FINAL (NEW) COURSE

Time Allowed – 3 Hours Maximum Marks-100

PAPER – 1 : FINANCIAL REPORTING

Answer all questions.
Working notes should form part of the answer.
Wherever necessary, suitable assumptions should be made by the candidates.

Question 1

(a) War Ltd. purchased on 31st March, 2007, 48,000 shares in Peace Ltd. at 50% premium over face value by issue of 8% debentures at 20% premium. The balance sheets of War and Peace Ltd. as on 31.3.2007, the date of purchase were as under:

Liabilities	War Ltd.	Peace Ltd.	Assets	War Ltd.	Peace Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital (Rs. 10)	10,50,000	6,00,000	Fixed assets	6,50,000	2,00,000
General reserve	1,20,000	40,000	Stock in trade	3,00,000	1,80,000
Profit and loss account	80,000	–	Sundry debtors	3,20,000	2,00,000
Sundry Creditors	1,00,000	60,000	Cash in hand	60,000	30,000
			Preliminary expenses	20,000	10,000
			Profit and loss account	–	80,000
	13,50,000	7,00,000		13,50,000	7,00,000

Particulars of War Ltd:

(i) Profit made: Rs.

2007-2008	1,60,000
2008-2009	2,00,000

(ii) The above profit was made after charging depreciation of Rs. 60,000 and Rs. 40,000 respectively.

(iii) Out of profit shown above every year Rs. 20,000 had been transferred to general reserve.

(iv) 10% dividend had been paid in both the years.

(v) It has been decided to write down investment to face value of shares in 10 years and to provide for share of loss to subsidiary.

Particulars of Peace Ltd.:

The company incurred losses of Rs. 40,000 and Rs. 60,000 in 2007-2008 and 2008-2009 after charging depreciation of 10% p.a. of the book value as on 1.4.2007.

Prepare consolidated balance sheet as at 31.3.2009 of War Ltd., and its subsidiary.

(b) Omega Drugs and Pharmaceuticals Ltd. acquired a sachet filling machine on 1st April, 2007 for Rs.60 lakhs. The machine was expected to have a productive life of 6 years. At the end of financial year 2007-08 the carrying amount was Rs.41 lakhs. A short circuit occurred in this financial year but luckily the machine did not get badly damaged and was still in working order at the close of the financial year. The machine was expected to fetch Rs.36 lakhs, if sold in the market. The machine by itself is not capable of generating cash flows. However, the smallest group of assets comprising of this machine also, is capable of generating cash flows of Rs.54 crore per annum and has a carrying amount of Rs.3.46 crore. All such machines put together could fetch a sum of Rs.4.44 crore if disposed. Discuss the applicability of Impairment loss.

(15+5 = 20 marks)

Question 2

The Balance Sheets of X Ltd. are as follows:

		(Rs. in lakhs)
Liabilities	As at 31.3.2006	As at 31.3.2007
Share Capital	1,000.0	1,000.0
General Reserve	800.0	850.0
Profit and Loss Account	120.0	175.0
Term Loans	370.0	330.0
Sundry Creditors	70.0	90.0
Provision for Tax	22.5	25.0
Proposed Dividend	200.0	250.0
	2,582.5	2,720.0
Assets		
Fixed Assets and Investments (Non-trade)	1,600.0	1,800.0
Stock	550.0	600.0
Debtors	340.0	220.0
Cash and Bank	92.5	100.0
	2,582.5	2,720.0

Other Information:

1. Current cost of fixed assets excluding non-trade investments on 31.3.2006 Rs. 2,200 lakhs and on 31.3.2007 Rs. 2,532.8 lakhs.
2. Current cost of stock on 31.3.2006 Rs. 670 lakhs and on 31.3.2007 Rs. 750 lakhs.
3. Non-trade investments in 10% government securities Rs. 490 lakhs.
4. Debtors include foreign exchange debtors amounting to \$ 70,000 recorded at the rate of \$ 1 = Rs. 17.50 but the closing exchange rate was \$ 1 = Rs. 21.50.
5. Creditors include foreign exchange creditors amounting to \$ 1,20,000 recorded at the rate of \$ 1 = Rs. 16.50 but the closing exchange rate was \$ 1 = Rs. 21.50.
6. Profit included Rs. 120 lakhs being government subsidy which is not likely to recur.
7. Rs. 247 lakhs being the last instalment of R and D cost were written off the profit and loss account. This expenditure is not likely to recur.

8. Tax rate during 2006-07 was 50% effective future tax rate is estimated at 40%.

9. Normal rate of return is expected at 15%.

Based on the information furnished, Mr. Iral, a director contends that the company does not have any goodwill. Examine his contention. (16 marks)

Question 3

AB Ltd. and MB Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their balance sheets as at 31.3.2008:

Liabilities	AB Ltd.	MB Ltd.	Assets	AB Ltd.	MB Ltd.
			Fixed Assets	7,50,000	2,00,000
Share Capital					
(Rs. 100) each	10,00,000	6,00,000	Investments:		
General Reserve	1,00,000	50,000	1,500 Shares in MB	3,50,000	–
Investment Allowance			4,000 Shares in		
Reserve	40,000	30,000	AB	–	5,00,000
12% Debentures			Current Assets	4,00,000	1,00,000
(Rs. 100 each)	3,00,000	1,00,000			
Sundry Creditors	60,000	20,000			
	15,00,000	8,00,000		15,00,000	8,00,000

Calculate the amount of purchase consideration for AB Ltd. and MB Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(a) Assume amalgamation is in the nature of purchase.

(b) Fixed assets of AB Ltd. are to be reduced by Rs. 50,000 and that of MB Ltd. are to be taken at Rs. 3,00,000.

(c) 12% debentureholders of AB Ltd. and MB Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interest.

(d) Shares of AM Ltd. are of Rs. 100 each.

Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.

(16 marks)

Question 4 (a) High Ltd. had the following monetary items on January 1:

		Rs.
Debtors		41,000
Bills Receivable		10,000
Cash		20,000
		71,000
Less :Bills Payable	10,000	
Creditors	25,000	35,000

36,000

The transactions affecting, monetary items during the year were

(a) Sales of Rs.1,40,000 made evenly throughout the year.

(b) Purchases of goods of Rs.1,05,000 made evenly during the year.

(c) Operating expenses of Rs.35,000 were incurred evenly throughout the year.

(d) One machine was sold for Rs.18,000 on July 1.

(e) One machine was purchased for Rs.25,000 on December 31.

The general price index was as follows:

On January 1	300
Average for the year	350
On July 1	360
On December 31	400

You are required to compute the general purchasing power, gain or loss, for the year stated in terms of the current year-end rupee.

(b) From the following summary Cash Account of X ltd. prepare Cash Flow Statement for the year ended 31st March, 2008 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.03.2008

	Rs.'000		Rs.'000
Balance as on 1.4.2007	50	Payment to Suppliers	2,000
Issue of Equity shares	300	Purchase of Fixed Assets	200
Receipts from customers	2,800	Overhead expense	200
Sale of fixed assets	100	Wages and salaries	100
		Taxation	250
		Dividend	50
		Repayment of bank loan	300
		Balance on 31.03.2008	150
	3,250		3,250

(10+ 6 = 16 marks)

Question 5 (a)

On 24th January, 2009 Chinnaswamy of Chennai sold goods to Watson of Washington, U.S.A. for an invoice price of $40,000 when the spot market rate was Rs.44.20 per US $. Payment was to be received after three months on 24th April, 2009. To mitigate the risk of loss from decline in the exchange-rate on the date of receipt of payment, Chinnnaswamy immediately acquired a forward contract to sell on 24th April, 2009 US $ 40,000 @ Rs.43.70. Chinnaswamy closed his books of account on 31st March, 2009 when the spot rate was Rs.43.20 per US $. On 24th April, 2009, the date of receipt of money by Chinnaswamy, the spot rate was Rs.42.70 per US $.

Pass journal entries in the books of Chinnaswamy to record the effect of all the above mentioned effects.

(b) XYZ Ltd., has undertaken a project for expansion of capacity as per the following details:

	Plan	Actual
	Rs.	Rs.
April, 2009	2,00,000	2,00,000
May, 2009	2,00,000	3,00,000
June, 2009	10,00,000	–
July, 2009	1,00,000	–
August, 2009	2,00,000	1,00,000
September, 2009	5,00,000	7,00,000

The company pays to its bankers at the rate of 12% p.a., interest being debited on a monthly basis. During the half year company had Rs. 10 lakhs overdraft up to 31st July, surplus cash in August and again overdraft of over Rs. 10 lakhs from 1.9.2009. The company had a strike during June and hence could not continue the work during June. Work was again commenced on 1st July and all the works were completed on 30th September. Assume that expenditure were incurred on 1st day of each month. Calculate:

(i) Interest to be capitalised.

(ii) Give reasons wherever necessary.

Assume:

(a) Overdraft will be less, if there is no capital expenditure.

(b) The Board of Directors based on facts and circumstances of the case has decided that any capital expenditure taking more than 3 months as substantial period of time.

(8 + 8 = 16 marks)

Question 6

(a) State the treatment of the following items with reference to 'Indian Accounting Standards' (AS) and International Financial Reporting Standards (IFRS) :

(i) Extra ordinary items

(ii) Contingencies. (4 marks)

(b) Write short notes on:

(i) Reversal of an Impairment Loss.

(ii) Market value Added.

(iii)Employees benefits as per AS 15.

(3 x 4= 12 Marks)

Paper 2- STRATEGIC FINANCIAL MANAGEMENT

Max. Marks: 100 Time Allowed: 3 Hours

Question No. ***1*** *is compulsory. Answer any* ***four*** *questions from the rest. Working notes should form part of the answer.*

Question 1

(a) There is a proposal before Hyper Leasing (P) Ltd. The facts of the proposal are as follows:

The cost of machinery to be leased out is Rs.30 lakhs on which there is 10% of CST would be levied. At the end of the lease term after 5 years, the salvage value is estimated to be Rs.3,30,000. The other initial cost (Revenue item) associated with the proposal payable in the end of the year amounted to Rs.80,000. The cost of capital for Hyper Leasing (P) Ltd. Is 14% and tax rate is 35%.

What is Break Even Lease Rental (BELR) assuming that depreciation rate is 25% on WDV basis and ignore tax gain/loss S.T.C.Gain/Loss.
(10 Marks)

(b) A company manufactures 3000 units of 'Product P' per day. The sale of this product depends upon demand which has the following distribution.

Sales(Units)	2700	2800	2900	3000	3100	3200
Prob.	0.10	0.15	0.20	0.35	0.15	0.05

The production cost and sale price of each unit are Rs.4 and Rs.5 respectively. Any unsold product is to be disposed off at a loss of Rs.1.50 per unit. There is a penalty of Rs.0.50 per unit if demand is not met.

Using the following random numbers estimate total profits/loss for the company for next 10 days: 11, 98,66,97,95, 01, 79,12,17,21.

If the company decides to produce 2900 items per day, what is profit/loss position of the company?
(10 Marks)

Question 2

(a) On 1st March, 2008, A Inc, a US company bought certain products from Tapland. The currency of Tapland is Tapa. The price agreed was Tapa 900000 payable on 31st May, 2008.

The spot price on 1st March, 2008 was 10 Tapa per US $. The expected future spot rate was 8 Tapa per US $; and the 3-months forward rate is 9 Tapa per US$. The US and Tapland annual interest rate are 12% and 8% respectively. The tax rate for both countries is 40%. A Inc., is considering three alternatives to deal with the risk of exchange rate fluctuations.

(i) To enter the forward market to buy Tapa 9,00,000 at 3 months forward rate.

(ii) To borrow appropriate amount in $ to buy Tapa at current spot rate and to invest the Tapa purchased for 3 months.

(iii) To wait until May 31, 2008, and buy Tapas at whatever spot rate prevailing at that time.

Which alternative the A Inc. should follow in order to minimize its cost of future payment of Tapas.
(13 Marks)

(b) You have been given the following information about XYZ company's shares and call options:

Current share price	Rs.185
Option exercise price	Rs.170
Risk free interest rate	7%
Time of the expiry of option	3 years
Standard deviation	0.18
ln(185/170)	0.08455

Calculate the value of option using Black-Scholes formula (7 Marks)

Question 3

The XYZ Ltd. engaged in the manufacturing business. The summary of latest annual accounts is as follows:

Income statement for the year ended March 31, 2009	Amount (Rs. Million)
Sales Revenue	93.5
EBIT	18.00
Less: Interest on Loan	1.80
Earning before taxes	16.20
Less: Corporate Tax @ 35%	5.67
Earning after taxes	10.53

Balance Sheet as on 31 March 2009

(Rs. Million)

Liabilities	Amount	Assets	Amount
Equity Share Capital		Freehold land and buildings	20.00
1,00,000 shares @ Rs. 100	10.00	Plant and Machinery (Net)	29.50
Reserve and Surplus	32.50	Current Assets:	
10% Loan	18.00	Stock	10.00
Creditors and other Liabilities	18.00	Debtors	15.00
		Bank & Cash Balance	4.00
	78.50		78.50

Additional Information:

(a) The Finance Manager has estimated the future cash flows of the company as follows:

Year	(Rs. Million) Cash Flows
1	22.00
2	23.00
3	24.50
4	26.00
5	30.00
6	32.00

Free cash flows in the subsequent years, after year 6, are estimated to grow at 4%. The company's weighted average cost of capital is 12%.

(b) The current resale value of the building has been assessed by the professional valuer as follows:

Freehold land and building	Rs. 60 million
Plant and Machinery	Rs. 20 million
Stock	Rs. 11 million

The current resale value of the remaining assets are as per their book values.

(c) A similar sized company (listed on NSE) and is engaged in the same business has a P/E ratio of 7.

On the basis of above information you are required to compute:

(i) Value of the firm as well as the value of equity share on the basis of (a) Net Assets Method (b) Price Earning ratio method and (c) Free cash flows to the firm.

(ii) Market Value Added (20 Marks)

Question 4

A Ltd. Has an expected return of 22% and standard deviation of 40%. B Ltd. Has an expected return of 24% and standard deviation of 38%. A Ltd. has a beta of 0.86 and B Ltd. A beta of 1.24. The correlation coefficient between the return of A Ltd. and B Ltd. Is 0.72. If standard deviation of the market return is 20%. Suggest:

(i) Is investing in B Ltd. better than investing in A Ltd.

(ii) If you invest in B Ltd. 30% and 70% in A Ltd., what is your expected rate of return and portfolio Standard Deviation.

(iii) What is expected return from market portfolio and how much is the free rate?

(iv) What is the beta of Portfolio expected if A Ltd.'s weight is 70% and B Ltd's weight is 30%.

(20 Marks)

Question 5

(a) Bharti Ltd., has 5000 equity shares of Rs.100 each. These shares are currently traded at Rs.400 per share in the market. The company has been paying a dividend of Rs.50 per share for several years. It is expected that same dividend would continue to be paid in future also.

The company is evaluating a new project costing Rs.2,00,000 and which is expected to generate cash flow of Rs.65,000 p.a. till perpetuity. Assuming that the funds for the new project are raised by a right issue of 2:5 and the company would continue to follow 100% Dividend Payout Ratio, find out

(a) New Dividend per share.

(b) New Market value per share; and

(c) Overall gain to shareholders. (15 Marks)

(b) Walters Approach to Dividend Policy. (5 Marks)

Question 6

Write short notes on *any four* of the following:

(a) Disadvantages of Mutual Funds
(b) Bridge Finance
(c) Asian Development Bank
(d) Credit Derivatives
(e) Commercial borrowings in International Market. (5 Marks each)

Paper : 3

Advanced Auditing and Professional Ethics

Question

Answer 1 and 2 and any four from the rest

1. Comment on the following as auditor:

   (a) Pinky Ltd has not made any provision in its accounts as regards losses sustained by its subsidiaries Beenu Ltd and Chinu Ltd. However, it has credited to the profit and loss account the dividend declared by its subsidiaries Akash and Xavior Ltd. (5 Marks)

   (b) AB Ltd purchased on 1.4.2007 a machinery from a foreign country at a price $ 1,50,000 upon terms of credit that price should be settled within six months of the date of purchase. The company capitalized the asset and created a liability for the capital goods converting the foreign currency liability to Indian Rupees at a rate of exchange prevailing as on 1.4.2007. When the company settled the liability on 18.7.2007, it had to incur an additional amount of Rs.6,75,000 due to foreign exchange rate on the date of settlement. It added this additional amount of exchange variation in the capital cost of the asset and charged depreciation upon an enhanced amount of asset value from 18.7.2007. (5 Marks)

   (c) What are the requirements of the Companies Act, 1956 regarding the disclosure of moneys raised by public issues ? (4 Marks)

   (d) Can the reduction in carrying amount of investments/loss on disposal of investments be directly debited to "investment reserve" ? (4 Marks)

2. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:

   (a) A chartered accountant in practice created his own website in attractive format and colours and circulated the information contained in the website through E-mail. (5 Marks)

   (b) A chartered accountant in practice takes up the appointment as managing director of a public limited company. (4 Marks)

   (c) S, a practicing chartered accountant gives power of attorney to an employee chartered accountant to sign reports and financial statements, on his behalf. (5 Marks)

   (d) A is the auditor of Z Ltd., which has a turnover of Rs.200 crores. The audit fee for the year is fixed at Rs.50 lakhs. During the year, the company offers A an assignment of management consultancy within the meaning of Section 2 (2) (iv) of the CA Act, 1949 for a remuneration of Rs.1 crore. A seeks your advice on accepting the assignment. (4 Marks)

3. (a) Give your opinion on whether the following persons can be appointed auditors of a limited company or not:

   (i) A firm of chartered accountants in practice, a partner of which is a secretary of the company. (5 Marks)

   (ii) A member of the Institute of Chartered Accountants of India, who is of unsound mind, holding a certificate of practice. (5 Marks)

(b) In a Company, it is suspected that there has been an embezzlement in cash receipts. As an investigator, what are the areas that you would verify? (8 marks)

4. (a) "Like every other audit, a systematic planning for cost audit is also necessary". Indicate the matters to be included in a Cost Audit Programme. (8 marks)

(b) State the procedure to determine the value of listed and unlisted equity securities and derivative instruments of an insurance company. (8 Marks)

5. As a tax auditor, how would you report on the following:

(a) (i) Labour charges paid on which tax is deducted at source at an inappropriate rate. (5 Marks)

(ii) Capital expenditure incurred for Scientific Research Assets. (5 Marks)

(b) Write briefly the method of accounting in Form No. 3CD of Tax Audit. (6 Marks)

6. (a) As an internal auditor for a large manufacturing concern, you are asked to verify whether there are adequate records for identification and value of plant and machinery, tools and dies and whether any of these items have become obsolescent and not in use. Draft a suitable audit programme for the above. (8 Marks)

(b) Explain briefly the concept of tagging and tracing. (8 Marks)

7. (a) Mention different types of frauds that are possible in credit sales, and state in what way an auditor should proceed to detect them. (8 Marks)

(b) List steps which an auditor should take to minimize the danger of claims against him for negligent work. (8 Marks)

8. Answer the following:

(a) Flow chart technique for evaluation of internal control (8 Marks)

(b) Write short notes on the following:

(i) Cut-off Procedures (4 Marks)

(ii) Situations where external confirmations can be used. (4 Marks)

PAPER – 4 : CORPORATE AND ALLIED LAWS

SECTION – A

Question No.1 is compulsory. Answer any six from the rest.

Question 1

Answer any two of the following:

(a) *Advise the company with reference to the relevant provisions of the Companies Act about sending notice of board meetings to the following directors:*

(i) Mr. kamal, a director, who intimates his inability to attend the next board meeting.

(ii) Mr. Rakesh, who has gone abroad for four months and an alternate director has been appointed in his place.

(iii) Mr. John is a director residing abroad representing the foreign collaborator and the Articles of Association of the company provide for sending notice to such directors.

(5 Marks)

(b) Accurate Fibres Ltd. maintains the Minutes Book of the Board Meetings in loose-leaf system and get them bound once in three months. Can it do so? Board meetings were held on 24th March, 2008 and 15th April, 2008. Mr. Rameshwar, who was the Chairman of these two Board Meetings died on 1.5.2008, without signing the Minutes. How should be the Minutes be signed and by whom? (5 Marks)

(c) During the year 2008, XYZ Ltd. held four meetings of the Board on 6th February, 2008, 12th May, 2008, 24th Oct, 2008 and 31st Dec., 2008. Examine whether this was in accordance with the provisions of the Companies Act, 1956? (5 Marks)

Question 2

(a) In a public company the total number of directors are 12 and 2 office of the directors have fallen vacant. Referring to the relevant provisions of the Companies Act, 1956.

(a) What would be the quorum for the Board meeting?

(b) Can the articles of a company fix the quorum (higher or lower) for the Board meeting?

(c) Assuming if there are 15 directors in the company and of which 13 happen to be interested directors, what would be the quorum?

(d) How do you resolve the situation if all the directors are interested in a particular transaction?

(5 Marks)

(b) The Annual General Meeting of M/s Peter England Ltd., for laying the Annual Accounts thereat for the year ended 31st March, 2004 was not held, as the accounts were not ready. In this context:

(i) Advise the company regarding compliance of the provisions of Section 220 of the Companies Act, 1956 for filing of copies of Annual Accounts with the Registrar of Companies.

(ii) Will it make any difference in case the Annual Accounts were duly laid before the AGM held on 27th September, 2008 but the same were not adopted by the shareholders?

(5 Marks)

Question 3

(a) What do you understand by the term “Director Identification Number” (DIN)? Describe the procedure to obtain the same as enumerated under the Companies Act, 1956 read with the relevant Rules. (5 Marks)

(b) The Board of Directors of Stepping Stones Publications Ltd. at a meeting held on 15.1.2008 resolved to borrow a sum of Rs. 15 crores from a nationalized bank. Subsequently the said amount was received by the company. One of the Directors, who opposed the said borrowing as not in the interest of the company has raised an issue that the said borrowing is outside the powers of the Board of Directors. The Company seeks your advice and the following data is given for your information:

(i)	Share Capital	Rs. 5 crores
(ii)	Reserves and Surplus	Rs. 5 crores
(iii)	Secured Loans	Rs. 15 crores
(iv)	Unsecured Loans	Rs. 5 crores

Advice the management of the company. (5 Marks)

Question 4

(a) Mr. Stubborn is a director of M/s Doubtful Industries Ltd. He along with other two directors has been running the Company for the past twenty years without declaring any dividends or giving any benefit to the shareholders. Frustrated by this, some shareholders are desirous of giving notice to pass a resolution with the support of other shareholders for his removal as a director in the Annual General Meeting of the Company to be held in the month of December of 2008. State the procedure to be followed for the removal of Mr. Stubborn as a director and the right of Mr. Stubborn to defend his position. (5 Marks)

(b) ABC Company Ltd. in its First General Meeting appointed six Directors whose period of office is liable to be determined by rotation. Briefly explain the procedure and rules regarding retirement of these directors. Will it make any difference, if ABC Company Ltd. does not carry on business for Profit?

(5 Marks)

Question 5

(a) The Board of Directors of M/s. High Tech Limited, a company whose shares are listed on the Delhi Stock Exchange proposes to give loans to a sister company in excess of the limit prescribed under section 372A(1) of the Companies Act, 1956. The next annual general meeting of the company is due only after six months. Since the Board is anxious to complete the formalities quickly without waiting for the date of next annual general meeting, advise the Board about the steps to be taken to comply with the legal requirements under the Companies Act, 1956. (5 Marks)

(b) A group of shareholders has approached you for advice regarding the affairs of LPM Paper Mills Ltd. According to them, the management of the company is not carrying out its functions in accordance with the prudent commercial practice and if the affairs of the company are allowed to run in future in the same manner, the company's solvency would be in danger. They want that a Special Audit be conducted to find out the actual nature of the transactions.

(i) You are required to state with reference to the provisions of the Companies Act, 1956, as to when a special audit can be directed and by whom.

(ii) Draft an application to be submitted to the appropriate authority in this respect. (5 Marks)

Question 6

(a) Out of the powers exercisable by the Board under Section 292, the board wants to delegate to the Managing Director of the company the power to borrow monies otherwise than on debentures. Advise whether such a delegation is possible? Would your answer be different, if the delegation is given to the manager or any other principal officer including a branch officer of the company? (5 Marks)

(b) With a view to boost the share values, the Central Government wants to amalgamate two Public Limited Companies into a single company. The Government and Public Financial Institutions have substantial interest in both the companies. The two companies are in the business of tourism and running several hotels which are not making good profits and consequently the share prices are depressed. Examine the powers of the Central Government to amalgamate the two companies in public interest. (5 Marks)

Question 7

(a) Draft a board resolution for appointment of Mr. Paul as the Managing Director for 5 years with effect from 1st July, 2009 of DBM Limited passed in the board meeting of the said company held on 6th June, 2009. (5 Marks)

(b) There are eight shareholders in M/s Supra Private Ltd. Mr. Shyam who is holding less than one-tenth of the Share Capital of the company seeks your advice whether he can apply to the Company Law Board for relief against oppression and Mismanagement. Advise. (5 Marks)

Question 8

(a) Kartik, a director residing abroad, complains that he does not receive notices for the Board meetings regularly. Advice. (5 Marks)

(b) What are the various documents to be delivered to the Registrar by the Foreign Company? (5 Marks)

SECTION – B

Question No. 9 is compulsory. Answer any four from the rest.

Question 9

Answer any one of the following:

(a) State the circumstances under which Securities and Exchange Board of India may exercise the following powers:

(i) Prohibit a company from issuing prospectus, any offer document or advertisement soliciting money from public for the issue of securities.

(ii) Pass cease and desist order in respect of any listed company.

Explain the remedies available under Securities and Exchange Board of India Act, 1992 to companies aggrieved by the above orders of SEBI (6 Marks)

(b) (i) What do you understand by the term "Price Sensitive Information" as contemplated in the Securities and Exchange Board of India Act, 1992 ? What are the information which can be deemed to be "Price Sensitive Information".

(ii) MGR Ltd. wants to issue certain shares on preferential basis and has sought your advise in respect of pricing the shares for such issues. You are required to state the Guidelines issued by Securities and Exchange Board of India in respect of pricing of the issue of shares on a preferential basis. (6 Marks)

Question 10

(a) M/s AB & Company, a member of a recognised stock exchange propose to buy and sell shares of a particular company on behalf of investors as well as on their own account. They seek your advice as to restrictions, if any, under Securities Contracts (Regulation) Act, 1956 for dealing in securities on their own account. Advise.

(b) Rampur Stock Exchange wants to get itself recognize. Explain':

(i) Who enjoys the power to recognize stock exchange?

(ii) What information will have to be provided with the application for recognition?

(6 Marks)

Question 11

(a) According to Foreign Exchange Management Act, 1999, a person resident in India shall take all reasonable steps to repatriate to India any amount of foreign exchange earned and accrued to him. What is meant by the expression 'Repatriate to India'? State the cases where foreign exchange can be held or need not be repatriated to India by a resident in India.

(b) Mr. Ramesh of Nagpur wants to travel to Nepal and for this purpose proposes to draw Foreign Exchange. Specify.

(i) Can Mr. Ramesh draw any Foreign Exchange for his journey?

(ii) What are the purposes for which Foreign Exchange drawal is not allowed for Current Account Transaction? (6 Marks)

Question 12

What are the obligations on Banking Company with respect to accounts and Balance Sheet?

(6 Marks)

Question 13

(i) What do you understand by asset reconstruction and non-performing asset under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

(ii) What are the provisions in the Insurance Act, 1938 regarding nomination by of Life Insurance Policy holder? Whether a minor can be a nominee in a Life Insurance Policy?

(6 Marks)

Question. 14

Explain the effects of a proviso to a section in a statute. (6 Marks)

Paper 5: ADVANCED MANAGEMENT ACCOUNTING

All questions are compulsory.

Working note should form part of the answer wherever appropriate, suitable assumptions should be made

Question 1 (12 + 8 = 20 Marks)

(a) A budgeted profit statement of a company working at 75% capacity is provided to you below,

Sales	9,000 units at Rs. 32		Rs. 2,88,000
Less:	Direct materials	Rs. 54,000	
	Direct wages	72,000	
	Production overhead:		
	–fixed	42,000	
	–variable	18,000	
			1,86,000
	Gross profit		1,02,000
Less:	Administration, selling and distribution costs:		
	–fixed	36,000	
	–varying with sales volume	27,000	
			63,000
	Net profit		39,000

You are required to:

(a) Calculate the breakeven point in units and in value.

(b) It has been estimated that:

(i) if the selling price per unit were reduced to Rs. 28, the increased demand would utilise 90% of the company's capacity without any additional advertising expenditure, and

(ii) to attract sufficient demand to utilise full capacity would require a 15% reduction in the current selling price and a Rs. 5,000 special advertising campaign.

You are required to present a statement showing the effect of the two alternatives compared with the original budget and to advise management which of the three possible plans ought to be adopted, i.e., the original budget plan or (i) above or (ii) above.

(c) An independent market research study shows that by spending Rs. 15,000 on a special advertising campaign, the company could operate at full capacity and maintain the selling price at Rs. 32 per unit.

You are required to:

(i) Advise management whether this proposal should be adopted.

(b) ABC Ltd. manufactures Product S for national distribution in India. The standard costs for the manufacture of Product S were as follows:

	Standard Costs	Actual Costs
Direct materials	1,500 kgs at Rs. 35	1,600 kgs at Rs. 32
Direct labour	4,800 hours at Rs. 11	4,500 hours at Rs. 11.80
Factory overhead	Rates per labour hour, based on 100% of normal capacity of 5,500 labour hours:	
	Variable cost, Rs. 2.40	Rs. 12,300 variable cost
	Fixed cost, Rs. 3.50	Rs. 19,250 fixed cost

Instructions:

1. Determine the quantity variance, price variance, and total direct materials cost variance for Product S.
2. Determine the time variance, rate variance, and total direct labour cost variance for Product S.
3. Determine the controllable variance, volume variance, and total factory overhead cost variance for Product S.

Question 2 (13 + 3 = 16 Marks)

(a) ABC Ltd recently began production of a new product, M, which required the investment of Rs. 16,00,000 in assets. The costs of producing and selling 80,000 units of Product M are estimated as follows:

	Rs.	
Variable costs:		
Direct materials	10.00	per unit
Direct labour	6.00	
Factory overhead	4.00	
Selling and administrative expenses	5.00	
Total	25.00	per unit
Fixed costs:		
Factory overhead	8,00,000	
Selling and administrative expenses	4,00,000	

ABC Ltd is currently considering establishing a selling price for Product M. The President of ABC Ltd has decided to use the cost-plus approach to product pricing and has indicated that Product M must earn a 10% rate of return on invested assets.

Instructions:

1. Determine the amount of desired profit from the production and sale of Product M.
2. Assuming that the total cost concept is used, determine (a) the cost amount per unit, (b) the markup percentage, and (c) the selling price of Product M.
3. Assuming that the product cost concept is used, determine (a) the cost amount per unit, (b) the mark up percentage, and (c) the selling price of Product M.
4. Assuming that the variable cost concept is used, determine (a) the cost amount per unit, (b) the markup percentage, and (c) the selling price of Product M.

5. Assume that for the current year, the selling price of Product M was Rs. 42 per unit. To date, 60,000 units have been produced and sold, and analysis of the domestic market indicates that 15,000 additional units are expected to be sold during the remainder of the year. Recently, ABC Ltd received an offer from XYZ Ltd for 4,000 units of product M at Rs. 28 each. XYZ Ltd. will market the units in Korea under its own brand name, and no additional selling and administrative expenses associated with the sale will be incurred by ABC Ltd. The additional business is not expected to affect the domestic sales of Product M, and the additional units could be produced during the current year, using existing capacity. (a) Prepare a differential analysis report of the proposed sale to XYZ Ltd (b) Based upon the differential analysis report in (a), should the proposal be accepted?

(b) "Skimming pricing is a policy where the prices are kept high during the early period of a product's existence". Discuss briefly the reasons for following such a policy.

Question 3 (8+4+4=16 Marks)

(a) You are the manager of a paper mill (XYZ Ltd) and have recently come across a particular type of paper, which is being sold at a substantially lower rate (by another company –ABC Ltd) than the price charged by your own mill. The value chain for one use of one tonne of such paper for ABC Ltd is as follows,

ABC Ltd. ⟶ Merchant ⟶ Printer ⟶ Customer

ABC Ltd sells this particular paper to the merchant at the rate of Rs 1,466 per tonne. ABC Ltd pays for the freight which amounts to Rs 30 per tonne. Average returns and allowances amount to 4% of sales and approximately equals Rs 60 per tonne.

The value chain of your company, through which the paper reaches the ultimate customer is similar to the one of ABC Ltd. However, your mill does not sell directly to the merchant, the latter receiving the paper from a huge distribution center maintained by your company at Haryana. Shipment costs from the mill to the Distribution Center amount to Rs 11 per tonne while the operating costs in the Distribution Center have been estimated to be Rs 25 per tonne. The return on investments required by the Distribution Center for the investments made amount to an estimated Rs. 58 per tonne.

You are required to compute the "Mill manufacturing Target Cost" for this particular paper for your company. You may assume that the return on the investment expected by your company equals Rs. 120 per tonne of such paper.

(b) Indicate the possible disadvantages of treating divisions as profit centres

(c) Explain the role of bench marking in continuous improvement in an organisation.

Question 4 (6 + 10 = 16 Marks)

(a) A project consists of nine activities whose time estimates (in weeks) and other characteristics are given below.

Activity	Preceding activity(ies)	Time estimates (weeks)		
		Most optimistic	Most likely	Most pessimistic
A	–	2	4	6
B	–	6	6	6
C	–	6	12	24
D	A	2	5	8

E	A	11	14	23
F	B, D	8	10	12
G	B, D	3	6	9
H	C, F	9	15	27
I	E	4	10	16

(i) Show the PERT network for the project.

(ii) Identify the critical activities.

(iii) What is the expected project completion time and its variance?

(b) Solve the following transportation problem.

	1	2	3	4	5	Stock available
1	73	40	9	79	20	8
2	62	93	96	8	13	7
3	96	65	80	50	65	9
4	57	58	29	12	87	3
5	56	23	87	18	12	5
Demand	6	8	10	4	4	

Question 5 (12 + 4 = 16 Marks)

(a) C Ltd. and Indian company, ahs entered into an agreement of strategic alliance with Z Inc. of United States of America for the manufacture of personal computers in India. Broadly, the terms of agreement are:

(i) Z will provide C with kits in a dismantled condition. These will be used in the manufacture of the personal computer in India. On a value basis, the supply, in terms of the FOB price will be 50% thereof.

(ii) C will procure the balance of materials in India.

(iii) Z will provide to C with designs and drawings in regard to the materials and supplies to be procured in India. For this, C will pay Z a technology fee of Rs.3 crores.

(iv) Z will also be entitled total royalty at 10% of the selling price of the computers fixed for sales in India as reduced by the cost of standard items procured in India and also the cost of imported kits from Z.

(v) C will furnish to Z detailed quarterly returns.

Other information available:

(i) FOB price agreed $510.

Exchange rate to be adopted $1 = Rs.47.059

[Note: In making calculations, the final sum may be rounded to the next rupees)

(ii) Insurance and freight – Rs.500 per imported kit;

(iii) Customs duty leviable is 150% of the CIF prices; but as a concession, the actual rate leviable has been fixed at 30% of CIF.

(iv) The technology agreement expires with the production of 2,00,000 computers;

(v) The quoted price on kits includes a 20% margin of profits on cost to Z.

(vi) The estimated cost of materials and supplies to be obtained in India will be 140% of the cost of supplies made by Z.

(vii) 48% of the value in rupees of the locally procured goods represent cost of the standard items.

(viii) Cost of assembly and other overheads in India will be Rs.2,000 per personal computer.

Required: Calculate the selling price, of a personal computer in India bearing in mind that C has targeted a profit of 20% to itself on the selling price.

(b) Describe the concept of Back flushing as used in a JIT system. What problems need to be addressed before implementing such a concept? Briefly discuss.

Question 6 (6+5+5=16 Marks)

(a) Given below in the contingency table for production is three shifts and the number of defective good turn out- Find the value of C. It is possible that the number defective goods depends on the shifts then by them, No of Shifts:

Shift	I Week	II Week	III Week	Total
I	15	5	20	40
II	20	10	20	50
III	25	15	20	60
	60	30	60	150

(b) Define Total Quality Management (TQM). Explain in brief six C_s of T.Q.M. for its successful implementation.

(c) What is Opportunity Cost? Explain with suitable examples.

PAPER – 6: INFORMATION SYSTEMS CONTROL AND AUDIT

Question No.1 is compulsory.
Attempt any four questions from the remaining six questions.

Marks

1. (a) With respect to the data manipulated at different levels of management, identify the Information Systems used at each level and explain the information system that deals with operational data. 10

   (b) State, in brief, the techniques used by an IS Auditor to evaluate the physical access controls implemented in an information system. 5

   (c) In the scope of the Information Technology Infrastructure Library(ITIL) framework, explain the guidelines stated in the IT Service Management books. 5

2. (a) Discuss in brief the various issues in acquiring hardware and software for an information system and the steps involved in the selection of a computer system. 10

   (b) "Training personnel within the organization is a decisive factor in the success of an information system", Explain briefly. 5

   (c) Identify the risks while system development is done by the end-users of an information system. 5

3. (a) Briefly explain the duties and responsibilities to meet an Audit Objective- "Does the organisation provide for adequate segregation of duties within the information system project management structure". 10

   (b) As an IS Auditor, state the issues to be reviewed to ascertain whether a disaster recovery plan has provisions for personnel, information technology infrastructure and administrative procedures. 5

   (c) What are the briefing and debriefing session objectives conducted by a Disaster Recovery Plan (DRP) team coordinator. 5

4. You are an internal auditor of the system development team responsible to prepare the report on the controls to be implemented and to deliver an operational system. The reports on the control considerations are to be prepared on the following:

   (a) User Controls. 5
   (b) Testing and Quality Controls. 5
   (c) Physical Access Controls for access using Physical identification medium. 5
   (d) Environmental Controls for Fire exposures. 5

5. A global publication company has its regional news collection centers across the north, south, east and west of the country. The regions are to collect news reviews, articles and events to be updated on to the central publishing server. As an external Auditor you are to prepare a risk analysis on the distributed information system with respect to the following critical elements of the system:

   (a) Physical Security, 5
   (b) Personnel Security, 5
   (c) Application Software Security, and 5
   (d) Telecommunication Security. 5

6. (a) List the issues to be considered in an information security (IS) policy document with respect to information ownership and information security management for an organisation. 10

(b) Explain the components and benefits of the international standard for protecting the availability, confidentiality and integrity of organizational information. 5

(c) Write in brief the sections of the IT Act 2000 that specifies procedures on sending and receiving of electronic records. 5

7. Write Short Notes on: 5 X 4=20

(a) The Information Asset Register (IAR) – ISO 27001.
(b) The Control Objectives for Delivery and Support domain of COBIT.
(c) Business Process Reengineering-Data Model.
(d) The physical security issues of a LAN.
(e) The purpose of Audit Policy.

PAPER – 7 : DIRECT TAX LAWS

Answer all questions

Question 1

A, B and HUF of C (represented by C) are partners with equal shares in profits and losses of a firm, M/s Hansalaya, which is engaged in the production of documentary films. In the previous year 2007-08, one partner 'M' retired, but his dues have been settled in the previous year 2008-09.

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

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

(a) Interest amounting to Rs.15 lacs (cumulative) paid to A and B on the balances standing to their capital accounts from 1st April, 2008 to 31st March, 2009.

(b) Remuneration to the partners including partner in representative capacity Rs.30 lacs.

(c) Interest amounting to Rs.2 lacs paid to C on loan provided by him in his individual capacity at 16% interest.

(d) Royalty of Rs.5 lacs paid to partner A, who is a professional script writer, for use of his scripts as per an agreement between the firm and A.

(e) Two separate payments of Rs.16,000 and Rs.17,000 made in cash on 3rd February, 2009 to Hari, a hairdresser, against his bill for services rendered in December, 2008 and two payments of Rs.18,000 and Rs.19,000 made in cash on 22nd January and 23rd January, 2009, respectively, to Rajeshwari, an assistant cameraman, against her bill for services provided in December, 2008.

(f) Amount of Rs.5 lacs provided in the books on 31st March 2009 as liability for remuneration to Maheshwari, a film artist and a non-resident. Tax deducted at source under section 195 from the amount so credited was paid on 13th June, 2009.

(g) Amount of Rs.6 lacs provided as gratuity for the year on the basis of actuarial valuation. Gratuity paid to retired employees is Rs.1.50 lacs.

(h) Interest of Rs.1.20 lacs received on income-tax refund under section 244(1A) in respect of assessment year 2007-08.

The firm has also provided the following additional information:

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

Compute the total income of the firm for the assessment year 2009-10 stating the reasons for treatment of each item. (20 Marks)

Question 2

(a) Is the Assessing Officer empowered to assess or reassess an income which is chargeable to tax and has escaped assessment, in a case which is pending before the Appellate Tribunal? Discuss. (7 Marks)

(b) Explain the consequences of non-filing of appeal in cases where the tax effect is less than the prescribed monetary limit.
(7 Marks)

Question 3

(a) A company filed its return of income for the relevant assessment year without claiming deduction under section 80-IB. Later on, it sought to claim the deduction by way of a letter addressed to the Assessing Officer. The deduction was disallowed by the Assessing Officer on the ground that there was no provision under the Act to make amendment in the return of income by making an application at the assessment stage without revising the return. Discuss the correctness of the contention of the Assessing Officer.
(5 Marks)

(b) Discuss whether the expenditure incurred in connection with issue of shares is allowable as business expenditure. Will your answer be the same if expenditure on account of stamp duty and registration fees is incurred in connection with issue of bonus shares?

(5 Marks)

(c) Are TDS provisions attracted in respect of supply of corrugated boxes with some labels printed on them?
(4 Marks)

Question 4

(a) Rajesh owns a house in Hyderabad. During the previous year 2008-09, 3/4th portion of the house was self-occupied and 1/4th portion was let out for residential purposes at a rent of Rs.12,000 p.m. The tenant vacated the property on February 28th, 2009. The property was vacant during March, 2009. Rent for the months of January 2009 and February 2009 could not be realised in spite of the owner's efforts. All the conditions prescribed under Rule 4 are satisfied. Municipal value of the property is Rs.4,00,000 p.a., fair rent is Rs.4,40,000 p.a. and standard rent is Rs.4,80,000. He paid municipal taxes @10% of municipal value during the year. A loan of Rs.30,00,000 was taken by him during the year 2005 for acquiring the property. Interest on loan paid during the previous year 2008-09 was Rs.1,48,000. Compute Rajesh's income from house property for the A.Y. 2009-10.
(8 Marks)

(b) The written down value of plant and machinery on 1.4.2008 of ABC Ltd. engaged in manufacturing of PVG granules is Rs.800 lakh. The company purchased additional plant and machinery for Rs.500 lakh on 1.5.2008 inclusive of one second hand machinery of Rs.350 lakh imported from Japan to increase its installed capacity of production from 2000 TPA to 3000 TPA. The new machinery was put to use from 1.11.2008. Compute the depreciation allowable in the hands of ABC Ltd. for the A.Y.2009-10. (6 Marks)

Question 5

(a) Mr.Ravi, a Cost Accountant, derives Rs.2,12,000 as taxable professional income. Income of Mr.Ravi from other sources is Rs.21,000. He pays medical insurance premium of Rs.28,000 for insuring the health of his non-dependant parents; Rs.17,000 for self and spouse and Rs.4,000 for his sister. He incurs expenditure of Rs.25,000 on medical treatment of his dependant mentally retarded (severe disability) brother in an approved hospital duly certified. He pays rent of Rs.4,000 per month. Calculate his total income for the assessment year 2009-10.

(5 Marks)

(b) M/s. Natwarlal Industries, a partnership firm, submits the following profit and loss account for computation of its business income for the assessment year 2009-10.

Profit and loss account for the year ending 31.03.2009

Expenses	Rs.	Income	Rs.
To Salaries	4,23,000	By gross profit	7,35,000
" Rent	32,000	" Dividend from UTI	8,000
" Printing & Stationery	5,600		
" Telephone	3,700		
" Conveyance	21,000		
" Travelling	14,000		
" Interest	72,000		
" Depreciation	27,000		
" Legal fees	15,000		
" Auditor's fees	18,000		
" PF contribution	24,000		
" Net profit	87,700		
Total	7,43,000	Total	7,43,000

Additional information:

(i) Salaries include Rs.1,50,000 paid to working partner A and Rs.1,00,000 to working partner B.

(ii) Interest paid includes Rs.54,000, being interest paid on loan given by partner B at the rate of 18% simple interest.

(iii) Out of provident fund contribution debited to profit and loss account, Rs.10,000 is outstanding beyond the due date of filing of return.

(iv) The firm purchased goods by issuing account payee drafts except in the case of one bill for Rs.80,000 for which payment has been made by cash. This has been debited to trading account as part of purchases. (9 Marks)

Question 6

(a) Mr. Ravi, aged 58 years, died on account of a bomb blast in a Mumbai local train. His son, Mr.Gopi, received a compensation of Rs.3 lakh from the State Government. Explain the tax treatment of the compensation received by Mr.Gopi from the State Government.

(4 Marks)

(b) "The scope of coverage of TDS provisions under section 194C has been widened by the Finance Act, 2008" – Discuss the correctness of this statement. *(5 Marks)*

(c) "The Appellate Tribunal may, on merit, pass an order of stay in any proceedings relating to an appeal and such period of stay can exceed one year from the date of such order, if the delay is not attributable to the assessee" – Discuss the correctness or otherwise of this statement.

(5 Marks)

Question 7

Alpha Limited is engaged in the construction of residential flats. For the valuation date 31.3.2009, it furnishes the following data and requests you to compute the taxable wealth:

(i) Land in urban area (Construction is not permitted as per municipal laws in force) Rs.42 lakh

(ii) Motor-cars (used for running on hire by the company) Rs.12 lakh.

(iii) Jewellery (investment) Rs.25 lakh. Loan taken for purchase of the same Rs.14 lakh.

(iv) Cash balance (as per books) Rs.3 lakh.

(v) Bank balance Rs.8 lakh.

(vi) Guest House (situated in a place which is 45 kms away from the local limits of the municipality) Rs.15 lakh.

(vii) Residential flat occupied by the Managing Director Rs.12 lakh. The managing director is on whole time appointment and is drawing remuneration of Rs.1.50 lakh per month.

(viii) Residential house let out on hire for 150 days Rs.6 lakh.

The computation should be supported with proper reasoning for inclusion or exclusion.

(10 Marks)

PAPER – 8

INDIRECT TAX LAWS

Answer all questions

SECTION - A

1.(a) State the procedure for valuing excisable goods that are to be sold from depot/branch or premises of a consignment agent under the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000.

(5 Marks)

(b) State briefly with reasons whether credit under the CENVAT Credit Rules, 2004 would be available in the following cases:

(i) Inputs are pilfered from the store-room.

(ii) Inputs used in intermediate product, which is exempt from duty, but the final product is dutiable.

(iii) Final product is cleared in durable and returnable packing material.

(2 x 3 = 6 marks)

(c) What is Personal Ledger Account or PLA? How is it maintained?

(4 Marks)

2.(a) Vardhman Enterprises manufactured both dutiable and exempted final product (packaged software and printed books respectively). The printed books were being exported outside India. It had taken the credit on inputs used in the manufacture of dutiable as well as exempted final products by virtue of rule 6(6)(v) of the CENVAT Credit Rules, 2004. However, the Department alleged that Vardhman Enterprises is required to pay the 10% amount even though the printed books were exported.

Examine with the help of a decided case law, whether the stand taken by the Department is valid in law.

(5 Marks)

(b) Galon India Limited (GIL) was a manufacturer of petroleum jelly. GIL classified it as a cosmetic on the basis of the description of the white petroleum as given in Wikipedia. Wikipedia described the white petroleum as follows:-

"Petroleum jelly, Vaseline, petrolatum or soft paraff

Food and Drug Administration as an approved over-the-counter (OTC) skin protectant and remains widely used in cosmetic skin care."

However, the Revenue contended that Wikipedia is not an authentic source for classification purposes and hence, the said product should be classified as a drug.

Examine the veracity of the contention of the Department in law?

(5 Marks)

(c) Polaris Spinners Limited (PSL) manufactured goods and cleared them to the customer on payment of excise duty. After the clearance of the goods, PSL came to know about the enhancement of the duty rate with retrospective effect. PSL, therefore, calculated and paid the differential duty by issuing the supplementary invoice to the customer.

The Department claimed that interest ought to have been paid under section 11AB of the Central Excise Act, 1944 on this differential duty paid in accordance with the supplementary invoice. Such claim was based on the contention that since the goods were cleared earlier, the entire duty was payable on the date of clearance of the goods and therefore, interest would be payable on the differential duty paid by the assessee voluntarily.

Do you think that Department's claim is correct in law?
(5 Marks)

3.(a) Write a brief note on "electronic maintenance of records and preparation of returns and documents" under the Central Excise Rules, 2002.
(3 Marks)

(b) What are the dates for determination of rate of central excise duty under Central Excise Rules, 2002?
(3 marks)

(c) Explain the penal provisions under the Central Excise Act, 1944 and the Central Excise Tariff Act, 1985:-

(i) Rule 25 of the Central Excise Rules, 2002.

(ii) Section 11AC of the Central Excise Act, 1944. (2 x 2 = 4 marks)

SECTION – B

4. Examine the validity of the following statements:-

(a) The amount charged as 'entry and exit load' from the investor by a mutual fund is liable to service tax as asset / fund management services under banking and other financial services.

(b) The limitation period for filing the refund claim is counted from the date of exports and not from the date of receipt of remittances under Notification No. 41/2007 dated 06.10.2007 as amended.

(c) Services provided in relation to handling / storage and warehousing of empty containers are not liable to service tax under storage and warehousing service.

(d) The cargo handling services provided in relation to agricultural produce or goods intended to be stored in a cold storage are taxable under the category of 'cargo handling service'.
(4×3=12)

5. Calculate the total tax liability under the State VAT law and under the Central Sales Tax Act for the month of July, 2009 from the following particulars:

Particulars	Rupees
Inputs purchased within the state	3,40,000
*Capital goods used in the manufacture of the taxable goods	1,00,000
Inputs purchased from a registered dealer who opts for composition scheme under the provisions of the Act	20,000
High seas purchases of inputs	2,00,000
Finished goods sold :-	
(a) within the state	4,00,000
(b) in the course of inter-State trade	5,00,000

Applicable tax rates are as follows:-

(a)	VAT rate on capital goods	12.5%	
	Input tax rate within the state	12.5%	
	Output tax rate within the state	4%	
	Central sales tax rate		2%
(b)	VAT rate on capital goods	4%	
	Input tax rate within the state	4%	
	Output tax rate within the state	12.5%	
	Central sales tax rate		2%

*Note – The capital goods are not the goods included in the negative list.

(2×5=10)

6.

(a) M/s Raja Cements Limited (RCL) was engaged in the business of manufacturing and selling of cement and had been duly paying the excise duty in respect of cement produced by it. RCL supplied cement to its customers "FOR destination" and bore the freight up to the door steps of the customer i.e. the destination point. The assessee had taken the CENVAT credit of the service tax paid on the aforementioned freight by it.

The Department contended that the payment of service tax on the freight incurred by the assessee was not input service as per rule 2(l) of the CENVAT Credit Rules, 2004 and hence the CENVAT credit was not admissible on it under the said rules.

Explain, with the help of a decided case law, if any, whether the stand taken by Department is tenable in law.

(7 Marks)

(b) Discuss, with the help of a decided case law, if any, whether the explanation inserted by Finance Act, 2008 to the definition of 'business auxiliary service' under section 65(19)(ii) of the Finance Act, 1994 as amended can be construed having retrospective effect and retroactive operation. (6 marks)

(c) Compute the total value of purchases eligible for input tax credit from the following particulars:-

Particulars	Rs.
Inputs purchased from a registered dealer who opts for composition scheme under the provisions of the VAT Act	10,000
Inputs purchased for being used in the execution of a works contract	1,00,000
Raw material purchased from unregistered dealers	70,000
High seas purchases of inputs	1,00,000
Goods purchased for sale to other parts of India in the course of inter-State trade or commerce	20,000

(5 Marks)

SECTION – C

7. Punachi Corporations Limited (PCL) had imported capital goods under a license with the condition to fulfill the export obligation within the prescribed time limit. However, PCL failed to discharge the export obligation. Consequently, the Department invoked the bank guarantee and realized the amount. However, subsequently, PCL fulfilled the export obligation and as a result of which the Department cancelled the bank guarantee. Accordingly, PCL filed a refund claim for the amount realized by invocation of the bank guarantee. However, the Department rejected the refund claim on the ground that it was time barred in terms of section 27(1)(b) of the Customs Act, 1962.

   Examine, with the help of a decided case law, if any, whether the action taken by the Department is valid in law.

   (5 Marks)

8. A person makes an unauthorized import of goods liable to confiscation. After adjudication, Assistant Commissioner provides an option to the importer to pay fine in lieu of confiscation. It is proposed to impose a fine (in lieu of confiscation) equal to 50% of margin of profit. From the following particulars calculate the maximum amount of fine that can be imposed:

	Rs.
Assessable value	50,000
Total duty payable	20,000
Market value	1,00,000

   Also calculate the amount of fine and the total payment to be made by the importer to clear the consignment.

   (5 marks)

9. Answer the following:-

(a) Briefly explain, what is meant by a "Shipping Bill".

(2 marks)

(b) State with reference to the provisions of the Customs Act, 1962 the procedure for disposal of goods not cleared within a specified period.

(2 marks)

(c) Briefly explain the time limit for purposes of filing a refund claim under the provisions of Section 27 of the Customs Act, 1962.

(2 marks)

(d) Briefly discuss the provisions of section 130 of the Customs Act, 1962 with regard to filing of Appeal before the High Court.

(2 marks)

(e) Every detention is not seizure, but seizure always includes detention in Customs Law. Elaborate

(2 marks)