

Free of Cost

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SCANNER™ Appendix

CA Final Gr. II (New Course)
November - 2009

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PAPER'S

Paper - 5 : Advanced Management Accounting

Chapter-1 : Developments in the Business Environment

2009 - Nov [2] (a) A bank offers three products, viz., deposits, Loans and Credit Cards. The bank has selected 4 activities for a detailed budgeting exercise, following activity based costing methods.

The bank wants to know the productwise total cost per unit for the selected activities, so that prices may be fixed accordingly.

The following information is made available to formulate the budget :

| Activity | Present cost (Rs.) | Estimation for the budget period |
|------------------------------------|-----------------------|--|
| (i) ATM Services : | | |
| (a) Machine maintenance | 4,00,000 | (all fixed; no change) |
| (b) Rents | 2,00,000 | (fully fixed; no change) |
| (c) Currency Replenishment Cost | 1,00,000 | (expected to double during budget period) |
| | <u>7,00,000</u> | (This activity is driven by no. of ATM transations) |

| | | |
|--------------------------|-----------|---|
| (ii) Computer Processing | 5,00,000 | (Half this amount is fixed and no change is expected) (The variable portion is expected to increase to three times the current level). This activity is driven by the number of computer transactions. |
| (iii) Issuing Statements | 18,00,000 | Presently, 3 lac statements are made. In the budget period, 5 lac statements are expected; For every increase of one lac statements, one lac rupees is the budgeted increase (this activity is driven by the number of Statements) |
| (iv) Customer Inquiries | 2,00,000 | Estimated to increase by 80% during the budget period. (This activity is driven by telephone minutes.) |

The activity drivers and their budgeted quantities are given below :

| | Deposits | Loans | Credit Cards |
|---|-----------|----------|--------------|
| No. of ATM Transactions | 1,50,000 | — | 50,000 |
| No. of Computer Processing Transactions | 15,00,000 | 2,00,000 | 3,00,000 |
| No. of Statements to be issued | 3,50,000 | 50,000 | 1,00,000 |
| Telephone Minutes | 3,60,000 | 1,80,000 | 1,80,000 |

The bank budgets a volume of 58,600 deposit accounts, 13,000 loan accounts, and 14,000 Credit Card accounts.

You are required to :

- Calculate the budgeted rate for each activity.
- Prepare the budgeted cost statement activity wise.
- Find the budgeted product cost per account for each product using (i) and (ii) above. (12 marks)

2009 - Nov [3] (b) What are the critical success factors for the implementation of a 'Total Quality Management' programme ? (5 marks)

(c) How can value analysis achieve cost reduction ? (5 marks)

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

2009 - Nov [1] (a) Lee Electronics manufactures four types of electronic products, A, B, C and D. All these products have a good demand in the market. The following figures are given to you :

| | A | B | C | D |
|-----------------------------|--------|--------|--------|--------|
| Material cost (Rs/u) | 64 | 72 | 45 | 56 |
| Machining Cost (Rs/u) | | | | |
| (@ Rs. 8 per hour) | 48 | 32 | 64 | 24 |
| Other variable costs (Rs/u) | 32 | 36 | 44 | 20 |
| Selling Price (Rs/u) | 162 | 156 | 173 | 118 |
| Market Demand (Units) | 52,000 | 48,500 | 26,500 | 30,000 |

Fixed overheads at different levels of operation are :

| Level of operation (in production hours) | Total fixed Cost (Rs.) |
|---|---------------------------|
| upto 1,50,000 | 10,00,000 |
| 1,50,001—3,00,000 | 10,50,000 |
| 3,00,001—4,50,000 | 11,00,000 |
| 4,50,001—6,00,000 | 11,50,000 |

At present, the available production capacity in the company is 4,98,000 machine hours. This capacity is not enough to meet the entire market demand and hence the production manager wants to increase the capacity. The company wants to retain the customers by meeting their demands through alternative ways. One alternative is to sub-contract a part of its production. The sub-contract offer received is as under :

| | A | B | C | D |
|---------------------------|-----|-----|-----|-----|
| Sub-contract Price (Rs/u) | 146 | 126 | 155 | 108 |

The company seeks your advice in terms of products and quantities to be produced and/or sub-contracted, so as to achieve the maximum possible profit. You are required to also compute the profit expected from your suggestion.

(18 marks)

Chapter-3 : Pricing Decisions

2009 - Nov [1] (b) Explain briefly the concept of skimming pricing policy.

(2 marks)

2009 - Nov [3] (a) Hind Metals Manufactures an alloy product 'Incop' by using iron and Copper. The metals pass through two plants, X and Y. The company gives you the following details for the manufacture of one unit of Incop :

| | | |
|-----------|---|--|
| Materials | : | Iron 10 kgs @ Rs. 5 per kg. Copper : 5 kg @ Rs. 8 per kg. |
| Wages | : | 3 hours @ Rs. 15 per hour in Plant X. 5 hours @ Rs. 12 per hour in Plant Y. |

Overhead recovery : On the basis of direct labour hours.

Fixed overhead : Rs. 8 per hour in Plant X.

Rs. 5 per hour in Plant Y.

Variable overhead : Rs. 8 per hour in Plant X.

Rs. 5 per hour in Plant Y.

Selling overhead : (fully variable)—Rs. 20 per unit.

- (i) Find out the minimum price to be fixed for the alloy, when the alloy is new to the market. Briefly explain this pricing strategy.

- (ii) After the alloy is well established in the market. What should be the minimum selling price ? Why ? (6 marks)

Chapter-5 : Standards Costing

2009 - Nov [5] (a) The following information relates to labour of X Ltd. :

| Type of Labour | Skilled | Semi-Skilled | Unskilled | Total |
|----------------------------------|---------|--------------|-----------|-------|
| No. of workers in standard gang | 4 | 3 | 2 | 9 |
| Standard rate per hour (Rs.) | 6 | 3 | 1 | |
| Number of workers in actual gang | | | | 9 |
| Actual rate per hour (Rs.) | 7 | 2 | 2 | |

In a 40 hour week, the gang produced 270 standard hours.

The actual number of semi-skilled workers is two times the actual number of unskilled workers. The rate variance of semi-skilled workers is Rs. 160 (F).

Find the following:

- (i) The number of workers in each category
- (ii) Total gang variance
- (iii) Total Sub-efficiency variance
- (iv) Total labour rate variance
- (v) Total labour cost variance (10 marks)

Chapter-7 : Transfer Pricing

2009 - Nov [4] (a) Optical Ltd. makes two kinds of products, P (lenses) and Q (swimming goggles) in divisions P and Q respectively. P is an input for Q and two units of P are needed to make one unit of Q.

The following data is given to you for a period :

| | P | Q |
|---|------------|------------------|
| | Rs./u of P | Rs./u of Q |
| Direct Materials | 20 | 25 (excluding P) |
| Direct Labour | 30 | 35 |
| Variable Overhead | 10 | 20 |
| External Demand (units) | 3,000 | 3,000 |
| Capacity (units) | 7,000 | 2,500 |
| Selling Price Rs./u (outside market) | 100 | 410 |

If Q buys P from outside, it has the following costs :

| | |
|------------------------------------|--|
| for order quantity 2,499 or less | Rs. 90 per unit for the entire quantity ordered. |
| for order quantity 2,500—5,000 | Rs. 80 per unit for the entire quantity ordered. |
| for order quantity more than 5,000 | Rs. 70 per unit for the entire quantity ordered. |

You are required to :

- Evaluate the best strategies for Divisions P and Q.
- Briefly explain the concept of goal congruence. (12 marks)

Chapter-10 : Linear Programming

2009 - Nov [5] (b) The following is a linear programming problem. You are required to set up the initial simplex tableau. (Please do not attempt further iterations or solution) :

Maximise

$$100x_1 = 80x_2$$

Subject to

$$3x_1 + 5x_2 \leq 150$$

$$x_2 \leq 20$$

$$8x_1 + 5x_2 \leq 300$$

$$x_1 + x_2 \geq 25$$

$$x_1, x_2 \geq 0$$

(6 marks)

Chapter-11 : Transportation Problem

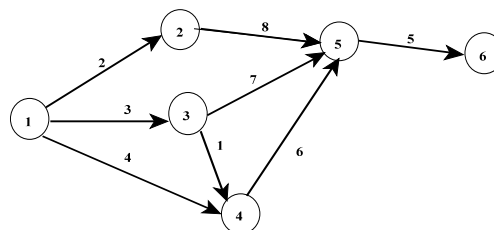
2009 - Nov [2] (b) How do you know whether an alternative solution exists for a transportation problem ? (4 marks)

Chapter-12 : Assignment Problem

2009 - Nov [4] (b) In an assignment problem to assign jobs to men to minimise the time taken, suppose that one man does not know how to do a particular job, how will you eliminate this allocation from the solution ? (4 marks)

Chapter-13 : Critical Path Analysis

2009 - Nov [6] (a) The following network gives the duration in days for each activity :



- (i) You are required to list the critical paths.
- (ii) Given that each activity can be crashed by a maximum of one day, choose to crash any four activities so that the project duration is reduced by 2 days. (6 marks)

Chapter-16 : Learning Curve Theory

2009 - Nov [6] (c) The Gifts Company makes mementos for offering chief guests and other dignitaries at functions. A customer wants 4 identical pieces of hand-crafted gifts of : 4 dignitaries invited to its function.

For this product, the Gifts Company estimates the following costs for the 1st unit of the product :

| | Rs./unit |
|--|----------|
| Direct variable costs (excluding labour) | 2,000 |
| Direct labour (20 hours @ Rs. 50 per hour) | 1,000 |

90% learning curve ratio is applicable and one labourer works for one customer's order.

- (i) What is the price per piece to be quoted for this customer if the targeted contribution is Rs. 1,500 per unit ?
- (ii) If 4 different labourers made the 4 products simultaneously to ensure faster delivery to the customer, can the price at (i) above be quoted ? Why ? (6 marks)

Chapter-17 : Testing of Hypothesis

2009 - Nov [6] (b) In the past, a machine has produced pipes of diameter 50 mm. To determine whether the machine is in proper working order, a sample of 10 pipes is chosen, for which mean diameter is 53 mm and the standard deviation is 3mm. Test the hypothesis that the machine is in proper working order, given that the critical value of the test statistic from the table is 2.26. (4 marks)

Paper - 6 : Information Systems Control and Audit**Chapter-1 : Information System Concepts**

2009 - Nov [2] (a) Identify and justify the type of each one of the following systems based on how they perform within an environment and/or certainty/uncertainty :

- (i) Marketing system
- (ii) Communication system
- (iii) Manufacturing system
- (iv) Pricing system
- (v) Hardware-Software system. (5 marks)

Chapter-3 : Control Objectives and Testing

2009 - Nov [3] (c) Explain the term 'Cryptosystems'. Briefly discuss Data Encryption Standard. (5 marks)

2009 - Nov [4] (b) Explain the basic types of Information Protection than an Organization can use. (5 marks)

(c) Discuss the three processes of Access Control Mechanism, when an user requests for resources. (5 marks)

2009 - Nov [5] (b) Briefly discuss Black Box Testing. (5 marks)

(c) Discuss anti-virus software and its types. (5 marks)

Chapter-4 : Risk Assessment Methodologies and Applications

2009 - Nov [2] (b) Explain the threats due to Cyber crimes. (5 marks)

2009 - Nov [3] (a) What analysis should be done for understanding the degree of potential loss (such as reputation damage, regulation effects) of an organization ? Enumerate the tasks to be undertaken in this analysis. In what ways the information can be obtained for this analysis ? (10 marks)

(b) Describe Risk Management Process. (5 marks)

Chapter-6 : Enterprise Resource Planning (ERP) Information System Auditing Standards, Guidelines, Best Practices

2009 - Nov [5] (d) ABC Limited has recently migrated to real-time Integrated ERP system. As an IS Auditor, advise the company as to what kinds of business risk it can face ? (5 marks)

Chapter-8 : Security Policy, Audit Policy & Audit Reporting

2009 - Nov [2] (c) Discuss 'Physical and Environmental Security with Control and Objectives' with respect information Security Policy. (5 marks)

2009 - Nov [4] (a) You have been asked to conduct an I.S. Audit for a bank. (i) How will you develop a documented audit program ? (ii) What kind of working papers and documentation you will prepare ? (10 marks)

Chapter-9 : Information Technology Act, 2000

2009 - Nov [2] (d) How does the Information Technology Act, 2000 enable the authentication of records using digital signatures ? (5 marks)

2009 - Nov [5] (a) How does the Information Technology Act, 2000 enable the objective of the Government in spreading e-governance ? (5 marks)

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| Paper - 7 : Direct Tax Laws |
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Chapter-2 : Incomes which do not form part of total Income

2009 - Nov [5] (c) A Charitable trust derives its income from business of providing mineral water to various companies situated in software technology park in Hyderabad. A sum of Rs. 10 lakhs has been derived as net income from such business activity, which has been applied for the object of a general public

utility. Examine the taxability of application of the income, if the income so derived relates to the previous year 2008-09. Would your answer be different, if the trust runs a school in a backward district and applies the profits from the business for such school's activity ? (5 marks)

Chapter-3 : Income from Salaries

2009 - Nov [6] (b) Mr. Kadam is entitled to a salary of Rs. 25,000 per month. He is given an option by his employer either to take house rent allowance or a Rent Free Accommodation which is owned by the Company. The HRA amount payable was Rs. 5,000 per month. The rent for the hired accommodation was Rs. 6,000 per month at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis Net Take Home Cash benefits. (6 marks)

Chapter-4 : Income from House Property

2009 - Nov [5] (b) During the financial year 2008-09, Mr. A received a sum of Rs. 1,80,000 (Rs. 60,000 p.a) by way of enhancement for the last three years as the Government department (tenant) enhanced the rate of rent with retrospective effect. Will the sum of Rs. 1,80,000 be taxable in the assessment year 2009-10 ? Can it be spread over the last three years ? (3 marks)

Chapter-5 : Profits and Gains of Business of Profession

2009 - Nov [3] (a) Ishwar is a commission agent receiving commission from his principal. He collected certain amount as deposit towards Sales tax and showed the amount so received under the head "Contingency deposit" in the Balance Sheet. He did not deposit the amount to the Government. The Assessing Officer invoked Section 43 B and added back the said amount to the business income of Ishwar. Examine the correctness of the action of the Assessing Officer. (4 marks)

2009 - Nov [4] (a) Business profit of T Ltd., a tea growing and manufacturing company, is Rs. 120 Lakhs (before deduction under Section 33AB for the assessment year 2009-10. It deposits Rs. 50 Lakhs with NABARD for claiming deduction under Section 33AB. It wants to claim set-off of brought forward business loss of Rs. 40 Lakhs. Find out the taxable income of T Ltd. for the assessment year 2009-10. (5 marks)

Chapter-6 : Capital Gains

2009 - Nov [3] (b) 3-Star & Company, a partnership firm entered into a contract to purchase an immovable property. The agreement was not honoured by the seller. Therefore, the firm filed a suit for specific performance of contract against the owner of the property. Ultimately a compromise was arrived at. In terms of the compromise the owner agreed to pay 3-Star & Company Rs. 15 lacs as consideration. State with reasons whether the receipt should be treated to be in the nature of Capital gain in the hands of the firm. (4 marks)

Chapter-13 : Tax Planning and Ethics in Taxation

2009 - Nov [6] (a) Specify with reason whether the following acts can be considered as (i) tax management; or (ii) tax planning; or (iii) tax evasion :

- (i) P deposits Rs. 50,000 in PPF account so as to reduce total income from Rs. 3,40,000 to Rs. 2,90,000.
- (ii) PQR Industries Ltd. installed an air conditioner costing Rs. 75,000 at the residence of a director as per terms of his appointment; but treats it as fitted in quality control section in the factory. This is with the objective to treat it as plant for the purpose of computing depreciation.
- (iii) SQL Ltd. maintains register of tax deduction at source effected by it to enable timely compliance.
- (iv) R. Ltd. issues a credit note for Rs. 40,000 for brokerage payable to Suresh, who is son of R, managing director of the company. The purpose is to increase his income from Rs. 1,40,000 to Rs. 1,80,000 and reduce its income correspondingly. (4 marks)

Chapter-15 : Transfer Pricing and Other Provisions to Check Avoidance of Tax

2009 - Nov [6] (c) I. Limited, an Indian Company supplied billets to its holding company, U. Limited, UK during the previous year 2008-09. I. Limited also supplied the some product to another UK based company. V. Limited, an unrelated entity. The transactions with U. Limited are priced at Euro 500 per MT (FOB), where as the transactions with V. Limited are priced at Euro 700 per MT (CIF). Insurance and Freight amounts to Euro, 200 per MT. Compute the arm's length price for the transaction with U. Limited. (4 marks)

Chapter-20 : Assessment Procedure

2009 - Nov [2] (b) Does the Assessing Officer have power to make any adjustment to income disclosed by the assessee in the return of income in course of processing the return under Section 143(1) ? (5 marks)

2009 - Nov [4] (c) Mr. X file the return of A.Y. 2005-06 declaring the income of Rs. 3,25,000. He had been assessed under Section 143(3) and the Assessing Officer made following additions :

- (i) Unexplained cash credit for want of confirmation from creditors Rs. 2,00,000.
- (ii) Disallowance in respect of travelling expenditure for tour to Chennai Rs. 46,000 for effecting sales there, as Mr. X failed to establish that expenditure had been incurred for the purpose of business.

At a later stage he has been served with a notice under Section 148 for income escaping assessment in respect of A.Y. 2005-06. During the course of reassessment proceeding A.O. sought to add unaccounted sales of Rs. 4,00,000 made at Chennai.

During the course of hearing the assessee produced confirmation from creditors and requested to delete the addition for unexplained cash credit of Rs. 2,00,000 and to allow deduction of travelling expenditure Rs. 46,000. Discuss the validity of the contention raised by the assessee. (4 marks)

Chapter-23 : Appeals & Revision

2009 - Nov [3] (c) (i) Can a rectification order under Section 254 of the Income-tax Act be passed by the Income-tax appellate Tribunal beyond four years from the date of the order sought to be revised ? (3 marks)

2009 - Nov [4] (b) What do you mean by Substantial Question of Law ? (5 marks)

Chapter-24 : Penalties, Offences and Prosecution

2009 - Nov [3] (c) (ii) Sumit voluntarily filed a revised return of income with the prescribed time limit after discovering that interest received from bank was not disclosed in the original return. Can he be absolved of penalty under Section 271(1)(c) ? (3 marks)

Chapter-26 : Deduction, Collection and Recovery of Tax

2009 - Nov [2] (c) Mahanadi Limited has taken a 3,000 sq.ft. flat on rent from Yamuna Limited to set up its Branch Office. The rent payable to Yamuna Limited for the flat is Rs. 60,000 per month plus applicable service tax. Mahanadi Limited wishes to know whether tax is required to be deducted at source under Section 194-I from gross amount of rent including service tax. Give your advice. (3 marks)

Chapter-27 : Assessment of Individuals

2009 - Nov [1] (b) Kalpesh Kumar is a musician deriving income of Rs. 75,000 from concerts performed outside India. Tax of Rs. 10,000 was deducted at source in the country where the concerts were performed. India does not have any double tax avoidance agreement with that country. His income in India amounted to Rs. 2,25,000. Compute tax liability of Kalpesh Kumar for the assessment year 2009-10 assuming he has deposited Rs. 10,000 in Public Provident Fund and paid Medical Insurance premium in respect of his father Rs. 20,000. (5 marks)

Chapter-30 : Assessment of Companies

2009 - Nov [1] (a) The net profit of ABC Ltd. for the year ending 31.03.2009 amounted to Rs. 7,22,000 after debiting/crediting following items :

- (i) Payment of interest on money borrowed from bank for purchase of Land and Building—Rs. 2,22,000.
- (ii) Commission Rs. 1,00,000 paid in the month of February, 2009 and Rs. 1,25,000 paid in the March, 2009. Tax deducted at source from the payments was deposited to the Government on 20.09.2009.

- (iii) Travelling expenses of Rs. 90,000 on a foreign tour of a director for negotiating collaboration with a foreign manufacturer for initiation of new line of business.
- (iv) Security Transaction Tax paid Rs. 10,000. Income from trading in shares already credited to Profit and Loss account Rs. 3,82,000.
- (v) As restructuring of its debt, the company has converted arrears of interest of Rs. 3,00,000 on term loan into a new term loan with a revised repayment schedule.
The company has paid Rs. 50,000 towards such funded interest during the year. Entire Rs. 3,00,000 debited to Profit and Loss account. However, out of this a further sum of Rs. 50,000 paid before due date of filing of return.
- (vi) Rs. 5,00,000, being contribution to S Ltd. (wholly owned subsidiary company) for construction of a school for the benefit of its employees.
- (vii) Provision for gratuity based on actuarial valuation Rs. 6,00,000. Actual gratuity paid Rs. 1,50,000 was debited to Provision for gratuity account.

Other information :

- (1) Provision for bonus for the year 2007-08 paid on 15.11.2008 Rs. 98,000. It is inclusive of payment by bearer cheque of Rs. 34,000.
- (2) Company has purchased a commercial vehicle of Rs. 8,00,000 for the purpose of business on 21.03.2009 and calculated depreciation @ 15% for the full year. Depreciation debited to the Profit and Loss account is calculated on all other assets as per the rates prescribed in the Income Tax Act, considering the useful lives of the assets.
- (3) The Company collected Rs. 3,00,000 from its customers towards sales tax in the year 1996-97 and remitted it to the State Government in due time. On the levy being challenged in the High Court, the Court held the levy as illegal and the State Government refunded the amount to the company in February, 2009. The company refunded Rs. 2,00,000 to the customers and the remaining amount of Rs. 1,00,000 was shown under the head "current liabilities".
Compute the income chargeable to tax in assessment year 2009-10 and work out the amount of tax payable on such income, ignoring the provisions of Section 115 JB. (15 marks)

2009 - Nov [2] (a) Yaman Limited is a company in which 60% shares are held by Piloo Limited. Yaman Limited declared a dividend amounting to Rs. 35 lacs to its shareholders for the financial year 2007-08 in its Annual General Meeting held on 10th May, 2008. Dividend distribution tax was paid by Yaman Limited on 15th May, 2008. Piloo Limited declared an interim dividend amounting to Rs. 50 lacs on 15th October, 2008 for the year ended 31st March, 2009.

Compute the amount of tax on dividend payable by Piloo Limited.

What would be your answer, if 58% shares of Piloo Limited are held by Kafi Limited, an Indian Company ?

Does the position change further, if Kafi Limited is a Foreign company ?
(6 marks)

Chapter-31 :Assessment of Cooperative Societies, Mutual Concerns, AOP, BOI and Local Authority

2009 - Nov [5] (a) JK Associates is an Association of Persons (AOP) consisting of two members, J and K. Shares of the members are : 60% (J) and 40% (K). Income of the AOP for the previous year 2008-09 is Rs. 6 lakhs.

Compute tax liability of the AOP and the members in the following situations :

- (i) J and K have their income, other than income from AOP, amounting to Rs. 1 lakh and Rs. 1.70 lakh respectively.
- (ii) J and K's income, other than income from AOP amount to Rs. 1 lakh and Rs. 1.20 lakh respectively. (6 marks)

Chapter-34 : Wealth Tax

2009 - Nov [7] (a) Mrs. A furnishes the following particulars for the computation of her wealth tax liability for the assessment year 2009-10 :

- (1) Gifts of jewellery and gold ornaments received from her mother on the occasion of her marriage aggregating Rs. 5,00,000. However the said jewellery were forcibly taken away from her by her mother-in-law after marriage.
- (2) She owns two residential house properties each valuing Rs. 10,00,000.
- (3) She is one of the partners in the business with her husband. The value of her interest in assets of the firm as at 31st March, 2009 is Rs. 12,75,500. The said business is conducted in the one of the house properties owned by Mrs. A.
- (4) She has two motor cars of Rs. 12,50,000 one of which is imported by her for Rs. 7,50,000
- (5) She has invested Rs. 10,00,000 in the bank deposit for the five years to meet the future expense of children on their education.
- (6) Mrs. A has signed "agreement to sell" for purchase of new residential house property of Rs. 20,00,000 and has made advance payment of Rs. 5,00,000 on 1st March, 2009 and has taken possession. However the sale deed has not been executed till 31st March, 2009. She has taken loan of Rs. 15,00,000 from bank for purchase of said property.
- (7) She has cash balance available of Rs. 75,000.

Compute Wealth tax payable by Mrs. A for assessment year 2009-10.

(7 marks)

- (b) Under what circumstances can be Assessing Officer make a reference to the Valuation Officer for the purpose of making an assessment under the Wealth Tax Act. ? (3 marks)

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| Paper - 8 : Indirect Tax Laws |
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Chapter-1 : Basic Concepts

2009 - Nov [3] (a) Explain briefly the concept of “excisable goods” as amended by the Finance Act, 2008. (2 marks)

Chapter-3 : Valuation of Excisable Goods

2009 - Nov [1] (a) Determine the total amount of excise duty payable under Section 4 of the Central Excise Act, 1944 from the following information :

| | Rs. |
|---|----------|
| (i) Price of machinery excluding taxes and duties | 5,50,000 |
| (ii) Installation and erection expenses | 21,000 |
| (iii) Packing charges (primary and secondary) | 11,500 |
| (iv) Design and engineering charges | 2,000 |
| (v) Cost of material supplied by buyer free of charge | 8,500 |
| (vi) Predelivery inspection charges | 500 |

Other information :

- (a) Cash discount @ 2% on price of machinery was allowed as per terms of contract since full payment was received before despatch of machinery.
- (b) Bought out accessories supplied along with machinery valued at Rs. 6,000.
- (c) Central Excise duty rate 16% and educational cess as applicable @ 3%.

Make suitable assumptions as are required and provide brief reasons.

(5 marks)

2009 - Nov [2] (b) The assessee manufactured compressors and filters and removed them as “stand alone” items. He also manufactured and removed safety valves and filters on payment of duty. The assessee also supplied bought out items like V belts, motor, pulley etc. to their buyers. The Excise department relying on Rule 2(a) of the General Interpretative Rules for classification has decided to include the value of safety valves and filters together with value of bought out items in the value of compressors for purposes of duty under Section 4 of the Central Excise Act, 1944. Write a brief note with any decided case law whether the stand taken by the department is correct. (5 marks)

2009 - Nov [3] (b) Explain briefly, how the value of goods will be ascertained for purpose of excise duty where the assessee sells the goods partly to a related person and the balance to unrelated third parties. (2 marks)

Chapter-4 : CENVAT Credit Rules

2009 - Nov [1] (b) XYZ Co. is engaged in the manufacture of water pipes. From the following details for the month of May, 2009 compute the available cenvat credit under the Cenvat Credit Rules, 2004 :

Cenvat paid on purchases as detailed below :

| | Rs. |
|-----------------------------------|--------|
| Raw steel | 22,000 |
| Water pipe making machine | 18,000 |
| Spare parts for the above machine | 7,500 |
| Grease and oil | 2,800 |
| Office equipment | 20,000 |
| Diesel | 12,000 |

Provide explanation for treatment of various items. (5 marks)

2009 - Nov [2] (a) I Ltd. is a manufacturer of excisable goods such as polyester yarn. A ground plan of the factory was provided by the assessee to the jurisdictional Central excise officer and the same was approved. The ground plan showed the area in which the manufacturing is carried out as also the areas occupied for purpose of storage. godowns, cycle sheds, canteen as well as the housing complex for staff and workers. The assessee had a captive power plant in the approved area. The electricity generated was supplied to the housing complex as well as for use in the manufacturing activity. I Ltd. claimed cenvat credit on the duty paid on furnace oil used for generation of electricity as it was used within the factory and was covered by the expression "for any other purpose" in Rule 2(K) of the Cenvat Credit Rules, 2004. The central excise department wants to deny the cenvat credit on the duty paid on furnace oil for generation of electricity which in turn is supplied to the housing complex on the ground that it is not used in relation to manufacture of the final product. Examine with the help of decided case law if the stand of the department is correct in law. (5 marks)

Chapter-5 : General Procedures under Central Excise

2009 - Nov [3] (c) Write a brief note on cenvat monthly return of information relating to principal inputs in Form ER6. (2 marks)

(d) Briefly mention any four categories of persons who are exempted from obtaining registration under Rule 9(2) of the Central Excise Rules, 2002. (2 marks)

Chapter-9 : Refund

2009 - Nov [3] (e) Write a short note on the principle of “unjust enrichment” under Central excise law. (2 marks)

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

2009 - Nov [1] (c) Small and company a small scale industry provides the following details. Determine the eligibility for exemption based on value of clearances for the financial year 2009-10 in terms of Notfn. No. 8/2003-CE dated 1.3.2003 as amended :

| | Rs. (lakhs) |
|---|-------------|
| (i) Total value of clearances during the financial year 2008-09 (including VAT Rs. 50 lakhs) | 870 |
| (ii) Total exports (including for Nepal and Bhutan Rs. 200 lakhs) | 500 |
| (iii) Clearances of excisable goods without payment of duty to a unit in software technology park | 20 |
| (iv) Job work under Notfn. No. 84/94-CE dated 11.4.94 | 50 |
| Job work under Notfn. No. 214/86-CE dated 25.3.86 | 50 |
| (v) Clearances of excisable goods bearing brand name of Khadi and Village Industries Board | 200 |

Make suitable assumptions and provide brief reasons for your answers where necessary. (5 marks)

Chapter-17 : Settlement Commission

2009 - Nov [2] (c) The assessee’s premises was searched by the Anti Evasion wing of the excise department. A show cause notice was issued alleging that the assessee had cleared goods without the cover of duty paid invoice and without accounting the same in the stock register. The assessee was required to pay the duty demanded with interest. The assessee filed an application before the settlement commission to put an end to the litigation and buy peace. The application was dismissed by the settlement commission on the ground that the petitioner in its petition had not admitted the entire duty liability. The assessee’s contention is that department is yet to substantiate the allegations made in the show cause notice and the dismissal order is not correct in law. Briefly discuss with a note whether the action of the settlement commission is correct in law. (5 marks)

Chapter-18 : Service Tax

2009 - Nov [4] (b) Calculate the value of taxable service under Cargo handling services of Cargo Ltd., providing brief reasons where required with suitable assumptions based on the following information for the month of April, 2009 :

| | Rs. lakhs |
|--|-----------|
| (i) Total amount charged for all services | 40 |
| (ii) Receipts for services in relation to export cargo and handling of passenger baggage included in (i) above | 13 |
| (iii) Charges for storage and cleaning of empty containers of shipping lines included in (i) above | 10 |
| (iv) Charges for packing and transport of Cargo included in (i) above | 3 |
| (v) Charges for handling of agricultural produce included in (i) above | 2 |
| (vi) Charges for transportation of Cargo included in (i) above | 5 |

(5 marks)

2009 - Nov [5] (a) M/s M Construction Ltd., constructs builds and sells premises/flats in a building. During the cause of development and construction of the building it enters into a flat purchase agreement in terms of which the buyers are allotted flats in the building. The buyers pay the consideration to M/s M Construction in instalments. The said 'flat purchase agreement' reflects the entire consideration for the purchase of flat. This agreement is registered and advance payments in instalments are collected. The contention of M/s M Construction is that the consideration is for the purchase and sale of the entire flat/premises and the company does not carry out any construction activity. Examine with a brief note whether the company is liable to pay service tax in terms of the Finance Act, 1994.

(5 marks)

(b) Good Luck Agencies is engaged in the purchase of lottery tickets in bulk from the State Government and sell them subsequently on behalf of the Government. However no service tax is paid on the said activity. The Department has sought to levy service tax under the category of 'Business auxiliary service, Section 65(19) as service in relation to promotion or marketing of service provided by the client. Discuss briefly with a note and decided case law if any whether the action of the department is correct in law.

(5 marks)

2009 - Nov [6] (a) Briefly explain whether the following are chargeable to service tax under the provisions of the Finance Act, 1994 :

- Service provided by a person to another person in relation to information technology software for use in course or furtherance of business or commerce.
- Transaction allowing another person to use goods without giving legal right of possession and control to the user of the goods.

(2 × 2 = 4 marks)

- (b) Write a brief note explaining the circumstances under which expenditure or costs incurred by a service provider as a pure agent of the recipient of service shall be excluded from the value of taxable services under the Service Tax (determination of value) Rules, 2005. (4 marks)
- (c) Briefly explain the provisions in the Service Tax Rules, 1994 relating to furnishing of list of records at the time of filing of return for the first time. (4 marks)
- (d) Briefly explain the following with reference to the Service Tax Rules, 1994 and the Finance Act, 1994 :
- (i) Gross amount charged
 - (ii) e-payment of service tax. (4 marks)

Chapter-19 : VAT & CST

2009 - Nov [4] (a) Determine the taxable turnover, input tax credit and net VAT payable by a works contractor from the details given below on the assumption that the contractor maintains sufficient records to quantify the labour charges. Assume output VAT at 12.5% :

| | Rs. lakhs |
|---|-----------|
| (i) Total contract price (excluding VAT) | 100 |
| (ii) Labour charges paid for execution of the contract | 35 |
| (iii) Cost of consumables used not involving transfer of property in goods | 5 |
| (iv) Material purchased and used for the contract taxable at 12.5% VAT (VAT included) | 45 |

The contractor also purchased a plant for use in the contract for Rs. 10.4 lakhs. In the VAT invoice relating to the same VAT was charged at 4% separately and the said amount of Rs. 10.4 lakhs is inclusive of VAT. Assume 100% input credit on capital goods.

Make suitable assumption wherever required and show the working notes.

(5 marks)

2009 - Nov [6] (e) Briefly explain the importance of VAT invoice. (4 marks)

Chapter-20 : Basic Concepts

2009 - Nov [9] (a) Explain briefly the expression 'person-in-charge' under the Customs Act, 1962. (2 marks)

Chapter-22 : Types of Duty

2009 - Nov [7] Compute the duty payable under the Customs Act, 1962 for an imported equipment based on the following information :

- (i) Assessable value of the imported equipment US \$ 10,100.
- (ii) Date of Bill of Entry 25.4.2009 basic customs duty on this date 20% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = Rs. 65.

- (iii) Date of Entry inwards 21.4.2009 Basic customs duty on this date 16% and exchange rate notified by the Central Board of Excise and Customs US \$ 1 = Rs. 50.
- (iv) Additional duty payable under Section 3(1) and (2) of the Customs Tariff Act, 1975 : 15%
- (v) Additional duty under Section 3(5) of the Customs Tariff Act, 1975 : 4%.
- (vi) Educational cess @ 2% in terms of the Finance Act (No.2), 2004 and secondary and higher educational cess @ 1% in terms of the Finance Act, 2007.

Make suitable assumptions where required and show the relevant workings and round off your answer to the nearest Rupee. (5 marks)

Chapter-23 : Classification of Goods

2009 - Nov [9] (c) Explain with a brief note how the duty is arrived under the Customs Act, 1962 where the imported goods consist of articles liable to different rates of duty. (2 marks)

Chapter-24 : Valuation

2009 - Nov [9] (d) Write a brief note on the 'residual method' of determination of value of imported goods under the Customs Valuation (determination of value of imported goods) Rules, 2007. (2 marks)

Chapter-27 : Warehousing

2009 - Nov [9] (e) Briefly state the rights of the owner of warehoused goods under the Customs Act, 1962. (2 marks)

Chapter-29 : Refund

2009 - Nov [8] The assessee had imported capital goods under a licence with a condition to fulfill an export obligation within a certain time limit. The assessee failed to discharge the export obligation within the said time limit. Consequently the department invoked the bank guarantee and realized the amount. However, subsequently the assessee was able to fulfill the export obligation and the department cancelled the bank guarantee. The assessee thereafter filed a refund claim for the amount realized by invocation of the bank guarantee by the department. The department rejected the refund claim on the ground that it was barred in terms of Section 27(1)(b) of the Customs Act, 1962 as the assessee had not been able to establish that the incidence of duty had not been passed on by him to any other person. Examine briefly with the help of any decided case law whether the stand taken by the department is correct in law. (5 marks)

Chapter-34 : Miscellaneous Provisions

2009 - Nov [9] (b) Explain briefly the provisions of the Customs Act, 1962 relating to the powers vested in the customs officers to take samples.

(2 marks)

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