DEPARTMENTAL EXAMINATION OF THE INDIAN REVENUE SERVICE (CUSTOMS AND CENTRAL EXCISE) GROUP 'A' PROBATIONERS – SEPTEMBER, 2008

PART I – PAPER IV
ELEMENTS OF ACCOUNTANCY AND AUDIT (WITHOUT BOOKS)

Date: 02.09.2008 Maximum Marks: 100
Time: 1430 to 1730 hours Pass Marks: 50

NOTE: Attempt **FIVE** Questions in all. **PART-A and PART-C are COMPULSORY.** Select **TWO** questions from **PART-B** and **ONE** question from **PART-D.** All questions carry equal marks. You can reply either in Hindi or English.

PART — A (COMPULSORY)

Q1. From the following Trial Balance of M/s. ABC & Co. and the additional information provided, prepare Trading and Profit and Loss Account for the year ended 31st March, 2008 and Balance Sheet as on that date: (20)

Sl. No.	Particulars	Debit Amount (Rs.)	Credit Amount (Rs.)
1.	Cash in Hand	7,740	
2.	Capital		3,00,000
3.	Drawings	12,600	
4.	Bills Receivable	3,720	
5.	Land and Buildings	65,160	
6.	Furniture	10,240	
7.	Wages	93,770	
8.	Discount Allowed	7,920	
9.	Discount Received		5,970
10.	Loan A/c at 6%		30,000
11.	Bank Charges	210	
12.	Bad Debts	2,760	
13.	Sundry Debtors	1,31,550	
14.	Office Salaries	12,840	
15.	Purchases	3,98,160	
16.	Stock on April 1, 2007	1,20,450	
17.	Sales Returns	3,750	
18.	Carriage Inwards	10,360	
19.	General Expenses	15,360	
20.	Plant and Machinery	43,280	
21.	Rent and Rates	7,260	
22.	Purchases Returns		2,910
23.	Sales		5,63,010

24.	Insurance	1,410	
25.	Provision for Bad Debts		9,300
26.	Sundry Creditors		37,350
	TOTAL	9,48,540	9,48,540

Closing Stock on 31st March, 2008 was Rs. 1,27,410/-. Adjustments to be made are:

(a) Depreciate Plant and Machinery at 10% and Furniture at 5%.

(b) Insurance includes Prepaid Insurance amount of Rs. 360/-.

(c) Purchases included a computer costing Rs. 6,000/-.

PART — B (Answer any two questions)

Q2. a) What are three types of accounts & what are the golden principles for making entries in the books of accounts. (10)

b) What do you mean by Debit Note & Credit Note? What is their relevance from Central Excise point of view? Give two instances when a Debit Note can be issued in case of purchases of goods. Explain their implications from Central Excise point of view. (10)

Q3. a) What is Financial Accounting? What are the steps involved in process of Accounting? Who are users of Accounting? (10)

b) Name all the books of original entries & books of secondary entries. (10)

Q4. a) Explain various methods of valuation of closing stock of finished goods. Can a Central Excise Auditor for insist for using any particular method for valuing the stock? (10)

b) Explain 'Straight Line Method' & 'Written Down Value Method' of charging Depreciation on Capital Assets. What is the relevance/implication of amount of Depreciation availed under Income Tax Act, 1961 while allowing CENVAT Credit on Capital goods in terms of CENVAT CREDIT RULES? What is the document from which compliance of Rule 4 (4) of the CENVAT CREDIT RULES can be verified by the Central Excise auditor? (10)

Q5. Please pass the Journal entries for the following transactions in the books of XYZ & Company (20)

(i) Started business with cash Rs. 50,000/- & goods worth Rs. 10,000/-

(ii) Purchased goods from X for Rs. 15,000/-

(iii) Purchased machinery costing Rs. 7,000/- from Y.

(iv) Sold goods to Z for Rs. 8,000/-

(v) Paid Rs. 6800/- to Y in full & final settlement

(vi) Prepaid Rent Rs. 150/-

(vii) Salary outstanding Rs. 350/-

(viii) Goods costing Rs. 100/- given as charity

(ix) Z became insolvent, 75 paisa in a rupee was received from his official receiver

(x) Purchased Stationary in cash from M for Rs. 500/-

PART — C (COMPULSORY)

Q6. a) Identify and explain in detail your understanding about the relevant EA-2000 process through which the said irregularities or objections could have been noticed in the following case. Also identify and explain in detail your understanding about the technique, if any, that could possibly be relevant in respect of the respective EA-2000 process so identified. (10)

M/S ABC & Co. is manufacturing Motor Parts weather strip/ Roof panel / Clip Sets, etc. falling under Chapter Heading 39169090 of the Central Excise Tariff Act, 1985. The said goods are assessable to duty under Section 4A of the Central Excise Act, 1944 (MRP based assessment). Party is supplying the said finished goods to M/S Maruti Udyog Ltd., an OEM as also in open market. They were required to pay duty in terms of the provisions contained in Section 4 of the Central Excise Act for clearances to M/S Maruti Udyog Ltd. whereas duty on goods cleared to open market was required to be paid in terms of Section 4 A. It was, however, observed that the assessee paid duty in terms of Section 4 even in respect of clearances to open market.

b) Identify and explain in detail your understanding about the relevant EA-2000 process through which the said irregularities or objections could have been noticed in the following case. Also identify and explain in detail your understanding about the technique, if any, that could possibly be relevant in respect of the respective EA-2000 process so identified. (10)

M/S XYZ & Co. is engaged in the manufacture of Auto Parts. The assessee is availing CENVAT credit on Plastic Crates and Bins falling under Chapter Heading 39231090 of the Central Excise Tariff Act, 1985. It was, however, observed that the said Plastic Crates and Bins were being used for transporting finished and fully packed goods from factory premises to buyer's place. The assessee is not eligible for CENVAT credit on these items as these are material handling equipments and can hardly be treated as inputs.

PART — D (Answer any one Question)

Q7. From the following information, prepare a cost sheet showing clearly i) Prime cost, ii) Works cost, iii) Cost of production, iv) Cost of goods sold & v) Cost of sales. (20)

Sl. No.	Particulars	Amount (Rs.)
1.	Opening stock of Raw material	1,00,000
2.	Purchase of Raw material	15,000 Kg @ Rs. 50/- per kg.
3.	Closing stock of Raw material	50,000
4.	Direct wages	60,000
5.	Indirect wages	15,000
6.	Direct Expenses	40,000
7.	Indirect Expenses	15,000
8.	Depreciation of Plant & Machinery	10,000
9.	Depreciation of Factory buildings	10,000
10.	Office & Administrative expenses	10% of work cost
11.	Selling & Distribution expenses	15% of cost of production

Q8. a) What is cost construction method of determining the assessable value? When this method is used? Please provide details of standard format of Cost Sheet prescribed under Central Excise Law. (10)

b) What are basic principles of allocation, apportionment & absorption of overheads? (10)

Q9. What is Internal Control? How is it different from Internal Audit? What is the significance of 'Review of Internal Control' in an organization taken up for EA-2000 Audit? (20)

Q10. a) Define Auditing. What are the salient features & steps of EA-2000 Audit? (10)

b) What is Cost Audit? Briefly state about the cost records maintained by the assessee. (10)

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