PRIME ACADEMY

34TH SESSION PROGRESS TEST – ADVANCED MANAGEMENT ACCOUNTING

No. of pages – 4 Total Marks – 75

Time allowed – 2 Hours

PART A

1. Cost which do not change under given circumstance and do not play any role in decision making process
    a. Out-of-pocket cost
    b. Differential cost
    c. Opportunity cost
    d. Sunk cost
2. Portion of costs which involves payments to outsiders which gives rise to cash expenditure as opposed to other cost
    a. Out-of-pocket cost
    b. Differential cost
    c. Opportunity cost
    d. Sunk cost
3. There may be more than one unmarked zero in one column or row.
    a. True
    b. False
4. Assignment is another special case of
    a. LPP
    b. Transportation
    c. PERT
    d. Critical path analysis
5. Calculate Shut-down point. Total fixed cost ₹.2,00,000. Shut down costs ₹.88,000. Contribution per unit ₹.8.
    a. 10,000 tins
    b. 14,000 tins
    c. 15,000 tins
    d. 20,000 tins
6. Fixed expenses at 50% activity is ₹.15,000. Fixed expenses when factory is shut down ₹.10,000. Additional expenses ₹.1,000. What is additional fixed expenses?
    a. ₹. 1,000
    b. ₹. 4,000
    c. ₹. 5,000
    d. ₹.10,000
7. The contribution per unit in above question is ₹.1. What is the total contribution?
    a. ₹.1,000
    b. ₹.4,000
    c. ₹. 5,000
    d. ₹.10,000
8. What is the extra contribution earned by working at 50% activity in Question 6?
    a. ₹. 1,000

    b. ₹. 4,000
    c. ₹. 5,000
    d. ₹.10,000

9. Whether production can be continued in Qn.6
    a. Yes
    b. No
10. If contribution in Qn.6 is 0.75 per unit. What is the total contribution?
    a. ₹.1,000
    b. ₹.4,000
    c. ₹.3,750
    d. ₹.1,250
11. In order to make buy or make decision, factors to be considered is____
    a. Surplus capacity available
    b. Marginal cost
    c. Both a and b
    d. None of the above
12. In order to make decisions for continuing or shutting down a plant, cost analysis to be used is
    a. Marginal cost analysis
    b. Differential cost analysis
    c. Consider additional fixed expenses incurred in shut down
    d. Utilisation of surplus capacity is the main consideration
13. When can a product be sold below marginal cost?
    a. If goods are perishable in nature
    b. If Stocks are excessive
    c. To popularise new product
    d. All of the above
14. Which of the following is a correct description of absorption costing?
    a. Variable costs of products are allocated to products and the unsold stock is measured at total variable cost of production
    b. All production costs are absorbed into products and the unsold stock is measured at total cost of production
    c. All production costs are absorbed into products and the unsold stock is measured at direct cost of production
    d. All direct costs of production are absorbed into products and the unsold stock is measured at direct cost of production
15. Using absorption costing, a unit of product includes what costs?
    a. Direct materials and direct labour.
    b. Direct materials, direct labour, and fixed overhead.
    c. Direct materials, direct labour, and variable overhead.
    d. Direct materials, direct labour, variable overhead, and fixed overhead.

(15 x 1 = 15 marks)

PART B

1. The operating result of Sona Ltd. For the previous year was as under :

Product	% of Sales Mix	P.V Ratio
A	40	20
B	10	6
C	30	12
D	20	10
	100%	

Total sales value of the product was ₹. 80 lakhs.
Total fixed overhead amounted to ₹. 10 lakhs. The raw material content, which is entirely imported, is 50% of the respective variable cost of the item.

The forecast of the year just started are as under :
(i) The raw material cost will go up by 10%.
(ii) The raw material availability will be restricted to ₹.35 lakhs from the imported source.
(iii) The maximum potential sales of any of the four products in the current year is 40% of the total sale value of the previous year.
(iv) In the sale price of the products there will be an uniform 5% increase.
You are required to :

(a) Prepare statement of probability for the previous year.
(b) Set a product mix with maximize profit for the current year and prepare a statement showing forecast profitability for the current year.

15 marks

2. A Company has four zones open and four marketing managers available for assignment. The ones are not equal in sales potentials. It is estimated that a typical marketing manager operating in each zone would bring in the following Annual sales:

Zones	₹.
East	2,40,000
West	1,92,000
North	1,44,000
South	1,20,000

The four marketing managers are also different in ability. It is estimated that working under the same conditions, their yearly sales would be proportionately as under:

Manager M	8
Manager N	7
Manager O	5
Manager P	4

Required:

If the criterion is maximum expected total sales, find the optimum assignment and the maximum sales
10 marks

3. A company manufactures 3 lakhs units of product X and 2 lakh units of product Y per annum. The following figures are extracted from its cost books related to the costs of above products.

	(₹. Lakhs)
Sale value	38.00
Direct material	7.00
Direct labour	9.50
Factory overheads	9.50
Administration and selling overheads	6.00

5% of factory overheads are variable and 50% of Administration and selling overheads are fixed. The selling price of X is ₹.6 per unit and Y is ₹.10 per unit. The direct material and labour ratio for product X is 1:1.5 and for Y is 1:1.25. For both the products, the selling price is 400% of direct labour.

The factory overheads are charged in the ratio of direct labour and administration and selling overheads are recovered at a flat rate of ₹. 1 per unit of X and ₹. 1.50 per unit of Y. Due to fall in demand of the above products, the company has a plan to diversify and make product Z using 40% of the present capacity. It has been estimated that for Z direct material and labour will be ₹. 1.25 and ₹. 1.50, respectively. Other variable costs will be same as applicable to Product X. The selling price of Z will be ₹. 7 per unit and production will be 3 lakh units. Assuming that balance 60% capacity is used for manufacture of X and Y.

(a) Calculate present costs and profits,

(b) Costs and profits after the diversification is implemented, and

(c) Your recommendation as to whether to diversify or not. 20 marks

4. The cost matrix giving selling costs per unit of a product by salesman A,B,C and d in regions R1, R2, R3 and R4 is given below:

	A	B	C	D
R1	4	12	16	8
R2	20	28	32	24
R3	36	44	48	40
R4	52	60	64	56

(i) Assign one salesman to one region to minimise the selling cost

(ii) If the selling price of the product is ₹.200 per unit and variable cost excluding the selling cost given in the table ₹.100/unit, find the assignment that would maximise the contribution?

(iii) What other conclusion can you make from the above?

15 marks

SUGGESTED ANSWERS

PART A

1	d
2	a
3	a
4	a
5	b
6	b
7	c
8	a
9	a
10	c
11	c
12	c
13	d
14	b
15	a

PART B

1. (a) Statement showing profitability of previous year

Product	Sales Mix	Sales value ₹	PV ratio	Contribution ₹
A	40	3200000	20	640000
B	10	800000	6	48000
C	30	2400000	12	288000
D	20	1600000	10	160000
	100	**8000000**		**1136000**
Less: Fixed expenses				1000000
Profit				**136000**

(b) Statement Showing Contribution as Percentage of Raw material

Products	Sales (₹.)	% of Variable cost	Variable cost (₹.)	Raw material (50% of VC)	Contribution (₹.)	Contribution as % of raw material
A	3200000	80	2560000	1280000	640000	50.00
B	800000	94	752000	376000	48000	12.77
C	2400000	88	2112000	1056000	288000	27.27
D	1600000	90	1440000	720000	160000	22.22
	8000000					

Ranking:

I	II	III	IV
A	C	D	B

Optimum Product mix at previous year costs

Product	Sales mix	Sales ₹	VC* ₹	Raw material (50% of VC)	Raw material with 10% increase
A	40	3200000	2560000	1280000	1408000
B	-	-	-	-	-
C	40	3200000	2864000	1408000	1548800
D	20	1600000	1440000	720000	792000
		8000000			**3748800**

* 80%, 88% and 90% of sales value for products A, C and D respectively.
But the company can import material of ₹. 35 lakhs only.

Product	Raw materials (%)	Raw material before 10%	VC ₹	sales value at previous price	Sales after 5% increase ₹

		increase		₹	
A	1408000	1280000	2560000	3200000	3360000
C	1548800	1408000	2864000	3200000	3360000
D	543200	720000	1440000	1097373*	1152243
	3500000				**7872243**

* 9,87,636 × 100/90 = ₹. 10,97,373

(c) Statement Showing Profitability of Current Year.

Product	Sales ₹	Raw material	Other variable cost ₹	Total varible cost ₹	Contribution ₹
A	33,60,000	14,08,000	12,80,000	26,88,000	6,72,000
B	–	–	–	–	–
C	33,60,000	15,48,800	14,08,000	29,56,800	4,03,200
D	11,52,243	5,43,200	4,93,818	10,37,018	1,15,225
	78,72,243		**31,81,818**	**66,81,818**	**11,90,425**
Fixed cost					10,00,000
Profit					**1,90,425**

Working Note : 1

	Product A (₹.)	*Product C (₹.)*
Total variable cost	25,60,000	28,16,000
Less: Material cost before revision	12,80,000	14,08,000
	12,80,000	**14,08,000**

Product D

Raw material cost after revision of material price ₹. 5,43,200

Material price before price increase 10% ₹. 4,93,818

Since material cost is 50% of variable cost, remaining variable cost will be= ₹.4,93,818

2. Sum of proportion = (8+7+5+4)=24

   Assuming ₹.1,000 as one unit, the effective matrix is as follows:

   Effective matrix

Managers	EAST	WEST	NORTH	SOUTH
M	(8/24)X240 =80	(8/24)X192 =64	(8/24)X144 =48	(8/24)X120 =40
N	(7/24)X240 =70	(7/24)X192 =56	(7/24)X144 =42	(7/24)X120 =35
O	(5/24)X240=50	(5/24)X192=40	(5/24)X144=30	(5/24)X120=25
P	(4/24)X240=40	(4/24)X192=32	(4/24)X144=24	(4/24)X120=20

Conversion to minimization

The resultant loss matrix is as follows:

Managers	EAST	WEST	NORTH	SOUTH
M	0	16	32	40
N	10	24	38	45
O	30	40	50	55
P	40	48	56	60

Row operation

Managers	EAST	WEST	NORTH	SOUTH
M	0	16	32	40
N	0	14	28	35
O	0	10	20	25
P	0	8	16	20

Column operation

Managers	EAST	WEST	NORTH	SOUTH
M	0	8	16	20
N	0	6	12	15
O	0	2	4	5
P	0	0	0	0

Managers	EAST	WEST	NORTH	SOUTH
M	0	6	14	18
N	0	4	10	13
O		0	2	3
P	2	0	0	0

Managers	EAST	WEST	NORTH	SOUTH
M	0	2	10	14
N	0	0	6	9
O	4	0	2	3
P	6	0	0	0

Managers	EAST	WEST	NORTH	SOUTH
M	0	2	8	12
N	0	0	4	7
O	4	0	0	1
P	8	2	0	0

Assignment	**Sales**
East	80000
West	56000
North	30000

South	20000
	186000

3. Working notes:

Contribution

	X(₹)	Y(₹)	Z (₹)
Selling price	6.00	10.00	7.00
Variable costs:			
Direct labour	1.50	2.50	1.25
Direct material	1.00	2.00	1.50
Variable overheads			
Factory	0.75	1.25	0.75
Admin & selling OH	0.50	0.75	0.50
	3.75	6.50	4.00
Contribution	2.25	3.50	3.00

Fixed costs

Particluars	**₹. Lakhs**
Total factory overheads	9.5
Less: Variable factory overheads	
X (3lakh x 0.75)	2.25
Y (2 lakh x 1.25)	2.5
	4.75
Fixed factory overhead	
Total Admin & selling OH	6
Less: Variable admin & selling overheads	
(0.50 x 3 lakh units)	1.5
(0.75 x 2 lakh units)	1.5
Fixed Admin & selling OH	**3**

(a) Statement of present Cost and Profits

Particulars	**X (₹)**	**Y(₹)**	**Total (₹)**
Production and sale units	3	2	5
Sale	18	20	38
Less: VC			
Direct material	3	4	7
Direct labour	4.5	5	9.5
Factory OH	2.25	2.5	4.75
Admn.	1.5	1.5	3
Total VC	**11.25**	**13**	**24.25**
Contribution	**6.75**	**7**	**13.75**
Less: fixed cost			
Factory			4.75

Administration			3
Profit			**6**

(b) Statement of Profits and Cost under Proposed Plan

Particulars	X (₹)	Y (₹)	Z (₹)	Total (₹)
Production and sale units	1.8	1.2	3	6
Sale	10.8	12	21	43.8
Less: VC				
Direct material	1.8	2.4	3.75	7.95
Direct labour	2.7	3	4.5	10.2
Factory OH	1.35	1.5	2.25	5.1
Admn.	0.9	0.9	1.5	3.3
Total VC	**6.75**	**7.8**	**12**	**26.55**
Contribution	**4.05**	**4.2**	**9**	**17.25**
Less: Fixed cost				7.75
Profit				**9.5**

(c) Recommendations :

(i) The diversification is justified since there will be full capacity utilization which will result in an increase in profit by ₹.3.5 lakhs.

(ii) Management can also reduce production of Product X and do more production of Products Y and Z in order to achieve a better product mix.

(iii) Product Y is giving the highest contribution per unit. Assuming no key factor, effect of Z on Y should be observed before diversification plan is followed.

(iv) Investment on Product Z should also be taken into consideration.

(v) Maximum demand of Product X, Y and Z should be studied for making better decision.

4. Row operations

	A	B	C	D
R1	0	8	12	4
R2	0	8	12	4
R3	0	8	12	4
R4	0	8	12	4

Column operations

	A	B	C	D
R1	0	0	0	0
R2	0	0	0	0
R3	0	0	0	0
R4	0	0	0	0

Minimum number of lines cover all zeros = 4 = order of matrix. Hence optional assignment is possible.

Minimum Cost = 4+28+48+56=₹.136

= AR1+BR2+CR3+DR4

SINCE ALL ARE ZEROS, THERE ARE 24 SOLUTIONS TO THIS assignment problems

(ii) SP-VC = ₹.100 .

	A	B	C	D
R1	96	88	84	92
R2	80	72	68	76
R3	64	56	52	60
R4	48	40	36	44

	A	B	C	D
R1	0	8	12	4
R2	16	24	28	20
R3	32	40	44	36
R4	48	56	60	52

	A	B	C	D
R1	0	8	12	4
R2	0	8	12	4
R3	0	8	12	4
R4	0	8	12	4

Same as earlier matrix

Maximum contribution = ₹.(96+72+52+44) = ₹.264

(iii) (a) The relative cost of assigning person I to region R does not change by addition or of a constant from either a row, or column or all elements of the matrix.

(b) Minimising cost is the same as maximizing contribution. Hence, the assignment solution will be the same

(c) Many zero's represent many feasible least cost assignment. Here, all zero's mean maximum permutation of a 4 x 4 matrix. 24 solutions are possible

PRIME ACADEMY

34TH SESSION PROGRESS TEST- INFORMATION SYSTEMS AND CONTROL AUDIT

No of pages: 5 **Total Marks: 75**
Time allowed: 2 Hours

PART A

1) Combination of linear and iterative framework type is ------- approach to system development
   a) Agile methodologies
   b) Water fall
   c) Prototype
   d) Incremental

2) Emphasis on planning, time schedules, targets, budgets and implementation of entire system at one time is characteristic of ---------
   a) Waterfall model
   b) Spiral Model
   c) Rapid development model
   d) All of the above

3) Scope of the project in SDLC can be analyzed by
   a) Reviewing internal documents
   b) Conducting interviews
   c) Both a and b
   d) None of the above

4) Voice recognition is a design alternative for ---------
   a) Input medium
   b) Communication Channel
   c) Communication network
   d) Data Storage medium

5) Pseudo Code is also known as (pick the odd one out)
   a) Flow Chart
   b) Structured English
   c) Program Design Language
   d) Structured programming design language

6) The processes that transform data from inputs to outputs are called transformation processes. These are represented by ----------- in data flow diagram
   a) Square
   b) Curved or straight line arrows

c) Bubbles or Circles
d) Two horizontal lines

7) Describing application domain as to their attributes, relationship via objects and entities is called
   a) Conceptual Modeling
   b) Data modeling
   c) Layout designing
   d) None of the above

8) Modularity is measured by two elements; Cohesion and coupling. In a good modular design,
   a) Cohesion will be low coupling will be high
   b) Cohesion and coupling will be high
   c) Cohesion and coupling will be low
   d) Cohesion will be high and coupling will be low

9) Tests that are concerned with examining internal processing logic of a software system is called
   a) Stress tests
   b) Functionality tests
   c) Performance tests
   d) Structured Tests

10) Data integrity of data depends on
   a) Value of information
   b) Extent of access
   c) Value to decision maker
   d) All of the above

11) In negotiating a service level agreement which of the following should occur first
   a) Develop a feasibility study
   b) Draft service level penalties
   c) Draft the service level requirements
   d) None of the above

12) Applying a retention date on a file will ensure that
   a) Data cannot be read until the date is reset
   b) Data will not be deleted before that date
   c) Data sets having the same name are differentiated
   d) All of the above

13) Reviewing management's long term strategic plans helps the IS auditor
   a) Gain an understanding of an organization's goals and objectives
   b) Determine the number of audit resources required
   c) Assess the organization's reliance on information system
   d) All of the above

14) COBIT stands for

a) Control objectives for business on information technology
b) Control objectives for information related technology
c) Control of business and information technology
d) None of the above

15) An auditor would evaluate an application‘s control based on
a) The efficiency of the application in meeting the business processes
b) Impact of exposures, attacks
c) Business processes covered
d) All of the above

16) COBIT framework addresses
a) Business objectives
b) IT resources
c) IT processes
d) All of the above

17) In planning an audit the most critical step is the identification of the
a) Areas of high risk
b) Resources as to audit staff
c) Planning the procedure
d) Scope and time allotted

18) Segregation of duties is an example of
a) Preventive control
b) Physical access control
c) Compensatory Control
d) IS Management Control

19) Crypto graphic technique
a) Encrypts data into cipher text
b) Encrypts data into digital mode
c) Converts cipher text to clear text
d) None of the above

20) Exception reports helps an auditor to identify the strength of
a) Input Controls
b) Process Control
c) Output Control
d) Application Control

21) Risk assessment is
a) Subjective
b) Objective
c) Mathematical
d) Statistical

22) Fire wall is a
   a) Hardware
   b) Software
   c) Program
   d) Is a collection of components (computers, routers and software)

23) In a fire wall system, an intermediary between internal and external networks is called
   a) Packet filter firewalls
   b) Application level firewalls
   c) Proxy server firewalls
   d) Routers

24) The act of penetrating computer system to gain knowledge and how it works is called
   a) Hacking
   b) Cracking
   c) Intrusion
   d) All of the above

25) Anti Virus software is a technique of
   a) Preventive Control
   b) Detective Control
   c) Both preventive and detective control
   d) None of the above

(25 X 1 = 25 Marks)

Part –B

Question 1 is compulsory; Attempt *any four from the rest*

1) As a system analyst, you need to assess the successful implementation and stakeholder's actual requirements of an enterprise system in a retail chain organization across its branches to provide the following features:
   - Lower operational costs,
   - Better information for managers, and
   - Smooth operations for users or better levels of service to customers.

   Justify your answer with the necessary techniques used to determine the requirements of a system
   (10 Marks)

2) Define the following terms in brief:
   a) Systems Flow Chart
   b) CASE Tools
   c) Data Dictionary
   d) Scanners
   e) Data Diddling **(5 x 2 = 10 Marks)**

3) a) Describe any three ways in which a hacker can hack the system
   b) Describe various types of firewalls in brief. **(5 + 5 = 10 Marks)**

4) Describe briefly the contents of System requirement specification (SRS)
   (10 Marks)

5) Important factors that need to be considered in input /output design
   (10 Marks)

6) Explain the strengths and weakness of the water fall model
   (10 Marks)

PRIME ACADEMY

34th PROGRESS TEST-INFORMATION SYSTEM AND AUDIT CONTROL

SUGGESTED ANSWERS

PART A

1	d
2	a

1.

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

PART –B

1.

Techniques used to determine the requirements of a system

Every system is built to meet some set of needs, for example, the need of the organization for lower operational costs, better information for managers, smooth operations for users or better levels of service to customers. To assess these needs, the analysts often interact extensively with the people, who will be benefited from the system, in order to determine what their actual requirements are. Various fact-finding techniques, which are used by the system analyst for determining these needs / requirements, are:-

1) Documents: Document means manuals, input forms, output forms, diagrams of how the current system works, organization charts showing hierarchy of users and manager responsibilities, job descriptions for the people who work with the current system, procedure manuals, program codes for the applications associated with the current system, etc. They are a good source of information about user needs and the current system.
2) Questionnaires: Users and managers are asked to complete questionnaire about the information system when the traditional system development approach is chosen. The main strength of questionnaires is that a large amount of data can be collected through a variety of users quickly. Also, if the questionnaire is skillfully drafted, responses can be analyzed rapidly with the help of a computer.
3) Interviews: Users and managers may also be interviewed to extract information in depth. The data gathered through interviews often provide systems developer with a complete picture of the problems and opportunities.

   Interviews also give analyst the opportunity to note user reaction first-hand and to probe for further information.
4) Observation: In prototyping approaches, observation plays a central role in requirement analysis. Only by observing how users react to prototypes of a new system, the system can be successfully developed. In the traditional approach, observation is not always mandatory. But it is desirable in most instances. The analyst should visit the user site to watch how the work was taking place. The value of observational visits by analyst is effective.

2.

Systems Flow Chart It is a graphic diagramming tool that documents and communicates the flow of data media and information processing procedures taking place in an information system. This is accomplished by using a variety of labeled symbols connected by arrows to show the sequence of information processing activities. System flow charts typically emphasize the media and hardware used and the processes that take place within an information system. Thus, they represent a graphic model of the physical information system that exists or is proposed. Systems flow charts are widely used to communicate the overall structure and flows of a system to end-users.

CASE Tools The data flow diagram and system flow charts that users review are commonly generated by systems developers using the on-screen drawing modules found in CASE (Computer-Aided-Software Engineering) software packages. CASE refers to the automation of anything that humans do to develop systems. In 1980s, these tools enabled system analysts and programmers to create flow charts and data flow diagrams on a mini computer or a micro computer workstation. Today, CASE products can support virtually all phases of traditional system development process. For example, these packages can be used to create complete and internally consistent requirements specifications with graphic generators and specifications languages. CASE products are still relatively new and evolving. However numerous organizations have already reported great success with them.

Data Dictionary A data dictionary is a computer file that contains descriptive information about the data items in the files of a business information system. Thus, a data dictionary is a computer file about data. Each computer record of a data dictionary contains information about a single data item used in a business information system. This information may include:
Codes describing the data item's length (in characters), data type (alphabetic, numeric, alphanumeric, etc.), and range (e.g., values from 1 to 99 for a department code)

- The identity of the source document(s) used to create the data item.
- Names of the computer files that store the data item.
- Names of the computer programs that modify the data item.
- The identity of the computer programs or individuals permitted to access the data item for the purpose of file maintenance, upkeep, or inquiry.
- The identity of the computer programs or individuals not permitted to access the data item.

Scanners This type of Antivirus software looks for a sequence of bits called virus signatures that are characteristic of virus codes. They check memory, disk boot sectors, and executables and systems fillies to find matching bit patterns. In this context it may be noted that on an average 1500 newer viruses emerge every month. Hence, it is necessary to frequently update the scanners with the data on virus code patterns for the scanners to be reasonably effective.

Data Diddling Data diddling involves the change of data before or as they are entered into the system. A limited technical knowledge is required to data diddle and the worst part with this is that it occurs before computer security can protect data.

3.

a) Any three ways in which a hacker can hack the system

The three ways in which a hacker can hack, are given as follows:
NetBIOS: NetBIOS hackers are the worst kind, since they don't require you to have any hidden back door program running on your computer. This kind of hack exploits a bug in Windows 9x. NetBIOS is meant to be used on local area networks, so machines on that network can share information. Unfortunately, the bug is that NetBIOS can also be used across the Internet - so a hacker can access your machine remotely.
ICMP 'Ping' (Internet Control Message Protocol): ICMP is one of the main protocols that make the Internet work. It stands for Internet Control Message Protocol. 'Ping' is one of the commands that can be sent to a computer using ICMP. Ordinarily, a computer would respond to this ping, telling the sender that the computer does exist. This is all pings are meant to do. Pings may seem harmless enough, but a large number of pings can make a Denial-of-Service attack, which overloads a computer. Also, hackers can use pings to see if a computer exists and does not have a firewall (firewalls can block pings). If a computer responds to a ping, then the hacker could launch a more serious form of attack against a computer.
FTP (File Transfer Protocol) :FTP is a standard Internet protocol, standing for File Transfer Protocol. It can be used for file downloads from some websites. If you have a web page of your own, you may use FTP to upload it from your home computer to the web server. However, FTP can also be used by some hackers. FTP normally requires some form of authentication for access to private files, or for writing to files. FTP

4.

backdoor programs, such as: Dolly, Trojan, Fore, and Blade Runner. Simply we can turn the computer into an FTP server, without any authentication.

b) Various types of firewalls A firewall is a collection of components (computers, routers, and software) that mediate access between different security domains. All traffic between the security domains must pass through the firewall, regardless of the direction of the flow. Since the firewall serves as an access control point for traffic between security domains, they are ideally situated to inspect and block traffic and coordinate activities with network intrusion detection systems (IDSs).

The four primary firewall types are given as follows:

I. Packet Filter Firewalls: Packet filter firewalls evaluate the headers of each incoming and outgoing packet to ensure it has a valid internal address, originates from a permitted external address, and connects to an authorized protocol or service, and contains valid basic header instructions. If the packet does not match the pre-defined policy for allowed traffic, then the firewall drops the packet. Packet filters generally do not analyze the packet contents beyond the header information. Many routers contain access control lists (ACLs) that allow for packet-filtering capabilities.

II. Stateful Inspection Firewalls: Stateful inspection firewalls are packet filters that monitor the state of the TCP connection. Each TCP session starts with an initial "handshake" communicated through TCP flags in the header information. When a connection is established the firewall adds the connection information to a table. The firewall can then compare future packets to the connection or state table. This essentially verifies that inbound traffic is in response to requests initiated from inside the firewall.

III. Proxy Server Firewalls: Proxy servers act as an intermediary between internal and external IP addresses and block direct access to the internal network. Essentially, they rewrite packet headers to substitute the IP of the proxy server for the IP of the internal machine and forward packets to and from the internal and external machines. Due to that limited capability, proxy servers are commonly employed behind other firewall devices. The primary firewall receives all traffic, determines which application is being targeted, and hands off the traffic to the appropriate proxy server. Common proxy servers are the domain name server (DNS), Web server (HTTP), and mail (SMTP) server. Proxy servers frequently cache requests and responses, providing potential performance benefits. Additionally, proxy servers provide another layer of access control by segregating the flow of Internet traffic to support additional authentication and logging capability, as well as content filtering. Web and e-mail proxy servers, for example, are capable of filtering for potential malicious code and application-specific commands (see "Malicious Code"). They may implement anti-virus and anti-spam filtering, disallow connections to potentially malicious servers, and disallow the downloading of files in accordance with the institution's security policy.

IV. Application-Level Firewalls: Application-level firewalls perform application level screening, typically including the filtering capabilities of packet filter firewalls with additional validation of the packet content based on the application. Application-level firewalls capture and compare packets to state Information in the connection tables. Unlike a packet filter firewall, an application-level firewall continues to examine each packet after the initial connection is established for specific application or services such as telnet, FTP, HTTP, SMTP, etc. The application-level firewall can provide additional screening of the packet payload for commands, protocols, packet length, authorization, content, or invalid headers. Application level firewalls provide the strongest level of security, but are slower and require greater expertise to administer properly.

4.

Contents of System requirement specification (SRS)
At the end of the analysis phase, the systems analyst prepares a document called Systems Requirement Specifications (SRS). A SRS contains the following :

- Introduction: Goals and Objectives of the software context of the computer based system;
- Information Description: Problem description; Information content, flow and structure; Hardware, software, human interfaces for external systems and internal software functions.
- Functional Description: Diagrammatic representation of functions: processing narrative for each function; interplay among functions, design constraints.
- Behavioural Description: Response to external events and internal controls
- Validation Criteria: classes of tests to be performed to validate functions, performance and constraints.
- Appendix: Data flow / Object Diagrams; Tabular Data; detailed description of algorithms charts, graphs and other such material

SRS Review: It contains the following:
The development team makes a presentation and then hands over the SRS document to be reviewed by the user or customer.
The review reflects the development team's understanding of the existing processes.
Only after ensuring that the document represents existing processes accurately, should the user sign the document. This is a technical requirement of contract between users and development t team / organization.

5.
Important factors that need to be considered in input /output design
Various issues that should be considered while designing systems Input/output are briefly discussed below:
Input/output design consists of developing specifications and procedures for data preparation, developing steps which are necessary to put transactions data into a usable form for processing, and data-entry, i.e., the activity of putting the data into the computer for processing.
A starting point for the Input/output design process is a review of the information compiled during the requirement analysis phase. The analyst must review facts related to the current system such as what data are entered, who enters them, where they are entered, and when they are entered. This review highlights basic problems and difficulties with the present system. An understanding of the present system's Input/output directs attention to those areas needing improvement for more efficient data entry.
Important factors to be considered in the Input/output design:
(i) Content: The analyst is required to consider the types of data that are needed to be gathered to generate the desired user outputs. This can be quite complicated because new systems often mean new information and new information often requires new sources of data. Sometimes, the data needed for a new system are not available within the organization. Hence, the system designer has to prepare new documents for collecting such information.
(ii) Timeliness: In data processing, it is very important that data is Input/Outputted to computer in time because outputs cannot be produced until certain Input/Outputs are available. Hence, a plan must be established regarding when different types of Input/Outputs will enter the system.
In transaction data processing, the people needing output are not the same who Input/output most of the data. Hence, timeliness of Input/output becomes more relevant for such systems.
(iii) Media: Another important Input/output consideration includes the choice of Input/output media and subsequently the devices on which to enter the data. Various user Input/output alternatives available in the

market include display work stations, magnetic tapes, magnetic disks, key-boards, optical character recognition, pen-based computers and voice Input/output etc. A suitable medium may be selected depending on the application to be computerized.

(iv) **Format**: After the data contents and media requirements are determined, Input/output formats are considered. While specifying the record formats, for instance, the type and length of each data field as well as any other special characteristics (number decimal places etc.) must be defined. However, designing Input/output formats in mainframe and mini-computer database environments often requires the assistance of a professional programmer or database administrator.

(v) **Input/output volume**: Input/output volume refers to the amount of data that has to be entered in the computer system at any one time. In some decision-support systems and many real-time transaction processing systems, Input/ Output volume is light. In batch-oriented transaction processing systems, Input/ Output volume could be heavy which involves thousands of records that are handled by a centralized data entry department using key-to-tape or key-to-disk systems.

6.

Strengths

a) Ideal for supporting less experienced project teams and project managers or project teams whose composition fluctuates.
b) An orderly sequence of development steps and design reviews help ensure the quality, reliability, adequacy and maintainability of the developed software.
c) Progress of system development is measurable.
d) Conserves resources.

Weaknesses

a) Inflexible, slow, costly, and cumbersome due to significant structure and tight controls.
b) Project progresses forward, with only slight movement backward.
c) Little room for use of iteration, which can reduce manageability if used.
d) Depends upon early identification and specification of requirements, yet users may not be able to clearly define what they need early in the project.
e) Requirement inconsistencies, missing system components and unexpected development needs are often discovered during design and coding.
f) Problems are often not discovered until system testing.
g) System performance cannot be tested until the system is almost fully coded, and under capacity may be difficult to correct.
h) Difficult to respond to changes. Changes that occur later in the life cycle are more costly and are thus discouraged.
i) Produces excessive documentation and keeping it updated as the project progresses is time-consuming.
j) Written specifications ate often difficult for users to read and thoroughly appreciate.
k) Promotes the gap between users and developers with clear vision of responsibility.

PRIME ACADEMY

34TH SESSION PROGRESS TEST – DIRECT TAX LAWS

No. of Pages: 7

Total Marks: 75

Time Allowed: 2Hrs

PART - A

1. Determine the head under which the salary received by the partners of a firm is taxable
   a. Salaries
   b. Profits and Gains from Business or profession
   c. Income from other sources

2. Compensation received for denial of employment on discriminatory grounds after being selected for job is taxable as:
   a. Salary
   b. Income from other sources
   c. Capital gains
   d. Never taxable

3. X owns a car (1400cc). He uses it partly for official purposes and partly for private purposes. During the previous year 2011-12, he incurs a sum of ₹. 50,000 on running and maintenance of car. Besides, he has engaged a driver (salary ₹. 30,000). The employer reimburses the entire expenditure of ₹. 80,000. Logbook of the car is not maintained. What is the value of the perquisite?
   a. ₹.47,600
   b. ₹.80,000
   c. ₹.51,200

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. Tax on agriculture is within the legislative competence of
   a. The Central Government
   b. The State Government
   c. Both Central and State Governments are competent
6. An individual went abroad on Aug 31st, 2011 for the first time for the purposes of starting his business there. Determine the residential status for the AY 2012-13.
   a. ROR
   b. RNOR
   c. NR

7. X's status is RNOR for the PY 2011-12. He received gifts worth of ₹. 75,000 from his friend in foreign currency in USA when he went to his brother's house in USA. Determine the taxable amount for the AY 2012-13
   a. NIL
   b. ₹. 75,000
   c. ₹. 50,000

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. The notified limit for the purpose of claiming exemption with regard to "Leave Encashment" is
   a. ₹. 300,000
   b. ₹. 350,000
   c. ₹. 10,00,000

10. The medical expenditure is incurred by the employer through an approved hospital of ₹. 82,000/- and also the company reimbursed ₹ 14,000/- towards general medical expenditure. Determine the taxable amount
   a. Entire amount is exempt
   b. ₹ 82,000 is exempt
   c. ₹ 14,000 is exempt
   d. Entire amount is taxable

11. Rishi is an employee of Karnataka state government. He gets ₹. 120,000 per annum as basic pay. In addition, he receives ₹. 12,000 as entertainment allowance. His actual expenditure on entertainment for official purposes, however, exceeds ₹. 12,000. Ascertain the taxable amount of Entertainment Allowance.
   a. Fully exempt
   b. ₹ 7,000/-
   c. ₹ 5,000/-

12. Indexation of cost of acquisition in the case of 49(1) transaction begins from
   a. Year of acquisition by the previous owner who acquired the asset otherwise than in accordance with the methods specified U/S 49(1)
   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 utilized in India
    c. If the services are rendered in India
    d. All of the above

16. Surcharge for the AY 2012-13 in the case of foreign company is applicable at the rate of
    a. 2% of the tax [if the net income exceeds ₹ 1 crore]
    b. 5% of the tax [if the net income exceeds ₹ 1 crore]
    c. 7.5% of the tax [if the net income exceeds ₹ 1 crore]

17. A foreign company is registered and situated outside India. It has some employees who are working in India. Examine whether the foreign company is liable to deduct TDS on the salaries paid to the employees outside India for the works rendered in India.
    a. The foreign company is liable to deduct tax
    b. The foreign company need not deduct tax at source

18. Manas owns a property. It is given on lease for a period of 6 years to Dhanush, lease rent being ₹.30,000 per month. Dhanush has a right to get renewal of lease for further period of 6 years after the expiry of lease. Determine who is taxable in respect of the income from house property.
    a. Manas
    b. Dhanush
    c. None of them are taxable

19. X holds an impartible estate owned by X (HUF) in which X is a member. Determine in whose hands the same is taxable.
    a. In the hands of X
    b. In the hands of X (HUF)
    c. Any of the above
    d. Not at all taxable.

20. Assessee transferred his industrial undertaking from urban area to a non-urban area. Determine the eligible investments U/S 54G
    a. Land, Buildings, Plant and Machinery
    b. Land and Buildings only
    c. Land, Buildings, Plant & Machinery and Furniture and fixtures

21. Assessee sold a residential house property at Chennai. He invested the total amount in purchasing a house at Lucknow and another house at Chennai. Exemption U/S 54 is available with regard to
    a. Chennai House
    b. Both the houses
    c. Lucknow House
    d. One house at the choice of the assessee

22. Amit, a captain in Indian army was killed at border during a war. The widow of Amit was paid an ex-gratia payment of ₹.50,000 in March, 2012, besides the family pension during the year of ₹.90,000. She wants to know about the taxability of both the receipts.
    a. Ex-gratia is taxable and Pension is not taxable
    b. Ex-gratia is not taxable and Pension is taxable
    c. Both are not taxable
    d. Both are taxable

23. Relief u/s 89(1) is available for voluntary retirement compensation which is exempt u/s 10(10C)
    a. True
    b. False
    c. Possible

24. Mr. X received ₹ 60,000/- worth of wrist watch from his friend on his birth day. Determine the amount which is taxable in the hands of Mr.X
    a. ₹.10,000/-
    b. ₹.60,000/-
    c. Nil

25. A software company owns a commercial property which was used by it for software development business. In the year the company gave the property on a monthly rental of ₹ 500,000/- along with facilities like telephone connection, broad band connection, electricity connection and furniture.
    The tenant does not have any control over the property and the agreement with the tenant does not create "Tenancy". Determine the head of income under which such rental income is taxable.
    a. IHP
    b. IOS
    c. PGBP

25X1= 25 Marks

PART - B

1) Mr. M is working with MNO Limited for the last 10 years. He was granted an option on 1.7.2009 by the company to purchase 800 equity shares at a price of ₹.250 per share. The period during which the option can be exercised to purchase 800 shares at a pre-determined price of ₹.250 per share commencing on 1.7.2009 and ending on 31.3.2012. Mr. M exercised the option on 15.3.2011 to purchase 500 shares. Fair market value on the said date was ₹.6490 on the Bombay Stock Exchange and ₹.6500 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share.

The company has allotted him 500 shares on 24th April, 2011. The fair market value on the date of allotment was ₹.7100 per share on NSE and ₹.7110 on the BSE, that has recorded the higher volume of trading in that share. The option was granted for making available rights in the nature of intellectual property rights.

Determine the taxability of perquisite. Does it make any difference if the option was granted for providing technical know-how? **(4 marks)**

2) Mr.Kadam is entitled to a salary of ₹.25,000 per month. He is given an option by his employer either to take House Rent Allowance or a Rent Free Accommodation which is owned by the Company. The HRA amount payable was ₹.5,000 per month. The rent for the hired accommodation was ₹.6,000 per month at New Delhi. Advice Mr.Kadam whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis Net Take Home Cash Benefits. **(6 marks)**

3) Axel Ltd. has two industrial undertakings. Unit-I is engaged in the production of television sets and Unit-II is engaged in the production of refrigerators. The company has, as part of its restructuring program, decided to sell Unit-II as a going concern by way of slump sale for ₹.260 lacs to a new company called Gamma Ltd., in which it holds 85% equity shares. The following is the extract of the balance sheet of Axel Ltd. as on 31st March, 2012:

₹ in lacs

	Unit-I	Unit-II
Fixed Assets	112	158
Debtors	88	67
Inventories	60	23
Liabilities	33	45
Paid-up share capital	₹.231 lacs	
General Reserve	₹.160 lacs	
Share Premium	₹. 39 lacs	
Revaluation Reserve	₹.105 lacs	

The company set up Unit-II on 1st April, 2008. The written down value of the block of assets for tax purpose as on 31st March, 2012 is ₹.150 lacs of which ₹.60 lacs are attributable to Unit-II.

(i) Determine what would be the tax liability of Axel Ltd. on account of Slump sale;

(ii) How can the restructuring plan of Axel Ltd. be modified, without changing the amount of consideration, in order to make it more tax efficient? **(6 marks)**

4) You are consulted on the justifiability of the following claim. Your advice is to be framed based on the provisions of the IT Act, 1961.

A liability towards expenditure as per agreement was provided in the books. However the same is disputed for payment before a court of law on interpretation of clauses of the agreement. Can it be claimed in the year of provision? **(2 marks)**

5) Explain the tax incidence in the case of Transactions of Reverse Mortgage: (4 marks)

6) *(i)*B (HUF) was the owner of a House Property, which was being used for the purposes of a business carried on by a Partnership Firm AB & Co in which the Karta and other members of the HUF were partners in their individual capacity. The Assessing Officer proposes to assess the annual letting value of the said property as the HUF's Income from House Property. The HUF contends that the building was used for business purposes and, therefore, the annual letting value thereof is not taxable in its hands as income from House Property u/s 22. Examine the rival contentions. **(5 marks)**

(ii) Kala purchased a residential flat from her friend Bala at ₹. 10 lacs in the city of Jaipur on 3rd October, 2011. The value determined by the Stamp Duty Authority for stamp duty purpose amounted to ₹. 15 lacs. Bala had purchased the flat on 1st January, 2009 at a cost of ₹.3.50 lacs. Kala sold the flat for ₹.20 lacs on 30th March, 2012. Determine the effect of the above transactions on the assessments of Bala and Kala for assessment year 2012-13, assuming that value for stamp duty purpose in case of the second sale was not more than the sale consideration . **(5 marks)**

(iii) Mr.Rishi had purchased a land on 10th June 1990 for ₹.500,000/-. The said land is sold on 30th Dec, 2012 to Lasya

Mr.Rishi declared ₹.30 lacs as the consideration for the sale of the land whereas, the value assessed by the government authority for stamp duty valuation purposes is ₹.33 lacs.

Mr.Rishi claims that the fair market value of the land as on the date of transfer is less than the value adopted by the government authority for the purpose of payment of stamp duty, though he has not appealed in any manner against the value so adopted by such authority.

Suppose in (1) above, the AO refers the valuation of the land to a valuation officer as per the provisions of Sec 50C(2) and the valuation officer ascertains the value of land as:

a) ₹. 31,00,000 ; b) ₹. 35,00,000 and C) ₹. 27,00,000

Discuss the tax implications in the hands of Mr.Rishi and Lasya **(10 marks)**

7) Gopinadh Agency is a partnership firm consisting of father and three major sons. The partnership deed provided that after the death of father, the business shall be continued by the sons, subject to the condition that the firm shall pay 20% of the profits to the mother. Father died in march, 2011. In the previous year 2011-12 the reconstituted firm paid ₹.1 lakh (equivalent to 20% of the profits) to the mother and claimed the amount as deduction from its income. Examine the correctness of the claim of the firm. **(4 marks)**

8)` IKEA is a multi national retailer of furniture and home furnishing products under the brand name IKEA. It purchases its products under the brand name IKEA. It purchases its products from suppliers worldwide including India.

IKEA trading companies throughout the world has been granted the right to purchase products in the IKEA range from suppliers in different geographic markets. For India, this right is vested in Ikea Trading (Hongkong)ltd which is a company incorporated under the laws of Hongkong and is tax resident of Hongkong.

This company purchases the products in India and in turn sells them to the Ikea Wholesale companies outside India. It has established a liaison office in India for the purpose of undertaking liaising activities in connection with purchase of goods from India. It states that the liaison office in India does not buy or sell the goods itself but only facilitates the purchase of goods by the applicant at Hongkong from the Indian supplier.
It is also found that the purchased items are invoiced by the Indian suppliers directly to the Ikea Hongkong ltd who in turn sells the same to the wholesale companies outside India and the sale price is received by the applicant outside India.

Examine whether the activities carried out by the liaison office in India are liable to tax in India.

(4 marks)

PRIME ACADEMY

34TH SESSION PROGRESS TEST-DIRECT TAXATION

SUGGESTED ANSWERS

PART – A

Q.No.	Answer
1	b
2	d
3	a
4	b
5	b
6	c
7	a
8	b
9	a
10	a
11	b
12	a
13	b
14	c
15	d
16	a
17	a
18	b
19	a
20	a
21	d
22	c
23	b
24	c
25	a

PART B

1.

The perquisite of sweat equity shares shall be taxable in the previous year 2011-12 (assessment year 2012-13), being the previous year of allotment of such shares. The value of sweat equity shares shall be the fair market value of such shares on the date on which the option is exercised by the assessee, as reduced by any amount actually paid by, or recovered from, the assessee in respect of such shares.

As per Rule 3(8) of the Income-tax Rules, 1962, the fair market value of a share on the date of exercising the option shall be the price of the share on the recognized stock exchange which records the highest volume of trading in such shares. Hence, the value of taxable perquisite for sweat equity shares

FMV on the date of exercising the option on the recovered NSE (since it recorded higher volume than BSE) (-) Amount from the employee
= 500 × ₹.6500 (-) 500 × ₹.250 = ₹. 32,50,000 (-) ₹. 1,25,000 = ₹.31,25,000

As per section 17(2)(vi), “sweat equity shares” means equity shares issued by a company to its employees or directors at a discount or for consideration other than cash for providing technical knowhow or making available rights in the nature of intellectual property rights or value additions, by whatever name called.

Therefore, this provision is equally applicable whether the sweat equity shares option was granted for making available rights in the nature of intellectual property rights or for providing technical know-how.

2.

Computation of tax payable by Mr.Kadam for the A,Y 2012-13

Particulars		**Option 1-HRA ₹**	**Option 2-RFA ₹**
Basic Salary (25,000 x 12)		3,00,000	3,00,000
Perquisite value of Rent Free Accommodation (15% of ₹.3,00,000 (Note 1)		N.A	45,000
House Rent allowance (500 x 12)	60,000		
Less: Exempt u/s 10(13A) – Least of the following			
✓ 50% of Salary (50% of ₹.3,00,000) (Note 2)	1,50,000		
✓ Actual HRA received (₹.5,000 x 12)	60,000		
✓ Rent (₹.6,000 x 12) Less 10% of Salary	42,000	18,000	N.A

(42,000)		
Gross Salary	**3,18,000**	**3,45,000**
Less: Deduction u/s 16	Nil	Nil
Income under the head "Salaries"	3,18,000	3,45,000
Gross Total Income	3,18,000	3,45,000
Less: Deduction under Chapter VI-A	Nil	Nil
Total Income	**3,18,000**	**3,45,000**
Tax on Total Income	**13,800**	**16,500**
Add: Education Cess @ 3%	**414**	**495**
Tax Payable	**14,214**	**16,995**
Total Tax Payable (Rounded Off)	**14,210**	**17,000**

Notes 1&2

Salary: Basic + D.A (Considered for retirement benefits) + Commission(based on fixed turnover by employee) = ₹.3,00,000

Cash Flow Statement

Particulars	**Option 1-H RA** ₹	**Option 2 – RFA** ₹
Inflow: Salary (Basic + HRA)	3,60,000	3,00,000
Less: Outflow: Rent Paid (Rs.6000 x 12 months)	(72,000)	Nil
Tax on Total Income	(14,210)	(17,000)
Net Cash Inflow	**2,73,790**	**2,83,000**

Decision: Since Net Cash flow is higher under Option 2, it is beneficial if Mr.Kadam opts for Rent Free Accommodation.

3.

(i) As per section 50B, any profits or gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of capital assets and shall be deemed to be the income of the previous year in which the transfer took place.If the assessee owned and held the undertaking transferred under slump sale for more than 36 months before slump sale, the capital gain shall be deemed to be long-term capital gain. Indexation benefit is not available in case of slump sale as per section 50B(2).

Calculation of capital gains

Particulars	**₹.**
Slump sale consideration	2,60,00,000
Less :Cost of acquisition (net worth) [see working note below]	1,05,00,000
Long-term capital gain	**1,55,00,000**
Calculation of tax liability	

Income tax @ 20%	31,00,000
Surcharge @ 5%	1,55,000
	32,55,000
Education Cess @ 2% and Secondary and higher education cess@1%	97,650
Total tax liability	**33,52,650**

Working Note:
Net Worth of Unit II

Particulars	**₹.**
WDV of block of assets	60,00,000
Debtors	67,00,000
Inventories	23,00,000
	1,50,00,000
Less : Liabilities	45,00,000
Net worth	**1,05,00,000**

(ii) Transfer of any capital asset by a holding company to its 100% Indian subsidiary company is exempted from tax under section 47(iv). Therefore, if it is possible for Axel Ltd. to acquire the entire shareholding of Gamma Ltd. and thereafter make a slump sale, then the resultant capital gain shall not attract tax liability. However, in such case also, Axel Ltd. should not transfer any shares in Gamma Ltd. for 8 years from the date of slump sale.

4.

The S.C *in Kedernath Jute Mills Ltd.*, vs CIT had held that where liability exists in presenti, the claim for the same cannot be denied merely because it has been disputed, where the assessee maintains his books of account on the mercantile system of accounting.

For the purposes of allow ability of a claim or expenditure under the provisions of IT Act, it is the document that has to be taken into account, based on which the provision has been made. According to the agreement, there was a liability in praesenti. The liability in praesenti is not contingent liability unlike a future liability. A liability in praesenti has to be provided so that the same cannot be denied at a later date on the premise that it has not been provided in the year in which the liability did really accrue. In the circumstances though the liability provided in the books was disputed, since it is a liability in praesenti as per the agreement, the same can be claimed in the year of provision.

5.

As per section 47(xvi), no capital gains will arise on **any transfer of a capital asset in a transaction of reverse mortgage under a scheme made and notified by the Central Government.**
Conceptually, Reverse Mortgage Scheme inter-alia involves the following:

- Senior citizen borrower mortgages the house property to a lender.

- The lender makes the periodic/ lump sum payments to the borrower during the life time of the borrower.
- The borrower is not required to service the loan during his life time and therefore, does not make monthly repayments of principal and interest to the lender.
- On the borrower's death or on the borrower leaving the house property permanently, the loan is repaid along with the accumulated interest, through sale of the house property.
- The borrower/ heir(s) can also repay or prepay the loan with accumulated interest and have the mortgage released without restoring to sale of the property.
- **Section 47 excludes the transfer of capital asset in a transaction of reverse mortgage.**

6.

I.

Principle: Where the property is owned by HUF but used by the Firm in which all the Members are Partners, Property Income shall be assessable in the hands of **HUF. [Shiv Mohanlal 202 ITR 61 (All.)]**

Conclusion: In view of the above-referred judgment, the HUF (B), shall be assessable to tax in respect of the Income from the Property which is used by the Firm in which all the Members of the HUF are Partners.

Note: In this case, HUF is not a Partner. But since its Members are Partners in their individual capacity, the HUF is liable under the head "Income from House Property".

II.

Tax treatment in the hands of the seller, Mr. Bala

Section 50C provides that where the consideration received or accruing as a result of transfer of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by an authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall be deemed to be the full value of the consideration received or accruing as a result of such transfer for computing capital gain. In the instant case, Bala sold the residential flat at Jaipur to his friend Kala for ₹.10
lacs, whereas the stamp duty value was ₹.15 lacs. Therefore, stamp duty value shall be deemed to be the full value of consideration for sale of the property. Therefore, short-term capital gain arising to Bala for assessment year 2012-13 will be ₹.11.50 lacs (i.e. ₹.15 lacs - ₹.3.50 lacs).

Tax treatment in the hands of the buyer, Ms. Kala

This is not taxable under the head "IOS" in the hands of the recipient.

Subsequently, where the donee of the property sells the same, then the COA shall be the cost to the previous owner as provided U/S 49(1).

The provisions of Sec 49(4) are applicable only when the same is taxable U/S 56(2) in the hands of the recipient. In the instant case, it is not taxed in the hands of the recipient and hence Sec 56(2) and as a consequence Sec 49(4) has no application.

III.

By virtue of Sec 50C(2) and Sec 50C(3), where the assessee claims that the value adopted or assessed by the stamp valuation authority U/S 50C(1) exceeds the fair market value of the property as on the date of transfer and the value adopted or assessed by the stamp valuation authority has not been disputed in any appeal or revision or no reference has been made before any authority or court or the High Court, then the AO may refer the valuation of the capital asset to a valuation officer and where such reference is made, the provisions of Sec 16A of the Wealth Tax Act, 1957 would apply.

Where the value adopted by the valuation officer is below the value adopted or assessed or assessable by the stamp valuation authority, the same would be taken as the value of sales consideration for the purposes of computation of capital gains but if the value ascertained by the valuation officer exceeds the value adopted or assessed or assessable by the stamp valuation authority, the value assessed by such authority shall be taken as the full value of sale consideration i.e. ., lower of the value determined by the stamp duty authority and value determined by the valuation officer shall be taken as the notional sale consideration.

Particulars	**Value as per Valuation officer is ₹. 31 lacs**	**Value as per Valuation officer is ₹. 35 lacs**	**Value as per Valuation officer is ₹.27 lacs**
Tax Implications in the hands of Mr.Rishi			
Long Term Capital Gains			
Sale Consideration	31,00,000	33,00,000	30,00,000
Less: ICOA: 500,000 × (785 / 182)	21,56,593	21,56,593	21,56,593
LTCG	9,43,407	11,43,407	8,43,407
Tax Implications in the hands of Lasya			
IOS	NIL	NIL	NIL
Cost of acquisition in the hands of Lasya as per Sec 49(4)	31,00,000	33,00,000	30,00,000

7.

In the given case profit of ₹. 1 lakh which is equivalent to 20% of profits goes to mother by overriding title as per the partnership deed. So it is a case of diversion of income at source but not application of income. Hence, amount given to the mother should be allowed as deduction in the hands of the partnership firm. Hence the claim is valid.

8.Sol:

Held that the company does not earn any income in India because its activities are confined to purchase of goods which are exported by the Indian vendors to the applicant or its nominees.
As per clause (b) of explanation 1 to Sec 9(1), where the nonresident purchases goods for the purpose of export, the activities cannot be taxed in India.
Clause (b) of explanation 1 acts as an embargo against attributing any income to the purchase operations carried out in India, if such purchases are for the purpose of export.

PRIME ACADEMY

34TH SESSION PROGRESS TEST- INDIRECT TAXES

No of pages : 4

Total Marks: 75 Marks
Time allowed: 2 Hours

Part-A

1. 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.

2. Goods at the time of manufacture, mentioned in the Central Excise Tariff Act, can be called________

3. Compound Levy Scheme is an_________ scheme.

4. ____________ certificate is required only when bond is executed by the merchant exporter.

5. _____________ is called as general bond with Surety/Security for removal of goods without payment of duty.

6. The ___________digit PAN based registration number is called Excise control code.

7. Every assessee compulsorily files the annual installed capacity statement before 30th April of the succeeding financial year in the__________ Form.

8. The due date of payment of tax through e-payment is 6th of the following month by the manufacturers and by 16th of the following month in the case of SSI units. In the case of March month the due is______________.

9. When goods are removed from the factory of the manufacturer to some other premises for purposes of "Testing" or for "any other process not amounting to manufacture", excise duty need not be paid provided the permission of____________of Central Excise is obtained.

10. An exporter who executes a bond to exempt him from payment of excise duty will not be eligible to claim___________________

(1*10=10 Marks)

11. Briefly discuss about the Powers of the Central Excise Officers.

12. Power of Central Government to change Excise Duty on the basis of capacity of production in respect of notified goods-Discuss.
13. Offences by Companies-Explain with reference to Central Excise Act.
14. Interest On delayed refunds.
15. Provisonal Attachment to protect Revenue.

(5 * 3=15 Marks)

Part B

Answer all Questions

1)

a) Discuss about Inclusions/ Exclusions from the Assessable Value

I. Erection, Installation and commissioning charges
II. Freight
III. Interest On receivables.
IV. Deemed Export Incentives on goods supplied.
V. Subsidy/Rebate obtained by Assessee. (5Marks)

b) Briefly explain the procedure for removal of goods by a unit which is an 100%EOU for Domestic Tariff Area. (5Marks)

2)

a) Determine the cost of production on manufacture of the under-mentioned product for purpose of captive consumption in terms of Rule 8 of the Central Excise Valuation (DPE) Rules, 2000 -Direct material –₹. 11,600, Direct Wages & Salaries – ₹. 8,400, Works Overheads – ₹.6,200,Quality Control Costs – ₹3,500, Research and Development Costs – ₹.2,400, Administrative Overheads – ₹. 4,100, Selling and Distribution Costs ₹.1,600, Realisable Value of Scrap - ₹.1,200. Administrative overheads are in relation to production activities. Material cost includes Excise duty ₹. 1,054. (5Marks)

b) Valuation in case of Job work-Discuss. (5Marks)

3)

a) Power to levy Central Excise.

b) The assessee was engaged in manufacturing and supplying signages (illuminated signs) under a contract with M/s. IOCL and erecting them at the retail outlets of IOCL located at various places. The Department demanded central excise duty thereon, while the assessee denied its liability contending that the same was a ‘immovable property’, hence, not excisable. The assessee contended that it had fabricated only the sign poles of iron and steel required for the signages. Other items such a fiber glass plastic Sheets, vinyl sheets cut into signs, electrical panels, etc. and been got manufactured .Signage proper had been erected at the various IOC bunks. Signage came into existence only at site and the same was immovable on erection as it was fixed to earth on concrete foundation. Whether the contention of assessee is correct? Decide with the help of case law, if any.

(2*5=10Marks)

4)

a) Offences Punishable with Imprisonment and Fine.

b) M/s.PQR , a 100% EOU cleared “shrimps” manufactured by it to DTA without permission from the Development Commissioner. It is contended by the EOU that since the goods were cleared without taking approval of the Development Commissioner, hence , such goods cannot fall under proviso to section 3(1) of the Central Excise Act; they are ‘normal goods’ as manufactured by other assessees and are, therefore, covered under the main section 3(1) of the Act .It is learnt that the rate of additional duties of customs ,as applicable. Decide in the light of recent case-laws, if any. (2*5=10Marks)

5)

a) The assessee, a manufacturer of cars, discharged duty liability thereon including cost of mandatory 1-Year manufacturer's warranty in the transaction value of cars. When the dealers appointed by the assessee sell the cars to the customers, an option was given to the customers to obtain extended warranty for a further period of 2 years against payment of separate charges. This extended warranty was introduced by assessee and administered through dealers for which dealers were allowed commission. This extended warranty was optional; not mandatory. Discuss whether the Such extended warranty charges were included in the assessable value of manufactured cars?

(5Marks)

b) How will the assessable value under the subject transaction be determined under section 4 of the Central Excise Act, 1944? Give reasons with suitable assumptions where necessary Contracted sale price for delivery at buyer's premises as ₹. 9,00,000.The contracted sale price includes the following elements of cost:

(i) Cost of drawings and designs ₹. 4,000
(ii) Cost of primary packing ₹. 3,000
(iii) Cost of packing at buyer's request for safety during transport ₹. 7,000
(iv) Excise duty ₹.1,11,200
(v) VAT (Sales tax) ₹. 37,000
(vi) Octroi ₹. 9,500
(vii) Freight and insurance charges paid from factory to 'place of removal' ₹. 20,000
(viii) Actual freight and insurance from 'place of removal' to buyer's premises ₹. 42,300

(5Marks)

PRIME ACADEMY
34TH SESSION PROGRESS TEST – INDIRECT TAXES
SUGGESTED ANSWERS

PART-A

1.	Third
2.	As excisable goods.
3.	Optional
4.	CT-1
5.	B-1 bond
6.	15
7.	ER-7
8.	31 st march.
9.	Commissioner
10.	Rebate

11. **Powers of Central Excise Officers**.(Section 12 E) — (1) A Central Excise Officer may exercise the powers and discharge the duties conferred or imposed under this Act on any other Central Excise Officer who is subordinate to him.Notwithstanding anything contained in Subsection (1), the Commissioner of Central Excise (Appeals) Shall not exercise the powers and discharge the duties Conferred or imposed on a Central Excise Officers Other than those specified in Section 14 or chapter VI A.

12. Power of Central Government to charge excise duty on the basis of capacity of production in respect of notified goods:

(1) Notwithstanding anything contained in section 3, where the Central government, having regard to the nature of the process of manufacture or production of excisable goods of any specified description, the extent of evasion of duty in regard to such goods or such other factors as may be relevant, is of the opinion that is necessary to safeguard the interest of revenue, specify, by notification in the Official Gazette, such goods as notified goods and there shall be levied and collected duty of excise on such goods in accordance with the provisions of this section.

(2) Where a notification is issued under sub-section (1), the Central Government may, by rules,__

(a) provide the manner for determination of the annual capacity of production of the factory, in which such goods are produced, by an officer not below the rank of Assistant Commissioner of Central Excise and such annual capacity of production shall be deemed to be the annual production of such goods by such factory; or

(b) (i) specify the factor relevant to the production of such goods and the quantity that is deemed to be produced by use of a unit of such factor; and

(ii) provide for the determination of the annual capacity of production of the factory in which such goods are produced on the basis of such factor by an officer not below the rank of Assistant Commissioner of Central Excise and such annual capacity of production shall be deemed to be the annual production of such goods by such factory:

Provided that where a factory producing notified goods is in operation only during a part of the year only, the annual production thereof shall be calculated on proportionate basis of the annual capacity of production:

Provided further that in a case where the factor relevant to the production is altered or modified at any time during the year, the annual production shall be re determined on a proportionate basis having regard to such alteration or modification.

(3) The duty of excise on notified goods shall be levied, at such rate, on the unit of production or, as the case may be, on such factor relevant to the production, as the Central Government may, by notification in the Official Gazette, specify, and collected in such manner as may be prescribed:

Provided that, where a factory producing notified goods did not produce the notified goods during any continuous period of fifteen days or more, duty calculated on a proportionate basis shall be abated in respect of such period if the manufacturer of such goods fulfils such conditions as may be prescribed.

(4) The provision of this section shall not apply to goods produced or manufactured, by a hundred per cent export - oriented undertaking and brought to any other place in India.

13. **Offences by companies.** —

(1) Where an offence under this Act has been committed by a company, every person who, at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to any punishment provided in this Act, if he proves that the offence was committed without his knowledge or that he had exercised all due diligence to prevent the commission of such offence.

(2) Notwithstanding anything contained in sub-section (1), where an offence under this Act has been committed by a company and it is proved that the offence has been committed with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of that offence and shall be liable to be proceeded against and punished accordingly.

Explanation. — For the purposes of this section, -

(a) "company" means anybody corporate and includes a firm or other association of individuals; and

(b) "director" in relation to a firm means a partner in the firm.

14. **Interest on delayed refunds.** ---

If any duty ordered to be refunded under sub-section (2) of section11B to any applicant is not refunded within three months from the date of receipt of application under sub-section (1) of that section, there shall be paid to that applicant interest at such rate, not below five per cent and not exceeding thirty per cent per annum as is for the time being fixed by the Central Government, by Notification in the Official Gazette, on such duty from the date immediately after the expiry of three months from the date of receipt of such application till the date of refund of such duty :

Provided that where any duty ordered to be refunded under sub-section (2) of section 11B in respect of an application under sub-section (1) of that section made before the date on which the Finance Bill, 1995 receives the assent of the President, is not refunded within three months from such date, there shall be paid to the applicant interest under this section from the date immediately after three months from such date, till the date of refund of such duty.

Explanation. - Where any order of refund is made by the Commissioner (Appeals), Appellate Tribunal, National Tax Tribunal or any court against an order of the Assistant Commissioner of Central Excise or Deputy Commissioner of Central Excise, under sub-section (2) of section 11B, the order passed by the

Commissioner (Appeals), Appellate Tribunal, National Tax Tribunal or, as the case may be, by the court shall be deemed to be an order passed under the said sub-section (2) for the purposes of this section.

15. Provisional attachment to protect revenue in certain cases -

(1) Where, during the pendency of any proceedings under section 11A or section 11D, the Central Excise Officer is of the opinion that for the purpose of protecting the interest of revenue, it is necessary so to do, he may, with the previous approval of the Commissioner of Central Excise, by order in writing, attach provisionally any property belonging to the person on whom notice is served under sub-section (1) of section 11A or sub-section (2) of section 11D, as the case may be, in accordance with the rules made in this behalf under section 142 of the Customs Act, 1962 (52 of 1962).

(2) Every such provisional attachment shall cease to have effect after the expiry of a period of six months from the date of the order made under sub-section (1):

Provided that the Chief Commissioner of Central Excise may, for reasons to be recorded in writing, extend the aforesaid period by such further period or periods as he thinks fit, so, however, that the total period of extension shall not in any case exceed two years :

Provided further that where an application for settlement of case under section 32E is made to the Settlement Commission, the period commencing from the date on which such application is made and ending with the date on which an order under sub-section (1) of section 32F is made shall be excluded from the period specified in the preceding proviso.

Part B

1. a) Inclusions/ Exclusions from the Assessable Value

I. Erection, Installation and commissioning charges
   - If the final product is not excisable, the question of including these charges in the assessable value of the
   - Product does not arise. As for example, since a thermal power, as a whole, is an immovable property and
   - Therefore not excisable, no duty would be payable on the cost of erection, instigations and commissioning of the steel plant. Similarly, if a machine is cleared from a factory on payment of appropriate duty and later on taken to the premises of the buyer for installation/erection and commissioning into an immovable property, no further duty would be payable. On the other hand if parts/components of a generator are brought to a site and the generator erected/installed and commissioned at the site then, the generator being an excisable commodity, the cost of erection, installation and commissioning charges would be included in its assessable value. In other words if the expenditure on erection, installation and commissioning has been incurred to bring into existence any excisable goods, these charges would be included in the Assessable Value of the goods. If these costs are incurred to bring into existence some immovable property, they will not be included in the assessable value of such resultant property.
   - However, 'time of removal' in case of excisable goods removed from the place of removal is deemed to be the time of clearance of such goods from the 'factory'. therefore, the assessable value is with reference to delivery at the 'time and place of removal, transaction value will be the assessable value.

II. Freight
   - It follows from the Valuation Rules that in such categories of cases also if the price charged is with
   - reference to delivery at a place other than the depot, etc. then the actual or average cost of transportation
   - (average freight being calculated according to generally accepted principles of costing - CAS - 5 beyond the depot/place of sale will not be taken to be a part of the transaction value and exclusion of such cost allowed on similar lines as discussed earlier, when sales are effected from factory gate/warehouse. There is no question of including the freight etc. right upto the buyer's premises even though delivery may be effected at that place.
   - Delivery to the carrier at factory gate/depot is delivery to the buyer and element of freight and transit insurance are not includible in assessable value. Moreover, the ownership of the goods has no relevance so far as their transit insurance is concerned. - *Escorts JCB Ltd.* v. CCE., *Delhi-II* - 2002 (146) E.L.T. 31 (S.C) and *Prabhat Zarda Factory Ltd.* v. CCE. -2002 (146) E.L.T. 497 (S.C). Freight (actual or average) upto the point of depot etc. will, however, continue to be included.

III. Interest On receivables.
   - As regards interest for delayed payments it is the normal practice in industry to allow
   - the buyers some credit period for which no interest is charged. That is to say, the assessee allows the buyers some time (normally 30 days, which could be less or even

more depending upon industry) to make the payment for the goods supplied. Interest is charged by him from the buyer only if the payments are made beyond this period. A question has been raised whether such interest on receivables (for delayed payments) should form part of the transaction value or not. As per the earlier practice under Section 4 such amount of interest is not included in "value". Also, similar is the practice followed in this regard on the Customs side, where duties are collected on transaction value basis, and the importers are given certain "free" period for payment or to pay up interest for delayed payments. As the intention is not to disturb the existing trade practice in this regard, charges for interest under a financing arrangement entered between the assessee and the buyer relating to the purchase of excisable goods shall not be regarded as part of the assessable value provided that :

- the interest charges are clearly distinguished from the price actually paid or payable for the goods;
- (b) the financing arrangement is made in writing; and
- c) where required, assessee demonstrates that such goods are actually sold at the price declared as the
- price actually paid or payable.

IV. Deemed Export Incentives on goods supplied.
- Duty drawback cannot be added to assessable value,
- especially if there is no evidence of drawback with depression of prices.

V. Subsidy/Rebate obtained by Assessee.
- A general subsidy/rebate is not to be included as it has no connection
- with individual clearances of goods. In case of rebate/subsidy which is directly relatable to individual clearances ,it should not be includible.

b) The procedure for removal of goods by a unit which is an 100% EOU for Domestic Tariff Area.

Rule 17 of the Central Excise Rules, 2002 provides that where any goods are removed from a 100% EOU to domestic tariff area, such removal shall be made under an invoice as per the procedure specified in rule 11 of the Central Excise Rules, 2002. Further, removal shall be made only after payment of appropriate duty by debiting the account current maintained for this purpose or by utilizing the CENVAT credit.

Such unit is required to maintain appropriate accounts related to production, description of quantity removed and the duty paid in the prescribed form.
Such unit is required to submit a monthly return in Form E.R-2 within 10 days from the end of the month to which the return relates in respect of the excisable goods manufactured in and receipt of inputs and capital goods in the unit. The return should be submitted to the Superintendent of Central Excise.

2 a). Cost of production is required to be computed as per CAS-4. Material cost is required to be Exclusive of Cenvat credit available.

Particulars	Total Cost (₹)
Material Consumed (Net of Excise duty) (11,600 – 1,054)	10,546
Direct Wages and Salaries	8,400
Direct Expenses -	
Works Overheads	6,200
Quality Control Cost	3,500
Research and Development Cost	2,400

Note - (1) Indirect Labour and indirect expenses have been included in Works Overhead (2) In absence of any information, it is presumed that administrative overheads pertain to production activity. (3) Actual profit margin earned is not relevant for excise valuation.

b) Valuation in case of Job work-Discuss.

VALUATION IN CASE OF JOB WORK – RULE 10A

Job-worker means a person engaged in the manufacture or production of goods on behalf of a principal manufacturer, from any inputs or goods supplied by the said principal manufacturer or by any other person authorised by him.
According to Rule 10A, the value of goods manufactured on job work shall be determined as under :

(i) When the goods are sold by the principal manufacturer from the premises of job worker : In a case where the goods are sold by the principal manufacturer for delivery at the time of removal of goods from the factory of job-worker, where the principal manufacturer and the buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the transaction value of the said goods sold by the principal manufacturer;

(ii) When the goods are sold by the principal manufacturer from a place other than the premises of jobworker :
In a case where the goods are not sold by the principal manufacturer at the time of removal of goods from the factory of the job-worker, but are transferred to some other place from where the said goods are to be sold after their clearance from the factory of job-worker and where the principal manufacturer and buyer of the goods are not related and the price is the sole consideration for the sale, the value of the excisable goods shall be the normal transaction value of such goods sold from such other place at or about the same time and, where such goods are not sold at or about the same time, at the time nearest to the time of removal of said goods from the factory of job-worker;

(iii) In any other case : In a case not covered under (i) or (ii), the provisions of foregoing rules, wherever applicable, shall *mutatis mutandis* apply for determination of the value of the excisable goods.

3.a) Power to Levy Central Excise:

The power to levy Central Excise duty is derived from Constitution. The Indian Parliament has exclusive powers to make laws with respect to any of matters enumerated in List I in the Seventh Schedule to Constitution. (Called 'Union List'). Entry No. 84 of list I of Seventh Schedule to the Constitution reads as follows : "Duties of excise on tobacco and other goods manufactured or produced in India, except alcoholic liquors for human consumption, opium, narcotics, but including medical and toilet preparations containing alcohol, opium or narcotics. "The Products under List II (State List) or List III (Concurrent List) of the VII Schedule of the Constitution of India are not covered by Central Excise. The products like opium, narcotic drugs, and alcoholic liquors for human consumption are outside the scope of Central Excise[coverage is by the states]. The medicinal and toilet items which contain alcohol are covered by central excise and subject to duty of excise.

b) Issue-Whether signages erected at various petrol bunks of IOC are liable to duty.

Legal position – THE SIMILAR ISSUE WAS RECENTLY DECIDED BY THE APEX COURT IN THE CASE OF VIRGO INDUSTRIES (ENGINEERS) PVT. LTD. 2009 – CESTAT, *WHERE IT WAS HELD THAT, an item which is fixed in the earth can continue to be movable if the same is CAPABLE OF BEING SHIFTED FROM ONE PLACE TO ANPTHER WITHOUT HAVING TO DISMANTLE THA SAME INTO THE CONSTITUENTS COMPONENT.* In the instant case the complete signage is movable and is installed by fixing it on a concrete foundation. These can be detached and shifted to another location without damaging them –

Undisputedly signages are capable of being assembled at the premises of the appellants and then transferred to the site of its erection after dismantling the same. The signages do not emerge as an immovable property on assembly or erection. They have base plates of steel with provision to fit them on bolts of the concrete foundation. The signage is fixed to earth. Signage is complete before fixing on the concrete platform.

Conclusion -*IN THE LIGHT OF WHAT IS STATED ABOVE IT CAN BE CONCLUDED THAT the contention of assessee is not correct the signage is liable to duty*

4. A) Offences Punishable with Imprisonment and Fine.

Following are offences punishable with imprisonment and fine -

(a) Contravening provisions of restrictions of possession of goods in excess of prescribed quantity as prescribed under section 8.

(b) Evading payment of duty payable under CEA.

(c) Removing excisable goods or concerning himself with such removal, in contravention of provisions of Central Excise Act and Rules.

(d) Acquiring or in any way concerning himself with transporting, depositing, concealing, selling, purchasing or otherwise dealing with excisable goods where he knows or has reason to believe that the goods are liable to confiscation under Central Excise Act or Rules.

(e) Contravening any provision of Central Excise Act or rules in relation to Cenvat credit.

(f) Failure to supply information or knowingly supplying false information.

(g) Attempting to commit or abetting commission of an offence regarding evasion of duty or transit of goods or restriction on storage of goods or non-registration of a unit.

Punishment imposable is imprisonment upto seven years and fine (without limit) if (a) the duty leviable on the excisable goods exceeds one lakhs of rupees [section 9(1) or (b) a person already convicted for offence under Central Excise Act is convicted again [section 9(2)]

B) Issue: whether proviso to section 3(1) will be applicable in above case .

Legal position : THE SIMILAR ISSUE WAS RECENTLY DECIDED BY THE APEX COURT IN THE CASE OF Blue Water Products Ltd [2010](SC),*WHERE IT WAS HELD THAT*-

Proviso section 3(1) applies to excisable goods manufactured or produced by 100% EOU and "brought to any other place in India". Thus, all excisable goods manufactured by 100% EOU and brought to any other place in India are covered by proviso to section 3(1), .No matter whether they have brought into India with approval of Development Commissioner or whether such clearance to DTA is within the limits permitted by policy and procedures relating to EOU.

No doubt, the proviso earlier applied only to goods "allowed to be sold in India", but, after amendment by Finance Act,2001 it applies to all excisable goods "brought to any other place in India".

Conclusion -*IN THE LIGHT OF WHAT IS STATED ABOVE IT CAN BE CONCLUDED THAT,* the argument of M/s.PQR is untenable in law and, accordingly, it shall be liable to pay duty under proviso to section 3(1) of the Act. The value and duty shall be computed as if the goods had been imported into India.

5. a)

Legal position- The similar issue was recently decided by the apex court in the case of Ford India Pvt Lts-2010-(SC) where it was held that-

Only the first sale transaction is relevant for purpose of valuation of manufactured goods. The extended warranty was optional; it was not a condition of sale.

The sale of car and sale of extended warranty were two different business, which had no direct or proximate connection. The definition of transaction value in Section 4 of the Central Excise Act, 1944 makes it clear that only payments made by the buyer of the goods are includible in transaction value.

In this case, the first buyers were dealers of such cars who had made no payment to the manufacturer or anybody else towards extended warranty. The payment had been made by the final consumer only.

Conclusion:- *IN THE LIGHT OF WHAT IS STATED ABOVE IT CAN BE CONCLUDED THAT* , the extended warranty charges are not includible in the assessable value of cars.

b) Computation of assessable value of the excisable goods:-

Contracted sale price		₹.9,00,000
Less:		
Excise duty (Note – 1)	₹1,11,200	
VAT (Note – 1)	₹ . 37,000	
Octroi (Note – 1)	₹. 9,500	
Actual freight from "place of removal" to buyer's premises (Note – 2)	₹. 42,300	
		₹.2,00,000
Assessable value		₹.7,00,000

Notes : In the given question, for the purpose of determining the assessable value of the excisable goods:-

1. the duty of excise, sales tax and other taxes, if any, actually paid or payable on the excisable goods shall be excluded [Section 4(3)(d) of the Central Excise Act, 1944].
2. the cost of transportation from the place of removal up to the place of delivery of the excisable goods shall be deducted [Rule 5 of the Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000].
3. the cost of transportation, worth ₹. 20,000, from the factory to the place of removal shall not be excluded [Explanation 2 to rule 5 of Central Excise Valuation (Determination of Price of Excisable Goods) Rules, 2000].
4. cost of packing, ₹. 3,000 and ₹. 7,000 shall not be deducted. In this regard, it has been clarified that as per section 4 of the Central Excise Act, 1944, packing charges shall form part of the assessable value whether packing is ordinary or special, or primary or secondary. Any charges recovered for packing are the charges recovered in relation to the sale of the goods under assessment and, hence, will form part of the transaction value of the goods [Circular no. 354/81/2000 dated 30/6/2000]