

Free of Cost

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SCANNER™ Appendix

CA Final Gr. II (New Course)

May - 2009

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PAPER'S

Paper - 5 : Advanced Management Accounting

Chapter-1 : Developments in the Business Environment

2009 - May [3] (b) What is disinvestment strategy? Highlight the main reasons for disinvestment (4 marks)

2009 - May [6] (c) Traditional Ltd. is a manufacturer of a range of goods. The cost structure of its different products is as follows :

Particulars	Product A	Product B	Product C
Direct materials	50	40	40 Rs/u
Direct labour @ 10 Rs./hour	30	40	50 Rs./u
Production overheads	30	40	50 Rs./u
Total Cost	110	120	140 Rs./u
Quantity produced	10,000	20,000	30,000 Units

Traditional Ltd. was absorbing overheads on the basis of direct labour hours. A newly appointed management accountant has suggested that the company should introduce ABC system and has identified cost drivers and cost pools as follows :

Activity Cost Pool	Cost Driver	Associated Cost
Stores Receiving	Purchase Requisitions	2,96,000
Inspection	Number of Production runs	8,94,000
Despatch	Orders Executed	2,10,000
Machine Setup	Number of setups	12,00,000

The following information is also supplied :

Details	Product A	Product B	Product C
No. of Setups	360	390	450
No. of Orders Executed	180	270	300
No. of Production runs	750	1,050	1,200
No. of Purchase Requisitions	300	450	500

You are required to calculate activity based production cost of all the three products. (5 marks)

2009 - May [7] (a) Vikram Ltd. produces 4 products using 3 different machines. Machine capacity is limited to 3,000 hours for each machine. The following information is available for February, 2009 :

Products	A	B	C	D
Contribution (Sales-direct material) Rs.	1,500	1,200	1,000	600
Machine Hours Required/ Unit :				
Machine 1	10	6	2	1
Machine 2	10	9	3	1.5
Machine 3	10	3	1	0.5
Estimated Demand (units)	200	200	200	200

From the above information you are required to identify the bottleneck activity and allocate the machine time. (7 marks)

(b) Explain the essential features of Life-cycle costing. (5 marks)

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

2009 - May [1] {C} (a) XYZ Ltd, has two divisions, A and B. Division A makes and sells product A, which can be sold outside as well as be used by B. A has a limitation on production capacity, that only 1,200 units can pass through its machining operations in one month. On an average about 10% of the units that A produces are defective. It may be assumed that out of each lot that A supplies, 10% are defective.

When A sells in the outside market, the defective are not returned, since the transportation costs make it uneconomical for the customer. Instead, A's customers sell the defective in the outside market at a discount.

But when B buys product A, it has to fix it into its product, which is reputed for its quality. Therefore, B returns all the defective units to A. A can manually rework the defectives, incurring only variable labour cost and sell

them outside at Rs. 150 and not having to incur any selling costs on reworked units. If A chooses not to rework, it can only scrap the material at Rs. 30 per unit. B can buy product A from outside at Rs. 200 per unit, but has to incur Rs. 10 per unit as variable transport cost. B can insist to its outside suppliers also that it will accept only good units.

A incurs a variable selling overhead only on units (other than reworked units) sold outside. The following figures are given for the month :

Variable cost of production) Dept. A (Rs./unit)	120
Variable selling overhead (Rs./u)	20
Selling price per unit in the outside market (Rs./u)	200
Current selling price to B (Rs./u)	190
Additional variable labour cost of reworking defectives (Rs./u)	100
Selling price of reworked defectives (Rs./u)	150
Fixed costs for the month (Rs.)	36,000
Maximum demand from B at present (no.of units)	630

The outside demand can be freely had upto 900 units.

Given the demand and supply conditions, you are required to present appropriate calculations for the following :

- Evaluation of the best strategy for A in the present condition.
- If B can buy only upto 540 units and the outside demand is only 600 units, how much should A charge B to maintain the same level of profit as in (i) above? (12 marks)

2009 - May [2] (a) Ret Ltd., a retail store buys computers from Comp Ltd. and sells them in retail. Comp Ltd. pays Ret Ltd. a commission of 10% on the selling price at which Ret sells to the outside market. This commission is paid at the end of the month in which Ret. Ltd. submits a bill for the commission. Ret Ltd. sells the computers to its customers at its store at Rs. 30,000 per price. Comp Ltd. has a policy of not taking back computers once despatched from its factory. Comp. Ltd. sells a minimum of 100 computers to its customers.

Comp Ltd. charges prices to Ret Ltd. as follows :

Rs. 29,000 per unit, for order quantity 100 units to 140 units.

Rs. 26,000 per unit, for the entire order, if the quantity is 141 to 200 units. Ret Ltd. cannot order less than 100 or more than 200 units from Comp Ltd.

Due to the economic recession, Ret Ltd. will be forced to offer as a free gift, a digital camera costing it Rs. 4,500 per piece, which is compatible with the computer. These cameras are sold by another Co., Photo Ltd. only in boxes. where each box contains 50 units. Ret Ltd. can order the cameras only in boxes and these cameras cannot be sold without the computer.

In its own store, Ret Ltd. can sell 110 units of the computer. At another far-off location, Ret Ltd. can sell upto 80 units of the computer (along with its free camera), provided it is willing to spend Rs. 5,000 per unit on shipping costs.

In this market also, the selling price that each unit will fetch is Rs. 30,000 per unit.

You are required to :

- (i) State what is Ret's best strategy along with supporting calculations.
- (ii) Compute the break-even point in units, considering only the above costs. (13 marks)

2009 - May [7] (c) Explain briefly the concepts of Opportunity costs and Relevant costs. (4 marks)

Chapter- 4 : Budget and Budgetary Control

2009 - May [2] (b) What are the various formulae used in calculating budget ratios? (4 marks)

2009 - May [3] (a) The CEO of your company has been given the following statement showing the results for a recent month :

Particulars	Master Budget	Actual
Units produced & sold	10,000	9,000
	Rs.	Rs.
Sales	8,00,000	7,00,000
Direct material	2,00,000	1,84,000
Direct Wages	3,00,000	2,62,000
Variable overhead	1,00,000	94,000
Fixed overhead	1,00,000	98,000
Total Cost	7,00,000	6,38,000
Net Surplus	1,00,000	62,000

The standard cost of the product is as follows :

Direct material (1 kg @ Rs. 20/kg)	Rs. 20.00 per unit
Direct Wages (1 hour @ Rs. 30/hour)	Rs. 30.00 per unit
Variable overhead (1 hour @ Rs. 10/hour)	Rs. 10.00 per unit

Actual results for the month revealed that 9,800 kg. of material was used and 8,800 labour hours were recorded.

- (i) Prepare a flexible budget for the month and compare with the actual results (6 marks)
- (ii) Calculate material volume and variable overhead efficiency variances (2 marks)

Chapter- 6 : Costing of Service Sector

2009 - May [4] (b) Give an appropriate cost unit for each of the following service sectors :

- (i) Hotel
- (ii) School
- (iii) Hospital
- (iv) Accounting firm

- (v) Transport
- (vi) Staff Canteen
- (vii) Machine maintenance
- (viii) Computer Department (4 marks)

Chapter- 7 : Transfer Pricing

2009 - May [5] (a) Bearings Ltd. makes three products, A, B and C in Divisions A, B and C respectively. The following information is given :

	A	B	C
Direct Materials (excluding material A for Divisions B and C)	4	15	20 Rs./u
Direct labour	2	3	4 Rs./u
Variable overhead	1	1	1 Rs./u
Selling price to outside customers	15	40	50 Rs./u
Existing Capacity	5,000	2,500	2,500 (No. of units)
Maximum External demand	3,750	5,000	4,000 (No. of units)
Additional fixed costs that would be incurred to install additional capacity	24,000	6,000	18,700 Rs.
Maximum Additional units that can be produced by additional capacity	5,000	1,250	2,250 (No. of units)

B and C need material A as their input. Material A is available outside at Rs. 15 per unit. Division A supplies the material free from defects. Each unit of B and C requires one unit of A as the input material.

If B purchases from outside, it has to pay Rs. 15 per unit. If B purchases from A, it has to incur in addition to the transfer price, Rs. 2 per unit as variable cost to modify it.

B has sufficient idle capacity to inspect its inputs without additional costs.

If C gets material from A, it can use it directly, but if it gets material from outside, which is at Rs. 15, it has to do one of the following :

- (i) Inspect it at its own shop floor at Rs. 3 per unit.
- Or
- (ii) Get the supplier to supply inspected products and pay the supplier Rs. 2 p.u. as inspection charges.
- Or
- (iii) A has enough idle labour, which it can lend to C to inspect at Re. 1 p.u. even though C purchases from outside.

A has to fix a uniform transfer price for both B and C. The transfer price will not be known to outsiders and is at the discretion of the Divisional Managers.

What is the best strategy for each division and the company as a whole ?
(12 marks)

Chapter- 8 : Uniform Costing & Inter firm Comparison

2009 - May [3] (c) What is uniform costing? Why is it recommended?
(4 marks)

Chapter- 10 : Linear Programming

2009 - May [6] (a) Formulate the dual for the following linear program :

Maximise : $100x_1 + 90x_2 + 40x_3 + 60x_4$

Subject to

$$6x_1 + 4x_2 + 8x_3 + 4x_4 \leq 140$$

$$10x_1 + 10x_2 + 2x_3 + 6x_4 \leq 120$$

$$10x_1 + 12x_2 + 6x_3 + 2x_4 \leq 50$$

$$x_1, x_2, x_3, x_4 \geq 0$$

(Only formulation is required. Please do not solve.) (6 marks)

Chapter- 11 : Transportation Problem

2009 - May [4] (a) The cost per unit of transporting goods from the factories X, Y, Z to destinations A, B and C, and the quantities demanded and supplied are tabulated below. As the company is working out the optimum logistics, the Govt. has announced a fall in oil prices. The revised units costs are exactly half the costs given in the table. You are required to evaluate the minimum transportation cost.

Destinations Factories	A	B	C	Supply
X	15	9	6	10
Y	21	12	6	10
Z	6	18	9	10
Demand	10	10	10	30

(6 marks)

Chapter- 13 : Critical Path Analysis

2009 - May [5] (b) Explain the following in the context of a network :

- (i) Critical path
 - (ii) Dummy activity
- (4 marks)

Chapter- 16 : Learning Curve Theory

2009 - May [1] {C} (b) PQ Ltd. makes and sells a labour-intensive product. Its labour force has a learning rate of 80%, applicable only to direct labour and not to variable overhead.

The cost per unit of the first product is as follows :

Direct materials	10,000	
Direct labour	8,000	(@ Rs. 4 per hour)
Variable overhead	<u>2,000</u>	
Total variable cost	20,000	

PQ Ltd. has received an order from X Ltd. for 4 units of the product. Another customer, Y Ltd. is also interested in purchasing 4 units of the product. PQ Ltd. has the capacity to fulfil both the orders. Y Ltd. presently purchases this product in the market for Rs. 17,200 and is willing to pay this price per unit of PQ's product. But X Ltd. lets PQ choose one of the following options :

- (i) A price of Rs. 16,500 per unit for the 4 units it proposes to take from PQ.

Or

- (ii) Supply X Ltd.'s idle labour force to PQ, for only 4 units of production, with PQ having to pay only Re. 1 per labour hour to X Ltd.'s workers. X Ltd.'s workers will be withdrawn after the first 4 units are produced. In this case, PQ need not use its labour for producing X Ltd.'s requirement. X Ltd. assures PQ that its labour force also has a learning rate of 80%. In this option, X Ltd. offers to buy the product from PQ at only Rs. 14,000 per units.

X and Y shall not know of each other's offer.

If both orders came before any work started, what is the best option that PQ may choose ?

Present suitable calculations in favour of your argument. (4 marks)

Chapter- 17 : Testing of Hypothesis

2009 - May [4] (c) A factory manager contends that the mean operating life of light bulbs of his factory is 4,200 hours. A customer disagrees and says it is less.

The mean operating life for a random sample of 9 bulbs is 4,000 hours, with a sample standard deviation of 201 hours.

Test the hypothesis of the factory manager, given that the critical value of the test statistic as per the table is $(-) 2.896$. (6 marks)

Chapter- 18 : Time Series Analysis & Forecasting

2009 - May [6] (b) Name the various methods of fitting a straight line to a time series and briefly explain any two of them. (5 marks)

Paper - 6 : Information System Control and Audit

Chapter - 2 : System Development Life Cycle Methodology

2009 - May [2] (a) The top management of a company has decided to develop a computer information system for its operations. Is it essential to conduct the feasibility study of system before implementing it ? If answer is yes, state the reasons. Also discuss three different angles through which the feasibility study of the system is to be conducted. (10 marks)

2009 - May [3] (b) What are the issues that should be considered by a system auditor at post implementation review stage before preparing the audit report?
(5 marks)

2009 - May [7] Write short notes on the following :

(a) System Manual (5 marks)

Chapter - 3 : Control Objectives and Testing

2009 - May [2] (b) “While reviewing a client’s control system, an information system auditor will identify three components of internal control.” State and briefly explain these three components. (5 marks)

2009 - May [2] (c) While testing a software, how will you involve the people working in the system areas ? (5 marks)

2009 - May [3] (a) A company is engaged in the stores stock taking data activities. Whenever, input data error occurs, the entire stock data is to reprocessed at a cost of Rs. 50,000. The management has decided to introduce a data validation step that would reduce errors from 12% to 0.5% at a cost of Rs. 2,000 per stock taking period. The time taken for validation causes an additional cost of Rs. 200. (i) Evaluate the percentage of cost benefit effectiveness of the decision taken by the management and (ii) suggest preventive control measures to avoid errors for improvement. (10 marks)

2009 - May [7] Write short notes on the following :

(c) Firewalls (5 marks)

(d) White Box Testing. (5 marks)

Chapter - 4 : Risk Assessment Methodologies and Applications

2009 - May [3] (c) “Always, there exist some threats due to Cyber Crimes.” Explain these threats. (5 marks)

2009 - May [4] (a) As a system auditor, what control measures will you check to minimize threats, risks and exposures in a computerised system?
(10 marks)

2009 - May [4] (b) State and explain four commonly used techniques to assess and evaluate risks. (5 marks)

Chapter - 5 : Business Continuity Planning and Disaster Recovery Planning

2009 - May [4] (c) What are the audit tools and techniques used by a system auditor to ensure that disaster recovery plan is in order ? Briefly explain them. (5 marks)

Chapter - 6 : Enterprise Resource Planning (ERP)

2009 - May [1] {C} XYZ Company, engaged in the manufacturing of several types of electronic goods is having its branches all over the World. The company wishes to centralize and consolidate the information flowing in from its branches in a uniform manner across various levels of the Organisation.

The factories are already working on legacy systems using an intranet and collating information. But each factory and branch is using different software and varied platforms which do not communicate with each other. This not only results in huge inflow of data which could not be consolidated for analysis but also the duplication of data. Even one percent change in any data entry or analysis translates into millions of Rupees and can sometimes wipe out the profits of the organization. So the company needs a system that would help them to be responsive and act fast.

Read the above carefully and answer the following with justifications

- (a) What are the problems that the company is facing now? (5 marks)
- (b) Should the company go for ERP solution ? If yes, will the company be able to share a common platform with its dealers to access servers and database to update the information of issues of mutual interest ? (5 marks)
- (c) For the selection of ERP package, state the issues to be considered. (5 marks)
- (d) Suggest, how to go about the implementation of ERP package. (5 marks)

Chapter - 7 : Information System Auditing Standards, Guidelines, Best

2009 - May [5] (a) When an organisation is audited for the effective implementation of ISO 27001-(BS 7799 : part II) - Information Security Management System, what are to be verified under

- (i) Establishing Management Framework
- (ii) Implementation
- (iii) Documentation (10 marks)

2009 - May [7] Write short notes on the following :

- (b) Control Objectives for Information related Technology (COBIT) (5 marks)

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

2009 - May [5] (b) The Information Security Policy of an organisation has been defined and documented as given below :

“Our organisation is committed to ensure Information Security through established goals and principles. Responsibilities for implementing every aspect of specific applicable proprietary and general principles, standards and compliance requirements have been defined. This is reviewed at least once a year for continued suitability with regard to cost and technological changes.”

Identify the salient components that have not been covered in the above policy. (5 marks)

- (c) Briefly explain Asset Classification and Control under Information Security Management Systems. (5 marks)

2009 - May [6] (a) What purpose the information system audit policy will serve ? Briefly describe the scope of information system audit. (10 marks)

Chapter - 9 : Information Technology Act, 2000

2009 - May [6] (b) State the duties of the subscriber of a digital signature as specified in Section 40 to 42 of Chapter VIII of Information Technology Act, 2000. (5 marks)

(c) What are the conditions subject to which electronic record may be authenticated by means of affixing digital signature? (5 marks)

Paper - 7 : Direct Tax Laws

Chapter- 1 : Basic Concepts, Residence and Scope of Total income

2009 - May [2] (a) Explain in the context of provisions of the Act, whether the income derived during the year ended on 31.3.2009 in each of the following cases shall be subject to tax in A.Y. 2009-10 :

- (ii) Mr. 'Gaitonde' born and brought up in the State of Sikkim had net profit of Rs. 2,25,000 from the business located in Sikkim and interest of Rs. 55,000 on the securities/bonds issued by the Government of Rajasthan. (2 marks)
- (iii) Mr. Ravi an IAS Officer was posted to USA by the Government of India on 11.7.08 for a period of three years. He was paid salary of Rs. 3 lacs for the period 01.04.08 to 10.07.08 and Rs. 12 lacs for the period upto 31.03.09. He left India for USA in the night of 10.07.08 and did not come even for a day uptill 01.03.09. (2 marks)

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

2009 - May [2] (a) Explain in the context of provisions of the Act, whether the income derived during the year ended on 31.3.2009 in each of the following cases shall be subject to tax in A.Y. 2009-10 :

- (i) Income of Rs. 75,000 derived by 'Anand Nursery' from the sale of 'seedlings' grown without carrying out all the basic operations on land. (2 marks)
- (v) A political party duly registered under Section 29A of the Representation of the Peoples Act, 1951 received rent of Rs. 1,25,000 per month of one of its building let out to a bank from 01.06.07 (2 marks)

(b) Work out from the following particulars, the amount of capital gain which shall be deemed to have been applied for charitable or religious purpose arising out of sale of a capital asset utilized for the purposes of trust to the extent of 60% :

	Amount (Rs.)
Cost of transferred asset	2,40,000
Sale consideration	3,60,000
Cost of new asset purchased	3,00,000
	(4 marks)

2009 - May [3] (c) “The Profits and gains of an industrial undertaking established in specified areas and engaged in carrying out certain activities are enjoying tax holiday.” Specify such areas and the activities. (4 marks)

Chapter- 3 : Income from Salaries

2009 - May [5] Examine critically in the context of provisions contained in Income-tax Act, 1961 as to the correctness of the action or the treatment given in each of the following cases :

- (a) An amount of Rs. 12,50,000 after approval by the board paid to a hospital in UK by XYZ Ltd. for the heart surgery of its managing director was charged under medical expenses. The A.O. while completing the assessment of the company taxed the amount so paid by the company as perquisite in the hands of its Managing Director. (3 marks)

Chapter- 4 : Income from House Property

2009 - May [4] (b) State the circumstance, when national income is charged to tax instead of real income under the head income from house property. (3 marks)

Chapter- 5 : Profits and Gains of Business of Profession

2009 - May [4] (a) “Meghna Film Distributors” have acquired the rights of exhibition of a feature film 'Nasha' in the territory of Rajasthan from the producers under an agreement executed on 11.06.08 against a consideration of Rs. 300 lacs. It thereafter executed sub-agreement with a distributor to whom the rights of exhibition of film in some of the areas of Rajasthan were assigned against an amount of Rs. 100 lacs. The film was released for exhibition on commercial basis on 25.12.08. Collection from the exhibition of film of “Meghna Film Distributors” for 25.12.2008 to 10.01.2009 was Rs. 50 lacs and thereafter upto 31.03.2009 was Rs. 190 lacs.

It asks you to clarify that how these transactions will be reflected in the Income-tax return for A.Y. 09-10. Would your answer be different where the film was released for exhibition on 11.01.2009? (6 marks)

(c) What meaning has been assigned to “Speculative transaction”. Narrate those transactions which shall not be treated as speculative transactions under the Income-tax Act, 1961? (5 marks)

2009 - May [5] Examine critically in the context of provisions contained in Income-tax Act, 1961 as to the correctness of the action or the treatment given in each of the following cases :

(b) "Singhal Sons Mines" for acquiring rights for extracting minerals had taken a mine on lease basis w.e.f. 01.09.08 for a period of 15 years from Mr. Naresh against an amount of Rs. 30 lacs payable in three equal instalments on 31.08.08, 31.08-09 and 31.08.10. Amount of Rs. 10 lacs paid on 31.08-08 was charged as an expense in the mining account. (4 marks)

(c) XYZ is engaged in the business of sale of "Zinc Concentrate" in India and in U.K. markets. The company valued its closing stock on 31.03.09 on the basis of the price prevailing in "London Metallic Exchange" instead of price in the domestic market as the price in London Metallic Exchange was lesser than the Indian rate. (4 marks)

Chapter- 7 : Income from other Sources

2009 - May [2] (a) Explain in the context of provisions of the Act, whether the income derived during the year ended on 31.3.2009 in each of the following cases shall be subject to tax in A.Y. 2009-10 :

- (iv) Chitra received gifts of Rs. 1,00,000 from her father-in-law and of Rs. 11,000 each from her 10 friends at the time of her marriage on 11.03.09. (2 marks)

Chapter- 10 : Deduction's from Gross Total Income

2009 - May [6] (c) Can an assessee who fulfils all the prescribed conditions having total income of Rs. 1,84,000, paid house-rent @ Rs. 4,800 p.m. in respect of the residential accommodation occupied by him at Mumbai, claim the deduction for the house-rent so paid while computing his taxable income? (3 marks)

Chapter-14 : Double Taxation Relief

2009 - May [3] Work out the taxable income for A.Y. 09-10 of a partnership firm engaged in retail trade from the following particulars:

- (b) An assessee on fulfillment of certain conditions can claim relief in respect of the income arising in those countries with which India does not have any double taxation agreement. Do You agree? (5 marks)

Chapter- 16 : Foreign Collaboration & Taxation of non-residents

2009 - May [6] (a) Net result of the business carried out by a branch of foreign company in India for the year ended 31.03.09 was a loss of Rs. 100 lacs after charge of head office expenses allocated on branch of Rs. 200 lacs. Explain with reasons the income to be declared by the branch in its return for assessment year 2009-10. (4 marks)

Chapter- 17 : Business Restructuring

2009 - May [6] (b) Axel Ltd. has two industrial undertakings. Unit-I is engaged in production of television sets and Unit-II is engaged in the production of refrigerators. The company has as part of its restructuring program, decided to sell Unit-II as a going concern by way of slump sale for Rs. 260 lacs to a new company called Gamma Ltd., in which it holds 85% equity shares. The

following is the extract of the balance sheet of Axel Ltd. as on 31st March, 2009 :

	(Rs. in lacs)	
	Unit- I	Unit- II
Fixed Assets	112	158
Debtors	88	67
Inventories	60	23
Liabilities	33	45
Paid -up share capital		Rs. 231 lacs
General Reserve		Rs. 160 lacs
Share Premium		Rs. 39 lacs
Revaluation Reserve		Rs. 105 lacs

The company set up Unit- II on 1st April, 2005. The written down value of the block of assets for tax purpose as on 31st March, 2009 is Rs. 150 lacs of which Rs. 60 lacs are attributable to Unit-II.

- Determine what would be the tax liability of Axel Ltd. on account of Slump sale;
- How can the restructuring of Axel Ltd. be modified, without changing the amount of consideration, in order to make it more tax efficient?

(7 marks)

Chapter- 26 : Deduction, Collection and Recovery of Tax

2009 - May [5] Examine critically in the context of provisions contained in Income-tax Act, 1961 as to the correctness of the action or the treatment given in each of the following cases:

(d) M/s Soft Drinks Limited entered into an agreement for the warehousing of its products with XYZ Warehousing and deducted tax at source as per provisions of section 194 C out of warehousing charges paid during the year ended on 31.03.2008. The A.O. while completing the assessment for A.Y. 08-09 of Soft Drinks Limited asked the company by treating the warehousing charges as rent as defined in section 194-I to make payment of difference amount of TDS with interest. It was submitted by the company that the recipient had already paid tax on the entire amount of warehousing charges and therefore, now the difference amount of TDS be not recovered. However, it will make the payment of due interest on the difference amount TDS.

(3 marks)

Chapter- 29 : Assessment Firms and their Partners

2009 - May [3] (a) Work out the taxable income for A.Y. 09-10 of a partnership firm engaged in retail trade from the following particulars :

- Net profit of Rs. 3,65,000 arrived at after debit of interest on capital of partners of Rs. 1,80,000 and salaries to working partners of Rs. 4,80,000.

- (ii) Total capital of the partners on which interest paid as debited in the profit and loss account was Rs. 10,00,000. (5 marks)

Chapter- 30 : Assessment of Companies

2009 - May [1] (a) The Net Profit of “Simran Ltd.” for the year ended 31.3.2009 arrived at Rs. 50 lacs after debit of the following :

- (i) Amount of Rs. 1,50,000 contributed to Employees Welfare Trust.
- (ii) Amount of Rs. 15,00,000 paid for college fee and hostel expense for the MBA course of a close relative of a director.
- (iii) Amount of Rs. 3,00,000 incurred on installation of a traffic, so as to facilitate its employees coming to office to overcome traffic jam and save office time.
- (iv) Amount of Rs. 5,00,000 on the gift articles distributed to various dealers under sales incentive scheme.
- (v) Expenses of Rs. 5,00,000 incurred on the travelling of the wife of Managing Director, who accompanied him on a tour to U.K. on the invitation of Trade and Commerce Chamber, London.
- (vi) Amount of Rs. 3,00,000 paid on 11.5.08 consequent upon change in currency rate due to exchange fluctuation in excess of the amount due to the suppliers of machinery.

Following further information are also provided by the company :

- (a) Both the employees and employers contribution towards PF amounting to Rs.2 lacs each for the month of March, 2009 were deposited on 1.7.2009.
- (b) Provision for audit fees of Rs. 5 lacs made in the books for the year ended 31.03.2008 was paid to the auditors in September, 2008 after deducting tax u/s 194 J and the tax so deducted was remitted by 7.10.2008.
- (c) A contractor who carried out repairing work in the office was paid in cash on 25.9.2008 by two vouchers No. 175 of Rs. 17,000 and No. 180 of Rs. 8,000.
- (d) TDS made out of payment of interest of Rs. 1 lac in February, 2009 and of Rs. 2 lacs in March, 2009 was remitted to the Government in July, 2009.

Compute the income chargeable to tax in A.Y. 2009-10 and work out the amount of tax payable on such income. (13 marks)

(b) The net profit as per profit and loss account of XYZ Ltd., a resident company for the year ended 31.03.2009 is Rs. 190 lacs arrived at after following adjustments :

- | | |
|--|--------------|
| (i) Depreciation on Assets | Rs. 100 lacs |
| (ii) Reserve for currency exchange fluctuation | Rs. 50 lacs |
| (iii) Provision for tax | Rs. 40 lacs |
| (iv) Proposed dividend | Rs. 120 lacs |

Following further information are also provided by the company :

- (a) Net profit includes Rs. 10 lacs received from a subsidiary company.
 - (b) Provision for tax includes Rs. 16 lacs of tax payable on distribution of profit and of Rs. 2 lacs of interest payable on income tax.
 - (c) Depreciation includes Rs. 40 lacs towards revaluation of assets.
 - (d) Amount of Rs. 50 lacs credited to P & L account was drawn from revaluation reserve.
 - (e) Balance of profit and loss account shown in balance sheet at the asset side as at 31.03.2008 was Rs. 30 lacs representing unabsorbed depreciation.
- Compute the income of the company for the year ended 31.03. 2009 liable to tax under MAT. (7 marks)

Chapter- 34 : Wealth Tax

2009 - May [7] (a) Mr. Neeraj provides the following particulars and asks you to work out the amount of net wealth to be declared by him in the wealth tax return for Asst. year 2009-10 :

- (i) Value of a Motor Car Rs. 5,00,000
 - (ii) Value of a Motor Cycle Rs. 50,000
 - (iii) A house of which ground floor is used by him for business purposes and first floor for self residence having value on 31.3.09 of Rs. 50,00,000.
 - (iv) Jewellery worth Rs. 12 lacs purchased on 30.3.09 by his wife out of funds given by him of Rs. 5 lacs and by his son of Rs. 5 lacs.
 - (v) Shares of various companies worth Rs. 2,00,000 purchased by him in the name of his daughter-in -law. (4 marks)
- (b) An assessee being aggrieved from the order of WTO filed an appeal by taking for the first time a ground " that notice to complete the assessment was not served upon but he had cooperated in completion of proceedings". Are you in agreement with the view taken by the assessee ? (3 marks)
- (c) "Ram" gifted a house property valued at Rs. 100 lacs to his wife on 1.4.2009 in an agreement to live apart. In whose hands the said property will be assessed to W. Tax in A. Y. 2009-10. (3 marks)

Paper - 8 : Indirect Tax Laws

Chapter -1 : Basic Concepts

2009 - May [2] (b) Port Trust used cement concrete armour units in the harbour for keeping water calm. Each unit weighed about 50 tons and is like a tripod and keeps water calm and tranquil. These units are essentially in prismoid form and were made to order. They are harbour or location specific. The Central Excise Department contended that the armour units are excisable goods and

chargeable to duty. Examine the validity of the Department's contention in the light of decided case law. (5 marks)

Chapter -3 : Valuation of Excisable Goods

2009 - May [1] (a) Determine the total amount of Excise duty payable on a machine using the details given below :

	Rs.
(i) Sale price of the machine excluding taxes and duties	2,00,000
(ii) Sales tax	20,000
(iii) Cost of durable and returnable packing included in the sale price given at (i) above	5,000
(iv) Design and Development charges paid by buyer on behalf of seller to a third party	20,000
(v) Warranty charges charged separately by the seller	5,000
Rate of Excise duty	16%
Education cess.	3%

Calculations should be supported by notes wherever, required. (5 marks)

2009 - May [2] (c) I Scream Ltd. is engaged in manufacture of ice-cream falling under sub-heading 2105 of the Central Excise Tariff Act, 1985. The company supplied the ice cream in four litres pack to catering industry or hotels, who sell the same in scoops. The pack contained a declaration that the pack was not meant for retail sale. The Department contended that packs have to be assessed on the basis of value arrived at as per the provision of Section 4(A) of Central Excise Act, 1944, which provides for assessment based on M.R.P. and not under Section 4 of the Central Excise Act, 1944. Assessee contended that the ice-cream pack sold was a bulk pack of 4 litres which was not meant to be sold in retail and they were not required to print the Maximum Retail Price and hence the transaction was a wholesale transaction and assessment under Section 4 of the Central Excise Act, 1944 was correct.

Further contention of the assessee was that they are entitled to exemption under Rule 34 of the Standard of Weights and Measures (PC) Rules, which exempts packs meant for industrial use. Examine whether the stand taken by the Department is correct in the light of decided case law. (5 marks)

Chapter -4 : CENVAT Credit Rules

2009 - May [1] (b) X, a manufacturer purchased 500 kgs of inputs on 1.10.2007. Total assessable value of inputs was Rs. 10,000 and Excise duty of 16% and 2% of Excise duty as Education cess was paid on the inputs. On the day of receipt itself inputs were sent to the job worker. Job worker sent back 50% of the inputs on 1.4.2008 and balance 50% on 31.5.08. X received back the processed inputs on the same day. Calculate the Cenvat credit required to be reversed or that can be availed on relevant dates and net availment and reversal in the Financial years 2007-08 and 2008-09. (5 marks)

2009 - May [2] (a) M/s ABC Ltd. is a Cement manufacturer. The company used ropeway system for bringing crushed limestone from the mines located 4-5 kms away from the factory. A part of ropeway system was installed in the factory and the system was controlled from the factory. M/s ABC Ltd. availed cenvat credit on parts/spares for ropeway system treating the same as capital goods. The Central Excise Department denied cenvat credit on the ground that ropeway is used for transporting raw materials from the mines to the factory and can not be considered as material handling system within the factory premises. Examine with the help of decided case law, whether the stand taken by the department is correct in law. (5 marks)

2009 - May [3] (b) What are the provisions relating to the payment of Excise Duty on used capital goods cleared by an assessee on which Cenvat credit has been availed ? (2 marks)

Chapter -5 : General Procedures under Central Excise

2009 - May [3] (a) Explain special procedure and facilities made available to large tax payer under Rule 12BB of Central Excise Rules, 2002 in respect of intermediate goods. (6 marks)

Chapter - 11: Remission of Duty and Destruction of Goods

2009 - May [3] (c) What are the situations in which duty can be remitted under Rule 21 of Central Excise Rules, 2002. (2 marks)

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

2009 - May [1] (c) Y & Co. is a Small Scale unit located in a rural area and is availing the benefit of Small Scale exemption under Notification No. 8/2003-C.E. during the year 2007-08. Determine the value of the first clearances of the unit and duty liability on the basis of data given below :

	Rs.
(1) Total value of clearances of goods with own brand name	75,00,000
(2) Total value of clearances of goods with brand name of other parties	90,00,000
(3) Clearances of goods which are totally exempt under another notification (other than an exemption based on quantity or value of clearances)	35,00,000

Normal rate of Excise duty – 16%

Education cess @ 3% of Excise duty.

Calculations should be supported with appropriate notes.

It may be assumed that the unit is eligible for exemption under Notification 8/2003. (5 marks)

Chapter -18 : Service Tax

2009 - May [4] (b) Calculate the value of taxable service of 'X' Transport Company engaged in the business of transport of goods by road. Give reasons

for taxability or exemption of each item. No freight is received from any of the specified category of Consignor/ Consignee. Suitable assumptions may be made wherever required X does not avail cenvat credit: Rs.

(1) Total freight charges received by 'X' during the year	13,50,000
(2) Freight charges received for transporting fruits	1,25,000
(3) Freight collected for transporting small consignment for persons who paid less than Rs. 750 for each consignment	75,000
(4) Freight collected for transporting goods in small vehicles for persons, who paid less than Rs. 1,500 per trip.	1,50,000

(7 marks)

2009 - May [5] (a) The assessee owned a collection centre, which was engaged in drawing of human blood, urine and stool samples on behalf of the principal Laboratory in a metro city for conducting pathological tests. The assessee sent the samples through courier and received commission for such service. Department demanded Service tax on the ground that the activity amounted to promotion or marketing of the service provided by the principal and hence covered under business auxiliary service. With reference to legal provisions and case law, examine the stand taken by the department. (5 marks)

(b) The assessee used to finance the purchase of vehicles manufactured by a leading automobile company which used to sell the vehicles through its distributors. Assessee financed part of the vehicle cost to the purchaser of vehicle after getting an agreement with the purchaser providing the right of repossession of the vehicle in case buyer of the vehicle defaulted in paying instalment. Immediately on sale purchaser of the vehicle became the owner and vehicle was registered in his name. The Department seeks to levy service tax in the category of "Banking and other Financial Services." Examine whether Department's stand is correct in terms of legal provisions and case law.

(5 marks)

2009 - May [6] (b) What are the provisions relating to best judgement assessment under Service Tax Law ? (2 marks)

2009 - May [6] (c) State whether the following services are taxable under the provisions of the Finance Act, 1994 relating to Service tax :

(i) A practising Chartered Accountant representing a client before Income-tax Officer in assessment proceeding . (2 marks)

(ii) Royalty received from the publisher by an author of a text-book for printing and publishing his book. (2 marks)

2009 - May [6] (d) Give four Illustrations to explain the scope of service rendered by a consulting engineer. (4 marks)

2009 - May [6] (e) List out any four services brought under the Service tax net by the Finance Act, 2008. (4 marks)

Chapter -19 : VAT & CST

2009 - May [4] (a) Purchases by S & Co. for the month of December are as follows :

- (1) Rs. 1,00,000 at 4% Vat.
- (2) Rs. 5,00,000 at 12.5% Vat.

Sales of S & Co. for the month of December are as follows :

- (1) Sales of Rs. 3,00,000 at 4% Vat.
- (2) Sales of Rs. 3,00,000 at 12.5% Vat.

Compute eligible input tax credit and Vat payable for the month. (3 marks)

2009 - May [6] (a) What are the purchases not eligible for input tax credit of Vat paid ? (6 marks)

Chapter -20 : Basic Concepts

2009 - May [9] (e) Define Customs Area. (2 marks)

Chapter -21 : Levy and Exemptions from Customs Duty

2009 - May [8] ABC imported a vessel 'Waterloo' for the purpose of breaking from XYZ Ltd. of U.K. A memorandum of understanding was signed between the buyer and seller on 2.6.97 and ABC took delivery of the vessel on 4.6.97. Vessel drifted and landed in the yard of B in a damaged condition on 9.6.97. On 24.6.97, ABC filed application to concerned Assistant Commissioner for extension of time to file bill of entry, which was granted on 12.8.97. ABC paid Rs. 24 crores to XYZ Ltd. towards the purchase price of the vessel. Thereafter ABC sold the vessel to B for Rs. 12 crores and B filed bill of entry on 12.9.97. Assessing authority assessed the ship taking the value as Rs. 24 crores and ship was taken over by B after assessment order was passed. 'B' argues that assessable value should be taken as Rs. 12 crores since the vessel was damaged because of the storm which made the vessel drift during appellate proceedings. No application for abatement of duty was made before the assessing authority by ABC or B. Examine whether benefit of relief under Section 22 of Customs Act, 1962 to reduce the value and thereby duty can be extended to B under the above circumstances. The assessment order in respect of bill of entry was passed on 23.12.97. (5 marks)

2009 - May [9] (c) Explain briefly legal provisions relating to pilfered goods under Customs Act, 1962. (2 marks)

Chapter -24 : Valuation

2009 - May [7] From the following particulars determine the assessable value of the imported equipment giving explanation for each item :

- | | |
|--|--------------|
| (1) FOB cost of equipment (Japanese Yen) | 2,00,000 Yen |
| (2) Freight charges in Japanese Yen | 20,000 Yen |
| (3) Charges for development connected to equipment paid in India | Rs.60,000 |

- (4) Insurance charges paid in India for transportation from Japan Rs.15,000
(5) Commission payable to agent in India Rs.15,000
Exchange rate as per RBI is 1 Yen = Rs. 0.45
Exchange rate as per CBEC is 1 Yen = Rs. 0.50
Landing charges : one percent of CIF cost. (5 marks)

Chapter - 26 : Importation, Exportation and transporation of Goods

2009 - May [9] (b) Under what circumstances provisional assessment under Section 18 of the Customs Act, 1962 can be made ? (2 marks)

Chapter - 31: Illegal Import, Confiscation, Penalty & Allied Provisions

2009 - May [9] (d) Explain briefly legal provisions relating to power to summon persons under Customs Act, 1962. (2 marks)

Chapter -32 : Settlement Commission

2009 - May [9] (a) Is a person entitled to inspect or obtain copies or report made by any Officer to the settlement commission? Can the settlement commission furnish copies of such report ? (2 marks)

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