INDIRECT TAXES
CA (FINAL) NEW
May
2010

Roll No. 56599

Total No. of Questions—8] [Total No. of Printed Pages—7

Time Allowed—3 Hours Maximum Marks—100

KLM

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Wherever appropriate, suitable assumption/s should be made by the candidate.

Explanation should be given for treatment of various items, wherever required.

Answer **all** questions.

SECTION—A

Marks

1. (a) Compute the assessable value and amount of excise duty payable under the Central Excise Act, 1944 and rules made thereunder from the following information : 5

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

(b) M/s Royal Industries started its production activities on 15th March, 2010. In the month of March, 2010, 1,000 units of raw material were purchased at Rs. 150 per unit, paying excise duty @ 8%. 800 units of raw material were consumed in manufacturing process and finished output was sold for Rs. 1,40,000 (excluding excise duty @ 8%). For simplification, you may ignore the conversion cost and assume the rates of excise duty to be inclusive of education cess. 5

Marks

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

(c) Mahesh Ltd., which is engaged in manufacturing of excisable goods started its business on 1st June, 2009. It availed SSI exemption during the financial year 2009-10. The following are the details available to you : 5

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

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

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

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

(b) M/s Evasions Unlimited, manufacturing excisable goods, paid the differential duty, suo motu, to the Department as the prices of the said goods were revised with retrospective effect. The Revenue took the view that the assessee was liable to pay interest on differential duty under Section 11AB of the Central Excise Act, 1944 and penalty thereof. The assessee replied that there was no question of charging interest and penalty as the payment of differential duty was made by it at the time of issuing supplementary invoices to the customers. 5

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

Marks

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

3. (a) Differentiate between "non-excisable goods" and "non-dutiable goods". 3

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

(c) Explain the validity of the following statements with reference to Central Excise Laws, as amended : 1×4

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

5 → 1 – 1
1 – 5 → 2 – 1
5 – 1
10%

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

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

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

SECTION—B

4. (a) Mr. Happy, a service provider, has provided services of Rs. 1,00,00,000. Out of this, Rs. 70,00,000 are taxable output services and Rs. 30,00,000 are exempt output services. Mr. Happy has opted not to maintain separate inventory and accounts and pay prescribed amount on value of exempt output services. 5

Marks

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

(b) The particulars regarding sale, purchase etc. of Shubham Udyog for the last quarter of the year 2009-10 are as under : 5

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

You may assume that input tax credit of tax on raw material used in manufacture of leased goods is available immediately. Compute the amount of Value Added Tax (VAT) payable by M/s Shubham Udyog for the relevant quarter. There was no opening or closing inventory.

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

Marks

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

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

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

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

6\. (a) State, with reasons in brief, whether the following services are taxable, under the provisions of the Finance Act, 1994 relating to Service tax : 2×2=4

(i) Services in relation to production of alcoholic liquor on job work basis.

(ii) Service of transport of goods in container by Government Railway.

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

Marks

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

(d) Explain in brief the disadvantages of composition scheme available for small dealers under VAT system. 4

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

SECTION—C

7. (a) Miss Priya imported certain goods weighing 1,000 kgs. with CIF value US $ 40,000. Exchange rate was 1 US $ = Rs. 45 on the date of presentation of bill of entry. Basic customs duty is chargeable @ 10% and education cess as applicable. There is no excise duty payable on these goods, if manufactured in India. 5

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

(b) M/s Marwar Industries imported finishing agents, dye-carriers, printing paste etc. to be used for manufacture of textile articles. The importer claimed exemption for Additional duty of customs (CVD) leviable under Section 3 of the Customs Tariff Act, 1975, on the ground that there was an exemption for excise duty in respect of said goods used in the 'same factory' for manufacture of textile articles. The Department contended that CVD is payable on the ground that the goods which were to be used must also be manufactured in the 'same factory'. You are requested to comment upon the contention of Department, with reference to a decided case law, if any. 5

8.24

8. (a) Explain in brief the duty exemption to baggages under Section 79(1) of the Customs Act, 1962. 3

25 12 6 1200

Marks

(b) Can an application be withdrawn in the following cases ? If yes, state the time limit for withdrawal of such application : 3

(i) application for advance ruling

(ii) application for settlement.

(c) Clearly mention the relevant date in the following cases of goods warehoused under bond : 4

(i) Rate of exchange, when goods are removed for home consumption.

(ii) Rate of duty, when goods are removed for home consumption.

(iii) Rate of duty if the goods are not removed from warehouse within the permissible period.

ISCA
May
2010

Roll No..............................

Total No. of Questions—5] [Total No. of Printed Pages—3

Time Allowed—3 Hours Maximum Marks—100

57

POK

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

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

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

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

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

   (c) Suppose an audit policy is required, how will you lay down the responsibility of audit ? 5

   (d) To retain their e-documents for a specified period, what are the conditions laid down by Section 7, Chapter III of Information Technology Act, 2000 ? 5

POK

Marks

2. (a) What are common threats to the computerised environment other than natural disasters, fire and power failure ? 5

(b) How would you use Data Dictionary as a tool for file security and audit trails ? 5

(c) The management of ABC Ltd. wants to design a detective control mechanism for achieving security policy objective in a computerised environment. As an auditor explain, how audit trails can be used to support security objectives. 10

3. (a) How will you get over the impediments for the successful implementation of ERP ? Mention any five. 10

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

(c) Explain the role of IS auditor in evaluating logical access controls. 5

4. (a) Describe some of the advantages of continuous audit techniques. 5

(b) Define the following terms related to Information Technology Act, 2000 : 5

(i) Computer contaminant

(ii) Cyber cafe

(iii) Electronic form

(iv) Traffic data

(v) Asymmetric crypto system.

(c) Give some important advantages of Information System in business. 5

(d) What is COBIT ? Give three vantage points from which the issue of control can be addressed by this framework. 5

Marks

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

(b) If you are the CEO of a company, what factors would be considered before undertaking implementation of an ERP system ? 5

(c) Briefly describe any three of the characteristics of the types of information used in Executive Decision making. 5

(d) Discuss the benefits and limitations of unit testing. 5

Roll No. 56599 SFM may 2010

Total No. of Questions—5 Total No. of Printed Pages—6

Time Allowed—3 Hours Maximum Marks—100

SIM

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Answer **all** questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. (a) XY Ltd. has under its consideration a project with an initial investment of Rs. 1,00,000. Three probable cash inflow scenarios with their probabilities of occurrence have been estimated as below : 12

Annual cash inflow (Rs.)	20,000	30,000	40,000
Probability	0.1	0.7	0.2

The project life is 5 years and the desired rate of return is 20%. The estimated terminal values for the project assets under the three probability alternatives, respectively, are Rs. 0, 20,000 and 30,000.

You are required to :

(i) Find the probable NPV;

Marks

(ii) Find the worst-case NPV and the best-case NPV; and

(iii) State the probability occurrence of the worst case, if the cash flows are perfectly positively correlated over time.

(b) Mr. A purchased a 3-month call option for 100 shares in XYZ Ltd. at a premium of Rs. 30 per share, with an exercise price of Rs. 550. He also purchased a 3 month put option for 100 shares of the same company at a premium of Rs. 5 per share with an exercise price of Rs. 450. The market price of the share on the date of Mr. A's purchase of options, is Rs. 500. Calculate the profit or loss that Mr. A would make assuming that the market price falls to Rs. 350 at the end of 3 months. 4

(c) Explain briefly, how financial policy is linked to strategic management. 4

2. (a) P Ltd. has decided to acquire a machine costing Rs. 50 lakhs through leasing. Quotations from 2 leasing companies have been obtained which are summarised below : 10

	Quote A	Quote B
Lease term	3 years	4 years
Initial lease rent (Rs. lakhs)	5.00	1.00
Annual lease rent (payable in arrears) (Rs. lakhs)	21.06	19.66

P Ltd. evaluates investment proposals at 10% cost of capital and its effective tax rate is 30%. Terminal payment in both cases is negligible and may be ignored.

Make calculations and show which quote is beneficial to P Ltd. Present value factors at 10% rate for years 1-4 are respectively 0.91, 0.83, 0.75 and 0.68. Calculations may be rounded off to 2 decimals in lakhs.

Marks

(b) Based on the following information, determine the NAV of a regular income scheme on per unit basis : 6

	Rs. Crores
Listed shares at Cost (ex-dividend)	20
Cash in hand	1.23
Bonds and debentures at cost	4.3
Of these, bonds not listed and quoted	1
Other fixed interest securities at cost	4.5
Dividend accrued	0.8
Amount payable on shares	6.32
Expenditure accrued	0.75
Number of units (Rs. 10 face value)	20 lacs
Current realizable value of fixed income securities of face value of Rs. 100	106.5
The listed shares were purchased when Index was	1,000
Present index is	2,300
Value of listed bonds and debentures at NAV date	8

There has been a diminution of 20% in unlisted bonds and debentures

Other fixed interest securities are at cost.

(c) How is a stock market index calculated ? Indicate any two important stock market indices. 4

Marks

3. (a) The following information is given for 3 companies that are identical except for their capital structure : 12

	Orange	Grape	Apple
Total invested capital	1,00,000	1,00,000	1,00,000
Debt/assets ratio	0.8	0.5	0.2
Shares outstanding	6,100	8,300	10,000
Pre tax cost of debt	16%	13%	15%
Cost of equity	26%	22%	20%
Operating Income (EBIT)	25,000	25,000	25,000
Net Income	8,970	12,350	14,950

The tax rate is uniform 35% in all cases.

(a) Compute the Weighted average cost of capital for each company.

(b) Compute the Economic Valued Added (EVA) for each company.

(c) Based on the EVA, which company would be considered for best investment ? Give reasons.

(d) If the industry PE ratio is 11x, estimate the price for the share of each company.

(e) Calculate the estimated market capitalisation for each of the Companies.

(b) The rate of inflation in India is 8% per annum and in the U.S.A. it is 4%. The current spot rate for USD in India is Rs. 46. What will be the expected rate after 1 year and after 4 years applying the Purchasing Power Parity Theory. 4

(c) List and briefly explain the main functions of an investment bank. 4

Marks

4\. (a) T Ltd. and E Ltd. are in the same industry. The former is in negotiation for acquisition of the latter. Important information about the two companies as per their latest financial statements is given below : 16

	T Ltd.	E Ltd.
Rs. 10 Equity shares outstanding	12 lakhs	6 lakhs
Debt :		
10% Debentures (Rs. lakhs)	580	—
12.5% Institutional Loan (Rs. lakhs)	—	240
Earnings before interest, depreciation and Tax (EBIDTA) (Rs. lakhs)	400.86	115.71
Market Price/share (Rs.)	220.00	110.00

T Ltd. plans to offer a price for E Ltd., business as a whole which will be 7 times EBIDTA reduced by outstanding debt, to be discharged by own shares at market price.

E Ltd. is planning to seek one share in T Ltd. for every 2 shares in E Ltd. based on the market price. Tax rate for the two companies may be assumed as 30%.

Calculate and show the following under both alternatives — T Ltd.'s offer and E Ltd.'s plan :

(i) Net consideration payable.

(ii) No. of shares to be issued by T Ltd.

(iii) EPS of T Ltd. after acquisition.

(iv) Expected market price per share of T Ltd. after acquisition.

(v) State briefly the advantages to T Ltd. from the acquisition.
Calculations (except EPS) may be rounded off to 2 decimals in lakhs.

(b) Briefly explain what is an exchange traded fund. 4

Marks

5. (a) Consider the following data for Government Securities : 8

Face Value (Rs.)	Interest Rate %	Maturity (Years)	Current Price (Rs.)
1,00,000	0	1	91,000
1,00,000	10.5	2	99,000
1,00,000	11.0	3	99,500
1,00,000	11.5	4	99,900

Calculate the forward interest rates.

(b) The following market data is available : 8

Spot USD/JPY 116.00

Deposit rates p.a.	USD	JYP
3 months	4.50%	0.25%
6 months	5.00%	0.25%

Forward Rate Agreement (FRA) for YEN is NIL.

1. What should be 3 months FRA rate at 3 months forward ?
2. The 6 & 12 months LIBORS are 5% & 6.5% respectively. A bank is quoting 6/12 USD FRA at 6.50 – 6.75%. Is any arbitrage opportunity available ?

   Calculate profit in such cases.

(c) Write a short note on Debt Securitisation. 4

42 Secured only

May 2010

Roll No...............................

Total No. of Questions—6]

Paper-3

Auditing

[Total No. of Printed Pages—3

Time Allowed—3 Hours

Maximum Marks—100

LOC

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Answer **all** questions.

Marks

Case Study - 20 Marks.

1. Comment on the following :

Any four

(a) T Ltd. an Indian company, subject to Indian Income tax Act, 1961, discloses advance Income-tax paid (Current tax asset) and provision for Income-tax (Current tax liability), separately in Balance Sheet for the year ended 31.3.2010, i.e., it do not offset the amount. 5

(b) A Private Limited reports the following position as on 31st March, 2010 : 5

Paid up capital	30 lacs
Revaluation reserve	10 lacs
Capital reserve	11 lacs
P&L A/c [Dr. Balance]	2 lacs

The Management of the Company contends that CARO 2003 is not applicable to it.

(c) S Ltd. issued Bonds to the tune of Rs. 100 lacs and provided security to the tune of Rs. 80 lacs for the same. It insists that it will disclose the Bonds as "Secured" in the Balance Sheet of the Company. 5

(d) F Limited includes in the Schedule of Inventory, those items of Fixed assets which have not been in active use and held for disposal, as inventory item. 5

(e)

LOC Marks

Any four Professional Ethics - 20 Marks

2. Give your comments with reference to the Chartered Accountants Act, and Schedules thereto :

   (a) Mr. A, a practising Chartered Accountant, took over as the executive chairman of a Software Company on 1.4.2010. On 10.4.2010 he applied to the Council for permission. 4

   (b) Mr. X, a practicing Chartered Accountant, issued a circulation certificate for a periodical on the basis of outward memos, which was later found to be false. 4

   (c) Mr. Z, a practicing Chartered Accountant, received a sum of Rs. 1 lac on 1.9.2009 from a client who intends to leave abroad for a period of a year, with a request that his advance tax liabilities to be paid over the three instalments. On 15th September, 2009, 15th December, 2009 and 15.3.2010. After remitting the 1st instalment of advance tax on 15.9.2009, Z did not keep the Balance Money in a separate Bank account and he is of the opinion he will remit the money within reasonable time as per payment schedule of Advance tax. 4

   (d) Mr. X, a Chartered Accountant, employed as a paid Assistant with a Chartered Accountant, firm. On 31st December, 2008 he leaves the services of the firm. Despite many reminders from ICAI he fails to reply regarding the date of leaving the services of the firm. 4

(e) S.A - 20 Marks.

3. (a) In the course of audit of ABC Ltd. its management refuses to provide written representations. As an auditor what is your duty ? 4

   (b) While planning the audit of S Ltd. you want to apply sampling techniques. SA-620 What are the risk factors you should keep in mind ? 4

   (c) What are the auditors responsibilities in respect of corresponding 710 figures ? 4

   (d) IT systems also pose specific risks to an entity's internal control ? What are those risks ? 4

(e)

4. (a) While auditing the Branch of a Bank you are required to examine Inter Branch adjustments. Which points require your special attention ? 6

   (b) How do you examine claims against the Bank not acknowledged as debts ? 4

   (c) While auditing the claims paid in respect of a General Insurance Company what aspects need to be looked into ? 6

(d)

ICRAM.

Marks

5. (a) What is the purpose served by Introduction of Cost audit ? 4

   (b) As auditor of Z Ltd., you would like to limit your examination of account balance tests. What are the control objectives you would like the accounting control system to achieve to suit your purpose ? 4

   (c) In the audit planning process of X Ltd., you would like to consider audit risk at the financial statement level. What are the factors can influence your decision ? 3

   (d) Explain the liability of the auditor under section 62 of the Companies Act, 1956, for making an untrue statement in the report (as an expert forming a part of the prospectus). 5

6. Write short notes on the following :

   (a) Special points that may be covered in the audit of equipment leasing finance company. 4

   (b) Mark to Market margins. 4

   (c) Major steps required in preparation of Tax audit under VAT. 5

   (d) Focus of a Peer review. 3

(7)

DIRECT TAXES
May
2010-

Roll No.............................

Total No. of Questions—7]

[Total No. of Printed Pages—8

Time Allowed—3 Hours

49

Maximum Marks—100

FOG

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Answer **all** questions.

Marks

firm → Co.

1. Aditya, Avirup and Avigyan carried on business of running hotels in partnership from 1st April, 2000 to 31st March, 2007. In order to increase its scale of operation and meet its fund requirement the firm decided to carry on its business through Corporate route. For that purpose, a company under the name and style "Triple A Hospitality Private Limited" was formed on 1st April, 2008 and the business of the partnership firm as a whole was succeeded to by the Company with effect from 1st June, 2008. 20

Co.

Co.

1April – 1June

3 | 9

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

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

(b) Depreciation charged Rs. 40 lacs.

(c) Rs. 2 lacs credited on account of waiver of dues obtained from a supplier of the erstwhile firm against supply of certain materials.

Marks

(d) Rs. 1.18 lacs being the aggregate of amounts paid in cash to Rajaram, a transport contractor as follows :

Date of Payment	Rs. in Lacs
5th June, 2009	0.15
20th July, 2009	0.21
20th September, 2009	0.22
3rd November, 2009	0.26
5th November, 2009	0.36

40A(3)

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

(e) Rs. 0.50 lac, being proportionate part of the cost of animals (purchased and kept for entertainment of the guests of hotel) amortised as per the accounting policy of the company. Cost

(f) Rs. 0.10 lacs credited on account of sale proceeds of carcass of animal which died during the year. 40L Allowed.

(g) Provision for bad and doubtful debts Rs. 12 lacs.

(h) Payment of Rs. 25 lacs to some employees as compensation for voluntary retirement, as per scheme. 1/5 - 5yrs

(i) Foreign exchange fluctuation loss (net) amounting to Rs. 30 lacs arising from restatement of the year-end liabilities to foreign suppliers of provisions and beverages as per the requirement of Accounting Standard 11 of the Institute of Chartered Accountants of India.

Other Information :

(i) Depreciation as per the Income-tax Act Rs. 65 lacs.

(ii) Cost of animal died as referred to in (f) above was Rs. 2 lacs.

Marks

(iii) Debt of Rs. 4 lacs due from one corporate customer for three months has been written off during the year after giving few reminders by debiting provision for bad and doubtful debts account.

(iv) The erstwhile firm was allowed exemption of Rs. 50 lacs Under Section 47(xiii) in respect of long-term capital assets transferred to the company.

(v) The Company's voting rights till 31st March, 2009 were held as follows :

Aditya	40%
Avirup	30%
Avigyan	15%
Others	15%

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

(vi) Unabsorbed business loss and unabsorbed depreciation of Rs. 10 lacs each have been carried forward from Assessment Year 2008-09.

(vii) The Company has a subsidiary Company, Tours & Travels Private Limited (A Closely Held Company). During the year the company obtained a temporary loan of Rs. 12 lacs from its subsidiary company. Accumulated profit of the subsidiary company was Rs. 30 lacs at the time of payment of the loan. The loan was repaid by the company before the end of the year.

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

2. (a) Explain in brief, the treatment as to their taxability and or allowability, under the provisions of Income Tax Act, 1961, for the assessment year 2010-2011 in the following cases : 4

(i) 'A' Ltd., an Investment Company received dividend income of Rs. 1,00,000 on its investment in shares. It incurred interest expenditure of Rs. 2,00,000 on the borrowed capital utilized in the investment of shares.

Marks

(ii) 'B' Ltd. is a Company engaged in the business of Financing and Investment in Shares. It suffered loss in an amount of Rs. 3,00,000 on account of futures and options, a transaction in the form of derivatives in which the underlying asset was shares. 3

(iii) 'C' Ltd., which did not have any active business carried on by it incurred capital expenditure on Scientific Research amounting to Rs. 5,00,000 that related to its Subsidiary Companies. 3

(b) State the situation under which the clubbing provisions of Income tax operate as to the incomes of husband and wife. 4

3. (a) Indian Gas Limited commenced its operation of the Business of laying and operating a cross country natural gas pipeline net work for distribution on 1st July, 2008. The Company incurred capital expenditure of Rs. 300 lacs (including cost of land Rs. 45 lacs and cost of financial instrument Rs. 5 lacs) during the period from 1st April, 2007 to 30th June, 2008. The Company did not claim deduction for such expenditure in the earlier assessment years. The entire expenditure was capitalised on 1st July, 2008. Further, during the Previous year 2009-10, the company incurred capital expenditure of Rs. 200 lacs exclusively for the said business. 6

(i) Compute the amount of deduction allowable Under Section 35AD assuming that the company has fulfilled all the conditions specified in Section 35AD.

(ii) If the company has loss from such business in the assessment year 2010-11, how the same is to be set off and carried forward ?

(b) (i) An electoral trust approved by the Central Board of Direct Tax is not liable to income tax in respect of voluntary contribution received and other income—Discuss the correctness of the statement. 2

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

 Marks

(c) Kala purchased a residential flat from her friend Bala at Rs. 10 lacs in the city of Jaipur on 3rd October, 2009. The value determined by the Stamp Duty Authority for stamp duty purpose amounted to Rs. 15 lacs. Bala had purchased the flat on 1st January, 2007 at a cost of Rs. 3.50 lacs. Kala sold the flat for Rs. 20 lacs on 30th March, 2010. 5

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

TDS

4. (a) Explain the applicability of the provision relating to the deduction of tax at source in the following transactions :

(i) Max Limited pays Rs. 1 lac to Mini Limited, a resident contractor who, under the contract dated 15th October, 2009, manufactures a product according to specification of Max Limited by using materials purchased from Max Limited. 2

(ii) A Company operating a Television Channel makes payment of Rs. 5 lacs to a former cricketer for making running commentary of a one-day cricket match. 2

(iii) EL Limited, a Foreign Company pays outside India salary to its employee, Mr. Raghavan, a Foreign national and a non-resident for services rendered in India. 2

(b) Discuss the taxability of the Balance amount withdrawn by an employee from the recognized provident fund at the time of leaving the service ? 5

(c) The Assessing officer has the power to make an assessment to the best of his judgement, in certain situations. What are they ? 3

5. (a) Does the Income-tax Appellate Tribunal have the following powers ? 4

(i) Power to allow the assessee to urge any ground of appeal which was not raised by him before the Commissioner (Appeals);

(ii) Power to review its own order.

Marks

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

(c) Following issues have been raised by Navi Limited in connection with its eligibility for claiming deduction under Section 80-IB for your consideration; and advise, for the assessment year 2010-2011. 7

(i) It operates two separate industrial units, One unit is eligible for deduction under Section 80-IB, while the other unit is not eligible for such deduction. If the eligible unit has profit and the other unit has loss, should it claim deduction after setting off the loss of the other unit against profit of the eligible unit ?

(ii) Its profit from one unit includes sale of import entitlement, duty drawback and interest from customers for delayed payment. Is it permissible to claim deduction on these items of income ?

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

Marks

(b) Cosmos Limited, a company incorporated in Mauritius has a branch office in Hyderabad opened in April, 2008. The Indian branch has filed return of income for assessment year 2009-10 disclosing income of Rs. 50 lacs. It paid tax at the rate applicable to domestic company i.e 30% plus education cess of the basis of paragraph 2 of the Article 24 (Non-Discrimination) of the Double Tax Avoidance Agreement between India and Mauritius, which reads as follows : 4

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

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

Is the action of the Assessing Officer in accordance with law ?

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

(i) Income from running of hospitals Rs. 14.25 lacs.

(ii) Donation received (including anonymous donation Rs. 3 lacs) Rs. 5.75 lacs.

(iii) Amount applied for the purposes of hospital Rs. 13 lacs.

(iv) The trust had accumulated Rs. 15 lacs under Section 11(2) in the Financial year 2003-04 for a period of five years for extension of one of its hospitals. The trust has spent Rs. 13.50 lacs for the said purpose till 31st March, 2009.

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

Marks

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

(i) One hectare of vacant land was allotted to the company at Ahmedabad by the State Government for industrial purpose in May, 2006 on permanent lease basis on payment of a non-refundable premium of Rs. 4 lacs. The terms of allotment includes that in the event the lessee transfers the lease, 50% of the unearned increase in the value should be made over to the lessor. The construction work for the proposed factory has not been started. The value of the land as on 31st March, 2010 is Rs. 50 lacs.

(ii) The Company is a partner of a firm with 30% shares whose net assets as on 31st March, 2010 is Rs. 150 lacs. Its capital as on that date is Rs. 20 lacs out of total capital of Rs. 70 lacs.

(iii) It has let out a building with effect from 1st October, 2009 at a monthly rent of Rs. 1 lac for a period of 10 years. The tenant has made a deposit of Rs. 3 lacs. Annual Corporation Tax of Rs. 1 lac is borne by the tenant. The building is on a freehold land. The written down value of the building is Rs. 80 lacs.

(b) 'H' filed his return of net wealth for the assessment year 2006-07. Penalty proceeding Under Section 18 for concealing particulars of net wealth was initiated by the Assessing Officer in 2008. 'H' died in January, 2009. The estate of 'H' devolved on his wife, 'W', who also died on October, 2009. Thereafter, the estate devolved on their daughter 'D'. The Assessing Officer passed penalty order on 28th February, 2010 and served notice of demand for penalty on 'D'. Is the action of the Assessing Officer valid in law ? 3

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3 may 2010

15

Roll No..............................

Total No. of Questions—6] [Total No. of Printed Pages—7

Time Allowed—3 Hours **Accounts - CA Final May 2010** Maximum Marks—100

NSG

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Answer **all** the questions.

Working notes should form part of the answer.

Wherever necessary suitable assumptions may be made by the candidates.

Marks

1. (a) Mr. A bought a forward contract for three months of US \$ 1,00,000 on 1st December at 1 US \$ = Rs. 47.10 when exchange rate was US \$ 1 = Rs. 47.02. On 31st December when he closed his books, exchange rate was US \$ 1 = Rs. 47.15. On 31st January, he decided to sell the contract at Rs. 47.18 per dollar. Show how the profits from contract will be recognised in the books. 4×5 =20

(b) Sun Ltd. has entered into a sale contract of Rs. 5 crores with X Ltd. during 2009-10 financial year. The profit on this transaction is Rs. 1 crore. The delivery of goods to take place during the first month of 2010-11 financial year. In case of failure of Sun Ltd. to deliver within the schedule a compensation of Rs. 1.5 crore is to be paid to X Ltd. Sun Ltd. planned to manufacture the goods during the last month of the 2009-10 financial year. As on Balance Sheet date (31.3.2010), the goods were not manufactured and it was unlikely that Sun Ltd. will be in a position to meet the contractual obligation.

(i) Should Sun Ltd. provide for contingency as per AS-29 ?

(ii) Should provision is measured as the excess of compensation to be paid over the profit ?

(c) Rainbow Limited borrowed an amount of Rs. 150 crores on 1.4.2009 for construction of boiler plant @ 11% p.a. The plant is expected to be completed in 4 years. The weighted average cost of capital is 13% p.a. The accountant

2 may 2010

Marks

of Rainbow Ltd., capitalised interest of Rs. 19.50 crores for the accounting period ending on 31.3.2010. Due to surplus fund out of Rs. 150 crores, an income of Rs. 3.50 crores was earned and credited to profit and loss account. Comment on the above treatment of accountant with reference to relevant accounting standard.

(d) Y Ltd. is a full tax free enterprise for the first ten years of its existence and is in the second year of its operation. Depreciation timing difference resulting in a tax liability in year 1 and 2 is Rs. 200 lakhs and Rs. 400 lakhs respectively. From the third year it is expected that the timing difference would reverse each year by Rs. 10 lakhs. Assuming tax rate of 40%, find out the deferred tax liability at the end of the second year and any charge to the Profit and Loss account.

2. (a) While closing its books of account as on 31.12.2009 a non-banking finance company (NBFC) has its advances classified as under : 4

	Rs. in lakhs
Standard assets	10,000
Sub-standard assets	1,000
Secured portion of doubtful debts	
— Upto one year	160
— One year to three year	70
— More than three years	20
Unsecured portion of doubtful debts	90
Loss assets	30

Calculate the provision to be made against advances by NBFC as per prudential norms.

(b) Comforts Ltd. granted Rs. 10,00,000 loan to its employees on January 1, 2009 at a concessional interest rate of 4% per annum. Loan is to be repaid in five equal annual instalments alongwith interest. Market rate of interest for such loan is 10% per annum. Following the principles of recognition and measurement as laid down in AS-30—'Financial instruments : Recognition and measurement', record the entries for the year ended 31st December, 2009 for the loan transaction, and also calculate the value of loan initially to be recognised and amortised 12

Marks

cost for all the subsequent years. The present value of Re. 1 receivable at the end of each year based on discount factor of 10% can be taken as :

Year end	1	0.9090
	2	0.8263
	3	0.7512
	4	0.6829
	5	0.6208

3. The draft Balance Sheet of three companies W, H, O, as at 31.3.2010 is as under : 16

Rs. in thousands

Assets		W	H	O
Fixed assets		697	648	349
Investments				
1,60,000 shares in H		562		
80,000 shares in O		184	—	—
Cash at bank		101	95	80
Trade receivables		386	321	251
Inventory		495	389	287
	Total	2,425	1,453	967
Liabilities				
Share capital (Nominal value Re. 1 per share)		600	200	200
Reserves		1,050	850	478
Trade payables		375	253	189
Debentures		400	150	100
	Total	2,425	1,453	967

You are given the following information :

(a) W purchased the shares in H on 13.10.2005 when the balance in reserves was Rs. 500 thousands.

Marks

(b) The shares in O were purchased on 11.5.2005 when the balance in reserves was Rs. 242 thousands.

(c) The following dividend have been declared but not accounted for before the accounting year end :

W	—	Rs. 65 thousands
H	—	Rs. 30 thousands
O	—	Rs. 15 thousands

(d) Included in inventory figure of O is inventory valued at Rs. 20 thousands which had been purchased from W at cost plus 25%.

(e) Goodwill in respect of the acquisition of H has been fully written off.

(f) On 31.3.2010 H made bonus issue of one share for every share held. This had not been accounted in the Balance Sheet as on 31.3.2010.

(g) Included in trade payables of W is Rs. 18 thousands to O, which is included in trade receivables of O.

Prepare Consolidated Balance Sheet of W as at 31.3.2010.

4. The following are the Balance Sheets of Cat Ltd. and Bat Ltd. as on 31.3.2010 : 16

Rs. (in thousands)

Liabilities	Cat Ltd.	Bat Ltd.
Share Capital :		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	—
10% debentures	500	—
Loans from Banks	250	450
Bank overdrafts	—	50
Sundry creditors	300	300
Proposed dividend	200	—
Total	4,050	1,800
Assets		
Tangible assets/fixed asset	2,700	850
Investments (including investments in Bat Ltd.)	700	—
Debtors	400	150
Cash at bank	250	—
Accumulated loss	—	800
Total	4,050	1,800

Marks

Bat Ltd. has acquired the business of Cat Ltd. The following scheme of merger was approved :

(i) Banks agreed to wiave the loan of Rs. 60 thousands of Bat Ltd.

(ii) Bat Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).

(iii) Shareholders of Cat Ltd. will be given one share (new) of Bat Ltd. in exchange of every share held in Cat Ltd.

(iv) Proposed dividend of Cat Ltd. will be paid after merger to shareholders of Cat Ltd.

(v) Sundry creditors of Bat Ltd. includes Rs. 100 thousands payable to Cat Ltd.

(vi) Cat Ltd. will cancel 20% holding of Bat Ltd. investment, which was held at a cost of Rs. 250 thousands.

Pass necessary entries in the books of Bat Ltd. and prepare Balance Sheet after merger.

5. The Balance Sheet of D Ltd. on 31st March, 2009 is as under : 16

Liabilities	Rs.	Assets	Rs.
12,500 shares of Rs. 100 each fully paid	1,25,00,000	Goodwill	10,00,000
		Building	80,00,000
Bank overdraft	46,50,000	Machinery	70,00,000
Creditors	52,75,000	Stock	80,00,000
Provision for taxation	12,75,000	Debtors (all considered good)	50,00,000
Profit and loss account	53,00,000		
Total	2,90,00,000	Total	2,90,00,000

In 1989, when the company started its activities the paid up capital was the same. The Profit/Loss for the last five years is as follows :

2004-2005 Loss (13,75,000), 2005-2006 Profit Rs. 24,55,000, 2006-2007 Profit Rs. 29,25,000, 2007-2008 Profit Rs. 36,25,000, 2008-2009 Profit Rs. 42,50,000.

Income-tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate., From 2008-2009, the rate of Income-tax should be

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P

Bat Ltd. has acquired the business of Cat Ltd. The following scheme of merger was approved :

(i) Banks agreed to wiave the loan of Rs. 60 thousands of Bat Ltd.

(ii) Bat Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).

(iii) Shareholders of Cat Ltd. will be given one share (new) of Bat Ltd. in exchange of every share held in Cat Ltd.

(iv) Proposed dividend of Cat Ltd. will be paid after merger to shareholders of Cat Ltd.

(v) Sundry creditors of Bat Ltd. includes Rs. 100 thousands payable to Cat Ltd.

(vi) Cat Ltd. will cancel 20% holding of Bat Ltd. investment, which was held at a cost of Rs. 250 thousands.

Pass necessary entries in the books of Bat Ltd. and prepare Balance Sheet after merger.

5. The Balance Sheet of D Ltd. on 31st March, 2009 is as under : 16

Liabilities	Rs.	Assets	Rs.
12,500 shares of Rs. 100 each fully paid	1,25,00,000	Goodwill	10,00,000
		Building	80,00,000
Bank overdraft	46,50,000	Machinery	70,00,000
Creditors	52,75,000	Stock	80,00,000
Provision for taxation	12,75,000	Debtors (all considered good)	50,00,000
Profit and loss account	53,00,000		
Total	2,90,00,000	Total	2,90,00,000

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In 1989, when the company started its activities the paid up capital was the same. The Profit/Loss for the last five years is as follows :

2004-2005 Loss (13,75,000), 2005-2006 Profit Rs. 24,55,000, 2006-2007 Profit Rs. 29,25,000, 2007-2008 Profit Rs. 36,25,000, 2008-2009 Profit Rs. 42,50,000.

Income-tax rate so far has been 40% and the above profits have been arrived at on the basis of such tax rate., From 2008-2009, the rate of Income-tax should be

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taken at 45%. 10% dividend is 2005-2006, 2006-2007 and 15% dividend in 2007-2008 and 2008-2009 has been paid. Market price of this share on 31st March, 2009 is Rs. 125. With effect from 1st April, 2009, the Managing Directors remuneration will be Rs. 20,00,000 instead of Rs. 15,00,000. The company has secured a contract from which it can earn an additional Rs. 10,00,000 per annum for the next five years.

Calculate the value of goodwill at 3 years purchase of super profit. (For calculation of future maintainable profits weighted average is to be taken)

6. (a) From the following information, determine the possible value of brand as per potential earning model : 4

	Rs. in lakhs
(i) Profit After Tax (PAT)	Rs. 2,500
(ii) Tangible fixed assets	Rs. 10,000
(iii) Identifiable intangible other than brand	Rs. 1,500
(iv) Weighted average cost of capital (%)	14%
(v) Expected normal return on tangible assets weighted average cost (14%) + normal spread 4%	18%
(vi) Appropriate capitalisation factor for intangibles	25%

(b) Hero Ltd. was registered on 1st April, 2008. It raised its capital as under : 12

(i) Issued 2,00,000 equity shares at Rs. 10 each	Rs. 20,00,000
(ii) 12.5% debenture of Rs. 100 each	Rs. 2,00,000

This money was invested as under :

Equipments	Rs. 16,00,000
(Useful life 10 years with nil scrape value)	
Goods purchased for resale at Rs. 200 per unit	Rs. 6,00,000

Marks

Goods purchased were entirely sold upto 31st January, 2009, for Rs. 10,00,000. All the sale proceeds were collected except Rs. 60,000 as on 31st March, 2009. Goods sold were replaced at a cost of Rs. 7,20,000 at the rate of Rs. 240 per unit. Creditors outstanding as on 31.3.2009 was Rs. 40,000.

The replaced goods remained entirely in stock on 31.3.09. The replacement cost as at 31.3.09 was considered to be Rs. 280 per unit. Replacement cost of equipments was Rs. 20,00,000 as at 31.3.09, considering depreciation on straight line basis.

Prepare Profit and Loss account and Balance Sheet on replacement cost (entry value) basis.

Advanced Mgt A/C
May 2010

Roll No................................

Total No. of Questions—6] [Total No. of Printed Pages—10

Time Allowed—3 Hours Maximum Marks—100

ZIP

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Answer **all** questions.

Working notes should form part of the answer.

Marks

1. (a) E Ltd. is engaged in the manufacturing of three products in its factory. The following budget estimates are prepared for 2009-10 : 10

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

After the finalisation of the above manufacturing schedule, it is observed that presently only 80% capacity being utilised by these three products. The production activities are made at the same platform and it may be

Marks

interchangeable among products according to requirement. In order to improve the profitability of the company the following three proposals are put for consideration :

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

Product B : Material cost increased by 10% and selling price reduced by 2%.

Product C : Material cost increased by 5% and selling price reduced by 5%.

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

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

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

Required :

(i) Prepare a statement of profitability of products A, B and C in existing situation.

(ii) Evaluate the above proposals independently and calculate the overall profitability of the company under each proposal.

(iii) What proposal should be accepted, if the company wants to maximise its Profit ?

Budgetary Q.-3 malkar sir

Marks

(b) A Company is engaged in manufacturing two products A and B. Product A uses one unit of component X and two units of component Y. Product B uses two units of component X and one unit of component Y and two units of component Z. Component Z which is assembled in the factory uses one unit of component Y. 7

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

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

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

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

Required :

(i) Prepare a budget for production and requirements of components for the next year.

(ii) Suggest the optimal order quantity of components X and Y.

(c) Identify the characteristics movement such as regular, irregular, cyclical, seasonal, long-term trend, short-term etc. of time series in the following situations : 3

(i) A factory delaying its production due to demolition of factory shed in earthquake.

Marks

(ii) An era of depression in business.

(iii) The country needs more and more food grains due to constant growth of population.

(iv) Decline in death rate due to availability of proper health care facilities.

(v) A continuous increase in demand of small cars.

(vi) A demand of gold products is increasing during the festival time.

2. (a) AML Ltd. is engaged in production of three types of ice-cream products : Coco, Strawberry and Vanilla. The company presently sells 50,000 units of Coco @ Rs. 25 per unit, Strawberry 20,000 @ Rs. 20 per unit and Vanilla 60,000 units @ Rs. 15 per unit. The demand is sensitive to selling price and it has been observed that every reduction of Re. 1 per unit in selling price, increases the demand for each product by 10% to the previous level. The company has the production capacity of 60,500 units of Coco, 24,200 units of Strawberry and 72,600 units of Vanilla. The company marks up 25% on cost of the product. 12

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

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

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

The other relevant information for the products are as follows :

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

Marks

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

Required :

(i) Calculate target cost for each product after a reduction of selling price required to achieve the sales equal to the production capacity.

(ii) Calculate the total cost and unit cost of each product at the maximum level using traditional costing.

(iii) Calculate the total cost and unit cost of each product at the maximum level using activity based costing.

(iv) Compare the cost of each product calculated in (i) and (ii) with (iii) and comment on it.

(b) What are the essential requisites for the installation of Uniform costing system ? 4

3. (a) X Ltd. produces and sells a single product. Standard cost card per unit of the product is as follows : 12

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

Marks

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

		(Rs.)
Sales 2,000 units @ Rs. 225		4,50,000
Direct materials :	A 18,900 kg 5.29	99,225
	B 10,750 kg 5.70	61,275
Direct Wages 10,500 hours (actually worked 10,300 hours) 4.8		50,400
Variable production overheads		1,15,000
Fixed production overheads		56,600
Total		3,82,500
Gross profit		67,500

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

Required :

(i) Calculate all variances.

(ii) Prepare an operating statement showing Standard gross profit, Variances and Actual gross profit.

(iii) Explain the reason for the difference in actual gross profit given in the question and calculated in (ii) above.

(b) What is Backflushing in JIT ? State the problems that must be addressed for the effective functioning of the system. 4

Marks

4. (a) An electronics firm which has developed a new type of fire-alarm system has been asked to quote for a prospective contract. The customer requires separate price quotations for each of the following possible orders : 11

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

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

Direct Materials Rs. 500

Direct Labour

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

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

Variable overheads absorbed 20% of direct labour

Fixed overheads absorbed

Deptt. A Rs. 8 per hour

Deptt. B Rs. 5 per hour

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

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

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

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

(b) What are the applications of incremental/differential costs ? 5

Marks

5. (a) ABC Cooperative Bank receives and disburses different amount of cash in each month. The bank has an opening cash Balance of Rs. 15 crores in the first month. Pattern of receipts and disbursements from past data is as follows : 7

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

Simulate the cash position over a period of 12 months.

Required :

(i) Calculate probability that the ABC Cooperative Bank will fall short in payments.

(ii) Calculate average monthly shortfall.

(iii) If ABC Bank can get an overdraft facility of Rs. 45 crores from other Nationalized banks.

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

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

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

Marks

(b) A small project is composed of seven activities, whose time estimates are listed below. Activities are identifies by their beginning (i) and ending (j) note numbers : 4

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

(a) Draw the project network.

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

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

(c) Brief the principles associated with synchronous manufacturing. 5

6. (a) X Ltd. supplies spare parts to an air craft company Y Ltd. The production capacity of X Ltd. facilitates production of any one spare part for a particular period of time. The following are the cost and other information for the production of the two different spare parts A and B : 8

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

Marks

ZIP

Total hours available : Machine A 4,000 hours

Machine B 4,500 hours

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

Variable overheads per machine hours :

Machine A : Rs. 80

Machine B : Rs. 100

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

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

(b) What do you mean by Degeneracy in transportation problem ? How this can be solved ? 4

(c) What is Price Discrimination ? Under what circumstances it is possible ? 4

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Roll No................................

Total No. of Questions—12] [Total No. of Printed Pages—6

Time Allowed—3 Hours Maximum Marks—100

UTI

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Answer **all** questions.

Marks

SECTION—A

1. (a) Mr. Sachin was appointed as an additional Director of Conservative Finance Ltd. w.e.f. 1st October, 2009, in a casual vacancy by way of a circular resolution passed by the Board of Directors. The next annual general meeting of the company was due on 31st March, 2010, but the same was not held due to delay in the finalisation of the accounts. Some of the shareholders of the company have questioned the validity of the appointment of Mr. Sachin and his continuation as additional director beyond 31st March, 2010. Advise the company on the complaints made by the shareholders. 5

   (b) Mewar Instrumentations Limited is a subsidiary of a Government company. The comptroller and Auditor General of India appointed Sobman & Company to conduct a supplementary audit of Mewar Instrumentations Limited. Discuss, under the provisions of the Companies Act, 1956 whether the Comptroller and Auditor General's power to authorise such audit for the said subsidiary company is in order ? 5

Marks

2. (a) Mr. Ramesh and his supporters hold more than 50% of the equity share capital of Progressive Realtors Ltd. Dissatisfied with the performance of the company, Mr. Ramesh sends a notice to the Board of Directors about his intention to inspect the account books of the company. Explain the provisions of the Companies Act, 1956 regarding the persons who can inspect the books of account and the right of Mr. Ramesh in this matter. 5

2.5
5
7.5
10

(b) X & Co. Ltd. made a loss of Rs. 20 lakhs after providing for depreciation for the year ended 31st March, 2009 and as a result the company was not in a position to declare any dividend for the said year out of profits. However, the Board of Directors of the company announced the declaration of dividend of 15% on the equity shares payable out of free reserves. The paid up share capital of the company and its free reserves as on 31st March, 2009 are Rs. Two crores and Ten crores respectively. The average dividend declared by the Company in the last five years is 25%. Examine the validity of declaration of dividend. 5

3. (a) Ambitions Engineering Consultants Ltd., whose financial year ends on 31st March, has acquired Struggling Techies Ltd. making it a subsidiary company. The financial year of the subsidiary company ends on 30th June. The management of the holding company wants to change the financial year of the subsidiary company, if possible, so as to coincide with the financial year of the holding company. State the relevant provisions of the Companies Act, 1956 regarding the financial year and the maximum period upto which the accounts can be prepared in a Financial Year and the approvals, if any, required to be taken to accomplish this task. 5

(b) Ganesh Textiles Private Limited has discontinued its Business since 2006. Negligible assets are available with the company, but also some liabilities. The company has been regular in filing Annual Returns and Balance Sheets. The Director of the Company propose to apply to the Registrar of Companies for striking the name of the company on the ground that it is a defunct company. 5

Advise, as to what steps can be taken to get the name of the company struck off under the provisions of the Companies Act, 1956.

Marks

4. (a) Mr. Mutthu Swami is working as Chief Accountant is Eastern Pharmaceuticals Ltd. The Board of Director of the said company propose to charge him with the duty of ensuring compliance with the provisions of the Companies Act, 1956 so that accounts and Balance Sheet and Profit and Loss account can be maintained and prepared in accordance with the provisions of law for the time being in force. Draft a "Board Resolution" for the said purpose. Also point out the consequences in case of default, when such resolution is passed. 5

   (b) Mr. Ravindranathan is holding the post of Director in three companies out of which Goodluck Colours Limited is one. For the financial year ended on 31st March, 2009, Goodluck Colours Limited failed to pay interest on loans taken from a financial institution and also failed to repay the matured deposits. On 1st June, 2009 Mr. Ravindranathan accepting the post of Additional Director in Soma Footwear Limited, submitted a declaration that the disqualification specified in Section 274 of the Companies Act, 1956 is not applicable in his case. Decide whether the declaration submitted by Mr. Ravindranathan to Soma Footwear Limited is in order. 5

5. (a) A scheme of reconstruction of Southern Stone Company Limited was approved by its shareholders and creditors in their meeting and resolutions to that effect were passed. Afterwards a few shareholders and creditors of the company raised objections against the said arrangements of reconstruction. The entire paid up capital of the company was wiped out by the accumulated losses. Advise the Directors of the said company about the steps to be taken to give effect to the proposed scheme under the Companies Act, 1956. 5

   (b) Mr. X is an unsecured creditor and has to recover a sum of Rs. 7 lakhs from Global Footwear Company Limited. The said company has become financially insolvent and hence unable to pay its debts. With the object of recovery of the said amount Mr. X is willing to proceed for compulsory winding up of the company. Advise the steps and procedure in this relation under the provisions of the Companies Act, 1956. 5

Marks

6. (a) ABC Limited, over years, enjoys high reputation and its General Reserve is many times more than the paid up capital of the Company. There is apprehension of cornering the shares of the company by some persons likely to result in change in the Board of Directors which may be prejudicial to the Public interest. 5

Advise, as to how can ABC Limited block the transfer of shares of the company under the provisions of the Companies Act, 1956.

(b) The Articles of Association of Rajasthan Toys Private Limited provide that the maximum number of Directors in the company shall be 10. Presently, the company is having 8 Directors. The Board of Directors of the said company desire to increase the number of Directors to 15. Advise whether under the provisions of the Companies Act, 1956 the Board of Directors can do so. 5

7. (a) Advise the Board of Director of Spectra Papers Limited regarding validity and extent of their powers, under the provisions of the Companies Act, 1956 in relation to the following matters : 5

(i) Buy-back of the shares of the Company, for the first time, upto 10% of the paid up equity share capital without passing a special resolution.

(ii) Delegation of Power to the Managing Director of the company to invest surplus funds of the company in the shares of some companies.

(b) Non-executive Directors of ABC Limited, who are neither in the whole time employment of the company nor Managing Directors have been given the following remuneration — 5

(i) Guarantee Commission has been paid to them for having guaranteed the term loans obtained from a Financial institution.

(ii) Commission payable to them is calculated on the basis of book-profits arrieved at after providing for depreciation as per straight line method,

Examine the validity of these payments in the light of the provisions of the Companies Act, 1956.

Marks

SECTION—B

8. A to Z Ltd. an unlisted public company, eligible to make a public issue, desires to get its securities listed on Mumbai Stock Exchange, pursuant to a public issue to be made shortly. The company seeks your advice in respect of the following : 6

(a) Whether the company can freely price its equity shares; and

(b) Whether it can issue equity shares to those applicants in the firm allotment category at a price different from the price at which equity shares are offered to the public.

Advise, keeping in view the SEBI guidelines in this regard.

9. (i) The Reserve Bank of India issued certain directions to Dream Construction Limited, an authorised person under the Foreign Exchange Management Act, 1999 to file certain returns. The Company failed to file the said returns. Decide, as to what penal provisions are applicable against the said authorised person under the said Act. 3

(ii) Examine under the Foreign Exchange Management Act, 1999 whether "Payment of remuneration to foreign technicians" is a permissible transaction under the provisions of the said Act. 3

10. P Ltd. and Q Ltd. both dealing in chemicals and fertilizers have entered into an agreement to jointly promote the sale of their products. A complaint has been received by the Competition Commission of India (CCI) starting that the agreement between the two is anti-competitive and against the interests of others in the trade. Examine with reference to the Provisions of the Competition Act, 2002, what are factors the CCI will take into account to determine whether the agreement in question will have any appreciable adverse effect on competition in the market. 6

Marks

11. Mr. Gopal is a director in a Bank. The Reserve Bank of India terminates him on the ground that his conduct is deteremental to the interest of the depositors. Decide, whether the Reserve Bank of India can do so under the Banking Regulation Act, 1949. Can the Reserve Bank of India appoint Additional Director in a Bank under the said Act ? 6

12. Gaurav Textile Company Limited has entered into a contract with a Company. You are invited to read and interpret the document of contract. What rules of interpretation of deeds and documents would you apply while doing so ? 6

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