

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – I

PAPER – 1: FINANCIAL REPORTING

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** Questions.

Working notes should form part of the answer.

Wherever necessary, suitable assumptions may be made by the candidates.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) A Company follows April to March as its financial year. The Company recognizes cheques dated 31st March or before, received from customers after balance sheet date, but before approval of financial statement by debiting 'Cheques in hand account' and crediting 'Debtors account'. The 'cheques in hand' is shown in the Balance Sheet as an item of cash and cash equivalents. All cheques in hand are presented to bank in the month of April and are also realised in the same month in normal course after deposit in the bank. State with reasons, whether the collection of cheques bearing date 31st March or before, but received after Balance Sheet date is an adjusting event and how this fact is to be disclosed by the company?
- (b) Explore Ltd. is engaged in research on a new process design for its product. It had incurred Rs. 10 lakh on research during first 5 months of the financial year 2013-14. The development of the process began on 1st September, 2013 and upto 31st March, 2014, a sum of Rs. 8 lakh was incurred as Development Phase Expenditure, which meets assets recognition criteria.

From 1st April, 2014, the Company has implemented the new process design and it is likely that this will result in after tax saving of Rs. 2 lakh per annum for next five years. The cost of capital is 10%. The present value of annuity factor of Rs. 1 for 5 years @ 10% is 3.7908.

Explain the treatment of Research and Development cost of the project as per the relevant standards.

- (c) An employee Sahil has joined a company XYZ Ltd. in the year 2013. The annual emoluments of Sahil as decided is Rs.14,90,210. The company also has a policy of giving a lump sum payment of 25% of the last drawn salary of the employee for each completed year of service if the employee retires after completing minimum 5 years of service. The salary of the Sahil is expected to grow @ 10% per annum.

The company has inducted Sahil in the beginning of the year and it is expected that he will complete the minimum five year term before retiring.

What is the amount the company should charge in its Profit and Loss account every year as cost for the Defined Benefit obligation? Also calculate the current service cost and the interest cost to be charged per year assuming a discount rate of 8%.

(P.V factor for 8% - 0.735, 0.794, 0.857, 0.926, 1)

- (d) Multi-tasking Limited is working on different projects which are likely to be completed within 3 years period. It recognizes revenue, from these contracts on the basis of percentage of completion method in the financial statements of 2012-2013, 2013-2014 and 2014-2015, for Rs. 11,00,000, Rs. 16,00,000 and Rs. 21,00,000 respectively. However, for Income-tax purpose, it has adopted the completed contract method under which it has recognized revenue of Rs. 7,00,000, Rs. 18,00,000 and Rs. 23,00,000 for the years 2012-2013, 2013-2014 and 2014-2015

respectively. Income-tax rate is 35%. Compute the amount of deferred tax asset/liability for the years 2012-2013, 2013-2014 and 2014-2015. (4 × 5 = 20 Marks)

2. Pratham Ltd. a non-listed company, furnishes you with the following draft Balance Sheet as at 31st March, 2015:

	(Rs. in crores)	
Equity and liabilities		
(1) Share holders' funds		
(a) Share Capital:		
Authorised capital	<u>100</u>	
Issued, subscribed and paid up capital		
12% Redeemable preference shares of	75	
Rs. 100		
each fully paid		
Equity shares of Rs. 10 each fully paid	<u>25</u>	100
(b) Reserves and surplus:		
Capital reserve	15	
Securities premium	25	
Profit and Loss account	<u>260</u>	300
(2) Current liabilities		<u>40</u>
		<u>440</u>
Assets		
1. Non-current assets		
Fixed assets: Cost	100	
Less: Provision for depreciation	<u>(100)</u>	Nil
Non-current Investment at cost (market value		100
Rs. 400 Cr.)		
2. Current assets		<u>340</u>
		<u>440</u>

The company redeemed preference shares on 1st April, 2015. It also

bought back 50 lakh equity shares of Rs.10 each at Rs. 50 per share. The payments for the above were made out of the huge bank balances, which appeared as part of current assets.

You are asked to:

- (i) Pass journal entries to record the above
- (ii) Prepare balance sheet
- (iii) Value equity share on net asset basis. (16 Marks)

3. On 1.1.2012, Happy Ltd. grants to its senior officer, a right to choose either 250 shares (with some post-vesting restrictions) or a cash payment equal to value of 200 shares, conditional upon remaining in service for 3 years.

Fair value of a share without considering post-vesting restrictions is Rs. 70 on 1.1.2012, Rs. 75 on 31.12.2012, Rs. 80 on 31.12.2013 and Rs. 85 on 31.12.2014. Fair value of a share after taking into account post-vesting restrictions is Rs. 68 on 1.1.2012. Face value per share is Rs. 10. Give the amounts to be recognised each year. Also, give the journal entries for settlement if

- (1) employee chooses cash payments
- (2) employee chooses shares. (16 Marks)

4. (a) A Ltd acquired 25% of shares in B Ltd. as on 31.3.2014 for Rs. 3,00,000. The Balance Sheet of B Ltd. as on 31.3.2015 is given below:

Liabilities	Rs.
Share Capital	5,00,000
Reserves and Surplus	<u>5,00,000</u>
Total	<u>10,00,000</u>
Assets	
Fixed Assets	5,00,000
Investment	2,00,000

Current Assets	<u>3,00,000</u>
Total	<u>10,00,000</u>

During the year-ended 31.3.2015, the following are the additional information available:

- (a) A Ltd. received dividend from B Ltd. for the year ended 31.3.2014 at 40% from the reserves.
- (b) B Ltd. made a profit after tax of Rs. 7,00,000 for the year ended 31.3.2015.
- (c) B Ltd. declared and accounted for the dividend @ 50% for the year ended 31.3.2015 on 30.4.2015.

A Ltd. is preparing Consolidated Financial Statements in accordance with AS 21 for its various subsidiaries. Calculate:

- (a) Goodwill if any on acquisition of B Ltd.'s shares.
- (b) How A Ltd. will reflect the investment in the shares of B Ltd. in the Consolidated Financial Statements? *(12 Marks)*
- (b) Superb Ltd. issued Rs. 1,00,00,000 worth of 8% Debentures of face value Rs. 100 each on par value basis on 1st January, 2015. These debentures are redeemable at 12% premium at the end of 2018 or exchangeable for ordinary shares of Mega Ltd. on 1:1 basis. The interest rate for similar debentures that do not carry conversion entitlement is 12%. You are required to calculate the value of the debt portion of the above compound financial instrument. The present value of the rupee at the end of years 1 to 4 at 8% and 12% are supplied to you as:

	8%	12%
End of year 1	0.926	0.893
End of year 2	0.857	0.797
End of year 3	0.794	0.712
End of year 4	0.735	0.636

(4 Marks)

5. The Balance Sheets of X Ltd. are as follows:

		(Rs. in lakhs)
Liabilities	As at	As at
	31.3.2014	31.3.2015
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	<u>200.0</u>	<u>250.0</u>
	<u>2,582.5</u>	<u>2,720.0</u>
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	<u>92.5</u>	<u>100.0</u>
	<u>2,582.5</u>	<u>2,720.0</u>

Other Information:

1. Current cost of fixed assets excluding non-trade investments on 31.3.2014 Rs. 2,200 lakhs and on 31.3.2015 Rs. 2,532.8 lakhs.
2. Current cost of stock on 31.3.2014 Rs. 670 lakhs and on 31.3.2015 Rs. 750 lakhs.
3. Non-trade investments in 10% government securities Rs. 490 lakhs.

4. Debtors for 2014-15 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 for 2014-15 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 to the profit and loss account. This expenditure is not likely to recur.
8. Tax rate during 2014-15 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. Amit Shah, a director contends that the company does not have any goodwill. Examine his contention (16 Marks)

6. (a) From the following Profit and Loss Account of Welfare Ltd., prepare a Gross Value Added Statement.

Profit and Loss Account for the year ended 31st March, 2015

Income	Notes		Amount
		(Rs. in lakhs)	(Rs. in lakhs)
Sales			206.42
Other Income			<u>10.20</u>
			216.62
Less: Expenditure			

Production and Operational Expenses	1	166.57	
Administration Expenses	2	6.12	
Interest and Other Charges	3	8.00	
Depreciation		<u>5.69</u>	(186.38)
Profit before Taxes			30.24
Less: Provision for taxes			<u>(3.00)</u>
Profit after Taxes			27.24
Add: Investment Allowance Reserve Written Back			0.46
Balance as per Last Balance Sheet			<u>1.35</u>
			<u>29.05</u>
Transferred to:			
General Reserve		24.30	
Proposed Dividend		<u>3.00</u>	27.30
Surplus Carried to Balance Sheet			<u>1.75</u>
			<u>29.05</u>

Notes:

(1)	Production and Operational Expenses	(Rs. in lakhs)
)	Increase in Stock	30.50
	Consumption of Raw Materials	80.57
	Consumption of Stores	5.30
	Salaries, Wages, Bonus and Other Benefits	12.80
	Cess and Local Taxes	3.20
	Other Manufacturing Expenses	<u>34.20</u>
		<u>166.57</u>
(2)	Administration expenses include inter-alia Audit fees of Rs.	

)	1 lakh, Salaries and commission to directors Rs. 2.20 lakhs and Provision for doubtful debts Rs. 2.50 lakhs.	
(3)	Interest and Other Charges:	(Rs. in lakhs)
)	On Fixed Loans from Financial Institutions	3.90
	Debentures	1.80
	On Working Capital Loans from Bank	<u>2.30</u>
		<u>8.00</u>

- (b) Well-off Ltd. provides you the following data to calculate Economic Value Added (EVA):

Debt Equity Ratio	2:1
Capital Gearing Ratio (Funds bearing fixed payments to Equity Shareholders' funds)	3:1
15% Long term debt funds	Rs. 800 crores
Tax Rate	30%
15% Preference share capital	?
Financial Leverage	1.5 times
Price Earning Rate (PE Ratio)	5 times
Immovable Property (held as Investment)	Rs. 100 crores

(16 Marks)

7. Answer any **four** of the following:

- (a) As of March 31, 2015, Company X has breached a covenant and as per the terms of the agreement the bank loan became immediately payable. On April 5, 2015, the bank agreed to waive the covenant. As of March 31, 2015, should the loan be classified as current or non-current liability?

- (b) What is NAV of a Mutual Fund and how is it calculated? What is the significance of its calculation?
- (c) X Limited has sold its building for Rs. 50 lakhs to the purchaser who has paid the full price. Company has given possession to the purchaser. The book value of the building is Rs. 35 lakhs. As at 31st March, 2015, documentation and legal formalities are pending. The company has not recorded the disposal. It has shown the amount received as advance. Do you agree with this accounting treatment done by X Ltd.? If not, then suggest the correct accounting treatment in this regard.
- (d) The capital structure of W Ltd. whose shares are quoted on the NSE is as under:

Equity Shares of Rs. 100 each fully paid	Rs. 505 lakhs
9% Convertible Pref. Shares of Rs. 10 each	Rs. 150 lakhs
12% Secured Debentures of Rs. 10 each	5,00,000
Reserves	Rs. 101 lakhs
Statutory Fund	Rs. 50,50,000

The Statutory Fund is compulsorily required to be invested in Government Securities. The ordinary shares are quoted at a premium of 500%; Preference Shares at Rs. 30 per share and debentures at par value.

You are required to ascertain the Market Value added of the company and also give your assessment on the market value added as calculated by you.

- (e) Blue-chip Equity Investments Ltd., wants to re-classify its investments in accordance with AS 13. State at which value will these investment be recognized in the books upon reclassification.
- (i) Long term investments in Company A, costing Rs. 8.5 lakhs

are to be re-classified as current. The company had reduced the value of these investments to Rs. 6.5 lakhs to recognize a permanent decline in value. The fair value on date of transfer is Rs. 6.8 lakhs.

- (ii) Long term investments in Company B, costing Rs. 7 lakhs are to be re-classified as current. The fair value on date of transfer is Rs. 8 lakhs and book value is Rs. 7 lakhs.
- (iii) Current investment in Company C, costing Rs. 10 lakhs are to be re-classified as long term as the company wants to retain them. The market value on date of transfer is Rs. 12 lakhs.
- (iv) Current investment in Company D, costing Rs. 15 lakhs are to be re-classified as long term. The market value on date of transfer is Rs. 14 Lakhs.

(4 x 4 =16 Marks)

Test Series: February, 2015

MOCK TEST PAPER –1

FINAL COURSE: GROUP – I

PAPER – 2 : STRATEGIC FINANCIAL MANAGEMENT

*Question No. 1 is compulsory. Attempt any **five** questions from the remaining **six** questions. Working notes should form part of the answer.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) A Mutual Fund is holding the following assets in Rs. Crores :
- Investments in diversified equity shares
 - Cash and Bank Balances

90.0

The Beta of the portfolio is 1.1. The index future is selling at 4300 level. The Fund Manager apprehends that the index will fall at the most by 10%. How many index futures he should short for perfect hedging? One index future consists of 50 units.

Substantiate your answer assuming the Fund Manager's apprehension will materialize. (5 Marks)

- (b) XYZ Bank, Amsterdam, wants to purchase Rs. 25 million against £ for funding their Nostro account and they have credited LORO account with Bank of London, London.

Calculate the amount of £'s credited. Ongoing inter-bank rates are per \$, Rs. 61.3625/3700 & per £, \$ 1.5260/70. (5 Marks)

- (c) You as an investor had purchased a 4 month call option on the equity shares of X Ltd. of Rs. 10, of which the current market price is Rs. 132 and the exercise price Rs.150. You expect the price to range between Rs. 120 to Rs. 190. The expected share price of X Ltd. and related probability is given below:

Expected Price (Rs.)	120	140	160	180	190
Probability	.05	.20	.50	.10	.15

Compute the following:

- (1) Expected Share price at the end of 4 months.
- (2) Value of Call Option at the end of 4 months, if the exercise price prevails.
- (3) In case the option is held to its maturity, what will be the expected value of the call option? (5 Marks)
- (d) Mr. X purchases a 5 year 8.5% Coupon Bond for a price of Rs. 907.60 (Face Value Rs. 1000) that has a YTM of 11%. You are required to compute reinvested interest amount on this bond. (5 Marks)

2. (a) Fair finance, a leasing company, has been approached by a prospective customer intending to acquire a machine whose Cash

Down price is Rs. 3 crores. The customer, in order to leverage his tax position, has requested a quote for a three year lease with rentals payable at the end of each year but in an increasing manner such that they are in the ratio of 1 : 2 : 3.

Depreciation can be assumed to be on straight line basis and Fair Finance's marginal tax rate is 35%. The target rate of return for Fair Finance on the transaction is 10%.

Required:

Calculate the lease rents to be quoted for the lease for three years. (8 Marks)

- (b) A mutual fund made an issue of 10,00,000 units of Rs. 10 each on January 01, 2008. No entry load was charged. It made the following investments:

Particulars	Rs.
50,000 Equity shares of Rs. 100 each @ Rs. 160	80,00,000
7% Government Securities	8,00,000
9% Debentures (Unlisted)	5,00,000
10% Debentures (Listed)	5,00,000
	98,00,000

During the year, dividends of Rs. 12,00,000 were received on equity shares. Interest on all types of debt securities was received as and when due. At the end of the year equity shares and 10% debentures are quoted at 175% and 90% respectively. Other investments are at par.

Find out the Net Asset Value (NAV) per unit given that operating expenses paid during the year amounted to Rs. 5,00,000. Also find out the NAV, if the Mutual fund had distributed a dividend of Rs. 0.80 per unit during the year to the unit holders.

(8 Marks)

3. (a) The following market data is available:

Spot USD/JPY 116.00

Deposit rates p.a.	USD	JPY
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 case.

(6 Marks)

- (b) XYZ Ltd. a US firm will need £ 3,00,000 in 180 days. In this connection, the following information is available:

Spot rate 1 £ = \$ 2.00

180 days forward rate of £ as of today = \$1.96

Interest rates are as follows:

	U.K.	US
180 days deposit rate	4.5%	5%
180 days borrowing rate	5%	5.5%

A call option on £ that expires in 180 days has an exercise price of \$ 1.97 and a premium of \$ 0.04.

XYZ Ltd. has forecasted the spot rates 180 days hence as below:

Future rate	Probability
\$ 1.91	25%

\$ 1.95	60%
\$ 2.05	15%

Which of the following strategies would be most preferable to XYZ Ltd.?

- (i) A forward contract;
- (ii) A money market hedge;
- (iii) An option contract;
- (iv) No hedging.

Show calculations in each case (10 Marks)

4. (a) GKL Ltd. is considering installment sale of LCD TV as a sales promotion strategy.

In a deal of LCD TV, with selling price of Rs. 50,000, a customer can purchase it for cash down payment of Rs. 10,000 and balance amount by adopting any of the following options:

Tenure of Monthly installments	Equated Monthly installment
12	Rs. 3800
24	Rs. 2140

Required:

Estimate the flat and effective rate of interest for each alternative.

PVIFA_{2.05%, 12} = 10.5429

PVIFA_{2.10%, 12} = 10.5107

PVIFA_{2.10%, 24} = 18.7014

PVIFA_{2.12%, 24} = 18.6593 (6 Marks)

- (b) A holds the following portfolio:

Share/Bond	Beta	Initial Price	Dividends	Market Price at end of year
		Rs.	Rs.	Rs.

Epsilon Ltd.	0.8	25	2	50
Sigma Ltd.	0.7	35	2	60
Omega Ltd.	0.5	45	2	135
GOI Bonds	0.01	1,000	140	1,005

Calculate:

- (i) The expected rate of return on his portfolio using Capital Asset Pricing Method (CAPM)
- (ii) The average return of his portfolio.

Risk-free return is 14%.

(10 Marks)

5. (a) Calculate the value of share from the following information:

<i>Profit of the company</i>	<i>Rs. 290 crores</i>
<i>Equity capital of company</i>	<i>Rs. 1,300 crores</i>
<i>Par value of share</i>	<i>Rs. 40 each</i>
<i>Debt ratio of company</i>	<i>27</i>
<i>Long run growth rate of the company</i>	<i>8%</i>
<i>Beta 0.1; risk free interest rate</i>	<i>8.7%</i>
<i>Market returns</i>	<i>10.3%</i>
<i>Capital expenditure per share</i>	<i>Rs. 47</i>
<i>Depreciation per share</i>	<i>Rs. 39</i>
<i>Change in Working capital</i>	<i>Rs. 3.45 per share</i>

(6 Marks)

- (b) A USA based company is planning to set up a software development unit in India. Software developed at the Indian unit will be bought back by the US parent at a transfer price of US \$10 millions. The unit will remain in existence in India for one year; the software is expected to get developed within this time frame.

The US based company will be subject to corporate tax of 30 per cent and a withholding tax of 10 per cent in India and will not be eligible for tax credit in the US. The software developed will be sold in the US market for US \$ 12.0 millions. Other estimates are as follows:

Rent for fully furnished unit with necessary hardware in India Rs.15,00,000

Man power cost (80 software professional will be working for 10 hours each day) Rs.400 per man hour

Administrative and other costs Rs.12,00,000

Advise the US Company on the financial viability of the project.
The rupee-dollar rate is Rs.48/\$. (6 Marks)

6. (a) A Ltd. acquires B Ltd. Assuming that it has been ensured that after merger the EPS shall be at least Rs. 5.33 per share and there shall be no synergies gain from merger complete the following table:

	A Ltd.	B Ltd.	Merged Firm
EPS	Rs. 4.00	Rs. 5.00	Rs. 5.33
Price Per Share	Rs. 80.00	Rs. 50.00	?
Price Earning Ratio	20	10	?
No. of Shares	10,00,000	20,00,000	?
Total Market Value	8,00,00,000	10,00,00,000	?

(8 Marks)

- (b) Two companies X Ltd. and Y Ltd. paid a dividend of Rs. 3.50 per share. Both are anticipating that dividend shall grow @ 8%. The beta of X Ltd. and Y Ltd. are 0.95 and 1.42 respectively.

The yield on GOI Bond is 7% and it is expected that market shall increase at an annual rate of 13%. You are required to determine:

- (i) Value of share of both companies.
- (ii) Why there is a difference in the value of shares of two companies.
- (iii) If current market price of share of A Ltd. and B Ltd. are Rs. 74 and Rs. 55 respectively. As an investor what course of action should be followed?

(8 Marks)

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

- (a) Social Cost Benefit Analysis
- (b) Cross Border Leasing
- (c) Factors determining the Dividend Policy of a company
- (d) Equity Cuarve Out and its difference from Spin off
- (e) Significance of an underlying in relation to a derivative instrument (4 × 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER - 1

FINAL COURSE: GROUP – I

PAPER – 3: ADVANCED AUDITING AND PROFESSIONAL ETHICS

Question No. 1 is compulsory

*Answer any **five** from the rest*

Time Allowed- 3 Hours

Maximum Marks -100

1. (a) While auditing Galaxy Limited, Mr. GN, the statutory auditor of the company, came to know that some of the trade payables are outstanding as it is from previous year in the Balance Sheet of current year. Mr. GN, therefore, requested written confirmation of balances from such trade payables. In the list of confirmations request sent, one of the trade payables, having outstanding balance of Rs. 12 lakhs, sent his confirmation through an

electronic mail. Mr. GN is in doubt about the reliability of the response to such confirmation request. You are required to explain what are the further procedures required to rely on such responses received electronically.

- (b) Innocent Ltd. entered into an agreement with Mr. Intelligent on 15th March, 2014, whereby it agreed to pay him Rs. 6 lakhs per month as retainership fee for consultation in IT department. However, no amount was actually paid and Rs. 72 lakhs was provided in the Statement of Profit and Loss for the year ending on March 31st, 2014.

Management of the company uttered that need-based consultation was obtained throughout the year. However, on investigation, no documentary or other evidence of receipt of such service was found. As the auditor of Innocent Ltd., what would be your approach?

- (c) Happy Ltd. is engaged in the production of cotton. In January, 2011, the management of the company decided to expand its business and started manufacturing cotton shirt. For such expansion, it required fund of Rs. 90 lakhs which was financed from Fine Bank. The loan was repayable in 10 equal yearly instalments (including interest) of Rs. 10 lakhs beginning from 31st March, 2011 onwards. The company was regular in payment of instalments till 31st March, 2014. Due to improvement in financial condition of the company, it decided for onetime settlement for its outstanding loan. Subsequently, Fine Bank rescheduled the loan to Rs. 55 lakhs to be repaid in August, 2014.

The accountant of the company has disclosed the said loan under the head "Long-term Borrowings" in the Balance Sheet of the company for the financial year 2013-14. As the auditor of Happy Ltd., kindly guide the management with regard to disclosure of such liabilities in accordance with Schedule III of the Companies Act, 2013?

- (d) Roadrash Ltd. commenced construction of a flyover in Delhi in February, 2013. The same was completed in March, 2014. Due to seasonal heavy rains in August, 2013 in the area, the work on the flyover had to be suspended for 1 month. The company accordingly suspended borrowing costs of Rs. 15.50 lakhs for that month from capitalisation. As a statutory auditor, how would you deal? $(5 \times 4 = 20 \text{ Marks})$
2. Comment on the following with reference to the Chartered Accountants Act, 1949 and schedules thereto:
- (a) Mr. Altar, a Chartered Accountant, is employed as a paid Assistant with a Chartered Accountant firm. On 31st December, 2013 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.
- (b) Mr. Clever, a Chartered Accountant was invited by the Chamber of Commerce to present a paper in a conference on the issues facing Indian IT Industry. During the course of his presentation, he shared some of the vital information of his client's business under the impression that it will help the Nation to compete with other countries at international level.
- (c) Mr. Unlucky, a Chartered Accountant, was in practice since last 30 years. Unfortunately, he died in a road accident. His widow sold the practice to Mr. Lucky, another Chartered Accountant in practice, for Rs. 30 lakhs. The price also included the right to use the firm name. Would it amount to sharing of fees with widow of Mr. Unlucky who is a non-member.
- (d) An advertisement was published by Mr. Dozy, a member of the Institute, in a Newspaper containing the photograph of him, wherein he was congratulated on the occasion of the opening ceremony of his office. $(4 \times 4 = 16 \text{ Marks})$
3. (a) Apsara Ltd. is a company in which 15% shares have been held by Bihar Government, 10% by Jharkhand Government and 30% by

Uttar Pradesh Government. During the year, Apsara Ltd. invested in 60% shares of Angel Ltd., a newly incorporated company. The Board of Directors of Angel Ltd. could not appointed the auditor within 30 days from the date of registration of the company, so it informed the members of the company to appoint such auditor. Later on, the members appointed the first auditor. Comment. (4 Marks)

- (b) Mr. A is the director of OPQ Ltd. He has 30% shareholding in the company. Mr. B, Mr. A's step-son, is a renowned practicing Chartered Accountant in India. He has been practicing for 10 years and auditing is his forte. Mr. A isn't in touch with Mr. B for 6 years due to some personal disputes but is quite impressed with his work professionally. The members of the company wanted Mr. B to be appointed as the statutory auditor of the company. Consequently, Mr. B was appointed by OPQ Ltd. Examine the validity of appointment of Mr. B. (4 Marks)
 - (c) Ms. Mini, the statutory auditor of X Ltd., got engaged to Mr. Max. They both decided to settle abroad after marriage. Consequently, she resigned from the office of auditor of X Ltd. Due to the resignation of the existing auditor, the Board of Directors of X Ltd. appointed Mr. Giant, a practicing Chartered Accountant, as the statutory auditor for one year. You are required to state whether the appointment made by the Board is valid? (4 Marks)
 - (d) Explain the liability of the auditor under section 35 of the Companies Act, 2013, for making an untrue statement in the report (as an expert forming a part of the prospectus). (4 Marks)
4. (a) While doing the audit of Consolidated Financial Statements, which current period consolidation adjustments are to be taken into account? (4 Marks)
- (b) Under the applicable Standard on Auditing, in what circumstances does the report of the statutory auditor require modifications? What are the types of modifications possible to the said report? (6 Marks)

(c) State the main features of the Qualified and Independent Audit Committee set up under Clause 49 of the listing agreement.

(6 Marks)

5. (a) While auditing a general insurance company for the financial year 2013-14, you observed that a policy has been issued on 25th March, 2014 for fire risk favouring one of the leading corporate houses in the country and was reflected as premium receivable in the Books of Accounts. The premium was, however, collected on 5th April, 2014. The company contends that it has usual practice to collect premium on later dates in respect of big customers. You further noticed that there was a fire accident in the premises of the insured on 31st March, 2014 and a claim was lodged for the same. The insurance company also made a provision for claim. Please guide.

(4 Marks)

(b) M/s AB & Associates has been appointed as an auditor of an investment company which mainly deals in acquisition of shares and securities of other companies. Mention any 6 points which should be kept in mind while auditing such Non-banking Finance Company.

(4 Marks)

(c) AB Ltd. is a company in which public are not substantially interested. During the previous year 2013-14, the company issued shares to residents of India and provides you the following data related to such issue:

No. of shares issued

1,00,000

Face Value

Rs. 10 per

Fair Market Value (FMV)

Rs. 60 per share

Consideration received

Rs. 80 per

The management of the company contends that, it is a normal issue of shares, thus, needs not to be reported. As the tax auditor of AB Ltd., how would you deal with the matter in your tax audit report? (4 Marks)

- (d) XY Ltd. is engaged in the production of machinery and mechanical appliances used in defence sector. Mr. AB, a practicing Chartered Accountant, was appointed as an auditor of XY Ltd. for the year 2013-14. During the year, the management of the company came to know about the requirement of maintaining cost records in their books of account and get it audited. In a general meeting, the members of the company appointed Mr. AB, the statutory auditor of the company, to conduct such cost audit.

You are required to examine the validity of appointment of Mr. AB as Cost Auditor.

(4 Marks)

6. (a) A company engaged in manufacturing of chemicals is consistently recording higher sales turnover, but declining net profits since the last four years. You have been appointed as an investigator to find out the reasons for the same. What are the points you would verify? *(6 Marks)*
- (b) AB & Co., a Chartered Accountant firm has been appointed for conducting a performance audit of a company. Briefly explain the factors, which should be considered by AB & Co., while planning such performance audit? *(4 Marks)*
- (c) Explain in brief the behavioural aspects encountered in the management audit and state the ways to solve them. *(6 Marks)*
7. Write short notes on any four of the following:
- (a) Special Report by auditor to Registrar of Co-operative Societies
 - (b) Tolerable Misstatement and Tolerable Rate of Deviation
 - (c) Areas excluded from the scope of peer reviewer
 - (d) Corresponding figures
 - (e) Sauda Book. *(4 × 4 = 16 Marks)*

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – I
PAPER – 4 : CORPORATE AND ALLIED LAWS

Question No.1 is compulsory.

*Attempt any **five** questions from the remaining **six** Questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) The Board of directors of M/s Abhilash Limited, an unlisted company having a paid-up capital of Rs. 6 crores consisting of equity share capital of Rs. 5 crores and preference share capital of Rs. 1 crore and also 1,100 'Small Shareholders' holding equity shares seeks your advice on the following:
Is it necessary for the Company to appoint a Director to represent the 'Small Shareholders'?
Advise explaining the relevant provisions of the Companies Act, 2013. (5 Marks)
- (b) A company wants to declare dividends out of past reserves instead of current year profits. Advise on the given situation as per the Companies Act, 2013. (5 Marks)
- (c) M/s Mathew & Company, a member of a recognised stock exchange proposes 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. (5 Marks)
- (d) Mr. Rajat is director in 9 public limited companies as on 30th July, 2014 and continues to be so till 26th September, 2014. The following companies appoint Mr. Rajat as a director at their respective Annual General Meetings held on dates mentioned against their names:
 - (i) Makeshift Ltd. (AGM held on 27th September, 2014)

(ii) Patkara Private Ltd. (AGM held on 25th September, 2014)

(iii) Kalpesh Ltd. (AGM held on 29th September, 2014)

You are required to state with reference to the relevant provisions of the Companies Act, 2013 the options available to Mr. Rajat in respect of accepting or not accepting the appointment of the above companies. (5 Marks)

2. (a) Onshore Company Limited was merged with Offshore Company Limited on account of amalgamation. Some workers of Onshore Company Limited refused to join as workers of Offshore Company Limited and claimed compensation on the ground of premature termination of their services. Offshore Company Limited resists the claim of the workers on the ground that their services have been transferred to Offshore Company Limited in view of the order of amalgamation and merger and hence the workers must join the service of Offshore Company Limited and cannot claim any compensation.

State the powers of the court about the matters that would be considered while sanctioning the scheme of amalgamation under the provisions of the Companies Act, 1956. Decide whether the contention of the workers is justified. (8 Marks)

- (b) AMC Limited did not prepare its Balance Sheet as at 31st March, 2015 and the Profit and Loss Account for the year ended on that date in conformity with some of the mandatory Accounting Standards issued by the Institute of Chartered Accountants of India. You are required to state with reference to the provisions of the Companies Act, 2013, the responsibilities of directors and statutory auditor of the company in this regard. (8 Marks)
3. (a) The Board of Directors of Blue Limited wants to pass a resolution by circulation. They have approached you to advise them regarding the relevant provision under the Companies Act, 2013. Please advise as to how a resolution by circulation is passed by the Board or its Committee. (8 Marks)

- (b) A Public Limited Company with a turnover of Rs. 249 crores, constituted an Audit Committee under section 177 of the Companies Act, 2013. The Audit Committee submitted its report of its recommendation to the Board. The Board, however, did not accept the recommendations. In the light of the situation, analyze whether, the Board is empowered not to accept the recommendations of the Audit Committee.

(8 Marks)

4. (a) Geeta manufacturing Limited is having a foreign subsidiary company. The said Indian holding company failed to furnish particulars of its foreign subsidiary company in its Balance Sheet.

Decide the liability of Geeta manufacturing Limited under the Companies Act, 2013.

(8 Marks)

- (b) (i) What are the powers of the Central Government under the Companies Act, 2013?
- (ii) The value of the security of a secured creditor of a company is Rs. 1,00,000. The total amount of the workmen's dues is Rs. 1,00,000. The amount of the debts due from the company to its secured creditors is Rs. 3,00,000. The aggregate of the amount of workmen's dues and of the amounts of debts due to secured creditors is Rs. 4,00,000.

With reference to the provisions of the Companies Act, 1956, what is the workmen's portion of the security?

If the liquidator incurs Rs. 10,000 for the preservation of the security before it is realised by the secured creditor, what is the portion of Rs. 10,000 that should be borne by the secured creditors?

(4 Marks)

5. (a) Under provisions of Companies Act, 1956, relating to producer company, examine whether the office of director of such company shall fall vacant in the following circumstances:
- (i) X, a Director of ABC Ltd., a producer company has made a

default in payment of loan taken from a company and default continues for 60 days.

- (ii) Mr. Nirman, a Director of the above company could not call the Annual General Meeting for the company due to continuous heavy rainfall, destruction and blockage of road occurred two days before the Schedule date. (8 Marks)

- (b) Explain in accordance with Securities and Exchange Board of India (ICDR) Regulations, the relevant Regulation related to 'Record Date' and 'Restriction on rights issue' with respect to Rights Issue. (8 Marks)

6. (a) Mr. Murti, is a Director in a banking company. He is very aggressive and not able to deal with the customers satisfactorily. Infact, many customers made complaints against him. The Reserve Bank of India removed Mr. Murti stating that his conduct was detrimental to the interests of the depositors. Decide whether the Reserve Bank of India has power to remove the said Director under the provisions of the Banking Regulation Act, 1949. What remedies are available to Mr. Murti against his removal under the provisions of the said Act? (8 Marks)
- (b) Under Section 387 of the Companies Act, 2013, what particulars are required in the prospectus to be issued by an existing foreign company? (8 Marks)

7. Attempt any four:

- (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. (4 Marks)
- (b) A fan manufacturing company proposes to enter into distributorship agreements requiring the dealers not to sell fans of other manufacturers and also not to sell the fans outside the

territory assigned to them. Examine with reference to the Provisions of the Competition Act, 2002 whether the proposed agreements will be considered as Anti-Competitive Agreements and void in case the company entered into such agreements. (4 Marks)

- (c) 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? (4 Marks)
- (d) Explain the importance of "Preamble" and "Proviso" being internal aids to interpretation. (4 Marks)
- (e) Explain the meaning of the term "Money Laundering". Mr. Halo, a known smuggler was caught in transfer of funds illegally exporting narcotic drugs from India to some countries in Africa. State the maximum punishment that can be awarded to him under Prevention of Money Laundering Act, 2002. (4 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – II

PAPER – 5: ADVANCED MANAGEMENT ACCOUNTING

Question No. 1 is compulsory

*Answer any **five** questions from the remaining **six** questions*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) If Cosmos Industries operates its plant at normal capacity it produces 2,00,000 units from the plant 'SEZ'. The unit cost of manufacturing at normal capacity is as under:

	Rs.
Direct Material	65
Direct Labour	30
Variable Overhead	33

Fixed Overhead	7
Total	135

Direct labour cost represents the compensation to highly-skilled workers, who are permanent employees of the company. The company cannot afford to lose them. One labour hour is required to complete one unit of the product.

The company sells its product for Rs.200 per unit with variable selling expenses of Rs.16 per unit. The company estimates that due to economic down turn, it will not be able to operate the plant at the normal capacity, at least during the next year. It is evaluating the feasibility of shutting down the plant temporarily for one year.

If it shuts down the plant, the fixed manufacturing overhead will be reduced to Rs.1,25,000. The overhead costs are incurred at a uniform rate throughout the year. It is also estimated that the additional cost of shutting down will be Rs.50,000 and the cost of re-opening will be Rs.1,00,000.

Required:

Calculate the minimum level of production at which it will be economically beneficial to continue to operate the plant next year if 50% of the labour hours can be utilized in another activity, which is expected to contribute at the rate of Rs.40 per labour hour. The additional activity will relate to a job which will be off-loaded by a sister company only if the company decides to shut down the plant.

(Assume that the cost structure will remain unchanged next year. Ignore income tax and time value of money) (5 Marks)

- (b) XL Polymers, located in Sahibabad Industrial Area, manufactures high quality industrial products. AT Industries has asked XL

Polymers for a special job that must be completed within one week.

Raw material R_1 (highly toxic) will be needed to complete the AT Industries' special job. XL Polymers purchased the R_1 two weeks ago for Rs.7,500 for a job 'A' that recently was completed. The R_1 currently in stock is the excess from that job and XL Polymers had been planning to dispose of it. XL Polymers estimates that it would cost them Rs.1,250 to dispose of the R_1 . Current replacement cost of R_1 is Rs.6,000.

Special job will require 250 hours of labour G_1 and 100 hours of labour G_2 . XL Polymers pays their G_1 and G_2 employees Rs.630 and Rs.336 respectively for 42 hours of work per week. XL Polymers anticipates having excess capacity of 150 [G_1] and 200 [G_2] labour hours in the coming week. XL Polymers can also hire additional G_1 and G_2 labour on an hourly basis; these part-time employees are paid an hourly wage based on the wages paid to current employees.

Suppose that material and labour comprise XL Polymers's only costs for completing the special job. What is the *minimum price* that XL Polymers should bid on this job?

(5 Marks)

- (c) A process industry unit manufactures three joint products: KA, KB and KC. KC has no realisable value unless it undergoes further processing after the point of separation. The cost details of KC are as follows:

	Per Unit Rs.
Upto Point of Separation	
Marginal Cost	75
Fixed Cost	50
After Point of Separation	

Marginal Cost	38
Fixed Cost	12
Total	175

KC can be sold at Rs.93 per unit and no more.

- (i) Would you recommend production of KC?
- (ii) Would your recommendation be different if KA, KB and KC are not joint products? (5 Marks)

(d) Explain following statement-

“Assignment problem is special case of transportation problem; it can also be solved by transportation methods” (5 Marks)

2. (a) Computer Tec a manufacturing firm, has entered into an agreement of strategic alliance with Comp Inc. of United States of America for the manufacture of Super Computers in India. Broadly, the terms of agreement are:
- (i) Comp Inc. will provide Computer Tec with kits in a dismantled condition. These will be used in the manufacture of the Super Computer in India. On a value basis, the supply, in terms of the FOB price will be 50% thereof.
 - (ii) Computer Tec will procure the balance of materials in India.
 - (iii) Comp Inc will provide to Computer Tec with designs and drawings in regard to the materials and supplies to be procured in India. For this, Computer Tec will pay Comp Inc. a technology fee of Rs. 8 crores.
 - (iv) Comp Inc. 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 Comp Inc.
 - (v) Computer Tec will furnish to Comp Inc. detailed quarterly returns.

Other information available:

- (a) FOB price agreed \$2,040. Exchange rate to be adopted \$1 = Rs. 55.00
- (b) Insurance and freight – Rs. 2,000 per imported kit;
- (c) Customs duty leviable is 200% of the CIF prices; but as a concession, the actual rate leviable has been fixed at 40% of CIF.
- (d) The technology agreement expires with the production of 8,00,000 computers;
- (e) The quoted price on kits includes a 25% margin of profits on cost to Comp Inc.
- (f) The estimated cost of materials and supplies to be obtained in India will be 150% of the cost of supplies made by Comp Inc.
- (g) 50% of the value in rupees of the locally procured goods represent cost of the standard items.
- (h) Cost of assembly and other overheads in India will be Rs. 8,000 per Super Computer.

Required:

Calculate the selling price, of a personal computer in India bearing in mind that Computer Tec Ltd has targeted a profit of 20% to itself on the selling price.

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

(12 Marks)

- (b) State whether the learning curve theory can be applied to the following independent situations briefly justifying your decision:
 - (i) A labour intensive sculpted product is carved from the metal provided to the staff. The metal is sourced from different suppliers since it is scarce. The alloy composition of the input metal is quite different among the suppliers.

- (ii) Pieces of hand-made furniture are assembled by the company in a far off location. The labourers do not know anything about the final product which utilizes their work. As a matter of further precaution, rotation of labour is done frequently.
 - (iii) Skilled workers have been employed for a long time. The company has adequate market for the craft pieces done by these experts.
 - (iv) A company funds that it always has an adverse usage of indirect material. It war
3. (a) Given below is an iteration in a simplex table for a maximization objective linear programming product mix problem for products X_1 , X_2 and X_3 .

C_j			6	4	10	0	0	0
	Basic Variable	Quantity	X_1	X_2	X_3	S_1	S_2	S_3
0	S_1	400	0	$4/3$	0	1	$-1/3$	0
6	X_1	400	1	$2/3$	2	0	$1/3$	0
0	S_3	400	0	$5/3$	0	0	$-2/3$	1
Z_j		2,400	6	4	12	0	2	0
$C_j - Z_j$			0	0	-2	0	-2	0

Answer the following questions:

- (i) Is the above solution feasible?
- (ii) Perform one more iteration with X_2 entering the solution to get a solution with the same value for the objective function.
- (iii) Indicate the shadow prices.
- (iv) If customer is prepared to pay higher price for product X_3 then by how much should the price be increased so that the company's profit remains unchanged?

(v) From the given table, derive any one original constraint inequality with the coefficients of variables in their simplest whole number forms. (8 Marks)

- (b) Fitness Solution is a family owned fitness club, founded in 2010 by Peter and Albert with traditional style equipment. Club commenced operations in February 2011 within a shopping mall so that members after working out, can conveniently shop, dine, pick up their children from enrichment classes or go to the cinema.

Peter and Albert, the owners, pride themselves for providing a customized / tailored program by taking into account a person's medical history, present fitness level, fitness goals, fitness interests and offer many other small amenities that might be difficult to get in a larger Fitness Centre. They believe –

“Each individual is unique and requires a specialized program plan which should be customized and tailored to his/her needs.”

They have a number of loyal members even though it offers the traditional style equipment.

Peter and Albert take care of most of the routine operations, along with a small permanent staff, and temporary staff.

Required:

- (i) Identify at least three critical success factors for Fitness Solution.
- (ii) Construct a Balance Scorecard for Fitness Solution. (2 measures for each of the 4 perspectives are sufficient) (8 Marks)

4. (a) The following information is available:

Activity	No. of days	No. of Men Required per Day
A (1–2)	4	2
B	2	3

(1-3)		
C (1-4)	8	5
D (2-6)	6	3
E (3-5)	4	2
F (5-6)	1	3
G (4-6)	1	7

Required:

- (i) Draw the network and find the critical path.
- (ii) What is peak requirement of Manpower? On which day(s) will this occur?
- (iii) If the maximum labour available on any day is only 10, when can the project be completed?

Note: use time scale diagram (10 Marks)

- (b) Managing Director of Superb-Tech Product Ltd (STPL) thinks that Standard Costing has little to offer in the reporting of material variances due to frequently change in price of materials.

STPL can utilize one of two equally suitable raw materials and always plan to utilize the raw material which will lead to cheapest total production costs. However STPL is frequently trapped by price changes and the material actually used often provides, after the event, to have been more expensive than the alternative which was originally rejected.

During last accounting period, to produce a unit of 'X' STPL could use either 2.50 Kg of 'XG' or 2.50 kg of 'XD'. STPL planned to use

‘XG’ as it appeared it would be cheaper of the two and plans were based on a cost of ‘XG’ of Rs. 1.50 per Kg. Due to market movements the actual prices changed and if STPL had purchased efficiently the cost would have been:

‘XG’ Rs. 2.25 Kg; ‘XD’ Rs. 2.00 Kg

Production of ‘X’ was 1,000 units and usage of ‘XG’ amounted to 2,700 Kg at a total cost of Rs. 6,480/-

You are required to analyze the material variance for ‘X’ by:

- (i) Traditional Variance Analysis; and
- (ii) An approach which distinguishes between Planning and Operational Variances. (6 Marks)

5. (a) Fine Manufacturers Ltd. (FML) is specialist in the manufacturing of Industrial Products. They manufacture and market two types of products under the name ‘X’ and ‘Y’. Company produces two products from three basic raw materials ‘A’, ‘B’, and ‘C’. Company follows a 13-period reporting cycle for budgeting purpose. Each period is four weeks long and has 20 working days. Data relating to the purchase of raw materials are presented below:

Raw Material	Purchase Price (Per Kg)	Standard Purchase Lot (Kg)	Reorder Point (Kg)	Projected Inventory Status at the end of 5 th period (Kg)		Lead Time in Working Days
				On Hand	On Order	
A	Rs. 1.00	90,000	72,000	96,000	90,000	10
B	Rs. 2.00	30,000	45,000	54,000	-	30

C	Rs. 1.00	60,000	60,000	84,000	60,000	20
----------	----------	--------	--------	--------	--------	----

Past experience has shown that adequate inventory levels for 'X' and 'Y' can be maintained if 40 percent of the next period's projected sales are on hand at the end of a reporting period. Other relevant information is as follows:

Product	Raw Material Specifications			Projected Inventory Levels	Projected Sales		
	A	B	C	At the end of current (5 th) period	6 th Period	7 th Period	8 th Period
	Kg	Kg	Kg	Units	Units	Units	Units
X	1.25	0.50	-	18,000	45,000	52,500	57,000
Y	2.00	-	1.50	16,800	42,000	27,000	24,000

The sales of 'X' and 'Y' do not vary significantly from month to month. Consequently, the safety stock incorporated into the reorder point for each of the raw materials is adequate to compensate for variations in the sales of the finished products.

Raw materials orders are placed the day the quantity on hand falls below the reorder point. FML's suppliers are very trustworthy so that the given lead times are reliable.

The outstanding orders for raw materials 'A' and 'C' are due to arrive on the 10th and 4th working day of the 6th period, respectively. Payments for all raw material orders are remitted by the 10th day of the delivery.

You are required to determine the following items for raw materials 'A', 'B', and 'C' for inclusion in the 6th period report to management:

1. Projected quantities (in Kg) to be issued to production.
 2. Projected quantities (in Kg) ordered and the date (in terms of working days) the order is to be placed.
 3. The projected inventory balance (in Kg) at the end of the period.
 4. The payments for purchases with due date. (12 Marks)
- (b) State any *four* difference between Cost Control & Cost Reduction? (4 Marks)
6. (a) Aspire Ltd. has two Divisions 'Dx' and 'Dz' with full profit responsibility. The Division 'Dx' produces Component 'X' which it sells to 'outside' customers only. The Division 'Dz' produces a product called the 'Z' which incorporates Component 'X' in its design. 'Dz' Division is currently purchasing required units of Component 'X' per year from an outside supplier at market price.
- New CEO for Indian Operations has explored that 'Dx' Division has enough capacity to meet entire requirements of Division 'Dz' and accordingly he requires internal transfer between the divisions at marginal cost from the overall company's perspective.
- Manager of Division 'Dx' claims that transfer at marginal cost are unsuitable for performance evaluation since they don't provide an incentive to the division to transfer goods internally. He stressed that transfer price should be 'Cost plus a Mark-Up'.
- New CEO worries that transfer price suggested by the manager of Division 'Dx' will not induce managers of both Divisions to make optimum decisions.
- You are requested to help him out of the problem. (6 Marks)
- (b) Venus Medical Care Co. (VMCC) is operating its entire business through its four customers V_1 , V_2 , V_3 , and V_4 . V_1 and V_2 are small pharmaceutical stores while V_3 and V_4 are large discount stores with attached pharmacies. VMCC prices its products at 25% above

variable cost, although all four customers demand and receive a sizable discount off the list price.

The Finance Officer Mr. Albert has been asked to undertake a customer profitability analysis that shows the profit from each customer and each customer channel, stand-alone pharmaceuticals, and large pharmaceuticals attached to discount stores.

Mr. Albert identifies Rs.20,250 of general administration costs to small pharmaceuticals stores and Rs.48,375 of general administration costs to the large discount stores.

You are required to assist Mr. Albert in preparing a customer profitability report as desired. Also suggest some points to improve VMCC's profit.

Item	Small Pharmaceuticals		Large Pharmaceuticals		Activity Rate
	V ₁	V ₂	V ₃	V ₄	
Number of Orders	4	9	6	3	Rs.750
Order Size	Rs.40,000	Rs.20,000	Rs.4,25,000	Rs.4,00,000	n/a
Average Discount	5%	10%	18%	12%	n/a
Regular Deliveries	4	9	6	3	Rs.375
Expedited Deliveries	2	0	2	0	Rs.1,250

(10 Marks)

7. Answer any **four** of the following questions:

- How is Pareto analysis helpful in pricing of products in the case of a firm dealing with multiple products? (4 Marks)
- Discuss the benefits of Customer Profitability Analysis. (4 Marks)

(c) Classify the following items appropriately under the three measures used in the Theory of constraints:

(i) Research and Development Cost

(ii) Rental Utilities

(iii) Finished goods inventory

(iv) Depreciation

(v) Labour Cost

(vi) Stock of Raw Materials

(vii) Sales

(viii) Cost of equipment and buildings

(4 Marks)

(d) Will the solution for a minimization problem obtained by Vogel's Approximation Method and Least Cost Method be the same? Why? (4 Marks)

(e) In a 3x4 transportation problem for minimizing costs, will the R_2C_1 cell (at the intersection of the 2nd row and 1st column) always figure in the initial solution by the North West Corner Rule? Why? (4 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – II

PAPER – 6: INFORMATION SYSTEMS CONTROL & AUDIT

Question No. 1 is compulsory.

*Attempt any **five** questions from the remaining **six** Questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. ABC Industries Ltd. is a company engaged in a business of manufacturing and supply of electronic equipments to various companies in India. The company implemented an integrated E-governance system at all of its departments. The company's new business models and new methods presume that the information

required by the business managers is available all the time, it is accurate and reliable. The company is relying on Information Technology for information and transaction processing. It is also presumed that the company is up and running all time 24x7 basis. Also the company intends to keep all its records in a digitized form.

- (a) The company appoints an auditor to conduct audit of the existing Information System. What are the steps an auditor would follow to conduct the audit of Information Systems? (8 Marks)
 - (b) List down some notable issues because of which an enterprise at times fails to achieve the objectives of the system development. (6 Marks)
 - (c) What are the provisions given in Information Technology (Amendment) Act, 2008 for the retention and audit of documents etc. in electronic form? (6 Marks)
2. (a) Discuss Information System and its components. What are the activities carried out by Information System in general? (8 Marks)
- (b) Differentiate between Backup Plan and Recovery Plan. (4 Marks)
 - (c) Discuss strengths and weaknesses of Agile Model. (4 Marks)
3. (a) What do you understand by the term "Green IT"? Discuss some of the steps included for Green IT. (8 Marks)
- (b) What do you understand by the term "Risk Assessment" in terms of Network Security?
 - (c) Discuss Integration Testing and its types. (4 Marks)
4. (a) Discuss Boundary Controls and their techniques. (8 Marks)
- (b) Explain the key functions of IT Steering Committee in brief. (4 Marks)
 - (c) Differentiate between Physical Access Controls and Logical Access Controls. (4 Marks)
5. (a) What is COBIT 5? Why is there a need of enterprises to use

COBIT 5? (8 Marks)

(b) What are the limitations of Management Information System (MIS)? (4 Marks)

(c) Discuss different stages of Business Continuity Management (BCM) Process.

(4 Marks)

6. (a) Discuss different controls for environmental Exposures. (8 Marks)

(b) Differentiate between Control Risk and Detection Risk. (4 Marks)

(c) An enterprise ABC plans to conduct audit in its enterprise. List down some points for audit of Environmental controls that an auditor would consider in his/her checklist while conducting the audit. (4 Marks)

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

(a) Strategic Planning

(b) Backup Controls

(c) Limitations of continuous audit techniques

(d) ISO 27001

(e) Characteristics of Cloud Computing. (4 × 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL: GROUP – II

PAPER – 7: DIRECT TAX LAWS

Question 1 is compulsory

*Answer any **five** questions from the remaining **six** questions.*

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Mr. Shivpal, aged 66 years, running business as a proprietor furnishes the particulars of his income for the year ended 31.03.2015 as under:

(i) Net Profit of Rs. 3,35,500 from the wholesale business of textiles and fabrics arrived at after charge of following expenses in the Profit & Loss Account:

(a) Personal travelling expenses of Rs. 12,750.

(b) Purchase of furniture items for shop on 13.6.2014 of Rs. 25,000 but charged in shop expenses.

(ii) He owns a house of two storeys constructed with financial assistance of HDFC out of which ground floor is used by him for self use and first floor was on rent for Rs. 8,500 p.m. from April, 2014. The municipal tax paid for the whole house was of Rs. 2,500 and interest paid on housing loan taken for the construction was Rs. 52,000. Both the floors of the house are identical.

(iii) He had deposited insurance premium on the life of self of Rs. 12,500, wife Rs. 13,500, son and daughter of Rs. 28,000, made investment of Rs. 50,000 in the bonds issued by NABARD and paid Rs. 22,500 by credit card for his mediclaim insurance.

Compute taxable income and the amount of tax payable by Mr. Shivpal on such income for the Assessment Year 2015-16. (6 Marks)

(b) Mr. Thakur transferred 2,000 debentures of Rs. 100 each of Wild Tiger Ltd. to his wife Mrs. Sushma Thakur on 3.10.2012 without consideration. The company paid interest of Rs. 30,000 in September, 2014 which was deposited by Mrs. Thakur with Sridhar Finance Co. in October, 2014. Sridhar Finance Co. paid interest of

Rs. 3,000 upto March, 2015. How would both the interest income be charged to tax in A.Y. 2015-16? (4 Marks)

- (c) Mr. Gupta, a Chartered Accountant and citizen of India after serving 16 years in Canada returned back on 12.4.2014 for permanent settlement in Delhi started professional practice, furnishes value of his all assets and liabilities held on 31.3.2015 and request you to compute his net wealth as on valuation date 31.3.2015.

	Particulars	Rs. (In lacs)
(i)	Cars used for professional work	25
(ii)	Cars used for personal purposes	15
(iii)	Laptop used for personal purposes	1
(iv)	Desktop/Scanner/Printer used in Office for professional work	2
(v)	Bank Term Deposits	10
(vi)	Shares of listed and unlisted various companies	5
(vii)	Loan against the car used for professional work	5
(viii)	Urban land purchased in the name of handicapped son (Minor)	3

- (ix) Jewellery valuing now Rs. 5 lacs purchased out of money from NRE account on 1.12.2013
- (x) House property valuing now Rs. 40 lacs purchased on 11.10.2010 from the funds in NRE account was given on rent to a corporate house on 1.7.2014.
- (xi) Amount of Rs. 2,00,000 was withdrawn from bank on 27.3.2015 for a deal of a house which could not be materialized and therefore the cash was deposited back in bank on 2.4.2015.

(xii) Jewellery worth Rs. 2 lacs was gifted on 22.3.2015 to wife on the occasion of 25th marriage anniversary. (10 Marks)

2. The net profits of TPO Ltd. for the year ended 31st March, 2015, after debiting/crediting the following items, were Rs. 9 Lacs:

- (i) The company had taken on lease an old building for the purposes of locating its business. Due to old age of the building, it was demolished and a new building put up, which was used for purposes of TPO's business from September, 2014. The cost of the new building Rs. 10 Lacs was written off as revenue expenditure. The lessor permitted the company to have an extension of the lease by another twenty years.
- (ii) Rs. 1 Lac was paid as an annual fee for technical services to a foreign collaborator under an agreement approved by the Government.
- (iii) The company collected Rs. 3 Lacs from its customers by way of sales tax in the year 2010-11 and had remitted it to the State Government in due time. On the levy being challenged in the High Court, the Court held the collection as illegal and the State Government in February, 2015 refunded the amount to the company.
- (iv) Land development charges of Rs. 1.5 Lacs were paid to the State Industrial Development Corporation on allotment of a commercial plot.
- (v) A criminal case was filed against a Director of the company, in his official capacity. The company spent legal expenses of Rs. 50,000 defending him in the proceedings. The Director was acquitted of the charges at the end.
- (vi) The company issued in the year bonus shares to its shareholders and for that purpose fees of Rs. 1.5 Lacs were paid to the Registrar of Companies. These have been written off in the accounts as revenue expenses.

- (vii) The company paid Rs. 70,000 as interest on deposits to some of the non-resident buyers on advances received from them. No tax at source was deducted on the payment.
- (viii) Overdraft interest of Rs. 40,000 was paid to the company's bank to enable the company to pay its income tax dues.
- (ix) The opening and closing stocks of the year were Rs. 90,000 and Rs. 1,17,000 respectively and were undervalued by 10% on cost.
- (x) Some investments were held by the company (not as stock in trade), which had to be depreciated by Rs. 4.8 Lacs due to a directive from the Government.

The balance on 1st April, 2014 to the Profit and Loss Account, shown separately in the Balance Sheet, was a debit of Rs. 2 Lacs.

The company had the following claims brought forward from the prior years:

Business losses relating to	
Assessment year 2006-07	Rs. 8 Lacs
Assessment year 2012-13	Rs. 4 Lacs
Long-term losses under the head capital gains -	
Assessment year 2013-14	Rs. 3 Lacs
Unabsorbed depreciation	
(Both as per income-tax records and books of account of the company)	Rs. 12.50 Lacs

You are required to:

- (i) Calculate the total income of TPO Ltd. for the assessment year 2015-16 [Your answer should clearly indicate the reasons for the treatment of the individual items given above.]
 - (ii) Examine the applicability of section 115JB of the Income-tax Act, 1961 to the company for the same assessment year. (16 Marks)
3. (a) M/s. Bajrangi Enterprises, a partnership firm constituted by a

doctor and a non-doctor engaged in running a multispeciality hospital, seeks your opinion in the context of provisions of the Act as to allowability/chargeability of the following transactions for preparing its return for A.Y. 2015-16:

- (i) Depreciation on the instruments, imported from U.K. for Rs. 2 lacs cleared by customs on 22.3.2015 on payment of duty of Rs. 1 lac, installed and ready for use on 26.3.2015. Only one operation with the help of such instruments was performed till 31.3.2015.
 - (ii) The book profits calculated as per section 40(b) are Rs. 3 lacs and payment of salary to working partners was Rs. 1 lac. Clause for payment of salary to working partners though appears in the deed, but the same is silent as to quantum and the manner of distribution.
 - (iii) Salary of Rs. 10,000 p.m. paid to the wife of a partner for working as an anesthetist. The normal salary of an anesthetist in the town is Rs. 7,500 p.m. or less.
 - (iv) Purchase of medicines in cash on 18.12.2014 for Rs. 35,000.
 - (v) Capital expenditure of Rs. 10,000 incurred for promoting family planning amongst its employees.
 - (vi) Interest of Rs. 3,000 paid on an overdraft of Rs. 1 lac taken for making payment of installment of advance tax of Rs. 1.25 lacs. (6 Marks)
- (b) Raman has been in the service of a private company since 1st January, 1997, in Delhi. During the financial year ending 2014-15 up to the date of retirement, he received from the company, salary @ Rs. 12,000 p.m., dearness allowance @ Rs. 2,000 p.m., city compensatory allowance @ Rs. 300 p.m., entertainment allowance @ Rs. 1,000 per month and house rent allowance @ Rs. 4,000 p.m. He resides in the house property owned by his HUF for which he pays a rent of Rs. 4,500 p.m. He contributes Rs. 1,400 p.m. to the recognized provident fund. The company is also contributing an equal amount.

Raman retired from the service of the company on 31.12.2014 when he was paid a gratuity of Rs. 80,000 and pension of Rs. 6,000 p.m. He is not covered under the Payment of Gratuity Act, 1972. On 1.2.2015, he got one-half of the pension commuted and received Rs. 1,80,000 as commuted pension. He also received Rs. 3,00,000 as the accumulated balance of the recognised provident fund.

Compute his income under the head salary for the A.Y. 2015-16. (6 Marks)

- (c) Garima, a chartered accountant, is presently working in a firm in India. She has received an offer for the post of Chief Financial Officer from a company at Australia. As per the offer letter, she should join the company at any time between 1st September, 2014 and 31st October, 2014. She approaches you for your advice on the following issues to mitigate her tax liability in India:

- (i) Date by which she should leave India to join the company;
- (ii) Direct credit of part of her salary to her bank account in Kolkata maintained jointly with her mother to meet requirement of her family;
- (iii) Period for which she should stay in India when she comes on leave. (4 Marks)

4. (a) S Limited was amalgamated with A Limited on 01.04.2014. All the conditions of section 2(1B) were satisfied.

S Limited has the following carried forward losses as assessed till the Assessment Year 2014-15:

	Particulars	Rs.(in lacs)
(i)	Speculative Loss	4
(ii)	Unabsorbed Depreciation	18
(iii)	Unabsorbed expenditure of capital nature on scientific research	2
(iv)	Business Loss	120

A Limited has computed a profit of Rs. 140 lacs for the financial year 2014-15 before setting off the eligible losses of S Limited but after providing depreciation at 15% per annum on Rs. 150 lacs, being the consideration at which plant and machinery were transferred to A Limited. The written down value as per income-tax record of S Limited as on 31st March, 2014 was Rs. 100 lacs.

The above profit of A Limited includes speculative profit of Rs. 10 lacs.

Compute the total income of A Limited for Assessment Year 2015-16 and indicate the losses/other allowances to be carried forward by it. (8 Marks)

- (b) Shivani, an individual resident retired employee of the Broadcast Ltd. aged 60 years, is a well-known dramatist deriving income of Rs. 1,10,000 from theatrical works played abroad. Tax of Rs. 11,000 was deducted in the country where the plays were performed. India does not have any Double Tax Avoidance Agreement under section 90 of the Income-tax Act, 1961, with that country. Her income in India amounted to Rs. 5,10,000. In view of tax planning, she has deposited Rs. 1,50,000 in Public Provident Fund and paid contribution to approved Pension Fund of LIC Rs. 32,000. She also contributed Rs. 18,000 to Central Government Health Scheme during the previous year and gave payment of medical insurance premium of Rs. 21,000 to insure the health of her father, a non-resident aged 84 years, who is not dependent on her. Compute the tax liability of Shivani for the Assessment year 2015-16. (8 Marks)

5. Attempt any four questions out of the following questions:

- (a) Prem, Managing Director of Heera Engg. Pvt. Ltd. holds 70% of its paid up capital of Rs. 20 Lacs. The balance as at 31.03.2014 in General Reserve was Rs. 6 Lacs. The company on 1.07.2014 gave an interest-free loan of Rs. 5 Lacs to its Supervisor having salary of Rs. 4,000 p.m., who in turn on 15.8.2014 advanced the

said amount of loan so taken from the company to Shri Prem. The Assessing Officer had taxed the amount of advance in the hands of Prem. Is the action of Assessing Officer correct?

- (b) Sohan had taken a loan under registered mortgage deed against the house, which was purchased by him on 26.03.1981 for Rs. 5 lacs. The said property was inherited by his son Arjun in financial year 2008-09 as per Will.

For obtaining a clear title thereof, Arjun paid the outstanding amount of loan on 12.02.2009 of Rs. 15 lacs. The said house property was sold by Arjun on 16.03.2015 for Rs. 50 lacs. State with reasons the amount chargeable to capital gains for A.Y. 2015-16

(Cost Inflation Index 2008-09: 582 and 2014-15: 1024).

- (c) A charitable trust registered under section 12AA of the Income-tax Act, 1961 has, out of its income of Rs. 3,90,000 for the year ending 31.3.2015 and sale proceeds of a capital asset, held by it for less than 36 months, amounting to Rs. 9,60,000, purchased a building during the year ending 31.3.2015 for Rs. 13,50,000. The capital asset was sold during the year ending 31.3.2015. The building is held only for charitable purposes. The trust claims that the purchase of the building amounts to application of its income for charitable purposes and that the capital gain arising on the sale of the capital asset is deemed to have been applied to charitable purposes. Is the claim made by the charitable trust valid in law?
- (d) Trustworthy Agency is a partnership firm consisting of father and three major sons. The partnership deed provided that after the death of father, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to the mother. Father died in March, 2014. In the previous year 2014-15, the reconstituted firm paid Rs. 1 lakh (equivalent to 20% of the profits) to the mother and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm.

- (e) A company which is entitled to claim deduction under section 80-IB has received duty drawback under a scheme framed by the Central Government under the Customs Act, 1962. Can such duty drawback form part of the profit of eligible undertaking for the purpose of deduction under section 80-IB? *(4 × 4 = 16 Marks)*
6. (a) Rakesh, an individual resident in India, bought 1,000 equity shares of Rs. 10 each of P Ltd. at Rs. 50 per share on 30.5.2014. He sold 700 equity shares at Rs. 35 per share on 30.9.2014 and the remaining 300 shares at Rs. 25 per share on 20.12.2014. P Ltd. declared a dividend of 50%, the record date being 10.8.2014. Rakesh sold on 1.2.2015, a house from which he derived a long-term capital gain of Rs. 75,000. Compute the amount of capital gain arising to Rakesh for the assessment year 2015-16. *(6 Marks)*
- (b) M/s. Worldwide Airlines incorporated as a company in USA operated its flights to India and vice versa during the year 2014-15 (April, 2014 to March, 2015) and collected charges of Rs. 125 lacs for carriage of passengers and cargo out of which Rs. 65 lacs were received in U.S Dollars for the passenger fare booked from New York to Mumbai. The total expenses for the year on operation of such flights were Rs. 195 lacs. Compute the income chargeable to tax of the foreign airlines. *(5 Marks)*
- (c) TRP Co. Ltd engaged in manufacture of boilers received a subsidy of Rs. 20 Lacs from the Government for having commenced an industry in a backward area. The assessee claims that the subsidy so received is not liable to tax and accordingly credited the subsidy directly to capital reserve account. Is the contention of assessee, valid in law? *(5 Marks)*
7. (a) An assessment was completed by the Assessing Officer under section 143(3) on the basis of return submitted and other information furnished by the assessee. The Assessing Officer accepted the cost of the land after waiting for a reasonable period for report of the valuation officer to whom a reference was made. Subsequent to receiving the report from the valuer, it revealed that

there was a variation by about Rs. 3.00 lacs. On the basis of this valuation report, the Commissioner issued notice under section 263 to set aside the completed assessment. Justify the action of the Commissioner.

- (b) The Director General of Income Tax after getting the information that Mr. Mayank is in possession of unaccounted cash of Rs. 50 lacs, issued orders by invoking powers vested in him as per section 131(1A), for its seizure. Is the order for seizure of cash issued by the Director General of Income Tax correct? If not, does the Director General of Income Tax have any other power to seize such cash?
- (c) Does the Settlement Commission have jurisdiction to entertain an application made under section 245C(1) in respect of a case covered by Chapter XIV-B (Search and seizure case).
- (d) Timepass Airways Ltd. sold tickets to the travel agents in India at a minimum fixed commercial price. The agents were permitted to sell the tickets at a higher price, however, up to a maximum of published price. Commission at the rate of 9% of published price was payable to the agents of the airlines company, on which tax was deducted under section 194H by the company. The Assessing Officer raised the issue of further liability of tax deduction at source on the amount of difference between the published price and the minimum fixed commercial price by treating it as "additional special commission" in the hands of the agents.

Whether the contention raised by the Assessing Officer is tenable in law? Critically examine. (4 x 4 = 16 Marks)

Test Series: February, 2015

MOCK TEST PAPER – 1

FINAL COURSE: GROUP – II

PAPER – 8: INDIRECT TAX LAWS

Question No. 1 is compulsory.

Attempt any five questions from the remaining six Questions.

(Wherever appropriate, suitable assumption should be made and indicated in the answer by the candidate)

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Star & Company, a small scale manufacturing unit, provides the following details.

	Particulars	Rs. (Lakhs)
(i)	Total value of clearances during the financial year 2013-14 (including VAT Rs. 60 lakhs)	910
(ii)	Total exports (including Nepal and Bhutan Rs. 200 lakhs)	500
(iii)	Clearances of excisable goods without payment of duty to a unit in Software Technology Park	40
(iv)	Job work under Notification No. 84/94-CE dated 11.4.94	60
	Job work under Notification No. 214/86-CE dated 25.3.86	50
(v)	Clearances of excisable goods bearing brand name of Khadi and Village Industries Commission	200

Clearances at point (ii), (iii), (iv) and (v) are included in clearances at point (i).

Determine the eligibility for exemption based on value of clearances for the financial year 2014-15 in terms of Notification No. 8/2003-CE dated 1.3.2003 as amended. Make suitable

assumptions and provide brief reasons for your answers where necessary. (5 Marks)

- (b) (i) Compute the value of taxable service and service tax liability from the following particulars:

Services rendered	Amount (Rs.)
Sale of space for advertisement in newspaper	75,000
Services related to preparation of advertisement	70,000
Sale of time for advertisement to be broadcast on radio	80,000
Advertising via banners at public places	90,000
Sale of time for advertisement to be broadcast on TV Channel	1,10,000
Sale of space for advertisement in yellow pages	15,000
Advertising via aerial bill-boards	50,000
Canvassing advertisement for publishing on a commission basis	35,000

Notes:

- All the charges stated above are exclusive of service tax.
 - Small service providers' exemption under Notification No. 33/2012 – ST dated 20.06.2012, need not be taken into account while solving the aforesaid question. (6 Marks)
- (ii) Nice Oil Corporation [NOC] has awarded a contract for Rs. 150 lakh to PQR Construction Ltd. in respect of alterations to one of its buildings which was abandoned by ROC five years ago. The purpose is to make the said building workable. The materials required for carrying out the alterations is provided by PQR Construction Ltd. Are the services of PQR Construction Ltd. subject to service tax and if so, determine the amount of service tax payable? (4 Marks)

- (c) Miss Sarita imported certain goods weighing 1,000 kgs with CIF value US\$ 50,000. Exchange rate was 1 US\$ = Rs. 50 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.

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 Sarita.

Note: Goods imported are exempt from payment of additional duty under section 3(5) of Customs Tariff Act. (5 Marks)

2. (a) An assessee sold certain goods to ABC Ltd. for Rs. 30,000 (excluding excise duty and other taxes) on 15.10.2014. The buyer, ABC Ltd., is a related person as defined under section 4(3)(b) of the Central Excise Act, 1944. It did not sell the goods, but used it as intermediary product. The cost of production of the said goods determined as per CAS-4 was Rs. 14,000. Determine the assessable value in the given case. (4 Marks)
- (b) Mr. Y starts an advertising agency on April 1, 2014. The details of the bills raised by him during April to June, 2014 are given as under:

Bill No.	Date	Value of taxable services (Rs.)
1.	05.04.2014	82,500
2.	11.04.2014	95,000
3.	18.04.2014	1,65,000
4.	28.04.2014	95,000

5.	13.05.2014	2,75,000
6.	15.05.2014	1,68,000
7.	30.05.2014	1,07,000
8.	01.06.2014	82,500
9.	17.06.2014	79,200
10.	25.06.2014	43,100

Mr. Y applies for registration on 22.08.2014. Is Mr. Y at any default? If yes, what is the maximum amount of penalty leviable under section 77(1)(a) of the Finance Act, 1994?

Note: Mr. Y. avails all the exemptions, whichever are applicable in his case.

(8 Marks)

- (c) With reference to drawback on re-export of duty paid imported goods under section 74 of the Customs Act, 1962, answer in brief the following questions:
- What is the time limit for re-exportation of goods as such?
 - What is the rate of duty drawback if the goods are exported without use?
 - Is duty drawback allowed on re-export of wearing apparel without use?

(4 Marks)

3. (a) Bodycare Ltd. is manufacturer of patent and proprietary medicines. Physician samples were distributed to medical practitioners as free samples. The Central Excise Department raised the demand of excise duty on such samples.

The assessee contended that since the sale of the physician samples was prohibited under the Drugs and Cosmetics Act, 1940 and the rules made thereunder, the same could not be considered to be marketable and hence were not liable to excise duty.

Examine, with the help of a decided case law, whether the contention of the assessee is valid in law. (4 Marks)

- (b) Mr. X, a registered service provider failed to discharge his service tax on due date on account of a mishappening in his family. However, he paid both service tax and interest for delayed payment before issue of show cause notice under the Finance Act, 1994. Subsequently, the Department initiated penal proceedings against Mr. X for recovery of penalty under section 76 for delayed payment of service tax.

Discuss, with the help of a decided case law, if any, whether the penal proceeding initiated by the Department is justified. (8 Marks)

- (c) M/s. Island Exports, an EOU, is purchasing electricity generated by the captive power plant of its sister unit. The furnace oil required for running the captive power plant was imported by the assessee (M/s. Island Exports) and supplied to sister unit for generation of electricity. The assessee claimed exemption on import of furnace oil under the relevant exemption notification.

The assessee had sought a clarification from the Development Commissioner seeking as to whether import of furnace oil and receipt of electricity would be liable to duty. The Development Commissioner replied in favour of the assessee and thereafter, the assessee claimed the exemption.

A show cause notice demanding duty was issued on the assessee invoking extended period of limitation of 5 years on grounds that the entitlement of duty free import of fuel for its captive power plant lies with the owner of the captive power plant, and not with the consumer of electricity generated from that power plant.

Is the action of the Department in invoking the extended period of limitation justified in light of the provisions of the Customs Act, 1962? Discuss with the help of a decided case law. (4 Marks)

4. (a) Explain the provisions relating to submission of Information Return to prescribed authority under Central Excise Act, 1944. (4 Marks)

- (b) With reference to the position of service tax law as applicable on or after 01.08.2014, determine the applicability of service tax in each of the following independent cases:
- (i) External asset management services received by Reserve Bank of India from overseas financial institutions.
 - (ii) Service provided by an Indian tour operator to Mr. A, a Japanese National, for a tour conducted in Europe.
 - (iii) Services provided to a Higher Secondary School affiliated to CBSE Board by an IT company in relation to development of a software to be used for enhancing the quality of classroom teaching. (8 Marks)
- (c) Explain with reference to the Customs Act, 1962, the conditions to be fulfilled for filing application to Settlement Commission. (4 Marks)
5. (a) What is the remedy available with the Department when the Central Excise Officer does not find the self assessment by the assessee in order? (4 Marks)
- (b) Comment on the applicability of service tax, in the following cases:
- (i) Service provided by a private transport operator to Bright Girls Higher Secondary School in relation to transportation of students to and from the school.
 - (ii) Services provided by way of vehicle parking to general public in a shopping mall.
 - (iii) Service provided by way of repair or maintenance of an aircraft owned by a State Government.
 - (iv) Exhibiting movies on television channels. (8 Marks)
- (c) *When shall the safeguard duty under section 8B of the Customs Tariff Act, 1975 be not imposed? Discuss briefly.* (4 Marks)
6. (a) Which reasons shall not be considered as special and adequate reasons for awarding sentence of imprisonment for a term of less than six months as per section 9(3) of the Central Excise Act,

1944?

(4 Marks)

Or

Write a brief note on the warehousing procedure for goods removed from the factory under the Central Excise Act, 1944 and the rules made thereunder. (4 Marks)

- (b) A co-operative society rendered rent-a-cab service to M/s. SPTO. The members of the society were essentially agriculturists who formed the society after they lost their land when SPTO plant was being set up and the society was operating without any profit model. When the society started rendering the service to SPTO, there was no service tax levy on rent-a-cab service. However, service tax was imposed on it subsequently. A show cause notice was issued to the society proposing to recover service tax with applicable penalty.

The society paid the entire disputed amount of service tax and thereafter regularly paid the service tax but did not pay the penalty contending that it was a case of new levy and also there were divergent views of different Benches of Tribunal, which had added to the confusion. The issue was debated also with SPTO, the service receiver, who first denied to pay the amount of tax.

Decide, with the help of a case law, whether the contention of the assessee is acceptable in law. Discuss in brief the various observations which can be made on the issue. (8 Marks)

- (c) LM Corporation, a merchant exporter, procured order of goods from a customer in USA. It approached ST Corporation, a manufacturer, for execution of the said order. The shipping bills relating to the consignment bear the name of LM Corporation. Bank Realization Certificate, GR declaration, export order and invoice are also in the name of LM Corporation. Comment whether ST Corporation would be deemed as the exporter under FTP. (4 Marks)

7. (a) Mention the power of Settlement Commission to grant immunity

from prosecution and penalty under section 32K of the Central Excise Act, 1944. *(4 Marks)*

- (b) (i) Krishna Ltd. provided services to Shiv Oil Corporation from vessels located in the continental shelf of India for the purposes of prospecting natural gas. State briefly whether service tax will be levied in this case. *(4 Marks)*
- (ii) On whom is the advance ruling pronounced by the Advance Ruling Authority under service tax binding? *(4 Marks)*
- (c) What are the salient features of Duty-Free Import Authorization Scheme (DFIA)? Which duties are exempted under this scheme? *(4 Marks)*