SUMMARY OF EXAMINERS' COMMENTS ON THE PERFORMANCE OF CANDIDATES

PAPER – 5 : COST MANAGEMENT

General Comments

The performance of the candidates in both theory and practical questions has not been satisfactory. It is essential for the students to understand various concepts related to both traditional as well as modern Cost Management. Students are advised to read extensively various reference books prescribed by Board of Studies and try to understand the different concepts of Cost Management in depth.

Specific Comments

Question 1.(a) This problem is from the area of Marginal Costing. Very few students were able to attempt this question on the desired lines. Errors were made in the computation of fixed and variable overheads.

(b) This problem of PERT / CPM requires examinees to draw Network diagram and find out peek requirement. Most of the students computed the critical path correctly but failed to calculate peek requirement of manpower and also the days on which they will occur.

(c) This theory part requiring an understanding of Angle of Incidence was not answered on the correct lines by most of the students. Many students were unable to draw a BEP chart correctly and failed to explain the angle of incidence.

Question 2.(a) This theory question part is from the area of Decision Making using concepts of Marginal Costing. Most of the students answered this question part well.

(b) This practical question part is from the area of Standard Costing. Some students were unable to compute the standard labour rate per hour and the standard variable overhead rate per hour correctly and hence derived wrong answers. Few students were confused between the variable expenditure variance and the total overhead variance.

(c) This practical question part requires an understanding of learning curve and basic cost concepts. While working out the minimum selling price per unit for an order of 15,000 units, a few students have included the fixed cost element also. The application of learning curve does not appear to be clear to a majority of students.

Question 3.(a) This question part is from the area of Transfer Pricing. Most of the students have not used the contribution approach and have computed the total cost and total sales for different options. Most of the students have not been able to find the correct strategy for Department A, Department B and the company as a whole.

(b) The answer to this theory part relating to Pricing decisions was satisfactory in most of the cases.

Question 4.(a) This numerical question part requires a sound understanding of Traditional and Activity Based Costing. Almost all candidates failed to prepare profitability statement under conventional system correctly. Most of the examinees have calculated prime cost on the basis of sales units instead of gross production units.

(b) This theory question is based on Critical Path Analysis. Examinees were unable to show the use of dummy activity in networking with the help of diagram.

(c) This theory question is based on Basic concepts of Simulation. Many examinees have answered the use of inventory control in general, but have not explained the use of Monte Carlo Simulation method Inventory Control.

Question 5.(a) In this problem of Linear Programming, only a handful number of students were able to formulate Linear equations correctly.

(b) This theory question is based on Basic concepts of Linear Programming. Some have answered this question without realizing the important role of different constraints. The key measures of theory of constraints were explained by very few examinees.

(c) Examiners have reported a lack of clear understanding of various areas of decision making in which differential costing is used.

Question 6.(a) Many students were unable to compute the initial allocation by North-West corner rule. Few students applied both the method in the same manner.

(b) This numerical problem requires a basic understanding of costing concepts relating to operating and marginal costing. Some students have answered this cross functional question correctly. However, many of them has taken the 'difference of revenue' into the consideration only without finding total implication arising due to lodging house managers proposal.

(c) Students in general have answered this question well. However, only few have given correct examples.

PAPER – 6: MANAGEMENT INFORMATION AND CONTROL SYSTEMS

General Comments

Generally the candidates exhibited lack of conceptual clarity of the subject. They could not write the answers on expected lines due to lack of adequate preparation of the subject. Rather than writing the answer systematically, their answers were vague and out of context. Examinees are advised to read the study material and reference material thoroughly so that they can give to the point answers and avoid unnecessary details.

Specific comments:

Question 1.(a) Most of the candidates failed to discuss various factors that renders manual audit method ineffective in Information System Audit.

(b) Candidates exhibited lack of knowledge of the components of an analysis and design work bench.

(c) Examinees failed to discuss the database control features precisely.

(d) Some of the candidates could not discuss properly the powers of Central Govt. under section 87 of IT Act, 2000.

Question 2.(a) Majority of the candidates failed to discuss salient features of work-in-process control system.

(b) This part relating to pre-requisites of a MIS as an effective tool was not attempted satisfactorily by majority of the candidates.

Question 3.(a) Instead of describing the procedure for investigation of present system,many candidates mentioned fact finding technique.

(b) Instead of explaining controls that should be incorporated in the system to make frauds difficult to perpetrate, some of the candidates discussed various types of frauds.

Question 4.(a) Few candidates discussed benefits of ERP, while others clubbed the features and characteristics of ERP.

(b) Candidates explained components of EIS instead of Decision Support System.

(c) Some of the candidates wrote essay type answers rather than giving precise definition of various computer fraud and abuse techniques.

Question 5.(a) Many candidates discussed factors to be considered for form layout instead of discussing various issues that should be considered while designing system input.

(b) Candidates discussed limitations of client / server model instead of explaining the risk associated with it.

(c) Satisfactory performance by majority of the candidates.

(d) Only few candidates explained the concept of parallel run in system testing.

Question 6. In majority of the cases, the answers were vague and not specific.

Question 7.(c) Candidates could not explain programme documentation correctly. Some of them only gave objectives / advantages of programme documentation.

PAPER – 7 : DIRECT TAXES

General Comments

The coverage of the question paper is good and it has maintained a good balance between questions involving application provisions and theoretical questions as well as questions on latest amendments and case laws. However, the performance of candidates reflected lack of adequate preparation and lack of awareness of latest amendments and judicial rulings. Further, the candidates lacked conceptual clarity. The explanations given by them and analysis of the facts were not up to the mark due to lack of understanding and clarity of the provisions of Income-tax Act and Wealth-tax Act.

Specific Comments

Question 1.

1. Profit of Rs.2,50,000 from hedging contract entered into for meeting any loss in foreign currency payments for purchase of imported machinery has to be deducted from the cost of machinery and the depreciation and the additional depreciation thereon debited to the profit and loss account has to be added back. However, some students have wrongly treated the profit from hedging contract as "Income from other sources". Further, even the students who have correctly deducted the profit from the cost of machinery, have not added back the excess depreciation and additional depreciation charged to profit and loss account.
2. Some candidates have wrongly disallowed incidental charges paid to financial institution for taking short-term loan repayable in 18 months.
3. A few candidates have wrongly stated that registration fees of Rs.20,000 paid to Registrar of Companies is not allowable whereas listing fees of Rs.30,000 paid to Stock Exchange on the issue of bonus shares is allowable or vice versa.
4. Brought forward loss of A.Y 1998-99 of X Ltd. which got merged with the company in the financial year 2003-04 is allowable for set off up to 8 years from the year of merger as per section 72A. Many students have wrongly treated that such loss is not allowable stating that the period of 8 years has to be calculated from 1998-99.
5. Employee's contribution to provident fund cannot be claimed as deduction since it is not paid within the due date specified under the PF Act as per section 36(1)(va). Many candidates have confused this payment with payment of employer's contribution to PF which is allowable as per 43B if paid before the due date for filing return of income.

Question 2.

(a) This question is based on the provisions of section 129 and the Apex Court ruling in Pradip Lamp Works v. CIT (2001) 249 ITR 797. Most candidates were not aware of the provisions of this section or of the case law and have wrongly stated that the order was not valid since further opportunity was not given.

(b) A typographical error cannot invalidate an assessment order if such order is in substance in conformity with or according to the intent and purpose of the Act. The question speaks about the appeal against the order passed by the Assessing Officer under section 143(3). The assessee wanted to treat this order as invalid so that the additions made under 143(3) would be deleted automatically. However, almost all the students have inferred that the appeal is against the typographical error and have answered that this is a mistake apparent from record and can be corrected.

(c) The question is on the prescribed modes of service of notice and the persons on whom the notice is to be served. Many candidates have not understood the meaning of "mode of service" and have dealt with when and under what circumstances notices have to be issued. Even those who have specified the persons have not named the correct persons named in the Act (e.g. in the case of a company, the person on whom the notice is to be served is the "principal officer" whereas many candidates have answered as "Managing Director" or "Director")

Question 3.(a) This question is on the allowability / chargeability of certain transactions of a partnership firm:

(a) Depreciation on imported instruments ready for use on 26.03.2008 and used for one operation.

Some common mistakes are -

(i) Not including customs duty paid in the cost of instruments;

(ii) Not applying the correct rate of depreciation on instruments;

(iii) Providing for additional depreciation, though the same is not allowable since instruments are not used for production of any article or thing.

(b) Salary to working partners: The salary paid to a working partners is not allowable since the deed is silent as to the quantum and the manner of distribution. This concept is not known to many candidates.

(c) Salary to wife of partner: In the answer to this question, candidates were required to discuss about the allowability of salary in the hands of firm i.e. whether the salary is excessive or unreasonable as per section 40A(2). However, some candidates have wrongly discussed about the clubbing of salary of the wife of the partner with her husband.

(d) Purchase of medicines in cash for Rs.35,000: A few candidates have wrongly disallowed only 20% of Rs.35,000 instead of disallowing the entire expenditure.

(e) Revenue expenditure incurred for promoting family planning amongst its employees: Such expenditure is allowable only in the case of a company. However, many candidates have wrongly allowed the same in the hands of the firm also.

(b) Some candidates were not aware of the time limit within which an appeal should be filed in each case even though they have correctly answered the available remedial recourse.

Question 4.(a) In answering sub-part (3) of this question, some candidates were not aware that anonymous donations to religious trusts are not chargeable to tax under section 115BBC.

In answering sub-part (4) of this question, many candidates were not aware that entertainment allowance received by the Minister of Surface Transport is exempt upto Rs.5,000 or 1/5th salary as per section 16(ii).

For sub-part (5), though the candidates have answered that the rent of Rs.30,000 is chargeable to tax, they have not clearly stated that the amount received is recovery of unrealised rent chargeable to tax under section 25AA under the head "Income from house property".

(b) Most of the candidates were not aware of the mode of attachment and sale of property dealt with in the Second Schedule to the Income-tax Act.

Question 5.(a) Most candidates could not correctly state the quantum of penalty leviable in each case.

(b) The question requires the candidates to explain the meaning of "eligible business" referred to in section 80-IE. However, many students have given the meaning of "eligible article or thing" under section 80-IE. Besides, almost all students have set forth the conditions to be satisfied to claim the deduction under section 80-IE, which is not required.

(c) Most of the candidates were not aware of the provisions of section 124(3), which provides for the circumstances when the assessee can raise a question as to the jurisdiction of an Assessing Officer.

Question 6.(a) Some candidates were not aware of the new definition of India as per section 2(25A) as substituted by the Finance Act, 2007.

(c) The question requires the candidates to specify the public facilities notified by the CBDT as infrastructure facility for the purpose of section 36(1)(viii). Many candidates have wrongly discussed about "specified entity" and "eligible business" under that section.

Question 7.(a) This question is on taxability of the forfeiture of security deposit from employees who have resigned and also recovery of notice pay and training charges from them. Many candidates were not aware of the Allahabad High Court ruling providing that such forfeiture and recovery are income attributable to business of banking and hence eligible for deduction under section 80P.

(b) Many candidates were neither aware of the amendment made by the Finance Act 2007 nor of the Apex Court ruling that the assessee has to be given a reasonable opportunity of being heard before directing special audit under section 142(2A).

(c) This question is based on the Apex Court ruling in CIT vs. Alagendran Finance Ltd. (2007) 293 ITR 1. Many candidates were not aware of this ruling.

Question 8.(a) This question requires the candidates to state whether the assets mentioned therein constituted assets chargeable to wealth-tax. An agricultural farm house situated within 25 kms of a municipality is an asset under section 2(ea). Some candidates were confused with the distance and stated that since it is not within 8 kms (which is applicable for purposes of agricultural income under the Income-tax Act), the same is not an asset.

(b) This question is based on the Apex Court ruling in Narendra Nath v. CWT (1969) 74 ITR 190. However, most of the candidates were not aware of this Apex Court ruling and were hence not able to answer correctly.

PAPER – 8 : INDIRECT TAXES

General comments

The performance in the paper was not satisfactory. It is suggested that candidates should make an in-depth study of the subject so as to score good marks. They should also improve their presentation skills and follow an analytical approach while answering the questions. Candidates should substantiate their answers by quoting sections, rules and case laws etc. as far as possible.

Question 1.(a)(i) Few candidates got confused between the definition of assessee as provided in the Central Excise Rules, 2002 and the definition of assessee given in the Income-tax Act, 1961.

(a)(iii) Many candidates wrongly explained that assessees whose turnover exceed the limit prescribed by the Central Government are treated as large tax payers.

(b) The answers were largely correct for this question. However, the relevant case law was not cited by a large number of candidates.

(c)(i) Majority of the candidates wrongly concluded that basic excise duty credit can only be utilized for payment of basic excise duty and not for payment of education cess and secondary and higher education cess.

(c)(ii) Most of the candidates wrongly concluded that CENVAT credit on inputs lying in stock or in process or contained in the final product cannot be reversed when the final product is subsequently exempted.

(d) Many candidates performed satisfactorily in this part of the question. However, few of them answered without explaining the requirements of the manufacture.

Question 2.(a): Many candidates wrongly mentioned that remission of duty should be granted on the goods which are cleared from the factory after payment of duty but destroyed by fire during transit.

(b) Majority of the candidates could not explain the steps to be initiated for the purpose of compliance with the requirements of the small scale exemption notification and the Central Excise Act, 1944 and the rules made thereunder.

Question 3.(b): Performance of the candidates in this part of the question was very poor. Almost all of them could not correctly explain the provisions relating to time limit available for filing refund claim in case of duty paid under protest.

(c)(i) A few candidates wrongly mentioned the threshold limit for e-payment of duty as Rs.100 lakh.

(c)(ii) A large number of the candidates were not able to write the manner in which the time of payment would be reckoned under the e-payment system. Instead they wrongly mentioned the due dates for payment of duty in this part of the question.

(c)(iii) Some of the candidates wrongly mentioned the due date for payment of duty in case of e-payment as fifth day of the succeeding month instead of sixth day of the succeeding month.

Question 4.(a): Majority of the candidates wrongly explained that clearance of 'prototypes' could be made without any payment of duty with the prior approval of the Deputy/Assistant Commissioner of Central Excise. Further, some of them got confused between the removal of prototypes and provisions relating to job work.

(b) Many candidates failed to properly explain the concept and meaning of the term ‘suppression of facts’ for the purpose of the proviso to section 11A of the Central Excise Act. They were unable to bring out the difference between omission and suppression of facts. They did not highlight the intention to avoid payment of duty.

(c) Candidates were generally ignorant about the amendments made by the Finance Act, 2007 in the provisions relating to Settlement Commission.

(d) A few candidates wrongly concluded that the Department was justified in denying the benefit of exemption on the ground that once the credit is taken, it is immaterial whether the same is reversed before or after utilization thereof.

Question 5.(a): Many candidates explained certain unnecessary details which did not have any relation with the provisions relating to arrest.

(c) Majority of the candidates failed to compute the CENVAT credit available on clearance of goods by an EOU to DTA with the given data. They were not aware of the 75% exemption available on basic custom duty in respect of clearance of goods by EOU to DTA. Further, many candidates forgot to add the basic customs duty to the assessable value for calculating additional duty of customs.

Question 6.(b): Few candidates wrongly concluded that exemption under section 25 would be available for software as software and laptops are different articles.

(d) Most of the candidates were not able to correctly compute the assessable value. The common mistakes observed are:

(i) Adoption of incorrect rate of exchange

(ii) Wrong determination of the amount of commission

(iii) Not considering landing charges

(iv) Not considering the designing charges paid in Japan

Question 7.(b): Most of the answers given by the candidates were irrelevant and based on mere guess work. They failed to give the illustrative cases relating to the non applicability of All Industry Drawback rates.

Question 8.(a)(i): Candidates failed to explain that bank guarantee and payment of excise duty are not the same. Thus, they wrongly concluded that the principle of unjust enrichment would be applicable in case of refund of wrongly encashed bank guarantee.

(a)(ii) Candidates wrongly concluded that payment of interest is separate from payment of duty and thus, principle of unjust enrichment would not apply in case of refund of excess interest paid by the assessee.

(c) Majority of the candidates failed to state the provisions of the Customs Act, 1962 and notifications issued thereunder which seek to prohibit the import of goods infringing intellectual property right.

Question. 9(a)(iv) Many candidates were not aware that services provided to export oriented undertakings are liable to service tax.

(c)(ii) A few candidates wrongly answered that depository services and electronic access to securities information services provided by the Central Depository Services India Ltd. are in the nature of information technology services and thus, are not liable to service tax.

(c)(iii) Some candidates wrongly concluded that IIMs, being educational institutes, could not be construed as manpower recruitment agencies even when they provide services in relation to campus interviews by charging a fee.