

PRIME ACADEMY
33RD SESSION PROGRESS TEST – ADVANCED MANAGEMENT ACCOUNTING

No. of pages – 7

Total Marks – 75
Time allowed – 2 Hours

PART – A

1. Which of the following is a correct description of absorption costing?
 - a) All production costs are absorbed into products and the unsold stock is measured at total cost of production
 - b) All production costs are absorbed into products and the unsold stock is measured at direct cost of production
 - c) Variable costs of products are allocated to products and the unsold stock is measured at total variable cost of production
 - d) All direct costs of production are absorbed into products and the unsold stock is measured at direct cost of production

2. Which of the following is a variable overhead cost?
 - a) The wages of a cleaner whose working hours vary with the level of output achieved
 - b) A constant annual bonus paid to the store man
 - c) Annual rent payable for the factory
 - d) The wages of a production employee paid on the basis of output achieved

3. CVP analysis is based on few assumptions. Which of the following statements are incorrect?
 - a) Profits are calculated on variable costing basis
 - b) All other variables remain constant
 - c) Costs can be divided into fixed and variable elements
 - d) It is based on multiple products or constant sales mix

4. Which of the following is irrelevant cost?
 - a) Book value of old equipment
 - b) Disposal value of equipment
 - c) Cost of new equipment
 - d) All of the above

5. _____are estimated future costs that are different under alternative courses of action for a specific problem
 - a) Differential cost
 - b) Opportunity cost
 - c) Relevant cost
 - d) Sunk cost

6. _____pricing policy is also known as 'stay-out-pricing'
 - a) Skimming pricing
 - b) Penetration pricing
 - c) Psychological pricing
 - d) Target pricing

Answer questions 7-12 below: (2 marks each)

Norvik enterprises operate in the entertainment industry and it promotes concerts throughout Europe. The company is examining viability of a concert in Stockholm. Estimated fixed costs are ₹60,000. Variable cost consists of pre-packed buffet which is likely to be in the region of ₹10 per ticket sold. The proposed price for sale of ticket is ₹20.

7. The number of tickets that must be sold to break-even
 - a) 4000
 - b) 5000
 - c) 6000
 - d) 8000

8. How many tickets must be sold to earn ₹30,000 target profits?
 - a) 4000
 - b) 8000
 - c) 3000
 - d) 9000

9. What profit would result if ₹8000 tickets were sold?
 - a) 40000
 - b) 20000
 - c) 10000
 - d) 15000

10. What selling price would have to be charged to give a profit of ₹30,000 on sale of 8000 tickets, fixed costs ₹60,000 and variable costs of ₹10 per ticket
 - a) 16.25
 - b) 14.75
 - c) 21.25
 - d) 11.25

11. How many additional tickets must be sold to cover the extra cost of television advertising of ₹.8000
 - a) 3000
 - b) 600
 - c) 800
 - d) 2400

12. If sales are expected to be 8000 tickets, margin of safety will be?
 - a) 1800 tickets
 - b) 600 tickets
 - c) 1000 tickets
 - d) 2000 tickets

13. The following activity levels and costs are extracted:

	Volume of production	Indirect costs ₹
Lowest activity	5000	22000
Highest activity	10000	32000

If variable costs are constant per unit and fixed costs remain unchanged the increase in costs will be due entirely to an increase in variable costs. The variable cost per unit is:

- a) ₹4
- b) ₹2
- c) ₹2.5
- d) ₹1

14. The fixed cost in the above question is _____

- a) ₹10000
- b) ₹12000
- c) ₹15000
- d) ₹20000

15. Y Ltd plans to produce a product that will sell for ₹10 per unit. Preliminary market survey shows that demand are around 10000 units per year. The company has a choice of buying one of the two machines. Capacity of each machine being 10000 units per year. Machine A would have fixed costs of ₹30000 per year and yield a profit of ₹30000. Machine B would have fixed costs of ₹18000 per year and yield a profit of ₹22000 per year. Determine the sales level at which both machines are equally profitable.

- a) 10000 units
- b) 5000 units
- c) 8000 units
- d) 6000 units

Answer questions 16 to 19 (1 mark each)

The production level of 50% level of an activity is 5000 units. Fixed expenses at 50 % level activity is ₹15,000. Fixed expenses when the factory is shut down ₹10000. Additional expenses in closing down is ₹1000. Contribution per unit is ₹1.

16. What is the sunk cost if plant is shut down?

- a) ₹10000
- b) ₹1000
- c) ₹11000
- d) ₹15000

17. What is the additional fixed expense incurred?

- a) ₹1000
- b) ₹10000
- c) ₹11000
- d) ₹4000

18. What is the extra contribution earned at 50% activity level towards shut down expenses?

- a) ₹4000
- b) ₹1000
- c) ₹5000
- d) ₹10000

19. Is it advisable to continue operations if contribution is ₹0.75 per unit

- a) Yes
- b) No
- c) Irrelevant
- d) None of the above

(25 Marks)

PART – B

Answer any four

(50 Marks)

1. Bathing Care Ltd. manufactures and sells soaps under the brand name — Elite, Lovely, Fresh and Janata. The Janata soap is very popular as it is of good quality and at the same time reasonably priced. The company produces and sells per annum on an average 50,000 cakes of Elite, 1,00,000 cakes of Lovely, 75,000 cakes of fresh and 2,00,000 cakes of Janata at a unit selling price of ₹3.50, ₹3.00, ₹2.50 and ₹1.5 respectively.

At this level of production and sales the unit cost of a cake of each brand of soap is as follows:

	(Expressed in Paise)			
	Elite	Lovely	Fresh	Janata
Direct Material	50	40	35	45
Direct Labour	20	20	15	10
Production Expenses :				
Variable	10	10	5	5
Fixed	20	25	20	20
Administrative Expenses :				
Fixed	30	40	25	30
Variable	15	5	10	5
Selling & Distribution Expenses :				
Fixed	80	60	45	10
Variable	45	20	25	5
Total Cost	270	220	180	130

The Co. has lot of unutilized capacity and there is ample scope for improving production and sales volumes. Bathing Care Ltd. has built a name for its products in the market and with proper sales effort it should be possible to sell whatever is produced by the co., the production manager sees no problems. The sales manager put up a bold scheme for almost quarter the present profits of the company.

- (i) An exclusive advertising campaign has to be undertaken to produce and sell Janata Soaps and it is estimated at ₹4,85,000.
- (ii) At the same time the selling price of Janata Soap should be reduced to ₹1/- by adopting this sales strategy the sales manager is confident that he is able to double the present sales volume of Janata Soap and with each 1 lack increase of Janata Soap he would be able to push 30,000 cakes of Elite, 70,000 of lovely, 50,000 of fresh in the market.

You are required to find out the profit at present and profit if the sales manager's scheme is implemented

2. The operating results of a department provide the following information for a particular week:
 Average output per week 48,000 units
 Saleable value of output ₹60, 000
 Contribution on above ₹24, 000

The management is contemplating to bring about more mechanization in the department at a capital cost of ₹16, 000 which will result in reduction in number of workmen from the present strength of 160 nos. to 120 nos. However, due to mechanical help, the output of individual workmen will increase by 60%. The existing piece rate is ₹0.10 per article and as an incentive; the management propose to increase the existing piece rate by 5% for every 10% increase in the individual output achieved. There will be a reduction in sale price by 4% to sell the increased production.

You are required to calculate extra weekly contribution resulting due to proposed changes.

3. POV Ltd manufactures three products – X, Y and Z – that use the same machines. The budgeted profit and loss statements for the three products are as follows:

	X	Y	Z
	₹'000	₹'000	₹'000
Sales	1,000	1,125	625
Prime costs	(500)	(562.5)	(437.5)
Variable overheads	(250)	(187.5)	(62.5)
Fixed overheads	(200)	(315)	(130)
Profit/(loss)	50	60	(5)
Annual sales demand (units)	5,000	7,500	2,500
Machine hours per unit	20	21	26

However, after the budget had been formulated, an unforeseen condition has meant that during the next period the available machine capacity has been limited to 2,96,500 hours.

- What is the shortfall in the available machine hours for the next period?
- What is the contribution earned per machine hour on product X?
- The management accountant has ranked the products in order of preference for production as follows:
 1st product X
 2nd product Y
 3rd product Z

Calculate the number of units of each product that should be manufactured next period.

4. A company manufactures and sells three components, but has requested its purchasing manager to investigate the prices of an overseas producer. The following costs and prices are made available:

	Component X	Component Y	Component Z
Production(units)	20,000	40,000	80,000
	₹/Unit	₹/Unit	₹/Unit
Direct material cost	0.80	1.00	0.40
Direct labour cost	1.60	1.80	0.80
Direct expense cost	0.40	0.60	0.20
Fixed cost	0.80	1.00	0.40
Selling price	4.00	5.00	2.00
Imported price	2.75	4.20	2.00

Required:

- Make your recommendations to management as to whether any component should be purchased on the basis of cost only.
 - What profits will the company make by producing all the components itself?
 - State whether your recommendations in (1) above is likely to affect the profit and by how much.
5. Paints Ltd. manufactures 2,00,000 tins of paint at normal capacity. It incurs the following manufacturing costs per unit:

	₹
Direct material	7.80
Direct labour	2.10
Variable overhead	2.50
Fixed overhead	4.00
Production cost I unit	16.40

Each unit is sold for ₹ 21, with an additional variable selling overhead incurred at ₹0.60 per unit. During the next quarter, only 10,000 units can be produced and sold. Management plans to shut down the plant estimating that the fixed manufacturing cost can be reduced to ₹74,000 for the quarter. When the plant is operating, the fixed overheads are incurred at a uniform rate throughout the year. Additional costs of plant shut down for the quarter are estimated at ₹14,000.

You are required:

- To advise whether it is more economical to shut down the plant during the quarter rather than operate the plant.
- Calculate the shut down point for the quarter in terms of numbering units

PRIME ACADEMY
33RD SESSION PROGRESS TEST – ADVANCED MANAGEMENT ACCOUNTING
SUGGESTED ANSWERS

PART A

Q.No.	Answer
1	a
2	a
3	d
4	a
5	c
6	b
7	c
8	d
9	b
10	c
11	c
12	d
13	b
14	b
15	d
16	c
17	d
18	b

19	b
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PART – B

1. Statement showing computation of profit at the current Mix:

	Elite ₹	Lovely ₹	Fresh ₹	Janata ₹	Total ₹
(I) SP	3.50	3.00	2.50	1.50	
(II) VC :					
DM	0.50	0.40	0.35	0.45	
DL	0.20	0.20	0.15	0.10	
Prod. Exp.	0.10	0.10	0.05	0.05	
AOH	0.15	0.05	0.10	0.05	
SOH	0.45	0.20	0.25	0.05	
	1.40	0.95	0.90	0.70	
(III) Contribution (I- II)	2.10	2.05	1.60	0.80	
(IV) Total Contribution	1,05,000	2,05,000	1,20,000	1,60,000	5,90,000
(V) F.C :					
Prod. Exp.	0.20	0.25	0.20	0.20	
Adv. Exp.	0.30	0.40	0.25	0.30	
S & D Exp.	0.80	0.60	0.45	0.10	
	1.30	1.25	0.90	0.60	
(VI) Total F.C (V × No. of Units Sold)	65,000	1,25,000	67,500	1,20,000	3,77,500
(VII) Profit (IV- VI)	40,000	80,000	52,500	40,000	2,12,500

Statement showing computation of profit by adopting sales manager's scheme:

	Elite	Lovely	Fresh	Janata	Total ₹
No. of Units	1,10,000	2,40,000	1,75,000	4,00,000	
Contribution per unit	2.10	2.05	1.60	(0.8-0.5) 0.30	
Total Contribution	2,31,000	4,92,000	2,80,000	1,20,000	11,23,000
FC (Existing + Advt.)					8,62,500
Profit					2,60,500

2. Working:

	₹
(i) Sales per week	60,000
Contribution	24,000
Variable cost	36,000
Less: wages (0.10 × 48000 pc)	4,800
	31,200

	Variable cost excluding wages 31,200 i.e. $31,200/48,000 = ₹ 0.65$ per pc
(ii) Future expected production units/employee	₹
Production per employee (48,000/160)	300
Add: increase by 60%	<u>180</u>
	<u>480</u>

Total future production from 120 workmen = 57,600.

(iii) Expected selling price	₹
Present price ₹ 60,000/48,000 =	1.25
Less reduction by 4% =	<u>0.05</u>
Revised price	<u>1.20</u>
(iv) Revised piece rate wages	₹
Present rate	0.10
Incentive	<u>0.03</u>
(5% × 60% = 3%)	<u>0.13</u>
(v) Forecast of profitability	₹
Sales (57600 units × ₹1.20)	69,120
Less: Variable cost ₹	
Wages @ ₹ 0.13	7,488
Other overheads	
(Excluding wages @ ₹ 0.65)	<u>37,440</u>
	<u>44,928</u>
	₹
Contribution	24,192
Present contribution	<u>24,000</u>
Increase in contribution	<u>192</u>

3. The shortfall in available machine hours for next period is 26,000 hours.

Workings

a) Machine hours required to satisfy annual sales demand

		Hours
Product X	5,000 units x 20 hrs.	1,00,000
Product Y	7,500 units x 21 hrs.	1,57,500
Product Z	2,500 units x 26 hrs.	<u>65,000</u>
Total machine hours required		<u>3,22,500</u>
Machine hours available		<u>2,96,500</u>
Shortfall in available machine hours		26,000

b) The contribution earned per machine hour used on product X is ₹ 2.50.

	X ₹'000
Sales revenue	1,000
Prime costs	(500)
Variable overheads	<u>(250)</u>
Contribution	<u>250</u>
Contribution per unit (÷5,000)	₹50
Contribution per machine hours (÷20)	₹2.50

- c) (i) Product X 5,000 units
(ii) Product Y 7,500 units
(iii) Product Z 1,500 units

Working

Ranking	Product	Demand	Hours required	Hours available	Production units
1st	X	5,000(x20)	1,00,000	100,000	5,000
2nd	Y	7,500(x21)	1,57,500	157,500	7,500
3rd	Z	2,500(x26)	65,000	39,000*	1,500
				2,96,500	

* Balance (2,96,500 – 1,00,000 – 1,57,500)

4. (a)

Marginal cost	X	Y	Z
	₹	₹	₹
Direct material	0.80	1.00	0.40
Direct labour	1.60	1.80	0.80
Direct expense	0.40	<u>0.60</u>	<u>0.20</u>
	2.80	3.40	1.40
Buying in price	2.75	4.20	2.00
Extra cost saved/(incurred)	(0.05)	0.80	0.60

Therefore recommend buying component X

(b) Profit statement

	X	Y	Z	Total
	₹	₹	₹	₹
Sales revenue	80,000	2,00,000	1,60,000	4,40,000
Variable cost	56,000	1,36,000	1,12,000	3,04,000
Fixed cost	16,000	40,000	32,000	88,000
Total cost	72,000	1,76,000	1,44,000	3,92,000
Profit	8,000	24,000	16,000	48,000

(c) Profit statement: buying-in component X

	X	Y	Z	Total
	₹	₹	₹	₹
Selling price per unit	4.00	5.00	2.00	
Variable cost per unit	2.75	3.40	1.40	
Contribution per unit	1.25	1.60	0.60	
Contribution	25,000	64,000	48,000	1,37,000
Fixed cost				88,000
Profit				49,000

The profit increases by ₹1,000 which is the cost saved by buying –in rather than making component X (20,000 units x ₹0.05).

5. Contribution per tin = Selling Price - Variable cost
= 21 - (7.8 + 2.1 + 2.5 + 0.6)
= ₹ 8 per tin

Loss on operation:

Fixed cost per annum = 2,00,000 units x 4 per unit
= 8 lakhs.

Therefore, Fixed cost for 1 quarter = $8/4 = 2$ lakhs

	₹
Fixed cost for the quarter	2,00,000
Less: Contribution on operation (8 x 10,000)	80,000
Expected loss on operation	<u>1,20,000</u>

Loss on shut down:	₹
Unavoidable Fixed Cost	74,000
Additional shut down cost	<u>14,000</u>
Loss on shut-down	<u>(88,000)</u>

Conclusion: Better to shut down and save ₹ 32,000

$$\begin{aligned} \text{Shut-down point (number of units)} &= \frac{\text{Avoidable Fixed Cost}}{\text{Contribution p.u}} \\ &= \frac{2,00,000 - 88,000}{8} \\ &= 1,12,000 / 8 = 14\,000 \text{ units} \end{aligned}$$

PRIME ACADEMY
33RD SESSION PROGRESS TEST - INFORMATION SYSTEMS CONTROL AND AUDIT

No. of Pages: 3

Total Marks: 75
Time Allowed: 2Hrs

PART-A

1. The stage in SDLC where baselining takes place is _____ (1 Mark)
2. The deliverable of the requirement specification stage is _____ (1 Mark)
3. Identification of viable projects, committing resources to projects and overall supervision of projects is the responsibility of _____ (1 Mark)
4. The three broad steps in preliminary investigation are _____, _____ and _____ (3 Marks)
5. As far as obtaining new application software is concerned, the organization has a choice to either _____, _____ or _____ (3 Marks)
6. _____ is responsible for internal structuring of the database, decing table linkages etc. and the same is achieved with the help of _____ (2 Marks)
7. A usable system or system component built quickly at a lesser cost and with intention of being modified or replaced with a full scale or fully operational system is called as _____ (1 Mark)
8. _____ is a methodology which focuses on short time-frames with rigid development goals for each iteration. (1 Mark)
9. Two ways of collecting information for the purpose of preliminary investigation are _____ and _____ (2 Marks)
10. _____ is the medium through which user interacts with the application software (1 Mark)
11. _____ refers to a component of control which ensures compliance with management policies and efficiency of operations (1 Mark)
12. Two broad impact of any control are _____ and _____ (2 Marks)

13. _____ are controls which can replace a similar control while _____ are controls which reduce the risk of the original or primary controls not being there
(2 Marks)
14. The three objectives of audit trails as a control are _____, _____ and _____
(3 Marks)
15. _____ control ensures that a single user or a group cannot put through a complete transaction all by themselves.
(1 Mark)

Part B

Answer all Questions

1. (a) Discuss the advantages of pre-written application software (10 Marks)
(b) Explain direct change over, parallel conversion and gradual conversion strategies (10 Marks)
2. (a) "Classification of information and documents is essential if one has to differentiate between that which is of little value and that which is highly sensitive and confidential"- Explain (10 Marks)
(b) What are audit trails? Explain the objectives of audit trail (10 Marks)
3. (a) Write short notes on point-scoring analysis methods and IDS (5 Marks)
(b) What are the driving factors for controls (5 Marks)

PRIME ACADEMY
33RD SESSION PROGRESS TEST – INFORMATION SYSTEMS CONTROL & AUDIT
SUGGESTED ANSWERS

PART A

1. Design
2. System Requirement Specification Document/User Requirement Specification Document
3. IT Steering Committee
4. Request clarification, feasibility study and approval of request
5. Buy, develop it in-house or lease
6. DBA, DBMS
7. Prototype
8. Time Box Management
9. Review of Internal Documents, Interviewing of users
10. User Interface
11. Administrative Controls
12. It involves an element of cost, it slows down organisational processes
13. Alternate Controls, Compensatory Controls
14. Help detect unauthorised access, facilitate reconstruction of events, fix accountability
15. Segregation of duties

PART B

1. (a)

S.No.	Points for consideration	Advantage if we buy the software	Disadvantage if it is developed in-house
1.	Implementation	Rapid implementation	May take months or years to implement
2.	Risk	Low risk- product already available- organisation aware of the features it is going to get at what price.	Long development time- leads to uncertainty as regards quality and cost of development.
3.	Quality	Vendors dealing in application software- retain specialists who have lot of experience. Hence product quality good.	In-house programmers have to work on a wide range of applications and may not have expertise.
4.	Cost	Software vendors sell products to various customers and hence cost per customer may be low.	There may be some hidden costs.

Further vendors may provide complete set of documentation and user training along with the software which is an added advantage.

(b)

<i>Conversion method</i>	<i>Meaning</i>	<i>Advantages</i>	<i>Limitations</i>
1. Direct change over method (also called Plunge method)	On a specified date old system is dropped and new system is put to use Can be adopted only if extensive testing done beforehand	Users straight away use the new system- adaptation easy.	1. Risky 2. Long delays if errors occur since this the only system available to do the processing 3. Users resent/resist since unfamiliar system 4. Cannot compare results with the old system(since old system has been discarded)

<p>2. Parallel conversion</p>	<p>Running the old system and the new system in parallel at the same time</p> <p>Results of the new system compared with that of the old system and if reliable over a period of time, old system is stopped and new system put to use.</p>	<p>1. Since data available from both old and new systems, any errors in new system can be corrected.</p> <p>2. Users feel secure as they are not faced with abrupt change</p>	<p>1. Cost of running both systems (old and new) is very high.</p> <p>2. Employees work load increases during conversion.</p> <p>3. Unless new system is replacing old manual system, output comparison difficult.</p> <p>4. If new system is an improvement over existing system, outputs would differ and hence difficult to compare.</p> <p>5. Users familiar with old system and will continue to use only that.</p>
<p>3. Gradual conversion</p>	<p>Attempts to combine the good features of parallel and direct changeover method.</p> <p>Volume of transaction gradually increased → new system is phased in.</p>	<p>Users can use the new system gradually and there is a possibility of detecting and correcting errors without much system downtime.</p>	<p>1. Time consuming as it may take a long time to put the new system in use.</p> <p>2. Not the best method for small, simple systems.</p>
<p>4. Modular prototype conversion</p>	<p>Involves building of modular, operational prototypes to change from old to new system.</p> <p>Each module is modified, accepted and put to use gradually.</p>	<p>1. Thorough testing of modules before being put to use.</p> <p>2. User familiarity before model put to use.</p>	<p>1. Too many prototypes and hence may not be feasible.</p> <p>2. Interfacing of the various modules (so that they work as a system) may be a problem.</p>
<p>5. Distributed conversion (Also called as PILOT)</p>	<p>Involves full implementation of the system in one branch of the organization (say a bank branch) using any of the above four methods. If successful</p>	<p>Problems if any can be identified and controlled in one location rather than affecting all locations.</p>	<p>Each branch/site may have its own problem that needs to be handled separately. Hence success in one site does not necessarily mean</p>

run)	then carried out at other branches.		success in other sites.
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2. (a) **How to implement data controls?**

- First and foremost a list of all data held by the organisation- both in physical form and in digital form- should be prepared
- Data classification should be carried out to categorise the data into those which are sensitive and those which are not very sensitive
- Based on the above classification, controls need to be introduced- higher the level of sensitivity, higher the controls.

A sample classification of data can be:

S.No.	Classification	Meaning	Example	Impact if data disclosed	Level of control
1.	Top Secret	Highly sensitive-very restrictive distribution	Merger / take-over plans, new product design	Serious	Highest possible control
2.	Highly confidential	Critical for on-going operations. Should not be copied or removed out of the organisation without proper authority.	Credit card numbers, patient records	Serious impact on operational performance -may lead to legal liability	Very high
3.	Proprietary	Information which is specific to a given organisation- differ from organisation to organisation	Operational procedures, work routines, project plans.	Things specific to an organisation would be made public.	High
4.	Internal use only	Information meant only for internal circulation- not approved for general circulation	Minutes of the meeting, internal memos	Inconvenience to the organisation- but no financial loss	Controlled but normal

		outside the organisation			
5.	Public documents	Meant for public access	Annual reports, press release, website content	Nil	Minimal/ NIL

(b)

Audit Trail Controls:

Meaning

It refers to recording or logging of activities at the operating system, network, application software, user and database levels. For example application logs contain details of who initiated a transaction, who authorised it, date and time etc.

Objective

The objective of audit trail control are three fold:

S.No.	Objective	Example
a.	Help detect unauthorised access or attempted access to the system	An unauthorised user trying a user-id password wrong three times would be logged by the system
b.	Facilitate reconstruction of events in case of system failure	Database logs contain before image and after image of data values which help reconstruct the database tables in case of a failure.
c.	Fixing of accountability	Transactions can be traced to individual users based on the user-id details appearing in the logs. The person carrying out the transaction cannot later deny it since his user-id is captured in the log.

Explanation for the objectives:

a. Detecting unauthorised action

This detection can be either real time detection or after the fact detection. Real time detections are alerts configured to trigger even when unauthorised access is being attempted. These are very effective but require a lot of processing resources and monitoring mechanisms. The other alternate is to store the logs and review it as and when required.

b. Facilitate reconstruction of events

Logs keep track of events leading to system failures, security violations and application processing errors (ex: errors in calculation of interest and charges). These logs help analyse the error condition and prevent future occurrence. Similarly logs help reconstruct account balances if the files are corrupted.

c. Fixing accountability

Using logs user activity can be monitored and this acts as a deterrent against unauthorised access or policy violations by users.

Enabling logs (also called as enabling auditing)

It should be noted that logs are not automatic and organisation has to decide and implement the level of auditing required. For example logs at application software level need to be programmed and enabled to track user activity. As to what details need to be logged and what need not be logged is a business decision. Too much of logs may be self defeating as it occupies lot of space and degrades operational performance (system performance would become slow)

3. (a) **Point scoring analysis:** The evaluation committee first assigns potential points (say from a scale of 1 to 10) for each evaluation criteria **based on its relative importance**
Ex: The evaluation criteria “is the software user friendly” may be assigned a point of 9 since it is a relatively important criteria as compared to “whether the software has adequate warranty” which may be given a point of 7.

After this each vendor’s package is awarded points, the vendor with the highest point total wins the contract.

Criticism of this method: Though this system provides an objective method of software selection, experts believe that software selection is more an art than a science and hence there cannot be absolute rules for selection.

Intrusion Detection System

Intrusion detection is an method of monitoring and if possible preventing attempts to intrude into or compromise the system and network resources.

Ex: In an internet banking infrastructure, the web server which hosts the web page of the internet banking facility is meant to be accessed by bank’s customers, staff or outsiders interested in knowing about the products offered by the bank. However these users are not permitted to modify or deface the web-page of the bank. Access may be restricted through firewalls- which may be compromised. IDS is the system which warns of attempted unauthorised access- may take steps to prevent such activity.

Types of IDS

IDS broadly fall into two categories

Network based IDS (NIDS): These IDS monitor traffic on the network and verify if the same falls within permitted parameters

Host based IDS (HIDS) : These IDS run in the back-ground of the systems being monitored- examine if the system activity is acceptable

(b) The driving factors for control are:

- i. Impact of errors/frauds and cost of recovering from them: An organisation has to compare the cost of errors and frauds in the absence of controls vis-à-vis cost of controls- ex: cost of recovering from a data loss in the absence of data back-up.
- ii. Need for appropriate information to facilitate decision making by managers
- iii. The monetary value of hardware and software also drives the need to protect the same by implementing necessary controls. Also the business impact of these assets not being there drives the need to implement controls
- iv. Need to maintain confidentiality and integrity of sensitive data- ex: data privacy related amendments in IT Act

A well controlled IT environment contributes to efficiency and effectiveness of operations- leading to overall better utilization of IT investment

PRIME ACADEMY
33RD SESSION PROGRESS TEST – DIRECT TAX LAWS

No. of Pages: 4

Total Marks: 75
Time Allowed: 2Hrs

PART - A

1. What is the time limit for reinvestment in bonds of Nabard and NHAJ
 - a. 1 year
 - b. 6 months
 - c. 2 years

2. Income from House property is taxable on
 - a. Due basis
 - b. Receipt basis
 - c. Due or receipt whichever is earlier
 - d. Mixture of both due and receipt basis

3. A property which is partly let out and partly self occupied is treated as
 - a. Fully let out
 - b. Fully self occupied
 - c. Two separate properties

4. Compensation received from insurance company on destruction of a capital asset is taxable
 - a. In the year of destruction
 - b. In the year of receipt of compensation
 - c. In the year of transfer

5. Unrealised rent is deductible from
 - a. Actual rent
 - b. Accrued rent
 - c. Gross annual value
 - d. Net annual value

6. Income from House property is taxable on
 - a. Due basis
 - b. Receipt basis
 - c. Due or receipt whichever is earlier
 - d. Mixture of both due and receipt basis

7. Gift from relative is exempt
 - a. Under all circumstances
 - b. Only when it is received during death
 - c. Fully taxable
 - d. Exempt under certain circumstances

8. Interest on enhanced compensation is taxable on
 - a. Due basis
 - b. Receipt basis
 - c. Due or receipt whichever is earlier
 - d. Mixture of both due and receipt basis

9. A person can invest in more than one house property for the purpose of exemption u/s 54F
 - a. Yes
 - b. No
 - c. Possible under certain circumstances

10. Unrealised rent subsequently recovered is taxable
 - a. In the year of receipt
 - b. As income of the year it was original due
 - c. In the subsequent previous year

11. Conversion of a sole proprietary firm to an LLP is
 - a. Fully taxable
 - b. Fully exempt
 - c. Partly taxable and partly exempt

12. Indexation of cost of acquisition in the case of 49(1) transaction begins from
 - a. Year of acquisition
 - b. Year of gift to the assessee
 - c. Year of transfer

13. Sale of land and reinvestment in house property is eligible for exemption u.s
 - a. 54
 - b. 54F
 - c. 54B
 - d. 50C

14. Royalty is deemed to accrue or arise in India if
 - a. Paid by a Foreign Govt
 - b. Resident for business in Singapore
 - c. Non resident for business in India

15. Fees for technical services is deemed to accrue or arise in India only
 - a. If the service provider has a place of business in India
 - b. If the services are utilised in India
 - c. If the services are rendered in India

16. Business income is taxable in India only if
 - a. The business has profits in India
 - b. There is a business connection in India
 - c. The owner is a resident of India

17. Motor owned by the employee and used for personal purposes is taxable as
- Obligation of an employee met by the employer
 - Rule 3 valuation @ Rs 1800 pm
 - Fully exempt
18. Where an employee receives Gifts to the tune of Rs 7,000, the amount taxable shall be
- Nil
 - Rs 2,000
 - Rs 7,000
19. Sec 50C applies to both movable and immovable properties
- True
 - False
 - Possible
20. Interest on self occupied property shall be eligible for a deduction of upto
- Rs 30,000
 - Rs 45,000
 - Rs 1,00,000
21. Uncommuted Pension received by a Govt employee is
- Fully Taxable
 - Fully Exempt
 - Partially exempt
22. Interest on enhanced compensation is eligible for
- Indexation benefit
 - 20% deduction
 - 50% deduction
23. Relief u/s 89(1) is available for voluntary retirement compensation which is exempt u/s 10(10C)
- True
 - False
 - Possible
24. Cost of purchase of lottery ticket is fully eligible for set off against actual income from lottery
- True
 - False
 - Possible
25. Cost of acquisition of assets sold in slump sale is
- Net worth of the undertaking
 - Total assets of the undertaking
 - Fair market value of the shares of the undertaking

(25x1=25 Marks)

PART - B

1. What are the rates for deduction u/s 53

Purpose	Rate of deduction

(4 Marks)

2. What are the various provisions for taxation of gifts

(6 Marks)

3. When is income deemed to accrue or arise in India

(8 Marks)

4. How is interest in enhanced compensation is chargeable to tax

(2 Marks)

5. Explain the provisions for conversion of a private limited company to a limited liability partnership

(6 Marks)

6. Write short notes on

- a. Domestic company
- b. Taxation of limited liability partnership
- c. Exemption u/s 54B
- d. Securities transaction tax
- e. Residential status of HUF

(5x4=20 Marks)

7. Explain the impact of violation of exemption u/s (IV) / V

(4 Marks)

PRIME ACADEMY
33RD SESSION PROGRESS TEST – DIRECT TAX LAWS
SUGGESTED ANSWERS

PART A

1	b
2	a
3	c
4	b
5	a
6	a
7	a
8	b
9	b
10	a
11	a
12	b
13	b
14	c
15	b
16	b
17	a
18	c
19	b
20	a
21	a
22	c
23	b
24	b
25	a

PART B

1

Purpose	Rate of deduction
Scientific research – in house expenses	100%
Contribution for scientific research to an approved institution other than an approved company	175%
Contribution for scientific research to an approved company and contribution for social studies and statistical research	125%
Scientific research – in house expenses for assessee engaged in manufacturing	200%

2

Type of gift	When taxable	Remarks
Sum of money	Aggregate sums exceed ₹ 50,000	
Immovable Property		
Received without consideration	Stamp duty value of each such property exceeds ₹ 50,000	Where an individual receives say 3 properties of ₹ 45,000 each, no income shall be arise on such receipt.
Received for inadequate consideration	When the Stamp duty value exceeds the consideration paid by the assessee.	Not taxable – Amendment by Finance Act 2010 w.r.e.f 01.10.2009

Note: Where the stamp duty is disputed by the assessee on the grounds that:

- Such value is higher than the fair market value and
- Such value has not been disputed in any appeal or revision or no reference has been made before any other authority, Court or High Court

The Assessing Officer may refer the case to a Valuation Officer and the provisions of Sec 50C and Sec 155(15) shall apply accordingly.

Any other property (other than immovable property)		
Received without consideration	Aggregate fair market value of all such properties	Where an individual receives say 3 properties of ₹ 45,000 each, ₹ 1,35,000 shall be regarded as taxable income.
Received for inadequate consideration	When the difference between aggregate fair market value and consideration of each such property exceeds ₹ 50,000	

Note:

Property means the following capital asset of the assessee, namely:

- (i) Immovable property being land or building or both;
- (ii) Shares and securities;
- (iii) Jewellery;
- (iv) Archaeological collections;
- (v) Drawings;
- (vi) Paintings;
- (vii) Sculptures; or
- (viii) Any work of art;
- (ix) Bullion

“Stamp duty value” means the value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in respect of an immovable property. (this definition is same as definition u/s 50C)

3

Nature of Income	Condition
Business Income	When there is business connection in India (Please refer to the definition of the term Business Connection- discussed below)
Property income	Property or asset source is in India
Income from transfer of a capital asset	When the capital asset is in India
Income from Salaries	Where services are rendered in India Indian citizen, working for the Government of India and rendering services outside India
Dividend Income	Dividend payable/paid by an Indian Company
Interest, Royalty and Fees for Technical	If the income is received from:

Services	<ul style="list-style-type: none"> • Government of India • A resident assessee except where such payment is for business outside India • A non resident assessee where the payment pertains to business in India
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4 Interest on Compulsory Acquisition – Sec 145A(b)

- Interest received by an assessee on compensation or on enhanced compensation, shall be deemed to be the income of the year in which it is received.
- A flat deduction of 50% of the amount received shall be allowed as a deduction u/s 57(iv) on the gross amount of interest received during the previous year.

5

- All assets and liabilities of the company immediately before the conversion become the assets and liabilities of the limited liability partnership
- All shareholders of the company immediately before the conversion become the partners of the limited liability partnership and their capital contribution and profit sharing ratio in the limited liability partnership are in the same proportion as their shareholding in the company on the date of conversion;
- Shareholders of the company do not receive any consideration or benefit, directly or indirectly, in any form or manner, other than by way of share in profit and capital contribution in the limited liability partnership;
- Aggregate of the profit sharing ratio of the shareholders of the company in the limited liability partnership shall not be less than fifty per cent at any time during the period of five years from the date of conversion;
- Total sales, turnover or gross receipts in business of the company in any of the three previous years preceding the previous year in which the conversion takes place does not exceed sixty lakh rupees; and
- No amount is paid, either directly or indirectly, to any partner out of balance of accumulated profit standing in the accounts of the company on the date of conversion for a period of three years from the date of conversion.

6 (a) Domestic company

Domestic Company – Sec 2(22A): Means:

- (a) An Indian company, or
- (b) Any other company which, in respect of its income liable to tax under this Act, has made the prescribed arrangements for the declaration and payment, within India, of the dividends (including dividends on preference shares) payable out of such income

Note

Indian branch of a foreign company which directly distributes dividends to its shareholders from India shall be regarded as a Domestic company and chargeable to tax @ 30%.

A foreign company can also be a domestic company if it has made arrangements to pay dividends in India. Tax rates for a domestic company are 30% and surcharge is 7.5% for a domestic company. Tax on distributed profits u/s 115O shall also apply only for a domestic company.

Taxation of limited liability partnership

A limited liability partnership is regarded as a "firm" for the purposes of taxation.

Income of an LLP is taxable @ 30% plus cess.

No surcharge shall apply for an LLP.

Provisions of presumptive taxation u/s 44AD shall not apply for an LLP

Interest and remuneration to partners shall be subject to restrictions u/s 40(b)

Exemption u/s 54B

Particulars	54B
Assessee	Individual
Nature of Capital asset	Short term /long term
Eligible asset	Agricultural (urban) land used for agricultural purposes by the individual or his parents for 2 years prior to transfer
Asset to be acquired	Agricultural land (rural or urban)
Time limit for acquiring a new asset	2 years from the date of transfer
Amount exempt	Investment or Capital gains whichever is less
Holding period for the new asset	3 years from the date of acquisition
Consequence if new asset is transferred within holding period	Such asset shall be a short term capital asset and its Cost of acquisition shall be reduced by the exemption allowed earlier under this section
Benefit u/s 54H	Available
Scheme of Deposit	Available

Securities transaction tax (STT)

- STT is a tax levied on every purchase and sale of listed shares and securities
- Shares and equity oriented units on which STT has been levied, shall be subject to special rates of taxation as follows:
 - 1 In case of long term capital assets – fully exempt u/s 10(38)
 - 2 In case short term capital assets – taxed @ 15% u/s 111A

- Where shares and equity oriented units are held as stock in trade, STT paid shall be allowed as a business deduction

Residential status of HUF

Residential Status of an HUF 6(2): Similar to an individual, a HUF also has three residential status namely:

- Resident and ordinary resident
- Resident and not ordinary resident
- Non resident

Determination of Resident or Non resident status of a HUF:

- If whole or part of the control and management is in India, HUF shall be regarded as a resident.
- If whole of the control and management is outside India, HUF shall be regarded as a Non resident.

Determination of Ordinarily or Not Ordinarily status of Resident HUF - Additional Conditions:

Once an HUF is considered as a resident based on the above mentioned criteria, the next step is to determine whether it is an ordinary or not ordinary resident of India. The conditions are similar to that of an individual, however these conditions are to be applied on the Karta of the HUF.

- Karta should have been a resident u/s 6(1) for atleast 2 out of 10 preceding previous years
- Karta should have been in India for a period of 730 days or more in the 7 preceding previous years

If the Karta fulfills only one or none of the above conditions the HUF is a Resident but Not Ordinarily resident and where he fulfills both the conditions, the HUF is an ordinary resident.

Note: For determining whether a HUF is a resident or not, status of the Karta is irrelevant

7 Transfers between holding and subsidiary companies u/s Sec 47(iv). & (v) – Sec 47A (1)

The benefit of exempted transfer u/s 47 (iv) or 47(v) shall be withdrawn if within a period of eight years from the date of exempted transfer:

- The Capital asset is converted into stock in trade by the transferee,

Or

- Parent company and/or its nominees cease to hold 100% shares in subsidiary

The benefit of exempted transfer shall be withdrawn in the following manner:

Reason for Violation	Tax implication on the transferor company	Tax implication on the transferee company
Capital asset is converted into stock in trade within 8 years	<p>Capital gains on exempted transfer shall be deemed to be income of the previous year in which such exempted transfer was made.</p> <p>Rectification return shall be made u/s 154 read with 155(7B)</p>	<p>Capital gains shall be chargeable in accordance with Sec 45(2) ie in the year in which the converted asset is sold.</p> <p>Indexation shall be available from the year of transfer u/s 47 till the year of conversion</p> <p>Cost of acquisition shall be cost at which the asset was acquired by the transferee company- Sec 49(3).</p>
Holding company ceases to hold 100% stake in the subsidiary	Same as above	No tax Implications

PRIME ACADEMY
33RD SESSION PROGRESS TEST – INDIRECT TAXES

No. of Pages: 4

Total Marks: 75
Time Allowed: 2Hrs

PART A

1. Which are the goods still under the physical control?
 - (a) Plastic products
 - (b) Cigarette products
 - (c) Apparel products
 - (d) Glass products

2. At the time of manufacture of product X attracts 14% BED. At the time of removal the rate of duty is 8%. Which is the duty attracts for the product X
 - (a) 14%
 - (b) 8%
 - (c) 11% (Average)
 - (d) Zero (Because the rate has changed)

3. CT- 1 form will be issued by the Merchant exporter to the Manufacturer for clearing the goods
 - (a) Without payment of Central Excise
 - (b) Avoidance of Central Excise duty
 - (c) With payment of reduced rate of Central Excise Duty
 - (d) With payment of full amount of Central Excise Duty

4. Certificate of procurement of goods under procedure for export Warehousing can be done under the
 - (a) CT-3 Form
 - (b) CT-2 Form
 - (c) ARE -1
 - (d) Bond -1

5. The Letter of Undertaking is valid for a period of
 - (a) 12 months from the date of acknowledgement by the department
 - (b) 15 months from the date of acknowledgement by the department
 - (c) 24 months from the date of acknowledgement by the department
 - (d) 6 months from the date of acknowledgement by the department

6. The goods included in the _____ Schedule of Central Excise Act are same as those on which Excise duty is payable under section 4A of the Act.

7. Goods are classified under Central Excise Tariff Act based on the _____ having ____ digit classifications.

8. CT-1 form received by the manufacturer from
- (a) Merchant exporter
 - (b) (b)EOU unit
 - (c) Manufacturer
 - (d) (d)First stage dealer
9. The Export Oriented Units can procure indigenous material without payment of central excise duty. These units have to issue
- (a) CT -3 certificates
 - (b) (b)CT-4 certificate
 - (c) (c)CT-1 certificate
 - (d) CT-2 certificate
10. The penalty for non-registration is
- (a) Amount of duty of contravening goods or ₹10,000 whichever is higher
 - (b) Amount of duty of contravening goods or ₹ 10,000 whichever is less
 - (c) Amount of duty of contravening goods or ₹ 1,000 whichever is higher
 - (d) Amount of duty of contravening goods or ₹ 5,000 whichever is higher

Each Question carries three marks

1. (a) Who is required to be registered under Central Excise law
- (b) ABC an assessee availing the SSI exemption scheme, Paid Central Excise duty of ₹10000 for the goods cleared in the quarter ending March 2011 on April 15,2011. Discuss whether any interest will be charged from ABC Limited for late payment of duty. If yes, what will be the interest liability?
- (c) Compounded Levy Scheme.
- (d) Is the assessee liable to pay interest under section 11AB on the differential duty paid on the difference between price at date of removal and enhanced price at which goods are ultimately sold?
- (e) Letter Of Undertaking

Part B

Answer any five questions and each question carries ten marks.

1. (a) What are the various options available with regards to job work?
 - (b) M/s XYZ Ltd. sold machinery to Mr. K at a price of ₹5 lakhs on 15th June, 2010 and the same was removed from the factory at Kolkata. The rate of excise duty applicable is 10.3% on the date of removal. Mr. K. refused to take delivery of the machine when it reached his destination. In the meantime, M/s. XYZ Ltd. increased the prices of the similar type of machinery to ₹6 lakhs with effect from 16th June, 2010. The machinery as refused by Mr. K. has been sold on 20th June 2010 to Mr. L at the revised price of ₹6 lakhs. The excise duty including education cess is 10.3% applicable with effect from 10th June, 2010. Explain the following with reasons:
 - (i) What is the value to be taken as assessable value?
 - (ii) What is the rate of excise duty applicable and duty payable on above transaction?
 - (iii) The Central Excise Officer is demanding duty on the price of ₹ 6 lakhs at the time of sale to Mr. L. Is he right in his approach?
 - (iv) Does cost of production have any bearing on the assessable value?
2. (a) A company manufacturing consumer durables has factory in Tamilnadu. It has a depot in Maharashtra. Its product 'A' is dispatched to its depots in Maharashtra and sold from the depot to its dealers in Maharashtra. The depot administration expenses are ₹ eight lakhs per annum. These do not include transport charges from Tamilnadu to Maharashtra. The dealers in Maharashtra are registered under CST Act. The present price for sale from Maharashtra Depot is ₹22,500, inclusive of transport charges from Tamilnadu to Maharashtra. Actual transportation charges from Tamilnadu to Maharashtra are ₹1,000 per piece. The depot price is inclusive of applicable excise duty @ 10% plus education cess of 2% and SAH education cess of 1%, but exclusive of Maharashtra sales tax. Sale from Maharashtra depot of product A are 2,000 pieces per annum. As an economy measure, it is proposed to close the depot in Maharashtra and make direct sale from Tamilnadu to dealers in Maharashtra. Marketing department has stated that if goods are sold from Tamilnadu, total amount payable by dealers in Maharashtra should remain unaltered. Otherwise, sales will be badly affected. Taxation department argues that this will reduce the profitability of the product, as the CST payable will have to be borne by the company. Finance department is of the view that this extra tax burden will get offset by reduction in depot expenses and slight reduction in excise duty quantum. Evaluate the financial implications to decide whether it will be economical to close the depot in Maharashtra and advise Management about desirability or otherwise of closing the depot. Ignore effect of Maharashtra Vat, if any.
 - (b) What are the Inclusions & Exclusions to compute value of clearances for SSI Exemption?
3. (a) Determine the total amount of excise duty payable under Section 4 of the Central Excise Act, 1944 from the following information:
 - (i) Price of machinery excluding taxes and duties – ₹ 5,50,000
 - (ii) Installation and erection expenses – ₹21,000
 - (iii) Packing Charges (primary and secondary) – ₹11,500
 - (iv) Design and engineering charges – ₹ 2,000

- (v) Cost of material supplied by buyer free of charge – ₹8,500
- (vi) Pre-delivery inspection charges – ₹500. Other information:
- Cash discount @2% on price of machinery was allowed as per terms of Contract since full payment was received before dispatch of machinery.
 - Bought out accessories supplied along with machinery valued at ₹6,000.
 - Central Excise duty rate 10% and educational cess as applicable @3%. Make suitable assumptions as are required and provide brief reasons.
- (b) The Commissioner of Appeals reduces the penalty determined by the Appellate Tribunal. What will be the penalty payable, if the assessee pays the penalty within 30 days?
4. (a) The assessee was engaged in the manufacture of asphalt batch mix and drum mix/hot mix plant by assembling and installing its parts and components. The Revenue contended that the said plant would be considered to be moveable so as to be dutiable under the Central Excise Act, 1944.
- Whether the machine which is not assimilated in permanent structure would be considered to be moveable so as to be dutiable under the Central Excise Act?
- (b) Discuss about Appellate stages and Whether Duty and penalty have to be deposited as a pre-Condition to Appeal?
5. (a) Briefly discuss about the procedure if a manufacturer wants to avail benefit of Central Excise (Removal of Goods at Concessional Rate of Duty for Manufacture of Excisable Goods) Rules, 2001
- (b) Discuss the power of the Central Government to amend First and Second Schedules of the Tariff
6. (a) Y & Co. is a Small Scale unit located in a rural area and is availing the benefit of Small Scale exemption under Notification No. 8/2003-C.E. in the year 2009-10. Determine the value of the first clearance and duty liability on the basis of data given below:
- Total value of clearances of goods with own brand name – ₹ 75,00,000
 - Total value of clearances of goods with brand name of other parties – ₹ 90,00,000
 - Clearances of goods which are totally exempt under another notification (other than an exemption based on quantity or value of clearances) – ₹ 35,00,000. Normal rate of Excise duty—10%. Education cess @ 3% of Excise duty. Calculations should be supported with appropriate notes. It may be assumed that the unit is eligible for exemption under Notification No. 8/2003.
- (b) Write a brief note on the procedure under Rule 16 of the Central Excise Rules, 2002 , which allows for credit of duty paid on goods returned into the Factory

**33RD SESSION PROGRESS TEST – INDIRECT TAXES
SUGGESTED ANSWERS**

PART A

Q.No.	Answer
1	b
2	b
3	a
4	b
5	a
6	Third
7	Harmonized System of Nomenclature;Eight
8	a
9	a
10	a

- 1 (a) The following persons are within the preview of Central Excise Law:
Every person, who produces, manufactures, carries on trade, holds private store-room or warehouse or otherwise uses excisable goods, is required to get registered as per the law. However there are certain relaxations relating to same.

Considering the requirement and relaxation, any person who engages in the manufacture, production or any process of production or manufacture of any specified products which are finding a place in the First Schedule to the Central Excise Tariff Act 1985 or carries on trading activities intending to pass on credit has to be registered under excise.

The relaxation from registration is provided in Notification No.36/2001 dated 26.6.2001 wherein it gives registration exemption to manufacturers producing goods wholly exempted from duty of excise. Under this notification, those claiming the benefit of nil rate of duty clearances or exemption from the whole of duty based on value/quantity of clearances/process of manufacture/on the ground that raw material has suffered duty of excise subject to conditions specified in the Tariff or

in the Notification would have to give a declaration. This declaration would be sufficient if given one time.

However, a manufacturer claiming benefit of any SSI exemptions or other exemption based on value or quantity of clearances in a financial year would have to give a declaration every year when clearances touch ₹90 lakhs.

- (b) Interest liability under Rule 8(3)
 $₹10000 * 18\% * 15/365 = ₹74$ (approximately)

(c) **Compounded Levy Scheme**

Central Govt. may, by notification, specify the goods in respect of which an assessee shall have the option to pay Excise duty on the basis of specified factors relevant to the production of such goods and at specified rates. This is termed as "Compounded Levy Scheme".

It is devised for administrative convenience as a simplified scheme. It is an optional scheme i.e. the manufacturer can opt to pay duty as per normal rules and procedure also.

Under this scheme, the manufacturer has to pay prescribed duty for specified period on the basis of certain factors relevant to the production, like the size of equipment, etc. After making the lump-sum periodic payment, the manufacturer does not have to follow any procedure of excise regarding storage and clearances of goods.

Presently, this scheme is applicable to stainless steel pattas / pattis and aluminum circles. These articles are not eligible for SSI exemption. In case of cold rolled stainless steel pattas / pattis, the manufacturer has to pay ₹15,000 per cold rolling machine per month. In case of aluminum circles, duty is payable @ ₹7,500 per month if length of roller is 30 inch or less and @ ₹10,000 per month where length of roller is more than 30 inch.

- (d) **(Section 11A(2B) and section 11AB of the Central Excise Act, 1944)**
CCE v. International Auto Ltd. 2010 (250) E.L.T. 3 (S.C.)

The Apex Court, following the decision made in the case of CCE v. S.K.F. India Limited 2009 (239) E.L.T. 385 (S.C.), observed that sub-section (2B) of section 11A provides that the assessee in default may make payment of the unpaid duty on the basis of his own ascertainment or as ascertained by a Central Excise Officer and, in that event, such assessee in default would not be served with the demand notice under section 11A(1) of the Act. However, Explanation 2 to the sub-section (2B) of section 11A makes it clear that such payment would not be exempt from interest chargeable under section 11AB of the Act. What is stated in Explanation 2 to section 11A(2B) is reiterated in section 11AB of the Act, which deals with interest on delayed payment of duty.

From the scheme of section 11A(2B) and section 11AB of the Act, it becomes clear that interest is levied for loss of revenue caused on any count. In the present case, the price, on the date of removal/clearance of the goods, was not correct i.e. it was understated. The enhanced duty was

leviable on the corrected value of the goods on the date of removal. When the differential duty was paid after the date of clearance, it indicated short-payment/short-levy on the date of removal, hence, interest which was for loss of revenue, became leviable under section 11AB of the Act.

Note: Relevant portions of section 11A(2B), explanation 2 to section 11A(2B) and section 11AB read as follows: Section 11A(2B)

Where any duty of excise has not been levied or paid or has been short-levied or short-paid or erroneously refunded, the person, chargeable with the duty, may pay the amount of duty [on the basis of his own ascertainment of such duty or on the basis of duty ascertained by a Central Excise Officer] before service of notice on him under sub-section (1) in respect of the duty, and inform the Central Excise Officer of such payment in writing, who, on receipt of such information shall not serve any notice under sub-section (1) in respect of the duty so paid. Explanation 2 to section 11A(2B)

For the removal of doubts, it is hereby declared that the interest under section 11AB shall be payable on the amount paid by the person under this sub-section and also on the amount of short-payment of duty, if any, as may be determined by the Central Excise Officer, but for this sub-section. Section 11AB Where any duty of excise has not been levied or paid or has been short-levied or short-paid or erroneously refunded, the person who is liable to pay the duty as determined under sub-section (2), or has paid the duty under sub-section (2B), of section 11A, shall, in addition to the duty, be liable to pay interest at such rate not below ten per cent and not exceeding thirty-six per cent. per annum, as is for the time being fixed by the Central Government, by notification in the Official Gazette, from the first date of the month succeeding the month in which the duty ought to have been paid under this Act, or from the date of such erroneous refund, as the case may be, but for the provisions contained in subsection (2), or sub-section (2B), of section 11A till the date of payment of such duty. Section 2(f) of the Central Excise Act, 1944.

(e) Letter of Undertaking

In relation to Central Excise, following are the concessions / incentives for exports:
Exemption from duty on final product (or refund or duty paid)
Exemption / refund of excise duty paid on inputs.

For exports under bond, the manufacturer exporter can furnish a letter of undertaking (LUT) in form UT-1. The manufacturer exporter need not execute a bond.

The LUT once given is valid for 12 calendar months.

It is not necessary to submit LUT for each consignment.

Though manufacturer exporter is not executing bond, submission of proof of export is required. The LUT will not be discharged unless proof of export is submitted or duty is paid upon deficiency in interest.

PART B

1 (a) Principal to principal basis:

Both principal manufacturer and job worker could act as independent manufacturers if excisable goods manufactured are cleared on payment of excise duty by job worker. As job worker is regarded as an independent manufacturer, he would be under an obligation to discharge duty of central excise at the time of clearing the intermediate goods to principal manufacturer. In such a scenario, job worker would be eligible to avail the credit on inputs used in the manufacture of excisable goods supplied by principal or procured otherwise. Principal manufacturer can use the cenvat credit of duty paid on intermediate products supplied by job worker if they are used as inputs for further manufacture of goods that are cleared on payment of excise duty at principal manufacturer's end.

Principal-job worker Basis:

Where principal manufacturer intends to receive the semi-finished goods manufactured by job worker into its factory premises for further processing, it can examine the option of going in under Notification 214/86 CE dated 25.03.86. So job worker need not be discharge duty of excise on the intermediate goods. Principal manufacturer can avail cenvat credit on such inputs sent for processing as soon as these are received in premises. However the credit needs to be reversed if the goods sent are not received back within 180 days from job worker

Detailed job work procedures are given in Chapter for job work

Generally inputs are removed for job work without payment of duty as the facility is available under the Cenvat Credit Rules 2004. This requires a quantitative account / record to be maintained. The goods sent on job work should be received back within the notified period of 180 days failing which the principal should reverse the Cenvat credit on the materials sent. However Credit on the same can be availed once the same is received back with/without processing. The control on the delivery documents used for this purpose would be advisable

- (b) (i) to (iii) Price and excise duty as on date of removal from factory is relevant for excise valuation. Subsequent price change does not affect assessable value or rate of duty (iv) Cost of production is not relevant for assessable value. However, if sales are below cost, doubt about genuineness of price can be raised by excise officer.

- 2 (a) Presently, goods are sold from depot. If the sale is from depot, excise duty is payable on the depot price of ₹ 22,500. No deduction of transport cost from Tamilnadu to Maharashtra is allowable. Since the price is inclusive of excise duty @ 10.3% (10% plus 2% education cess plus 1% SAH education cess), the duty payable is ₹2101.09 and Assessable Value is ₹20398.91. After deducting freight expenses of ₹ 1,000, present net realisation is 19398.91 per piece is ₹ per piece.

If goods are sold directly from Tamilnadu, CST @ 1% will be payable. The price chargeable to dealers is required to remain unchanged to ₹22,500 per piece. If we assume that net sale price from Tamilnadu is 'x', then, total invoice value to dealers in Maharashtra will be as follows –

Net Price of Product A	x
Add – Excise Duty @ 10.3%	0.103x
Add – CST @ 1% on 1.103 x	0.01103 x
Total price	1.11403 x
Add – Transport charges	₹1,000
Total Invoice Value	1.11403x + 1000

Note – Excise duty and CST are not payable on transport charges, if charged separately in invoice, if sale is from factory.

$$\text{Now, } 1.11403x + 1000 = 22,500$$

$$\text{Hence, } x = ₹ 19299.30$$

Thus, the realisation per piece has reduced from Rs 20398.91 to ₹ 19299.30 per piece. This results in loss of ₹ 1099.61 per piece. Since sale is 2,000 pieces per annum, total loss per year will be ₹ 21,99,220. If depot is closed, there will be saving of ₹ 8,00,000 per annum. Thus, there will be net loss of ₹ 1399220 if the depot is closed and sales are effected directly from Tamilnadu. Hence, it is not advisable to close the depot.

- (b) Installation charges, pre-delivery inspection charges and bought out accessories are not addible. Cash discount of ₹11,000 (2% of cost of machinery) is allowable as deduction. It is assumed that design charges pertain to machinery and hence are addible. Pre-delivery charges are not includible only if these were incurred by dealer out of his commission. Otherwise addible.

Calculation of duty is as follows

(in ₹)

Price of machinery	5,50,000
Packing Charges	11,500
Design and Engineering	2,000
Free material supplied	8,500
Pre-Delivery Inspection	500
Total	5,72,500
Less Cash Discount	11,000
Assessable Value	5,61,500
Excise duty @ 10%	56150.00
Education Cess 1% of Ex. Duty	561.50
SAH Education cess 2% of duty	1123
Total duty including cess	57834.50

- 3 (a) While calculating SSI exemption limit of ₹ 150 lakhs, goods cleared under brand name in rural area are to be included, since goods manufactured in rural area with brand name of others are entitled for SSI exemption. However, goods which are exempted from duty under notification other than exemption based on quantity or value of clearances is not required to be considered. Thus, for purpose of SSI exemption, his value of turnover is ₹ 165 lakhs. His first turnover of ₹ 150 lakhs is exempt. Thus, he is liable to pay service tax on ₹ 15 lakhs. This will be inclusive of excise duty @ 10.3%.

Hence, assessable value is $15,00,000 \times 100/110.3$ i.e. ₹ 1359927.50 Excise duty @ 10.3% is ₹ 140072.50 [check that total is ₹ 15 lakhs].

- (b) CCE, Trichy Vs. SBI, Kumbakonam
[Appeal No. ST/458/2010, dtd.08.04.2011]

The fourth proviso to the said Section 78 provides that the reduced penalty of 25% is available if the same is paid within 30 days of the Commissioner (Appeals) but this proviso applies in the case where the Commissioner (Appeals) enhances the penalty and not where he reduces the penalty. The Appellate Tribunal held that in the present case, the Commissioner

(Appeals) has reduced the penalty and hence the respondents cannot take advantage to the provision under the fourth proviso to Section 78.

- 4 (a) The Court opined that an attachment where the necessary intent of making the same permanent is absent cannot constitute permanent fixing, embedding or attachment in the sense that would make the machine a part and parcel of the earth permanently.

The Court observed that as per the assessee, the machine was fixed by nuts and bolts to a foundation not because the intention was to permanently attach it to the earth, but because a foundation was necessary to provide a wobble free operation to the machine.

Hence, the Supreme Court held that the plants in question were not immovable property so as to be immune from the levy of excise duty. Consequently, duty would be levied on them.

CCE v. Solid & Correct Engineering Works and Ors 2010 (252) ELT 481 (SC)

- (b) Value of clearances for the purpose of calculating basic exemption of ₹150 lakhs or Entitlement limit of ₹400 lakhs would mean value fixed under section 4 or 4A or tariff value fixed under section 3(2) of the Act. However it would not include the following clearances-:

Summary of Exclusions:

For ₹ 150 Lakhs turnover	For ₹ 400 lakhs turnover
All exempted clearances.	Clearances bearing brand name/trade name of others.
Clearances bearing brand name/trade name of others.	
Captive clearance of specified goods used in Mfr of Specified goods.	Captive clearance of specified goods used in Mfr of Specified goods.
Trading turnover	Trading turnover
Exports (Excluding Nepal or Bhutan)	Exports (Excluding Nepal or Bhutan)
Clearance to United nation or International organization, FTZ, SEZ, EOU, EHTP.	Clearance to United nation or International organization, FTZ, SEZ, EOU, EHTP.
Turnover of non- excisable goods.	Turnover of non- excisable goods.
When manufacturer gets Job work from other customers which does not amount to manufacture.	When manufacturer gets Job work from other customers which does not amount to manufacture.
Job work or any process which does not amount to	Job work or any process which does not amount to

manufacture.	manufacture
Manufacturer gives Job work amounting to manufacture- excluded only if on Principal to Principal basis & job worker is paying duty/ exempted Not. 8/2005-ST.	Manufacturer gives Job work amounting to manufacture- excluded only if on Principal to Principal basis & job worker is paying duty/ exempted 8/2005-ST.

However it would include the following

Summary of Inclusions:

For ₹ 150 Lakhs turnover	For ₹400 lakhs turnover
Goods manufactured in rural area with other's brand name.	Value of exempted goods (exempted under any other notification) or goods chargeable to nil rates as per tariff would have to be included.
Captive consumption if final product is exempt under any other Notification & intermediate product is marketable.	
Export to Nepal or Bhutan.	Goods manufactured in rural area with other's brand name
When manufacturer gets Job work from other job workers on principal to principal basis & the process amounts to manufacture & manufacturer discharges Central Excise liability.	Export to Nepal or Bhutan
	When manufacturer gets Job work from other customers on principal to principal basis & the process amounts to manufacture & manufacturer discharges Central Excise liability.
Job work amounting to manufacture when undertaking is given as per Notification No. 214/86.	Job work amounting to manufacture when undertaking is given as per Notification No. 214/86.

Under the provisions of Chapter VIA of the Central Excise Act 1944 both assessee and revenue department have the right of two or three stage remedies against the orders passed under the Central Excise Act and Rules.

In case of orders passed by officers lower than the rank of Commissioner of Central Excise, the first appeal lies to the Commissioner (Appeals) and there from to the Appellate Tribunal and finally to the Supreme Court.

But where the order of the Tribunal does not relate to determination of rate of duty or value of goods, a reference has to be made to the High Court, instead of Appeal to Supreme Court.

The Central Government has also got revisionary powers under Section 35EE where it says that any person aggrieved by any order passed by the Commissioner (Appeals) may apply to the central government for revision of the order.

Where there is an order of demand for duty and penalty on which the appeal is preferred it is a pre-condition that the duty and penalty to be deposited. However the appellate authority may dispense with such pre-deposit of the duty demanded or penalty levied on the reason that those pre-deposit would cause undue hardship to such person.

5 (a)

1. A manufacturer who intends to receive subject goods for specified use at concessional rate of duty, shall make an application in quadruplicate in the Form at Annexure I to the jurisdictional Assistant Commissioner of Central Excise or the Deputy Commissioner of Central Excise, as the case may be (hereinafter referred to as the said Assistant Commissioner or Deputy Commissioner).
2. The manufacturer shall make separate application in respect of each supplier of subject goods.
3. The manufacturer shall execute a general bond with surety or security.
4. The bond shall be for such amount as considered appropriate by the said Assistant Commissioner or Deputy Commissioner, to cover the recovery of duty liability estimated to be involved at any given point of time.
5. The application shall be countersigned by the said Assistant Commissioner or Deputy Commissioner who shall certify therein that the said person has executed a bond to his satisfaction in respect of end use of the subject goods and indicate the particulars of such bond.
6. Of the four copies of the application referred to in sub-rule (5), one copy shall be forwarded to the jurisdictional range Superintendent of the manufacturer of the subject goods, two copies shall be handed over to the manufacturer and one copy shall be retained, by the said Assistant Commissioner or Deputy Commissioner.
7. One copy of the application referred to in sub-rule (6) received by the manufacturer, shall be forwarded by the said manufacturer to the manufacturer of subject goods.

- (b) Where the Central Government is satisfied that it is necessary so to do in the public interest, it may, by notification in the Official Gazette, amend the First Schedule and the Second Schedule :- Provided that such amendment shall not alter or affect in any manner the rates specified in the First Schedule and the Second Schedule in respect of goods at which duties of excise shall be leviable on the goods under the Central Excise Act, 1944 (1 of 1944).

Every notification issued under sub-section (1) shall be laid, as soon as may be after it is issued, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the notification or both Houses agree that the notification should not be issued, the notification shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that notification.

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	₹
(a) Total value of clearances of goods with own brand name –	75,00,000
Total value of clearances of goods with brand name of other parties –	90,00,000
Clearances of goods eligible under notification 8/2003	<u>NIL</u>
Clearances to be considered for eligibility limit of 150 lacs	16 500000
Less: Exemption under SSI notification	15 000000
Clearances not exempt and hence chargeable to Duty	15,00,000
Duty @10.30=₹247200	

(b) Rule 16 of Central Excise Rules

Credit of duty on goods brought to the factory. –

- (i) Where any goods on which duty had been paid at the time of removal thereof are brought to any factory for being re-made, refined, re-conditioned or for any other reason, the assessee shall state the particulars of such receipt in his records and shall be entitled to take CENVAT credit of the duty paid as if such goods are received as inputs under the CENVAT Credit Rules, 2002 and utilise this credit according to the said rules.
- (ii) If the process to which the goods are subjected before being removed does not amount to manufacture, the manufacturer shall pay an amount equal to the CENVAT credit taken under sub-rule (1) and in any other case the manufacturer shall pay duty on goods received under sub-rule (1) at the rate applicable on the date of removal and on the value determined under sub-section (2) of section 3 or section 4 or section 4A of the Act, as the case may be.
- (iii) If there is any difficulty in following the provisions of sub-rule (1) and sub-rule (2), the assessee may receive the goods for being re-made, refined, re-conditioned or for any other reason and may remove the goods subsequently subject to such conditions as may be specified by the Commissioner.