Test Series: March, 2015

MOCK TEST PAPER – 2

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) Cost of a machine acquired on 01.04.2011 was Rs. 5,00,000. The machine is expected to realize Rs. 50,000 at the end of its working life of 10 years. Straight-line depreciation of Rs. 45,000 per year has been charged upto 2013-2014. For and from 2014-15, the company switched over to 15% p.a. reducing balance method of depreciation in respect of the machine. The new rate of depreciation is based on revised useful life of 15 years. The new rate shall apply with retrospective effect from 01.04.2011. State how would you deal with the above in the annual accounts of the Company for the year ended 31st March, 2015 in the light of AS 5.

   (b) Prakash Ltd. purchased fixed assets costing Rs. 5,000 lakh on 01.04.2014 payable in foreign currency (US$) on 05.04.2015. Exchange rate of 1 US$ = Rs. 50.00 and Rs. 54.98 as on 01.04.2014 and 31.03.2015 respectively.

   The company also obtained a soft loan of US$ 1 lakh on 01.04.2014 payable in three annual equal instalments. First instalment was due on 01.05.2015.

   You are required to state, how these transactions would be accounted for in the books of accounts ending 31st March, 2015.

   (c) Giant Ltd. is manufacturing excisable goods for local sale and exports. As on 31st March, 2015, it has the following finished inventory in the factory warehouse:

   (i) Goods meant for local sales Rs. 100 lakhs (cost Rs. 75 lakhs)

   (ii) Goods meant for exports, under Rule 19, Rs. 50 lakhs (cost Rs. 20 lakhs)

   Excise duty is payable at the rate of 12.5%. The company's Managing Director says that excise duty is payable only on clearance of goods and hence not a cost. Please advise Giant using guidance note, if any issued on this, including valuation of inventory.

   (d) V Ltd. purchased goods on credit from L Ltd. for Rs. 250 crores for export. The export order was cancelled. V Ltd. decided to sell the same goods in the local market with a price discount. L Ltd. was requested to offer a price discount of 15%. The Chief Accountant of L Ltd. wants to adjust the sales figure to the extent of the discount requested by V Ltd. Discuss whether this treatment is justified.

(4 × 5 = 20 Marks)

2. On the basis of the following information, calculate the value of goodwill of Worth Ltd. at three years' purchase of super profits, if any, earned by the company in the previous four completed accounting years.

Draft Balance Sheet of Gee Ltd. as at 31st March, 2015

Liabilities	Rs.in lakhs	Assets	Rs. in lakhs
Share Capital:		Goodwill	310
Authorised	7,500	Land and Buildings	1,850
Issued and Subscribed		Machinery	3,760
5 crore equity shares of Rs. 10 each, fully paid up	5,000	Furniture and Fixtures	1,015
		Patents and Trade Marks	32
Capital Reserve	260	9% Non-trading Investments	600
General Reserve	2,543	Stock	873
Surplus i.e. credit balance of Profit and Loss (appropriation) A/c	457	Debtors	614
		Cash in hand and at bank	546
Trade Creditors	568		
Provision for Taxation (net)	22		
Proposed Dividend for 2013-2014	750		
	9,600		9,600

The profits before tax of the four years have been as follows:

Year ended 31st March	Profit before tax in lakhs of Rupees
2011	3,190
2012	2,500
2013	3,108
2014	2,900

The rate of income tax for the accounting year 2010-2011 was 40%. Thereafter it has been 38% for all the years so far. But for the accounting year 2014-2015 it will be 35%.

In the accounting year 2010-2011, the company earned an extraordinary income of Rs. 1 crore due to a special foreign contract. In August, 2011 there was an earthquake due to which the company lost property worth Rs. 50 lakhs and the insurance policy did not cover the loss due to earthquake or riots.

9% Non-trading investments appearing in the above mentioned Balance Sheet were purchased at par by the company on 1st April, 2012.

The normal rate of return for the industry in which the company is engaged is 20%. Also note that the company's shareholders, in their general meeting have passed a resolution sanctioning the directors an additional remuneration of Rs. 50 lakhs every year beginning from the accounting year 2014-2015. *(16 Marks)*

3. The summarised Balance Sheets of R Ltd. and P Ltd. for the year ending on 31.3.2014 are as under:

	R Ltd. Rs.	P Ltd. Rs.		R Ltd. Rs.	P Ltd. Rs.
Equity share Capital (in shares of Rs. 10 each)	24,00,000	12,00,000	Fixed Assets	55,00,000	27,00,000
			Current Assets	25,00,000	23,00,000
8% Preference Share Capital (in shares of Rs. 10 each)	8,00,000	–			
10% Preference Share Capital (in shares of Rs. 10 each)	–	4,00,000			
Reserves	30,00,000	24,00,000			
Current Liabilities	18,00,000	10,00,000			
	80,00,000	50,00,000		80,00,000	50,00,000

The following information is provided:

			R Ltd. Rs.	P Ltd. Rs.
(1)	(a)	Profit before tax	10,64,000	4,80,000
	(b)	Taxation	4,00,000	2,00,000

	(c)	Preference dividend	64,000	40,000
	(d)	Equity dividend	2,88,000	1,92,000

(2) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

(3) R Ltd. proposes to absorb P Ltd. as on 31.3.2014. The terms of absorption are as under:

(a) Preference shareholders of P Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of P Ltd. by 10%.

(b) The equity shareholders of P Ltd. will receive equity shares of R Ltd. on the following basis:

(i) The equity shares of P Ltd. will be valued by applying to the earnings per share of P Ltd. 75% of price earnings ratio of R Ltd. based on the results of 2013-2014 of both the companies.

(ii) The market price of equity shares of R Ltd. is Rs. 40 per share.

(iii) The number of shares to be issued to the equity shareholders of P Ltd. will be based on the above market value.

(iv) In addition to equity shares, 8% preference shares of R Ltd. will be issued to the equity shareholders of P Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-2014.

(4) The assets and liabilities of P Ltd. as on 31.3.2014 are revalued by professional valuer as under:

	Increased by Rs.	Decreased by Rs.
Fixed Assets	1,00,000	–
Current Assets	–	2,00,000
Current Liabilities	–	40,000

(5) For the next two years, no increase in the rate of equity dividend is expected.

You are required to:

(i) Set out in detail the purchase consideration.

(ii) Give the Balance Sheet as on 31.3.2014 after absorption.

Note: Journal entries are not required. *(16 Marks)*

4. (a) Prepare a value added statement for the year ended on 31.03.2015 and reconciliation of total value added with profit before taxation, from the profit and loss account of Heaven Ltd. for the year ended on 31-03-2015.

Income:	(Rs. in lakhs)
Sales	254.00
Other income	6.00
Total	260.00
Expenditure:	
Operating cost	222.00
Excise duty	11.20
Interest on bank overdraft	1.00
Interest on 9% debentures	15.00
	249.20
Profit before depreciation	10.80
Depreciation	4.10
Profit before tax	6.70
Provision for tax	(2.40)
Profit after tax	4.30
Proposed dividend	(0.30)
Retained profit	4.00

The following additional information are given:

(i) Sales represents net sales after adjusting discounts, returns and sales tax.

(ii) Operating cost includes Rs. 82.00 lakhs as wages, salaries and other benefits to employees.

(iii) Bank overdraft is temporary. *(12 Marks)*

(b) Generous Bank has a criterion that it will give loans to companies that have an "Economic Value Added" greater than zero for the past three years on an average. The bank is considering lending money to a small company that has the economic value characteristics shown below. The data relating to the company is as follows:

(i) Average operating income after tax equals Rs. 25,00,000 per year for the last three years.

(ii) Average total assets over the last three years equals Rs. 75,00,000.

(iii) Weighted average cost of capital appropriate for the company is 10% which is applicable for all three years.

(iv) The company's average current liabilities over the last three years are Rs. 15,00,000.

Does the company meet the bank's criterion for a positive economic value added?

(4 Marks)

5. (a) On 1st April, 2014, a company offered 100 shares to each of its 500 employees at Rs. 50 per share. The employees are given a month to decide whether or not to accept the offer. The shares issued under the plan (ESPP) shall be subject to lock-in on transfers for three years from grant date. The market price of shares of the company on the grant date is Rs. 60 per share. Due to post-vesting restrictions on transfer, the fair value of shares issued under the plan is estimated at Rs. 56 per share.

On 30th April, 2014, 400 employees accepted the offer and paid Rs. 50 per share purchased. Nominal value of each share is Rs. 10.

Record the issue of shares in the books of the company under the aforesaid plan.

(b) General Financiers Ltd. is an NBFC providing Hire Purchase Solutions for acquiring consumer durables. The following information is extracted from its books for the year ended 31st March, 2014:

Asset Funded	*Interest Overdue but recognized in Profit & loss*		*Net Book Value of Assets outstanding*
	Period Overdue	*Interest Amount*	
		(Rs. in crore)	*(Rs. in crore)*
LCD Televisions	Upto 12 months	480.00	20,123.00
Washing Machines	For 24 months	102.00	2,410.00
Refrigerators	For 30 months	50.50	1,280.00
Air Conditioners	For 45 months	26.75	647.00

You are required to calculate the amount of provision to be made. *(8+8=16 Marks)*

6. Aman Limited purchased 48,000 shares in Shanti Limited on 31st March 2013, at 50% premium over face value by issue of 8% Debentures at 20% premium. The Balance Sheets of Aman Limited and Shanti Limited as on 31-03-2013, i.e., on the date of purchase were as under:

(in Rs.)

Liabilities	*Aman Ltd.*	*Shanti Ltd.*	*Assets*	*Aman Ltd.*	*Shanti Ltd.*

Share capital of Rs. 10 each	10,50,000	6,00,000	Fixed Assets	6,50,000	2,00,000
General Reserve	1,20,000	40,000	Inventory in Trade	3,00,000	1,80,000
Profit and Loss A/c	80,000	-	Trade receivables	3,40,000	2,10,000
Trade payables	1,00,000	60,000	Cash in hand	60,000	30,000
			Profit and Loss A/c	-	80,000
	13,50,000	7,00,000		13,50,000	7,00,000

(a) Particulars of Aman Limited:

(i) Profits made: 2013-14 Rs. 1,60,000

2014-15 Rs. 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.

(b) Particulars of Shanti Limited:

The company incurred losses of Rs. 40,000 and Rs. 60,000 in 2013-2014 and 2014-2015 after charging depreciation of 10% p.a. on the book value of Fixed Assets as on 01-04-2013.

Prepare Consolidated Balance Sheet of Aman Limited and its subsidiary as at 31st March, 2015 as per requirement of Schedule III. *(16 Marks)*

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

(a) V Ltd. received a specific grant of Rs. 30 lakhs for acquiring the plant of Rs. 150 lakhs during 2011-12 having useful life of 10 years. The grant received was credited to deferred income in the balance sheet. During 2014-15, due to non-compliance of conditions laid down for the grant, the company had to refund the whole grant to the Government. Balance in the deferred income on that date was Rs. 21 lakhs and written down value of plant was Rs. 105 lakhs.

(i) What should be the treatment of the refund of the grant and the effect on cost of the fixed asset and the amount of depreciation to be charged during the year 2014-15 in profit and loss account?

(ii) What should be the treatment of the refund, if grant was deducted from the cost of the plant during 2011-12 assuming plant account showed the balance of Rs. 84 lakhs as on 1.4.2014?

(b) Differentiate the following items with reference to AS (applicable in India) and IFRS:

(i) Presentation of associate results;

(ii) Definition of joint venture;

(iii) Definition of subsidiary.

(c) Discuss the concept of cost v/s fair value with reference to Accounting Standards.

(d) A company has a capital base of Rs. 1 crore and has earned profits to the tune of Rs. 11 lakhs. The Return on Investment (ROI) of the particular industry to which the company belongs is 12.5%. If the services of a particular executive are acquired by the company, it is expected that the profits will increase by Rs. 2.5 lakhs over and above the target profit.

Determine the amount of maximum bid price for that particular executive and the maximum salary that could be offered to him.

(e) Flat Ltd. purchased raw material @ Rs. 400 per kg. Company does not sell raw material but uses in production of finished goods. The finished goods in which raw material is used are expected to be sold at below cost. At the end of the accounting year, company is having 10,000 kg of raw material in inventory. As the company never sells the raw material, it does not know the selling price of raw material and hence cannot calculate the realizable value of the raw material for valuation of inventories at the end of the year. However replacement cost of raw material is Rs. 300 per kg. How will you value the inventory of raw material? *(4 x 4 =16 Marks)*

Test Series: March, 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) Blue Tooth Mutual Fund is planning to float a fixed income fund of Rs. 100 crore on 1 January 2015 with a term of 7 years. If the target duration of fund is 5½ years and has expected rate of return of 8.00%, then determine the amount of interest it has to earn annually on it investment after defraying management expenses of 10% of

amount income earned. *(5 Marks)*

(b) You, a foreign exchange dealer of your bank, are informed that your bank has sold a T.T. on Copenhagen for Danish Kroner 10,00,000 at the rate of Danish Kroner 1 = Rs. 6.5150. You are required to cover the transaction either in London or New York market. The rates on that date are as under:

Mumbai-London	Rs. 74.3000	Rs. 74.3200
Mumbai-New York	Rs. 49.2500	Rs. 49.2625
London-Copenhagen	DKK 11.4200	DKK 11.4350
New York-Copenhagen	DKK 07.5670	DKK 07.5840

In which market will you cover the transaction, London or New York, and what will be the exchange profit or loss on the transaction? Ignore brokerages.

(5 Marks)

(c) Given the following information:

Current Dividend	Rs. 5.00
Discount Rate	10%
Growth rate	2%

(i) Calculate the present value of the stock.

(ii) Is the stock over valued if the price is Rs.40, ROE = 8% and EPS = Rs. 3.00. Show your calculations under the PE Multiple approach and Earnings Growth model. *(5 Marks)*

(d) The following data relate to Anand Ltd.'s share price:

Current price per share	Rs. 1,800
6 months future's price/share	Rs. 1,950

Assuming it is possible to borrow money in the market for transactions in securities at 12% per annum, you are required:

(i) to calculate the theoretical minimum price of a 6-months forward purchase; and

(ii) to explain arbitrate opportunity. *(5 Marks)*

2\. (a) Khalid Tour Operator Ltd. is considering to buy a new car for its fleet for local touring purpose. Purchase Manager has identified Renault Duster model car for this purpose. Company can acquire it either by borrowing the fund from bank at 12% or go for leasing option involving yearly payment (in the end) of Rs. 270000 for 5 years.

The new car shall cost Rs. 1000000 and would be depreciable at 25% as per WDV method for its owner. The residual value of car is expected to be Rs. 67,000 at the end of 5 years.

The corporate tax rate is 33%. You are required to:

(i) Calculate which of the two options borrowings or leasing shall be financially more advantageous for the Company.

(ii) Measure the sensitivity of Leasing/ Borrowing Decision in relation to each of the following parameters:

(1) Rate of Borrowing

(2) Residual Value

(3) Initial Outlay

Among above which factor is more sensitive. *(12 Marks)*

(b) 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 *(4 Marks)*

3. (a) B Ltd. is a highly successful company and wishes to expand by acquiring other firms. Its expected high growth in earnings and dividends is reflected in its PE ratio of 17. The Board of Directors of B Ltd. has been advised that if it were to take over firms with a lower PE ratio than it own, using a share-for-share exchange, then it could increase its reported earnings per share. C Ltd. has been suggested as a possible target for a takeover, which has a PE ratio of 10 and 1,00,000 shares in issue with a share price of Rs. 15. B Ltd. has 5,00,000 shares in issue with a share price of Rs. 12.

Calculate the change in earnings per share of B Ltd. if it acquires the whole of C Ltd. by issuing shares at its market price of Rs.12. Assume the price of B Ltd. shares remains constant. *(6 Marks)*

(b) SRK Ltd. is a listed company and it has just announced annual dividend for the year ending 2013-14. Earning Per Share (EPS) and Dividend Per Share (DPS) for 5 years is as follows:

	2013-14	2012-13	2011-12	2010-11	2009-10
EPS (Rs.)	14.00	13.60	13.10	12.70	12.20
DPS (Rs.)	8.20	8.10	7.90	7.80	7.70

In the opinion of MD of SRK Ltd.,if current dividend policy is maintained annual growth in Earning and Dividends will be no better than the annual growth in earnings over the past years.

Since the Board of SRK Ltd. is reluctant to take debt to finance growth it is considering changing its dividend policy by retaining 50% of its earnings for investment in various projects having a post tax rate of return of 15%. The beta of SRK Ltd. is 1.5, market risk premium is 4% and Risk Free Rate of Return is 6%.

You are required to calculate expected market price of share, if

(1) SRK Ltd. does not announce a change in its Dividend Policy.

(2) SRK Ltd. does announce a change in its Dividend Policy by retaining 50% of its earnings.

Note: Growth Rate can be assumed to be remain stable. *(10 Marks)*

4. (a) On January 1, 2013 an investor has a portfolio of 5 shares as given below:

Security	Price	No. of Shares	Beta
A	349.30	5,000	1.15
B	480.50	7,000	0.40
C	593.52	8,000	0.90
D	734.70	10,000	0.95
E	824.85	2,000	0.85

The cost of capital to the investor is 10.5% per annum.

You are required to calculate:

(i) The beta of his portfolio.

(ii) The theoretical value of the NIFTY futures for February 2013.

(iii) The number of contracts of NIFTY the investor needs to sell to get a full hedge until February for his portfolio if the current value of NIFTY is 5900 and NIFTY futures have a minimum trade lot requirement of 200 units. Assume that the futures are trading at their fair value.

(iv) The number of future contracts the investor should trade if he desires to reduce the beta of his portfolios to 0.6.

No. of days in a year be treated as 365.

Given: In (1.105) = 0.0998 and $e^{(0.015858)}$ = 1.01598 *(8 Marks)*

(b) Expected returns on two stocks for particular market returns are given in the following table:

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

You are required to calculate:

(a) The Betas of the two stocks.

(b) Expected return of each stock, if the market return is equally likely to be 7% or 25%.

(c) The Security Market Line (SML), if the risk free rate is 7.5% and market return is equally likely to be 7% or 25%.

(d) The Alphas of the two stocks. *(8 Marks)*

5. (a) A money market instrument with face value of Rs.100 and discount yield of 6% will mature in 45 days. You are required to calculate:

(i) Current price of the instrument.

(ii) Bond equivalent yield

(iii) Effective annual return. *(6 Marks)*

(b) A Ltd. of U.K. has imported some chemical worth of USD 3,64,897 from one of the U.S. suppliers. The amount is payable in six months time. The relevant spot and forward rates are:

Spot rate	USD 1.5617-1.5673
6 months' forward rate	USD 1.5455 –1.5609

The borrowing rates in U.K. and U.S. are 7% and 6% respectively and the deposit rates are 5.5% and 4.5% respectively.

Currency options are available under which one option contract is for GBP 12,500. The option premium for GBP at a strike price of USD 1.70/GBP is USD 0.037 (call option) and USD 0.096 (put option) for 6 months period.

The company has 3 choices:

(i) Forward cover

(ii) Money market cover, and

(iii) Currency option

Which of the alternatives is preferable by the company? *(10 Marks)*

6. (a) The following information is relating to Fortune India Ltd. having two division, viz. Pharma Division and Fast Moving Consumer Goods Division (FMCG Division). Paid up share capital of Fortune India Ltd. is consisting of 3,000 Lakhs equity shares of Re. 1 each. Fortune India Ltd. decided to de-merge Pharma Division as Fortune Pharma Ltd. w.e.f. 1.4.2009. Details of Fortune India Ltd. as on 31.3.2009 and of Fortune Pharma Ltd. as on 1.4.2009 are given below:

Particulars	Fortune Pharma Ltd. Rs.	Fortune India Ltd. Rs.
Outside Liabilities		
Secured Loans	400 lakh	3,000 lakh
Unsecured Loans	2,400 lakh	800 lakh
Current Liabilities & Provisions	1,300 lakh	21,200 lakh
Assets		
Fixed Assets	7,740 lakh	20,400 lakh
Investments	7,600 lakh	12,300 lakh
Current Assets	8,800 lakh	30,200 lakh
Loans & Advances	900 lakh	7,300 lakh
Deferred tax/Misc. Expenses	60 lakh	(200) lakh

Board of Directors of the Company have decided to issue necessary equity shares of Fortune Pharma Ltd. of Re. 1 each, without any consideration to the shareholders of Fortune India Ltd. For that purpose following points are to be considered:

1. Transfer of Liabilities & Assets at Book value.
2. Estimated Profit for the year 2009-10 is Rs. 11,400 Lakh for Fortune India Ltd. & Rs. 1,470 lakhs for Fortune Pharma Ltd.
3. Estimated Market Price of Fortune Pharma Ltd. is Rs. 24.50 per share.
4. Average P/E Ratio of FMCG sector is 42 & Pharma sector is 25, which is to be expected for both the companies.

Calculate:

1. The Ratio in which shares of Fortune Pharma are to be issued to the shareholders of Fortune India Ltd.
2. Expected Market price of Fortune India (FMCG) Ltd.
3. Book Value per share of both the Companies immediately after Demerger.

(10 Marks)

(b) JKL Ltd., an Indian company has an export exposure of JPY 10,000,000 payable

August 31, 2014. Japanese Yen (JPY) is not directly quoted against Indian Rupee.

The current spot rates are:

INR/US $	=	Rs. 62.22
JPY/US$	=	JPY 102.34

It is estimated that Japanese Yen will depreciate to 124 level and Indian Rupee to depreciate against US $ to Rs. 65.

Forward rates for August 2014 are

INR/US $	=	Rs. 66.50
JPY/US$	=	JPY 110.35

Required:

(i) Calculate the expected loss, if the hedging is not done. How the position will change, if the firm takes forward cover?

(ii) If the spot rates on August 31, 2014 are:

INR/US $	=	Rs. 66.25
JPY/US$	=	JPY 110.85

Is the decision to take forward cover justified? *(6 Marks)*

7. Write short notes on any of **four** of the following:
   - (a) Linkage between Financial Policy and Strategic Management
   - (b) Meaning of Caps, Floors and Collar's Options
   - (c) Exchange Traded Funds
   - (d) Repo and Reverse Repo
   - (e) Dow Jones Theory *(4 ×4 = 16 Marks)*

Test Series: March, 2015

MOCK TEST PAPER - 2

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) Mr. X has been appointed as an auditor of Apparel Ltd., a textile entity, for the financial year 2014-15. While going through the wage register, Mr. X identified that most of the labourers employed are of the age between 12-13 years. On enquiring the same, the management argues that there is no such boundation with regard to employment of children of lower age and contends that it is out of the scope of audit as well to check such compliance. Comment in the context of relevant standard on auditing whether the contention of management is acceptable.

   (b) Mr. Meh, a recently qualified practicing Chartered Accountant, got his first audit assignment of Futura (P) Ltd. for the financial year 2014-15. He obtained all the relevant appropriate audit evidence for the items related to Statement of Profit and Loss. However, while auditing the Balance Sheet items, Mr. Meh left out obtaining appropriate audit evidence, say, confirmations, from the outstanding Accounts Receivable amounting Rs. 150 lakhs, continued as it is from the last year, on the affirmation of the management that there is no receipts and further credits during the year. Mr. Meh, therefore, excluded from the audit programme, the audit of accounts receivable on the understanding that it pertains to the preceding year which was already audited by predecessor auditor. Comment.

   (c) The books of accounts of M/s iMax & Co. for the accounting year 2014-15 have been prepared estimating the useful life of a depreciable asset being 15 years. However, due to current market scenario, it has been determined to revise the estimated useful life of that depreciable asset to 10 years. The management of the firm wants to adjust the same through prior period adjustment. You are required to guide the management in this regard.

   (d) On 05.05.2014, the Managing Director of Meticulous (P) Ltd. received Rs. 50,000 from Mr. X, one of the Trade Receivables of the company. However, he did not credit the same into Mr. X's account and used the said sum for his personal benefits. Afterward, on 06.10.2014, he received another payment of Rs. 50,000 from Mr. Y, another Trade Receivable of the company and credited the account of Mr. X instead of Mr. Y. The process goes on till the end of the year. Later on, at the year-end, he however, deposited the amount involved into the company. As a Statutory Auditor, how would you deal? *(5 × 4 = 20 Marks)*

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

   (a) Mr. Raj, a renowned practicing Chartered Accountant, decided to tie his knot with Ms. Anjani. While giving order for marriage invitation cards, Mr. Raj instructed to add his designation "Chartered Accountant" with his name. Later on, the cards were distributed to all his relatives, close friends and clients.

   (b) CA Ram is practicing in the field of financial management planning for over 12 years. He has gained expertise in this domain over others.

Mr. Ratan, a student of Chartered Accountancy course, is very much impressed with the knowledge of CA Ram. He approached CA Ram to take guidance on some topics of financial management subject related to his course. CA Ram, on request, decided to spare some time and started providing private tutorship to Mr. Ratan along with some other aspirants. However, he forgot to take specific permission for such private tutorship from the Council.

(c) Mr. Sam, a Chartered Accountant in practice, provides guidance on post-issue activities to his clients e.g. follow up steps which include listing of instruments, dispatch of certificates and refunds etc. with the various agencies connected with the work. During the year 2014-15, looking to the growing needs of his clients to invest in the stock markets, he also started advising them on Portfolio Management Services whereby he managed portfolios of some of his clients.

(d) Mr. P and Mr. Q are running a firm of Chartered Accountants in the name of M/s PQ & Co. On 23.05.2014, they included the name of Mr. R, a practicing Chartered Accountant, without his knowledge, as a partner while submitting an application for empanelment as auditor for Public Sector Bank branches to the Institute. However, they added Mr. R as a partner to their firm offering a share of 25% of the profits, on 25.05.2014. *(4 × 4 = 16 Marks)*

3. (a) M/s PQR & Associates, a firm of Chartered Accountants, has three partners Mr. P, Mr. Q and Mr. R. The partners do not hold any audits in their personal capacity, however, the firm is holding company audit of 55 companies. For the financial year 2014-15, the firm has been offered 5 company audits and 10 tax audits assignments. Advise M/s PQR & Associates, whether the firm will exceed the ceiling limit on audits by accepting the above audit assignments? *(4 Marks)*

(b) M/s Quality & Co., Chartered Accountants, appointed as a statutory auditor of Dazzle Ltd. for the financial year 2014-15. During the year, the company offered the firm an assignment in which designing and implementation of financial information system of the company was required. The firm needs your advice whether to accept such assignment. *(4 Marks)*

(c) AR PE LTD., a manufacturing concern, was incorporated on 13.9.2014. During the year ended 31.3.2015, there was no activity in the business except raising of share capital, purchase of land, acquisition of plant and machinery and construction of factory sheds. Therefore, the management of the company contends that for the relevant year there was no need to prepare a statement of profit and loss or any other statement except a Balance Sheet as at 31.3.2015. As an auditor of the company, how would you deal with the situation? *(4 Marks)*

(d) While auditing the books of accounts of RPC Ltd., its auditor(s), Eco & Co., a firm of Chartered Accountants, wants to use Computer Assisted Audit Techniques (CAATs) for performing various audit procedures. You are required to guide Eco & Co. as to what procedures can be performed by using CAATs. *(4 Marks)*

4. (a) You have been appointed as an auditor of Giant Ltd. The company closed one of its main manufacturing units and sold all its fixed assets during the financial year ended 31st March, 2015. However, it intends to continue its operations as a trading company. In respect of other fixed assets, the company carried out a physical verification as at the end of 31st March, 2015 and found a material discrepancy to the tune of Rs. 80,000, which was written off and disclosed separately in the Statement of Profit and Loss. How are you supposed to incorporate the above in your audit report? *(4 Marks)*

(b) H Ltd. has prepared consolidated financial statement of the company and all its subsidiaries for the financial year 2014-15. The company appointed Mr. Harsh, a practicing Chartered Accountant, to conduct audit of its consolidated financial statement. You are required to state what kind of current period consolidation adjustments are to be taken into account while conducting audit of such consolidated financial statements? *(6 Marks)*

(c) Elaborate under Clause 49 of the Listing Agreement, who is an Independent Director. *(6 Marks)*

5. (a) Aakash Credit Co-operative Society Ltd., a Central Co-operative Society, wants to invest its funds. However, it is unaware of the restrictions imposed on investment of funds of a Central Co-operative Society. You are required to state such restrictions.

(4 Marks)

(b) AFC Banking Group Ltd., an NBFC, is engaged in providing finance on hire purchase of assets. You are required to mention exceptional points to be kept in mind while auditing such company. *(6 Marks)*

(c) ABC Pvt. Ltd. and XYZ Pvt. Ltd. are the companies in which public are not substantially interested. During the previous year 2014-15, ABC Pvt. Ltd. received some property, being shares of XYZ Pvt. Ltd., the details of which are provided below:

No. of Shares:	1,00
Aggregate fair market value of shares:	Rs. 75,000
Consideration value:	Nil

The management of the company contends that the shares need not to be furnished in Form No. 3CD. As the tax auditor of ABC Pvt. Ltd., how would you deal with the matter? *(6 Marks)*

6. (a) The Managing Director of Perfect Ltd. is concerned about high employee attrition rate in his company. As the internal auditor of the company, he requests you to analyse the causes for the same. What factors would you consider in such analysis? *(4 Marks)*

(b) The central government appointed an inspector to investigate into the affairs of Suspicious Ltd., on intimation of a special resolution passed by the company that the affairs of the company ought to be investigated. You are required to briefly state the procedures and powers of the Inspector as envisaged under section 217 of the Companies Act, 2013. *(6 Marks)*

(c) Briefly describe comprehensive audit of public enterprises? Discuss some of the broad areas to be examined therein. *(6 Marks)*

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

   (a) Facultative reinsurance under Insurance Act, 1938

   (b) Reversal of Income under Bank Audit

   (c) Environmental Audit

   (d) Cut-off Procedures

   (e) Peer Review. *(4 × 4 = 16 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

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 Annual General Meeting of Robertson Ltd., for the year ended 31st March, 2014 was not held, as the accounts were not ready. In this context:

   (i) Advise the company regarding compliance of the provisions of section 137 of the Companies Act, 2013 for filing of copies of financial statements with the Registrar of Companies.

   (ii) Will it make any difference in case the Annual Accounts were duly laid before the Annual General Meeting held on 27th September, 2014 but the same were not adopted by the shareholders? *(5 Marks)*

   (b) Explain how the auditor will be appointed in the following cases:

   (i) A Government Company within the meaning of section 394 of the Companies Act, 2013.

   (ii) The Auditor of the company has resigned on 31st December, 2013, while the

Financial year of the company ends on 31st March, 2014. *(5 Marks)*

(c) The Articles of Association of Rajasthan Toys Private Limited provide that the maximum number of Directors in the company shall be 10. Presently, the company is having 8 directors. The Board of directors of the said company desire to increase the number of directors to 16. Advise whether under the provisions of the Companies Act, 2013 the Board of Directors can do so. *(4 Marks)*

(d) Mr. Patel has transferred his shares of a listed company registered in his name to Mr. Mehta. Mr. Mehta has failed to get the shares registered in his name before the company declared and paid the dividend on the shares. Examine with reference to the provisions of Securities Contracts (Regulation) Act, 1956 whether Mr. Patel is entitled to retain the dividend even though he has transferred the shares before declaration of dividend. *(6 Marks)*

2. (a) (i) 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?

(4 Marks)

(ii) The Article of Association of a listed company have fixed payment of sitting fee for each Meeting of Directors subject to maximum of Rs. 30,000. In view of increased responsibilities of independent directors of listed companies, the company proposes to increase the sitting fee to Rs. 45,000 per meeting. Advise the company about the requirement under the Companies Act, 2013 to give effect to the proposal. *(4 Marks)*

(b) (I) The Board of Directors of M/s Infotech Consultants Limited, registered in Calcutta, proposes to hold the next Board meeting in the month of May, 2015.They seek, your advice in respect of the following matters:

(i) Can the board meeting be held in Chennai, when all the directors of the company reside at Calcutta?

(ii) Is it necessary that the notice of the board meeting should specify the nature of business to be transacted?

Advise with reference to the relevant provisions of the Companies Act, 2013

(5 Marks)

(II) The members of XYZ Limited decided to pass a resolution for appointing Mr. Smith as an Independent director of the company. Draft a specimen resolution to be passed at the said meeting. *(3 Marks)*

3. (a) SEBI received complaints from some investors alleging that ABC Ltd. and some brokers are indulging in price manipulation in the shares of ABC Ltd. Explain the

powers that can be exercised by SEBI under the Securities and Exchange Board of India Act, 1992 in case the allegations are found to be correct. *(8 Marks)*

(b) XYZ 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)*

4 (a) (i) A meeting of members of ABC Limited was convened under the orders of the Court to consider a scheme of compromise and arrangement. Notice of the meeting was sent in the prescribed manner to all the 700 members holding in the aggregate 20,00,000 shares. The meeting was attended by 400 members holding 13,00,000 shares. 160 members holding 10,00,000 shares voted in favour of the scheme. 150 members holding 2,40,000 shares voted against the scheme. The remaining members abstained from voting. Examine with reference to the relevant provisions of the Companies Act, 1956 whether the scheme is approved by the requisite majority.

(ii) Does the scheme of compromise or arrangement require approval of preference shareholders? *(8 Marks)*

(b) What is meant by oppression'? State whether the aggrieved party would succeed in obtaining relief from Company Law Board on the ground of oppression in the following cases:

(i) The majority of the Board of directors override the minority directors and the minority directors apply to Company Law Board complaining oppression by majority directors.

(ii) A petition by majority shareholders complaining oppression by minority shareholders.

Give your answer according to the provisions of the Companies Act, 1956. *(8 Marks)*

5. (a) What are the steps to be taken for up in a case, where the company is solvent, but the business for which it was formed has been completed. Give your answer referring to the provisions of the Companies Act, 1956. *(8 Marks)*

(b) The Board of directors of VDV Ltd., a banking 'company incorporated in, India, for the accounting year ended 31-3-2015 transferred 15% of its net profit to its Reserve Fund. Certain shareholders of the company object to the above Act of the Board of Directors on the ground that it is violative of the provisions, of the Banking Regulation Act, 1949. Examine the provision of Banking Regulation Act decide:

(i) Whether contention of the Shareholders is tenable.

(ii) Would your answer be still the same in case the Board of Directors transfer

30% of the company's net profits to Reserve Fund. *(8 Marks)*

6. (a) (i) Mr. Zameen, a member of a Producer Company, wants to transfer his shares. You are required to state as to how he can transfer his shares under the provisions of the Companies Act, 1956. *(4 Marks)*

(ii) A Producer Company has received applications from Mr.Ramanathan, a Director of the Company, and Mr. Prem, a member of the Company, for grant of loan of Rs. 2,00,000 and Rs. 25,000 respectively. Discuss the relevant provision of the Companies Act, 1956 as to how the applications for grant of loan will be disposed of by the Company. *(4 Marks)*

(b) Explain how the provisions of the Companies Act, 2013 relating to Audit Committee will help in achieving some of the objectives of Corporate Governance. *(8 Marks)*

7. Attempt any **four**

(a) Tomco Ltd., a vehicles manufacturing company in India has received an order from a transport company in Italy for supply of 100 Trucks on lease. You are required to state, how the said Tomco Ltd. can accept such an order. *(4 Marks)*

(b) The Central Government, without referring the matter to the Supreme Court of India for inquiry, removed a member of the Competition Commission of India on the ground that he has become physically or mentally incapable of acting as a member. Decide, under the provisions of the Competition Act, 2002, whether removal of the member by the Central Government is lawful? *(4 Marks)*

(c) Under Section 387 of the Companies Act, 2013, what are particulars required for incorporating a prospectus to be issued by an existing foreign company? *(4 Marks)*

(d) Many a time a proviso is added to a Section of the enactment. Explain the function of such a proviso while carrying out the interpretation? *(4 Marks)*

(e) Enumerate the obligations of banking companies under the Prevention of Money Laundering Act, 2002. *(4 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

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) ABC Ltd. is engaged in business of manufacturing branded readymade garments. It has a single manufacturing facility at Ludhiana. Raw material is supplied by various suppliers.

Majority of its revenue comes from export to Euro Zone and US. To strengthen its position further in the Global Market, it is planning to enhance quality and provide assurance through long term warranty.

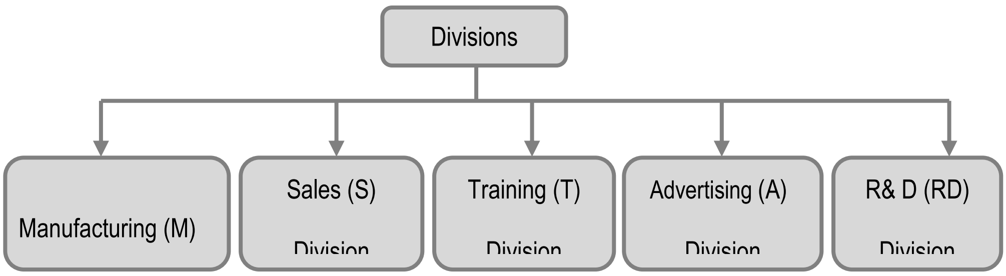
For the coming years company has set objective to reduce the quality costs in each of the primary activities in its value chain.

State the primary activities as per Porter's Value Chain Analysis in the value chain of ABC Ltd with brief description. *(5 Marks)*

(b) A company processes different products from a certain raw material. The raw material is processed in process I (where normal loss is 10% of input) to give products A and B in the ratio 3 : 2. B is sold directly. A is processed further in process II (where normal loss is 12.5% of output) to give products C and D in the ratio 5:3. At this point C and D have sale values Rs. 55 and Rs. 40 per kg respectively. C can be processed further in process III with processing cost Rs. 3,95,600 and normal wastage 5% of input and then be sold at Rs. 66 per kg. D can be processed further in process IV with processing cost Rs. 3,82,500 and normal wastage 12.5% of output and then be sold at Rs. 55 per kg. The normal wastage of each process has no realizable value. During the production period, 2,00,000 kgs of raw material is to be introduced into Process I.

Using incremental cost-revenue approach, advise whether sale at split off or further processing is better for each of the products C and D. *(5 Marks)*

(c) Metro Communication Limited is a state-owned large public company in the telecommunications sector. One of its main planning and control tools is the preparation and use of traditional annual budgets. Its divisional structure is as under:



Division T, A and RD incur substantial amount on discretionary expenses.

Required:

Identify the possibilities of introducing a Zero Based Budgeting System for Division T, A and RD. *(5 Marks)*

(d) XL India Ltd. has just invented a new part 'XL-85'. New part has a budgeted total profit of Rs. 93,750 from the first 256parts. The time taken to produce the first part was 112.50 hours. The labour rate is Rs. 25 per hour. A 90% learning curve is expected to apply indefinitely.

Required:

Calculate the sensitivity of the budgeted total profit from the first 256 parts to changes in the learning rate.

Note: The learning index for a 90% learning curve is -0.152 *(5 Marks)*

2. (a) Jaya-Surya Ltd. (JSL) manufactures and sells two products 'Jaya' and 'Surya'. Both Jaya and Surya use a regular machine while Surya uses another high-precision machine as well. The following information is available for the next quarter.

	Jaya	**Surya**
Selling Price per unit (Rs.)	1,500	2,000
Variable Manufacturing Cost per unit (Rs.)	900	1,600
Variable Marketing Cost per unit (Rs.)	250	150
Budgeted Allocation of Fixed Overhead Costs (Rs.)	18,00,000	85,00,000
Regular Machine Hours per unit	2.0	1.0

Further information is available as follows:

- JSL faces a capacity constraint of 60,000 hours on the regular machine for the next quarter and there is no constraint on the high precision machine for the next quarter.
- Out of Rs. 85,00,000 budgeted allocation of fixed overhead costs to product Surya, Rs.60,00,000 is payable for hiring the high precision machine. This cost is charged entirely to product Surya. The hiring agreement can be cancelled at any time without penalties.
- All other overhead costs are fixed and cannot be changed.
- A minimum quantity of 12,500 units per quarter of Jaya must be produced to fulfill a commitment to a customer.
- Any quantity of any product can be sold at the given prices.

Required:

(i) Calculate the product mix of Jaya and Surya which would maximise the relevant operating profit of JSL in the next quarter.

(ii) JSL can increase the quarterly capacity of regular machine by 30,000 hours at a cost of Rs.28,00,000. Calculate the new product mix and the amount by which the relevant operating profit will increase. *(12 Marks)*

(b) Identify the type of cost along with the reasons:

(i) An advertising program has been set and management has signed the non negotiable contract for a year with an agency. Under the terms of contract, agency will create 5 advertisements within the contract duration for the company and company will pay Rs.6,00,000 for each advertisement.

(ii) A manager has to decide to run a fully automated operation that produces 1,00,000 widgets per year at a cost of Rs.6,00,000, or of using direct labour to manually produce the same number of widgets for Rs.7,00,000.

(iii) A Company had paid Rs. 7,50,000 a Marketing Research company to find expected demand of the newly developed product of the company.

(iv) A company has invested Rs. 30 lacs in a project. Company could have earned Rs. 3 lacs by investing the amount in Government securities. *(4 Marks)*

3. (a) S. Ltd. operates a system of standard costing in respect of one of its products which is manufactured within a single cost centre, the following information is available:

Standard price of material is Rs. 2 per litre. The standard wage rate is Rs. 6 per hour and 5 hours are allowed to produce one unit. Fixed production overhead is absorbed at the rate of 100% of direct wages cost.

During the month just ended the following occurred -

	Rs.
Actual Price (paid for material purchased)	1.95 per litre
Total Direct Wages Cost	1,56,000
Fixed Production Overhead	1,58,000

Variance	**Favourable (Rs.)**	**Adverse (Rs.)**
Direct Material Price	8,000	-
Direct Material Usage	-	5,000
Direct Labour Rate	-	5,760
Direct Labour Efficiency	2,760	-

Fixed Production Overhead Expenditure	-	8,000

Required:

Calculate the following for the month:

(i) Budgeted output in units.

(ii) Number of litres purchased.

(iii) Number of litres used above standard allowed.

(iv) Actual units produced.

(v) Actual hours worked.

(vi) Average actual wage rate per hours. *(8 Marks)*

(b) The Delhi Florist Company is planning to make up floral arrangements for the upcoming festival. The company has available the following supply of flowers at the costs shown:

Type	Number available	Cost per flower
Red roses	400	Rs. 0.40
Gardenias	228	Rs. 0.20
Carnations	2,000	Rs. 0.10
White roses	460	Rs. 0.20
Yellow roses	211	Rs. 0.30

These flowers can be used in any of the four popular arrangements whose makeup and selling prices are as follows:

Arrangement Requirements Selling

price

Economy 5 red roses Rs.10

3 gardenias

9 carnations

May time 9 white roses Rs.12

6 gardenias

11 carnations

5 yellow roses

Spring colour 10 red roses Rs.13

11 carnations

10 white roses		
7 yellow roses		
Deluxe rose	13 red roses	Rs.15
13 white roses		
13 yellow roses		

Formulate a linear programming problem which allows the florist company to determine how many units of each arrangement should be made up in order to maximize profits assuming all arrangements can be sold.

The formulated LP problem is not required to be solved. *(8 Marks)*

4. (a) A company had planned its operations as follows:

Activity	Duration (Days)
1–2	7
2–4	8
1–3	8
3–4	6
1–4	6
2–5	16
4–7	19
3–6	24
5–7	9
6–8	7
7–8	8

(i) Draw the network and find the critical paths.

(ii) After 15 days of working, the following progress is noted:

(a) Activities 1–2, 1–3 and 1–4 completed as per original schedule.

(b) Activity 2–4 is in progress and will be completed in 4 more days.

(c) Activity 3–6 is in progress and will need 17 more days to complete.

(d) The staff at activity 3–6 are specialised. They are directed to complete 3–6 and undertake an activity 6–7, which will require 7days. This rearrangement arose due to a modification in a specialisation.

(e) Activity 6–8 will be completed in 4 days instead of the originally planned 7 days.

(f) There is no change in the other activities.

Update the network diagram after 15 days of start of work based on the assumption given above. Indicate the revised critical paths along with their duration. *(10 Marks)*

(b) The budgeted results of A Ltd. as under:

Product	Sales Values (Rs.)	P / V Ratio (%)
X	3,25,000	34
Y	5,20,000	50
Z	7,80,000	30

Fixed overheads for the period is Rs.6,52,860.

The management is worried about the results. You are required to prepare a statement showing the amount of loss, if any, being incurred at present and recommend a change in the sale value of each product as well as in the total sales value maintaining the same sales– mix, which will eliminate the said loss. *(6 Marks)*

5. (a) Star Manufacturers & Co. (SMC) has Division 'Dx' and Division '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 2,500 units of Component 'X' per year from an outside supplier at a cost of Rs. 35 per unit, less a 10 percent quantity discount. 'Dx' Division can sell its entire Component 'X' to outside customers at the normal price i.e. Rs. 35. Costs associated with manufacturing of a unit of Component 'X' are as follows:

Variable Expenses	Rs. 21
Fixed (based on a capacity of 25,000 units per year)	Rs. 9

SMC's new managing director agrees for internal transfer if an acceptable transfer price can be worked out. According, he requires solution of following questions:-

1. If the 'Dz' Division purchases 2,500 units of Component 'X' per year from the 'Dx' Division, what price should control the transfers? Why?
2. Refer to your computations in (1). What is the lower limit and the upper limit for a transfer price? Is an upper limit relevant in this situation?
3. If the 'Dx' Division meets the price that the 'Dz' Division is currently paying to its supplier and sells 2,500 units of Component 'X' to the 'Dz' Division each year, what will be the effect on the profits of the 'Dx' Division, the 'Dz' Division,

and the company as a whole?

4. If the intermediate market price for Component 'X' is Rs. 35 per unit, is there any reason why the 'Dx' Division should sell to the 'Dz' Division for less than Rs. 35? Explain. *(8 Marks)*

(b) Golden Bird Airlines Ltd. operates its services under the brand 'Golden Bird'. The 'Golden Bird' route network spans prominent business metropolis as well as key leisure destinations across the Indian subcontinent. 'Golden Bird', a low-fare carrier launched with the objective of commoditizing air travel, offers airline seats at marginal premium to train fares across India.

Profits of the 'Golden Bird' have been decreasing for several years. In an effort to improve the company's performance, consideration is being given to dropping several flights that appear to be unprofitable.

Income statement for one such flight from 'New Delhi' to 'Leh' (GB - 022) is given below (per flight):

	Rs.	**Rs.**
Ticket Revenue (200 seats x 65% Occupancy x Rs. 4,850 ticket price)		6,30,500
Less: Variable Expenses (Rs.900 per person)		1,17,000
Contribution Margin		5,13,500
Less: Flight Expenses:		
Salaries, Flight Crew	1,65,000	
Salaries, Flight Assistants	42,300	
Baggage Loading and Flight Preparation	59,000	
Overnight Costs for Flight Crew and Assistants *at destination*	17,000	
Fuel for Aircraft	1,98,000	
Depreciation on Aircraft	47,000*	
Liability Insurance	1,48,470	
Flight Promotion	19,000	
Hanger Parking Fee for Aircraft *at destination*	10,000	7,05,770
Net Gain / (Loss)		(1,92,270)

* Based on obsolescence

The following additional information is available about flight GB-022.

1. Members of the flight crew are paid fixed annual salaries, whereas the flight assistants are paid by the flight.
2. The baggage loading and flight preparation expense is an allocation of ground crew's salaries and depreciation of ground equipment.
3. One third of the liability insurance is a special charge assessed against flight GB-022 because in the opinion of insurance company, the destination of the flight is in a "high-risk" area.
4. The hanger parking fee is a standard fee charged for aircraft at all airports.
5. If flight GB-022 is dropped, 'Golden Bird' Airlines has no authorization at present to replace it with another flight.

Required:

Using the data available, prepare an analysis showing what impact dropping flight GB-022 would have on the airline's profit. *(8 Marks)*

6. (a) A Ltd. is going to introduce Total Quality Management (TQM) in its company. State whether and why the following are valid or not for the successful implementation of TQM.

(i) Some departments serve both the external and internal customers. These departments have been advised to focus on satisfying the needs of the external customers.

(ii) Hold a training program at the beginning of a production cycle to ensure the implementation of TQM.

(iii) Implement Management by Objectives for faster achievement of TQM.

(iv) Eliminate wastage of time by avoiding documentation and procedures.

(4 Marks)

(b) KYC Ltd. uses a standard absorption costing system. The following details have been extracted from its budget for year 2014-15.

Fixed Overhead Cost	Rs. 3,60,000
Production	18,000 units

In 2014-15 the Fixed Overhead Cost was over-absorbed by Rs.1,600 and the Fixed Overhead Expenditure Variance was Rs.10,000(F). What was the actual number of units produced in 2014-15? *(4 Marks)*

(c) A student has to take examination for three subjects X, Y and Z. He has three days available for study. He feels it would be best to devote a whole day to study the same subject, so that he may study a subject for one day, two days or three days or not at all. His estimates of marks he may get by studying are as follows:

No. of Days	Subjects		
	X	Y	Z
0	50	60	50
1	60	60	60
2	60	80	80
3	80	100	80

How should he plan to study so that he maximize the sum of his marks? *(8 Marks)*

7. Answer any four out of the following five subdivisions:

   (a) What are the requisites for the installation of a uniform costing system? *(4 Marks)*

   (b) How do you know whether an alternative solution exists for a transportation problem? *(4 Marks)*

   (c) Why are conventional product costing systems more likely to distort product costs in highly automated plants? How do activity-based costing systems deal with such a situation? *(4 Marks)*

   (d) Explain 'Multinational Transfer Pricing'. *(4 Marks)*

   (e) "Cost is not the only criterion for deciding in favour of shut down" – Briefly explain. *(4 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

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. Flyair is an airline company operating with in-house developed software till now. Its' profit margins are under pressure due to inefficiency and disorganized work culture. To survive in the highly competitive environment, it has to improve the efficiency of its internal processes and synchronize isolated functions into streamlined business processes so that work culture is improved. Hence it has decided to purchase and implement a real time ERP package. In order to improve its margin, it wants to transact with suppliers and

customers electronically and maintain all records in electronic form. Security of information is a key activity of this process which must be taken care of from the beginning. As a member of implementation team, you are required to answer the following:

(a) What issues would you like to raise during the technical feasibility of new proposed system? *(4 Marks)*

(b) Describe the provisions for the authentication of electronic records under Information Technology (Amendment) Act, 2008. *(8 Marks)*

(c) Describe major types of Information Security Policy which a company must maintain to meet the security objectives. *(8 Marks)*

2. (a) Discuss the characteristics of an effective Management Information System (MIS)? *(6 Marks)*

(b) What do you mean by the term "Audit Trail"? How can Audit trail be used to support security objectives? *(6 Marks)*

(c) Differentiate between "Economic Feasibility" and "Operational Feasibility". *(4 Marks)*

3. (a) What are the objectives of Business Continuity Management (BCM) Policy? *(6Marks)*

(b) What do you understand by the term 'Mobile Computing'? What are its benefits? *(6 Marks)*

(c) Differentiate between Hardware Acquisition and Software Acquisition. *(4 Marks)*

4. (a) List out the key components of a good security policy. *(6Marks)*

(b) What are Preventive Controls? *(6 Marks)*

(c) Describe key management practices for implementing risk management. *(4 Marks)*

5. (a) Discuss the five principles of COBIT 5 in brief. *(6Marks)*

(b) Discuss some of the examples of Decision Support Systems in Accounting. *(6 Marks)*

(c) Describe major advantages of continuous audit techniques. *(4 Marks)*

6. (a) Explain briefly various types of data back-ups. *(6 Marks)*

(b) Discuss the issues relating to the performance of evidence collection and understanding the reliability of controls. (6 *Marks)*

(c) What is Executive Information System (EIS)? List major characteristics of an EIS. *(4 Marks)*

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

(a) Governance of Enterprise IT (GEIT)

(b) Data Integrity Policies

(c) PDCA Cyclic Process under ISO 27001

(d) Infrastructure as a Service in Cloud Computing

(e) Weaknesses of Agile model *(4 × 4 = 16 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

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) Star & Moon Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y.2014-15. Compute the depreciation allowable under section 32 for A.Y.2015-16, while computing its income under the head "Profits and gains of business or profession". The company has opted for the depreciation allowance on the basis of written down value.

	Particulars	Rs.
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2014 (Purchase value Rs. 8,00,000)	5,78,000
2.	Purchase of second hand machinery (15% block) on 29.12.2014 for business purpose	2,00,000
3.	Machinery Y (15% block) purchased and installed on 12.07.2014 for the purpose of power generation	8,00,000
4.	Acquired and installed for use a new air pollution control equipment on 31.7.2014	2,50,000
5.	New air conditioner purchased and installed in office premises on 8.9.2014	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2014 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year (Purchase value Rs. 4,80,000, WDV as on 01.04.2014	3,10,000

	Rs. 3,46,800)	

(7 Marks)

(b) Turning Ltd. is a company having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 1.4.2013 and it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2014-15. However, in February, 2015, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of Turning Ltd.

(3 Marks)

(c) Devansh an individual, has the following assets and liabilities as on 31.3.2015

Assets	Rs. in Lacs
Plot of land at Bhopal comprising an area of 1,200 square metres on which building has been constructed without the approval of the appropriate authority	25
Building constructed on land at Bhopal without the approval of the appropriate authority and used for his business purposes.	10
Motor cars held as stock-in-trade	60
Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 1.11.2011 for permanently residing in India.	6
Jewellery made of Platinum.	9
Interest in the coparcenary property of the Hindu undivided family of which he is a member	15
Cash in hand recorded in the books of account	5
Fixed deposits in a co-operative bank	10
Liabilities	
Loan borrowed for marriage of daughter	6
Loan borrowed for construction of building at Bhopal	5

The minor married daughter of Devansh holds a plot of land at Indore valued at Rs. 20 Lacs.

The amounts stated against the assets, except cash in hand, are the values determined as per section 7 of the Wealth-tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Devansh as on valuation date 31.03.2015.

State the reasons for inclusion or exclusion of the various items. *(10 Marks)*

2. Gopi Tea Limited is engaged in growing and manufacturing tea in Assam and West Bengal. The company's profit and loss account for the year ended 31st March, 2015 shows a net profit of Rs. 550 lacs after debiting or crediting the following amounts:

(a) Depreciation Rs. 40 lacs.

(b) Interest amounting to Rs. 2 lacs on term loan from a bank for purchase of machinery for one of its tea factories.

(c) Repairs to factory building amounting to Rs. 15 lacs for which a sum of Rs. 10 lacs was withdrawn from Tea Deposit account maintained with National Bank for Agricultural and Rural Development (NABARD) as per section 33AB of the Income-tax Act, 1961.

(d) Profit from sale of green tea leaves plucked in own gardens Rs. 20 lacs.

(e) Rs. 5 lacs on account of stamp duty and registration fees for the issue of bonus shares.

(f) Rs. 10 lacs, being sales tax dues of earlier years determined during the year on disposal of appeals by the appellate authority, for which the company has furnished a bank guarantee to the Commercial Tax Authority.

(g) Rs. 5 lacs written off as bad in respect of a trade debt transferred from Saraswati Tea Limited in previous year 2012-13 pursuant to a scheme of amalgamation approved by the jurisdictional High Court.

(h) Rs. 2 lacs contributed to Employees' Welfare Trust.

(i) Interest on inter-corporate deposit Rs. 1 lac and Rs. 1.50 lacs for February, 2015 and March, 2015, respectively, for which tax deducted at source was paid to the Central Government in June, 2015.

Following additional information are furnished by the management:

(i) Depreciation as per Tax Audit Report under section 44AB Rs. 55 lacs.

(ii) One financial institution converted arrear interest of Rs. 10 lacs into a new loan in financial year 2010-11, which is repayable in five annual instalments. The company has paid Rs. 2 lacs towards the instalment due for the financial year 2014-15 in February, 2015.

(iii) A sum of Rs. 250 lacs deposited in NABARD on 15th June, 2015 as per the provision of Section 33AB.

Compute total income of the company for the Assessment Year 2015-16 stating the reasons for each item. Ignore provision relating to Minimum Alternate Tax. *(16 Marks)*

3. (a) Garima Ltd, located within the corporation limits decided in December, 2014 to shift its industrial undertaking to non-urban area. The company sold some of the assets and acquired new assets in the process of shifting. The relevant details are as follows:

(Rs. in lacs)

	Particulars	Land	Building	Plant & Machinery	Furniture
(i)	Sale proceeds (sale effected in March, 2015)	8	18	16	3
(ii)	Indexed cost of acquisition	4	10	12	2
(iii)	Cost of acquisition in terms of section 50	--	4	5	2
(iv)	Cost of new assets purchased in July, 2015 for the purpose of business in the new place	4	7	17	2

Compute the capital gains of Garima Ltd for the assessment year 2015-16. *(8 Marks)*

(b) Radhakrishnan Public Charitable Trust (Registered under section 12AA of the Income-tax Act, 1961) furnishes the following data for the financial year ending 31.3.2015.

S. No.	Particulars	Rs. (in Lacs)
(i)	Income from Engineering College (Gross receipts Rs. 100 Lacs)	10
(ii)	Income from properties held in trust (out of this Rs. 2 Lacs was not received during the year and Rs. 2 Lacs was received only on the last day of the year)	26
(iii)	Net income from business held under trust (As incidental to the main objects) as per books	2
(iv)	Amount spent on free scholarship, free meals and fee medical relief	9

(v)	Repayment of loan taken for construction of Health Care Centre	3

You are required to:

(a) Compute the taxable income of the Trust for the assessment year, 2015-16. Assume that option is exercised under explanation to section 11(1) of the Act.

(b) Advise how the taxability on the computed income could be minimized or reduced. *(8 Marks)*

4. (a) A non-resident Indian has the following sources of income in India. You are required to compute his total income and determine his tax liability applying the provisions of Chapter XII-A. Details of your workings, with reasons, should form part of your answer:

	Particulars	**Rs.**
(1)	Dividend from Indian company Rs. 50,000	
(2)	Interest on debentures of an Indian company invested out of remittances in convertible foreign exchange	75,000
	Less: Interest paid on money borrowed in India for investment in the debentures	25,000
	Net	50,000
(3)	Long-term capital gains on sale of shares subscribed in convertible foreign exchange:	
	Cost in 2008-09 Rs. 2,00,000	
	Sale in 2014-15 Rs. 3,00,000	
	Rs. 1,00,000	
	Less: Brokerage Rs. 10,000	90,000
	Cost Inflation index 2008-09 : 582	
	2014-15 : 1024	
(4)	Property income in India (Net)	3,00,000
	T.D.S	30,000

The property was acquired partly out of a loan from HDFC. The repayment of loan made during the year amounted to Rs. 20,000. The assessee also claims deduction of Rs. 10,000 by way of donation to the Prime Minister's National Relief Fund and of Rs. 20,000 towards interest on loan taken for higher education in India in 2008 before his migration.

(8 Marks)

(b) Teena purchased a land at a cost of Rs. 10 lakhs in the financial year 1982-83 and held the same as her capital asset till 31st March, 2010. Teena started her real estate business on 1st April, 2010 and converted the said land into stock-in-trade of her business on the said date, when the fair market value of the land was Rs. 150 lakhs.

She constructed 20 flats of equal size, quality and dimension. Cost of construction of each flat is Rs. 8 lakhs. Construction was completed in December, 2014. She sold 15 flats at Rs. 20 lakhs per flat between January, 2015 and March, 2015. The remaining 5 flats were held in stock as on 31st March, 2015.

She invested Rs. 50 lakhs in bonds issued by Rural Electrification Corporation Ltd. on 31^{st} March, 2015.

Compute the amount of chargeable capital gain and business income in the hands of Teena arising from the above transactions for Assessment Year 2015-16 indicating clearly the reasons for treatment for each item.

Cost Inflation Index: FY 1982-83: 109; FY 2010-11: 711; FY 2014-15: 1024. *(8 Marks)*

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

(a) Discuss the taxability or otherwise of the following transactions under section 56(2) of the Income-tax Act, 1961:

(i) Suresh is the Karta of Suresh HUF. Madhu, daughter of Suresh is a member of the HUF. She transferred a house property to the HUF without any consideration. The value of the house property for stamp duty purpose is Rs. 10 lakhs.

(ii) XY Private Limited issued 50,000 equity shares of face value of Rs. 10 per share at a premium of Rs. 60 per share. The fair market value of the share as per prescribed rule is Rs. 50 per share.

(b) In the course of scrutiny assessment of Mr. Ramesh, the Assessing Officer, on the basis of information available with him, sought an explanation for the source of the expenditure of Rs. 20 lakhs incurred on the wedding of his daughter. The said expenditure was neither recorded in the books of account maintained nor was the explanation offered by Mr. Ramesh satisfactory. What are the consequences?

(c) Mr. Devraj, after putting 25 years of service, opted for voluntary retirement and under approved scheme received an amount of Rs. 20 lacs as VRS compensation on 01.01.2015. He was advised by his tax consultant to claim exemption to the extent as specified in section 10(10C) and also the relief under section 89. He, in order to have an expert opinion, consults you and asks whether such a treatment of VRS compensation is permissible under the Act.

(d) The net result of the business carried on by a branch of foreign company in India for the year ended 31.03.2015 was a loss of Rs. 100 lacs after charge of head office expenses of Rs. 200 lacs allocated to the branch. Explain with reasons the income to be declared by the branch in its return for the assessment year 2015-16.

(e) Rajat, an individual, filed his return of income for the assessment year 2014-15 on 15.6.2014. He later discovered that he had not claimed deduction under section 80C in the said return. He claimed the said deduction through a letter addressed to the Assessing Officer. The Assessing Officer completed the assessment without allowing the deduction claimed by Rajat. Is the Assessing Officer justified in doing so? *(4 × 4 =16 Marks)*

6. (a) MNO Limited has gone for pension scheme referred to in section 80CCD. It contributes 20% of basic salary to the account of each employee under the scheme. Dearness allowance paid is 40% of basic salary. 50% of dearness allowance forms part of pay for retirement benefits. Total basic salary of employees during the year ended 31st March, 2015 amounted to Rs. 100 lakhs. You are a finance executive of the company and get a basic salary of Rs. 20,000 per month and contribute 20% of basic salary to the pension scheme. On these facts:

(i) Compute the amount admissible as deduction under section 36(1)(iva) and the amount inadmissible under section 40A(9) in computation of business income of MNO Limited.

(ii) Explain the tax treatment in your hands. *(8 Marks)*

(b) Discuss the correctness or otherwise of the following propositions in the context of the Income-tax Act, 1961:

(i) The powers of the Commissioner of Income-tax (Appeals) to enhance the assessment are plenary and quite wide.

(ii) The High Court cannot interfere with the factual finding recorded by the lower authorities and the Tribunal, without any valid reasons.
(8 Marks)

7. (a) Explain in the context of provisions contained in Chapter XVII of the Act and also work out the amount of tax to be deducted by the payer of income in the following cases:

(i) Payment of Rs. 5 lacs made by ABC & Co. to Tinku Events Co. Ltd. for organization of a debate competition on the subject "Preservation of Rural Heritage of Rajasthan".

(ii) "Profit Commission" of Rs. 1 lac paid by a re-insurance company to the insurer company after the expiry of the term of insurance where there was no claim during the treaty.

(iii) Mr. Raman, a part time director of PQR Pvt. Ltd. was paid an amount of Rs. 2,25,000 as fees which was actually in the nature of commission on sales for the period 01-04-2014 to 30-06-2014. *(6 Marks)*

(b) The Assessing Officer completed the assessment of S Limited for the assessment year 2011-12 under section 143(3) on 30th December, 2013. The Assessing Officer has initiated the proceeding for penalty under section 271(1)(c) on 30th December, 2013. What is the time limit for imposition of such penalty in the following cases?

(i) S Limited did not contest the assessment order.

(ii) S Limited contested the assessment order by filing appeal to the Commissioner (Appeals). The appeal was dismissed on 30th December, 2014, on which date the Commissioner received the appeal order.

(iii) The jurisdictional High Court stayed the penalty proceeding on 25th June, 2014 and the Supreme Court vacated the stay on 25th November, 2014. *(6 Marks)*

(c) An assessee is aggrieved by the order of the Assessing Officer and requests you to contest the same by filing an appeal before the Commissioner of Income-tax (Appeals) as well as by filing a revision petition before the Commissioner under section 264 of the Act.

Can the assessee invoke simultaneously both the remedies against the order of the Assessing Officer. *(4 Marks)*

Test Series: March, 2015

MOCK TEST PAPER – 2

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) X sold to Y a machine at the sale price (excluding taxes and duties) of Rs. 2,00,000. Determine the total amount of excise duty payable on the machine using additional details given below:

S.No.	Particulars	Rs.

(i)	Design and development charges paid by Y on X's behalf to a third party (Z)	20,000
(ii)	Warranty charges charged separately by X	5,000
(iii)	Sales tax	20,000
(iv)	Cost of durable and returnable packing (such cost has been amortised and included in the cost of the machine)	5,000

(5 Marks)

(b) Pure Agro Industries Ltd. furnishes the details of various services provided by it in the month of June, 2014 as under:

Sl. No.	Particulars	Amount (Rs.)
1.	Supply of farm labour	43,000
2.	Warehousing of refined vegetable oil	1,25,000
3.	Sale of wheat on commission basis	65,000
4.	Giving trucks on hire (without transferring the right to use) for transport of minerals	2,50,000
5.	Leasing of vacant land to a stud farm	30,000
6.	Renting of farmhouse for marriage and birthday parties	45,000
7.	Dehusking of paddy in rice mill on job work basis	25,000

Compute the service tax liability of the company for the month of June, 2014. Assume that the point of taxation in respect of all the activities falls in the month of June, 2014 itself. Company had paid service tax of Rs. 3,18,000 during the Financial Year 2013-14. Service tax has been charged separately, wherever applicable. *(10 Marks)*

(c) From the particulars given below, find out the assessable value of the imported goods under the Customs Act, 1962:

		US $
(i)	Cost of the machine at the factory of the exporter	10,000
(ii)	Transport charges from the factory of exporter to the port for shipment	500
(iii)	Handling charges paid for loading the machine in the ship	50
(iv)	Buying commission paid by the importer	50
(v)	Freight charges from exporting country to India	1,000

(vi) Exchange rate to be considered : 1$ = Rs. 60 *(5 Marks)*

2. (a) ABC Co. is engaged in the manufacture of water pipes. From the following details, compute the CENVAT credit admissible to ABC Co. under the CENVAT Credit Rules, 2004:

Duties (including the education cesses) paid on purchases are detailed below:

Particulars	**Amount (Rs.)**
Raw steel	22,000
Water pipe making machine	18,000
Spare parts for the above machine	7,500
Grease and oil	2,800
Office equipment	20,000
Light Diesel Oil	12,000

ABC Co. is not eligible for SSI exemption.

Provide explanation for treatment of various items. *(4 Marks)*

(b) Safe Bank Ltd. furnishes the following information relating to services provided and the gross amount received. Compute the value of taxable service and service tax payable:

		Rs. (Lakhs)
(i)	Administration charges collected for extending home loans	10
(ii)	Discount earned on bills discounted	4.8
(iii)	Value of sale and purchase of forward contract	5.4
(iv)	Charges received on credit card and debit card facilities extended	3.8
(v)	Commission received for service rendered to Government for tax collection	6.0
(vi)	Margin earned on reverse repo transaction	25.0

Note: Safe Bank Ltd. is not eligible for small service providers' exemption under Notification No. 33/2012 – ST dated 20.06.2012. *(8 Marks)*

(c) Ascertain whether the exporter is entitled to duty drawback in the following independent cases and if yes, what is the quantum of such duty drawback?

(i) FOB value of goods exported is Rs. 50,000. Rate of duty drawback on such export of goods is 1%.

(ii) FOB value of 2,000 kgs goods exported is Rs. 2,00,000. Rate of duty drawback on such export is Rs. 30 per kg. Market price of goods is Rs. 50,000 (in wholesale market). *(4 Marks)*

3. (a) Healthcare 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) M/s. Neem Infotech is selling information technology software as:

(i) Shrink wrap software

(ii) Multiple user software/Paper license and

(iii) Internet download;

retaining the copyright with it.

In terms of End User License Agreement (EULA), the contract is given for customized development of software, delivered online or downloaded on the internet.

The assessee is of the view that since it has been settled by the Supreme Court ruling in TCS case [2004 (178) ELT 22 (SC)] that software (branded as well as unbranded) is goods, there is no element of service, and hence service tax cannot be levied in this case.

Discuss, in the light of case law, if any, the following questions that arise -

(i) Whether the transaction may be called as sale or deemed sale?

(ii) Whether the transaction is liable to service tax? If yes, show the category of the service also. *(8 Marks)*

(c) AB Ltd. imported Super Kerosene Oil (SKO) and stored it in a warehouse. An ex-bond bill of entry for home consumption was filed and duty was paid as per the rate prevalent on the date of presentation of such bill of entry; and the order for clearance for home consumption was passed. On account of highly combustible nature of SKO, the importer made an application to permit the storage of such kerosene oil in the same warehouse until actual clearance for sale/use. The application was allowed. However, the rate of duty increased when the goods were actually removed from the warehouse. The department demanded the differential duty. The company challenged the demand. Whether it will succeed? Discuss briefly taking support of decided case law(s), if any. *(4 Marks)*

4. (a) Explain the provisions relating to fixed pre-deposit mandatory for filing appeal before Commissioner (Appeals) and CESTAT under section 35F of Central Excise Act, 1944. *(4 Marks)*

   (b) With reference to the position of service tax law as applicable on or after 01.10.2014, what would be the place of provision of service in the following independent cases?

   (i) PQ Trade Links of New Delhi are appointed as commission agent by a foreign company for sale of its goods to Indian customers. In lieu of their services, PQ Trade Links receive a fixed percentage of commission from the concerned foreign company.

   (ii) CD Fabricators of Mumbai has temporarily imported certain goods from its customer located in Hongkong for repairs. The said goods have been re-exported to Hongkong after carrying out the necessary repairs without being put to any use in Mumbai. *(8 Marks)*

   (c) Explain with reference to the provisions of Customs Tariff Act, 1975, whether safeguard duty is leviable on articles imported by an 100% EOU/ unit in a SEZ that are cleared as such into DTA ? *(4 Marks)*

5. (a) Can a document which is relevant for a proceeding under the Central Excise Act, 1944 be searched by a Central Excise Officer? Explain the relevant provisions.

   (4 Marks)

   (b) With reference to the Finance Act, 1994, discuss the taxability of following activities relating to a bank:

   (i) Bank extended housing loan of Rs. 50 lac to Mr. T.

   (ii) Bank received Rs. 50,000 as loan processing fee from Mr. T.

   (iii) Bank received Rs. 6 lac as interest on loan from Mr. T. *(8 Marks)*

   (c) A Customs Officer has issued an order for confiscation of goods. However, the owner of the goods alleges that the order is not valid as no show cause notice has been issued.

   Examine the situation with reference to section 124 of the Customs Act, 1962.

   (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

   Under Excise Audit, 2000, the selection of unit for audit is based on 'risk factors'. Explain in brief the term 'risk factors' giving any five examples. *(4 Marks)*

(b) Sai fails to pay service tax of Rs. 15 lakh payable on 6th November. He pays it on 17th November. Determine the maximum penalty under section 76 of the Finance Act, 1994 that can be imposed on Sai in this case. *(8 Marks)*

(c) State the scheme provided under FTP to primarily penetrate Latin American, African and Eastern European markets. What is the general rate of entitlement under the Scheme? Can diamonds and other precious, semi precious stones be exported under this Scheme? *(4 Marks)*

7. (a) Indicate the central excise authorities who can accept bonds executed for various purposes and obligations of exporter in respect of bond acceptance while filling in ARE-1 form. *(4 Marks)*

(b) (i) Under reverse charge mechanism, which services have been notified, where service tax is jointly payable by both the service provider and the service receiver? *(4 Marks)*

(ii) What is the time limit for issuance of show cause notice for demand of service tax under section 73 of the Finance Act, 1994 ? *(4 Marks)*

(c) 'X' has used some duty paid inputs in its export products. However, for the rest of the inputs, he wants to apply for the Advance Authorization. Can he do so? Explain*.* *(4 Marks)*