25
(ix) Sale of scrap realised	Rs. 20
(x) Actual profit margin	15%

(6 marks)

2009 - May [4] (a) Discuss with reference to the Central Excise Valuation (Determination of Price of Excisable goods) Rules, 2000, the following :

- (i) Goods sold only through inter-connected undertaking
- (ii) Valuation in case of job worker. (3 marks each)

2009 - May [5] (b) Write a brief note on the following with reference to the Central Excise Act 1944 :

- (i) Tampering or altering MRP after removal (3 marks)

Chapter 4 : CENVAT Credit Rules, 2004

2009 - May [1] {C} (c) X Ltd. of Kanpur was receiving goods in semi-finished condition from its sister concern based at Mumbai. After carrying out some operations, it cleared the goods at lower value than the landing cost of semi-finished goods received from the supplier. After verification of company's records, Revenue Department alleged that the value of the intermediate goods had been inflated by the supplier to pass on excess cenvat credit and hence, department wanted to disallow the excess credit so availed as per the provisions of rule 14 of the Cenvat Credit Rules, 2004. Explain whether the contention of the Department is correct, giving reference to decided case law, if any. (5 marks)

2009 - May [3] (b) Explain eligibility of cenvat credit in each of the following occurrences during the month of January, 2008 for an assessee :

- (i) Assessee received a consignment of inputs on which excise duty paid was Rs. 12,000. The invoice is dated 10th January, 2008. The transporters delivered the goods on 1st February, 2008.
- (ii) Inputs on which cenvat credit availed earlier Rs. 5,000, were sent to production centre and on its way, the inputs were completely damaged due to careless handling. Inputs have become unfit for use.
- (iii) Cenvat credit of Rs. 20,000 was taken on certain inputs. Due to long storage, they have become unfit and were sold as scrap for Rs. 5,000 and excise duty is 14.42% (3 × 2 = 6 marks)

Chapter 5 : General Procedures under Central Excise

2009 - May [4] (c) Rule 9 (2) of the Central Excise Rules, 2002 provides for exemption from registration to specified categories of persons. Explain briefly those categories. (4 marks)

Chapter 6 : Export Procedures

2009 - May [2] (b) Briefly explain the provisions relating to re-entry of the goods cleared for export under bond but not actually exported, in the factory of manufacturer as per notification issued under rule 19 of the Central Excise Rules, 2002. (4 marks)

Chapter 8 : Demand

2009 - May [1] {C} (d) Discuss the validity or otherwise of the following statements giving reasons to support your answer :

- (ii) Omission to give correct information be construed as 'suppression of facts' for the purpose of the proviso to section 11 A of the Central Excise Act, 1944 (3 marks)

2009 - May [3] (a) Is there any discretion under section 11 AC of the Central Excise Act, 1944 to impose penalty less than the amount equal to duty evaded? Briefly explain based on case law, if any. (3 marks)

Chapter 9 : Refund

2009 - May [1] {C} (a) Briefly explain the following with reference to the provisions of the Central Excise Act, 1944 as amended by the Finance Act, 2008 :

- (i) Deposit of duty of excise duty collected from the buyer under Section 11 DD (1). (2 marks)

2009 - May [4] (b) 'As per section 11 B (2) of the Central Excise Act, 1944 refund shall be granted to the applicant only in specified cases otherwise shall be credited to Consumer Welfare Fund.' You are required to explain briefly such cases. (5 marks)

Chapter 10 : Appeals

2009 - May [1] {C} (a) Briefly explain the following with reference to the provisions of the Central Excise Act, 1944 as amended by the Finance Act, 2008 :

- (ii) Payment of interest on pre-deposit made by an appellant under section 35 FF. (2 marks)

2009 - May [5] (c) Under which circumstances, the appellant shall be entitled to produce before the Commissioner of Central Excise (Appeals) additional evidence as per rule 5 of the Central Excise Appeal Rules, 2002. (4 marks)

Chapter 11 : Remission of Duty and Destruction of Goods

2009 - May [5] (b) Write a brief note on the following with reference to the Central Excise Act 1944 :

- (ii) Remission of duty on lost/ or destroyed goods. (2 marks)

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

2009 - May [3] (c) S & Co., a small scale unit, had cleared goods of the value of Rs. 750 lakhs during the financial year 2007-08. Records show that the following clearances were included in the total turnover of Rs. 750 lakhs :

	Rs. in Lakhs
(i) Total exports during the year	200
(ii) Job-work in terms of Notification No. 214/86	50
(iii) Job-work in terms of Notification No. 83/94-E	50
(iv) Clearances of excisable goods without payment of duty to a 100% E.O.U.	20
(v) Goods manufactured in rural area with others brand	100

Find out whether the unit is eligible to avail concession for the year 2008-09, under Notification No. 8/2003 dated 1st March, 2003, giving reasons for your answer. 30% of total exports were to Nepal. (6 marks)

Chapter 17 : Settlement Commission

2009 - May [5] (a) State the categories of cases that cannot be settled as per Section 32 E of the Central Excise Act, 1944. (5 marks)

Chapter 20 : Levy of and Exemptions from Customs Duty

2009 - May [6] {C} (a) As per Section 15 of the Customs Act, 1962, briefly discuss the date for determining the rate of duty and tariff valuation of imported goods. (3 marks)

2009 - May [6] {C} (b) Referring to Section 25 of the Customs Act, 1962 discuss the following :

- (i) General exemption
- (ii) Special exemption (2 × 2 = 4 marks)

Chapter 23 : Valuation under the Customs Act, 1962

2009 - May [7] (a) Compute the assessable value and Custom duty payable from the following information :

- (i) F.O.B. value of machine 8,000 UK Pounds
- (ii) Freight paid (air) 2,500 UK Pounds
- (iii) Design and development charges paid in UK 500 UK Pounds
- (iv) Commission payable to local agent @ 2% of F.O.B., in Indian Rupees.
- (v) Date of bill of entry 24.10.2007(Rate BCD 20% ; Exchange rate as notified by CBEC Rs. 68 per UK Pound.
- (vi) Date of entry inward 20.10.2007(Rate of BCD 18% ; Exchange rate as notified by CBEC Rs. 70 per UK Pound.
- (vii) C.V.D. payable @ 16% plus education cess as applicable
- (viii) Special C.V.D. - as applicable.
- (ix) Insurance charges actually paid but details not available. (6 marks)

Chapter 26 : Warehousing

2009 - May [6] {C} (c) The assessee imported capital goods and deposited them in the warehouse. The said goods were not removed from the warehouse within the period permitted under Section 61 (1) (a) i.e. five years. Subsequently, the assessee filed an application for relinquishment of title of such warehoused goods. The department contended that since the assessee did not file an application for extension of warehousing period before the expiration of five years period fixed under Section 61 (1) (a), after expiration of the said period, the goods could no longer be termed as 'warehoused goods'. Therefore, the assessee lost its title to the same and consequently it lost its right to relinquish its title thereto. It was further claimed that the relinquishment of title to the said goods ought to have been made by the assessee before the expiration of the warehousing period and not thereafter and therefore the goods were 'deemed to have been improperly removed from the warehouse.' Consequently the assessee became liable to pay duty, penalty and interest with respect to the said goods as provided under Section 72(1)(b) of the Customs Act, 1962.

Discuss whether the contention of the department is correct, by referring to case law, if any. (5 marks)

- (e) Whether the right of warehouse -keeper to recover the warehousing charges from the sale proceeds of the goods kept therein is superior to the right of the Revenue of recover Custom duty. Answer briefly by referring to Section 150 (2) (b) of the Customs Act, 1962. (3 marks)

Chapter 27 : Demand and Appeals

2009 - May [6] {C} (d) K imported some old machinery from London claiming that the machinery was fully exempted from customs duty under a notification. Assistant Commissioner of Customs, the authority in original, differed and held that the machinery so imported was covered under different headings and attracted customs duty. Therefore, K had to furnish bank guarantee for duty payable and for release of machine.

Subsequently, the Assistant Commissioner of Customs ordered to encash the bank guarantee to realise the duty. This order was issued to K and immediately thereafter, the Custom Department invoked bank guarantee by sending request to bank for making payment to them. K contended that order of the Assistant Commissioner was appealable and the period of filing appeal was yet to expire, hence the action of the department was not correct. You are required to comment whether the action of Customs Department is correct in law based on decided case law, if any. (5 marks)

2009 - May [7] (c) Briefly explain the provisions of Section 28 BA of the Customs Act, 1962 regarding provisional attachment of property pending adjudication. (5 marks)

2009 - May [8] (c) What is the time-limit provided for issuance of show-cause notice in section 28 of the Customs Act, 1962 ? (4 marks)

- (d) What are the orders of Commissioner (Appeals) not appealable to Appellate Tribunal as per section 129(A) of Customs Act, 1962?
(3 marks)

Chapter 29 : Duty Drawback

- 2009 - May [8]** (b) Briefly discuss the provisions in relation to interest on drawback as per Section 75 A of the Customs Act, 1962. (3 marks)

Chapter 30 : Provisions relating to Illegal Import, Confiscation, Penalty & Allied Provisions

- 2009 - May [7]** (b) What is 'redemption fine' in lieu of confiscation ? What is the limit for imposing redemption fine under Section 125(1) of the Customs Act, 1962 ? (4 marks)

Chapter 33 : Miscellaneous Provision

- 2009 - May [8]** (a) If any duty demanded or drawback paid is recoverable from a person, what is the procedure envisaged under Section 142 of the Customs Act, 1962 ? (5 marks)

Chapter 35 : Service Tax

- 2009 - May [9]{C}** (a) State with reason whether Service tax liability arises in the following cases :

- (i) Services provided by 'Angadia' in undertaking delivery of documents or goods received from a customer to another person for a consideration.
 - (ii) Commission received by distributors for distribution of mutual fund units.
 - (iii) Consultancy services in the field of Computer software engineering by Consulting Engineer. (3 × 2 = 6 marks)
- (b) (i) What is the exemption provided to practising Chartered Accountants under Notification No. 25/2006 ST dated 13.7.2006 ? (2 marks)
- (ii) Define the term 'Gross amount charged' as per Explanation (c) to Section 67 of Finance Act, 1994, as amended, with reference to associated enterprises. (3 marks)
 - (iii) M, an assessee, fails to pay service tax of Rs. 15 lakhs payable by 5th January. He pays the amount on 16th January. What is the penalty payable by M ? (4 marks)

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