Gurukripa's Guideline Answers to Nov 2010 IPCC Exam Questions

Question No.1 is compulsory **(4 X 5 = 20 Marks).**
Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).**

Question 1 (a): Computation of Gross Total Income — 5 Marks

Mr. Soohan submits the following details of his income for the assessment year 2011-2012.

Income from salary	3,00,000
Loss form let out house property	40,000
Income from sugar business	50,000
Loss from iron ore business b/f (discontinued in 2004-2005)	1,20,000
Short term capital loss	60,000
Long term capital gain	40,000
Dividend	5,000
Income received from lottery winning (Gross)	50,000
Winning in card games	6,000
Agricultural income	20,000
Long term capital gain from shares (STT paid)	10,000
Short term capital loss under section 111	10,000
Bank Interest	5,000

Calculate Gross Total Income and Losses to be carried forward.

Solution:

Assessee: Mr. Soohan **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Gross Total Income

Particulars		**Rs.**	**Rs.**
Income From Salaries			3,00,000
Income from House Property: Loss			(40,000)
Profits and gains of Business or Profession			
Income from Sugar Business		50,000	
Brought forward Loss of Iron ore Business (Restricted to Rs.50,000)		(50,000)	NIL
Capital Gains			
LTCG from sale of shares (STT paid) exempt u/s 10(38)	10,000		
Less: Exemption u/s 10(38)	(10,000)	NIL	
Long Term Capital Gains	40,000		
Short Term Capital Loss	(40,000)	NIL	
Short Term Capital Loss u/s 111	**[W.N. 3]**	NIL	NIL
Income from Other Sources			
Dividend	5,000		
Less: Exemption u/s 10(34)	(5,000)	NIL	
Income from Lottery Winning		50,000	
Winning in Card Games		6,000	
Bank Interest		5,000	61,000
Gross Total Income			**3,21,000**
Less: Deduction under Chapter VIA			NIL
Total Income			**3,21,000**

Working Notes:

1. Brought Forward Loss from Iron Ore Business is set–off only to the extent of Profits available. The Balance Rs. 70,000 (Rs.1,20,000 – Rs.50,000) is carried forward.
2. Short Term Capital Loss can be set–off against any Capital Gains. The Balance Rs.20,000 (Rs.60,000 – Rs.40,000) is carried forward for 8 Assessment Years and set – off against any Capital Gains.
3. Short Term Capital Loss u/s 111 is carried forward for 8 AY and can be set–off against any Capital Gains.
4. Agricultural Income is exempt u/s 10(1).
5. Winnings from Lottery and Card Games are subject to Tax at 30%.

Question 1 (b): Capital Gains – Slump Sale 5 Marks

Mr. A is a Proprietor of Akash Enterprises having 2 units. He transferred on 1.4.2010 his unit 1 by way of slump sale for a total consideration of Rs.25 Lakhs. The expenses incurred for this transfer were Rs.28,000. His Balance Sheet as on 31.3.2010 is as under:

Liabilities	Total (Rs.)	Assets	Unit 1 (Rs.)	Unit 2 (Rs.)	Total (Rs.)
Own Capital	15,00,000	Building	12,00,000	2,00,000	14,00,000
Revaluation Reserve (for Building of Unit 1)	3,00,000	Machinery	3,00,000	1,00,000	4,00,000
Bank Loan (70% for Unit 1)	2,00,000	Debtors	1,00,000	40,000	1,40,000
Trade Creditors (25% for Unit 1)	1,50,000	Other Assets	1,50,000	60,000	2,10,000
TOTAL	21,50,000	TOTAL	17,50,000	4,00,000	21,50,000

Other information:

(i) Revaluation Reserve is created by revising upward the value of the building of Unit 1.

(ii) No individual value of any asset is considered in the Transfer Deed.

(iii) Other assets of Unit 1 include patents acquired on 1.7.2008 for Rs.50,000/- on which no Depreciation has been charged.

Compute the Capital Gain for the Assessment Year 2011-2012.

Solution:

Assessee: Mr. A **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

1. Total Value of Assets = Depreciable Assets (at WDV) + Other Assets (at book value but not revalued figure)
   Net Worth = Total Value of Assets Taken Over **Less** Liabilities

Particulars	**Computation**	**Rs.**
Value of Building	Rs.12,00,000 – Rs.3,00,000	9,00,000
Machinery		3,00,000
Debtors		1,00,000
Other Assets **[W.N. 1]**	Rs.1,00,000 + Rs.28,125	1,28,125
Total Assets taken over		14,28,125
Less: Liabilities taken over		
Bank loan	(Rs.2,00,000 x 70%)	(1,40,000)
Trade Creditors	(Rs.1,50,000 x 25%)	(37,500)
Net Worth		12,50,625

Note: It is assumed that Building & Machinery values are in WDV.

Computation of Capital Gains u/s 50B (Slump Sale)

	Particulars	**Rs.**
	Sale Consideration	25,00,000
Less:	Expenses for Transfer	28,000
	Net Consideration	24,72,000
Less:	Net Worth of Unit 1	12,50,625
	Capital Gains	**12,21,375**

Working Notes:

1. Patents are Intangible Assets and are eligible for Depreciation at 25%. Therefore,

	Particulars	**Rs.**
Cost of Patents acquired on 01.07.2008		50,000
Less:	Depreciation for 2008–2009	(12,500)
	WDV as on 01.04.2009	37,500
Less:	Depreciation for 2009–2010	(9,375)
	WDV as on 01.04.2010 (This is taken as value of Patents for the purpose of Slump Sale)	**28,125**

Question 1 (c) 5 Marks

Smart & Express Co. is providing taxable Information Technology software services. The Firm furnishes the following information relating to the services rendered, bills raised, amount received pertaining to this service, for the Financial Year ended on 31st March, 2011 as under:

		Rs.
(i)	Amount received being 10% of the assignment fees on 31st March, 2011 for the upgradation and enhancement of software services to be rendered during the financial year 2011 – 2012.	6,00,000
(ii)	Services provided to UNICEF, an International Organisation in Gandhinagar, for analysis, design and programming of latest Information Technology software.	5,00,000
(iii)	Services billed to clients (In one of the bill amounting to Rs.3,00,000 Service Tax was not charged due to conflicting nature and in another bill the firm failed to recover the Service Tax from the client, which was charged separately, due to insolvency of the client, the bill details are as under:	3,00,00,000
	Rs. Being the charges for right to use IT software 8,00,000 Service Tax @ 10% 80,000 Education Cess @ 2% 1,600 Secondary & Higher Education Cess @ 1% 800 8,82,400	
(iv)	Amount received for services rendered during current Financial Year (excluding payment for 2 bills in item (iii) above for which payment received during current Financial Year)	1,04,78,500

Service Tax and Education Cess have been charged separately in all the bills except wherever mentioned when it is not so charged separately.
Compute the value of total taxable services and Service Tax payable thereon for the year ended 31.3.2011, assigning reason in brief to the treatment of al items.

Solution: Page No. 17.48, Question No. 103

Question 1 (d) 5 Marks

Mr. Rajesh is a registered dealer and gives the following information. You are required to compute the next Tax liability and total sales value under Value Added Tax:
Rajesh sells his products to dealers in his State and in other States.
The Profit Margin is 15% of Cost of Production and VAT rate is 12.5% of Sales.

(i) Intra State Purchases of Raw Material Rs.2,50,000/- (excluding VAT @ 4%)
(ii) Purchases of Raw Material from an unregistered dealer Rs,80,000/- (including VAT @ 12.5%)
(iii) High Seas Purchases of Raw Material are Rs.1,85,000/- (excluding Custom Duty @ 10% of Rs.18,500)
(iv) Purchases of Raw Materials from other States (excluding CST @ 2%) Rs.50,000/-
(v) Transportation charges, wages and other manufacturing expenses excluding tax Rs.1,45,000/-
(vi) Interest paid on bank loan Rs.70,000/-.

Solution: Page No. 18.17, Question No. 32

Question 2 (a) (i) 4 Marks

Which income of Sikkimese individual is exempted from tax under section 10 (26AAA)?

Solution: Page No. 3.7, Question No. 12, Section 10(26AAA)

Question 2 (a) (ii) 4 Marks

How will you calculate the period of holding in case of the following assets?

(1) Shares held in a company in liquidation
(2) Bonus shares
(3) Flat in a co-operative society
(4) Transfer of a security by a depository (i.e., demat account)

Solution:

1.	The period is from the date of Acquisition of shares to the date of liquidation of company. Cost of Acquisition or Indexed Cost of Acquisition is calculated based on the period of holding.
2.	Page No. 7.40, Question No. 72, Point 1 & 2.
3.	The period is from the date of Allotment to the date of Transfer u/s 2(47). Cost of Acquisition or Indexed Cost of Acquisition is calculated based on the period of holding.
4.	Page No. 7.16, Question No. 29, Point 2.

Question 2 (b) 4 Marks

How can an assessee adjust the excess payment of service tax against his liability of service tax for subsequent periods? What is the basic condition for it?

Solution: Page No. 17.22, Question No. 57, Point 1 – 3

Question 2 (c) 4 Marks

What record should be maintained under VAT system by a registered dealer?

Solution: Page No. 18.22, Question No. 43

Question 3 (a) 8 Marks

Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2011. The receipts and payments account of 2010-2011 of her is as under:

To		By	
Balance B/f:	10,000	Purchase of commercial vehicle before 20 Sep. 2010.	4,00,000
Receipts from sale of Medicine	2,50,000	Drawing	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sep. 2010	50,000
Lecturers	5,000	Instalment of loan paid (including interest Rs.22,333)	1,21,000
Family pension	2,80,000	Medical insurance premium	32,000
Saving bank interest	1,000	Instalment of housing loan (Principal component Rs.48,000)	1,08,000
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medical journal	5,000
Agriculture income	1,00,000	Payment of medical journal	5,000
Income from lottery (net after deduction of TDS @ 30%)	35,000	Vehicle expenses	50,000
		Balance C/f:	48,000
Total	12,81,000	Total	12,81,000

Other relevant information is as under:

(i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of Rs.10,00,000 out of which 6,00,000 was still due. She got it refinanced from SBI on 01.04.2010 at the rate of 10%. One fourth portion of the house is used for clinic purposes.

(ii) She invested in term deposit Rs.1,50,000 in Bank of Baroda on 01.07.2010 for a period of 5 years in the name of her minor daughter at 9% interest p.a.

(iii) She purchased a commercial vehicle on 1 July 2010 at Rs.4,00,000. A loan of Rs.3,00,000 was taken to buy the van at 8% interest. One fourth use of vehicle is estimated to be personal.

(iv) She paid medical insurance premium for herself of Rs.16,000 and for mother Rs.16,000. Her mother is dependent on her.

(v) She got her share from HUF's income of Rs.50,000.

Solution:

Assessee: Dr. Shuba **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Total Income and Tax Liability

Particulars	**Rs.**	**Rs.**
1. Salaries: Lecturers	5,000	
Less: Deduction u/s 16	Nil	
Income under the Head "Salary"		5,000
2. Income from House Property – Self Occupied, So, Annual Value u/s 22	Nil	
Less: Deduction u/s 24 – Interest (6,00,000 × 10% × 3/4)	(45,000)	
Income from House Property		(45,000)
3. Profits and Gains of Business or Profession		

Particulars			Rs.	Rs.
Particulars		**Add**	**Deduct**	
Sale of Medicine		2,50,000		
Consultation Fee		50,000		
Visiting Fee		2,00,000		
Interest Paid (60,000 × 1/4)			15,000	
Medicines Consumed (Opening Stock + Purchases – Closing Stock)			47,000	
Payment fee Medical Journal			5,000	
Depreciation on Surgical Equipment (50,000 × 15%)			7,500	
Depreciation on Vehicle (4,00,000 × 15% × 3/4)			45,000	
Vehicle Expenses – For Business Purposes – (50,000 × 3/4)			37,500	
Interest paid on Loan – Allowed on Accrual basis – (3,00,000 × 8% × 9/12) = 18,000 × 3/4			13,500	
Profits and Gains from Business		5,00,000	(1,70,500)	3,29,500
5. Income from Other Sources				
Family Pension		2,80,000		
Less: Exempt u/s 57 – Least of the following				
33 1/3% of Gross Pension	93,333			
Amount of	15,000	(15,000)	2,65,000	
Savings Bank Interest			1,000	
Interest on term Deposit (1,50,000 × 9% × 9/12)		10,125		
Less: Exempt u/s 10(32) – Rs.1,500 per Child		(1,500)	8,625	
Income from Lottery – Gross – (35,000 ÷ 70%)			50,000	3,24,625
Gross Total Income				**6,14,125**
Less: Deduction under Chapter VI–A				
U/s 80C – Housing Loan Repayment (Principal Portion)			48,000	
U/s 80D – Medical Insurance Premium				
– Herself (Restricted)		15,000		
– Mother (Being Senior Citizen Maximum deduction is Rs.20,000)		16,000	31,000	(79,000)
Total Income (Before Agricultural Income) (Rounded off)				**5,35,130**

Working Notes:

1. Share Income from HUF is exempt u/s 10(2).
2. Drawings, advance tax paid are not allowable expenditures.

Question 3 (b) 4 Marks

Write a note in brief on provisional payment of Service Tax.

Solution: Page No. 17.23, Question No. 60

Question 3 (c) 4 Marks

State the Variants of VAT. Present them in schematic diagram and explain each one briefly.

Solution: Page No. 18.6, Question No. 10

Question 4 (a) (i) 4 Marks

Explain the consequences of not deducting Tax and paying to Govt. account under Sec. 201 of the Income Tax Act, 1961.

Solution: Page No. 16.23, Question No. 43

Question 4 (a) (ii) 4 Marks

Can a Political Party claim exemption of its Income under Section 13A of the Income tax Act, 1961?

Solution: Page No. 3.14, Question No. 20

Question 4 (b) 4 Marks

How will a taxable service be valued when the consideration thereof is not wholly or partly in terms of money?

Solution: Page No. 17.11, Question No. 28

Question 4 (c) 4 Marks

State with reasons in brief whether the following statements are correct or incorrect with reference to the provision of Value Added Tax.

(i) It is permitted to issue 'Tax Invoice' inclusive of VAT i.e. aggregate of Sales Price & VAT.
(ii) A registered dealer is compulsorily required to get its books of accounts audited under VAT Laws of different states irrespective of limit of Turnover.

Solution:

(i)	**False:** Page No. 18.21, Question No. 40.
(ii)	**False:** Page No. 18.23, Question No. 47.

Question 5 (a) 8 Marks

From the following details find out the Salary chargeable to Tax for the Assessment Year 2011-2012.

Mr. X is a regular Employee of Rama & Co. in Gurgaon. He was appointed on 01.01.2010 in the scale of 20000-1000-30000. He is paid 10% D.A. & Bonus equivalent to one month pay. He contributes 15% of his pay and D.A. towards his Recognized Provident Fund and the Company contributes the same amount.

He is provided Free Housing Facility which has been taken on rent by the Company at Rs.10,000 per Month. He is also provided with following facilities:

(i) Facility of Laptop costing Rs.50,000.
(ii) Company reimbursed the Medical Treatment Bill of his brother of Rs.25,000, who is dependent on him.
(iii) The Monthly Salary of Rs.1,000 of a house keeper is reimbursed by the Company.
(iv) A Gift Voucher of Rs.10,000 on the occasion of his Marriage Anniversary.
(v) Conveyance Allowance of Rs.1,000 per Month is given by the Company towards actual Re–imbursement.
(vi) He is provided Personal Accident Policy for which Premium of Rs.5,000 is paid by the Company.
(vii) He is getting Telephone Allowance @ Rs.500 per Month.
(viii) Company pays Medical Insurance Premium of his family of Rs.10,000.

Solution:

Assessee: Mr. X **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Income under the Head Salaries

	Particulars		**Rs.**	**Rs.**
	Basic Salary	(Rs.20,000 × 9) + (Rs.21,000 × 3)		2,43,000
	Dearness Allowance	(Rs.2,43,000 × 10%)		24,300
	Bonus	(Rs.2,43,000 + Rs.24,300 ÷ 12)		22,275
	Employer's Contribution to Provident Fund [(Rs.2,43,000 + Rs.24,300) × (15% – 12%)]			8,019
	Conveyance Allowance – Fully Exempt			NIL
	Taxable Salary before Perquisites			**2,97,594**
	Value of Perquisites			
	Rent Free Unfurnished Accommodation **[W.N. 1]**			43,436
	Facility of Laptop – [Exempt under Rule 3(7)(vii)]			NIL
	Medical Treatment of Brother Dependant on the Assessee (Rs.25,000 – Rs.15,000)			10,000
	Premium on Accident Policy			NIL
	Medical Insurance Premium			NIL
	House Keeper's Salary Reimbursed			1,000
	Gift Voucher (Above Rs.5,000. Hence fully Taxable)			10,000
	Telephone Allowance – Fully Exempt			NIL
	Gross Salary			3,62,030
Less:	Deduction u/s 16			NIL
	Income under the head Salary			**3,62,030**

Working Note:

1. **Valuation of Rent Free Unfurnished Accommodation:**

	Particulars	**Amount**	**Amount**
I.	**Computation of Salary for Valuation of Accommodation Facilities**		
	Basic Salary + D.A. + Bonus + Conveyance Allowance (Rs.2,43,000 + Rs.24,300 + Rs.22,275 + NIL)		2,89,575
	Salary for the purpose of valuation of Accommodation Facilities		**2,89,575**

II. Computation of Taxable Unfurnished Accommodation		
Taken on rent by the Company		
Rent paid by Employer or **15%** of Salary, whichever is **lower** (1,20,000 or 15% of 2,89,575)	43,436	
Less: Rent recovered from employee	Nil	**43,436**

Question 5 (b) 4 Marks

What do you mean by e-filing of Returns? Is there any facility of e-filing of Service Tax Returns? If yes, then which of the services are eligible for this facility?

Solution: Page No. 17.39, Question No. 93

Question 5 (c) 4 Marks

What are the conditions to be fulfilled by the dealer accepting the composition scheme under the Value Added Tax?

Solution: Page No. 18.18, Question No. 34, Point 2

Question 6 (a): Depreciation in Case of Succession of Business 8 Marks

Sai Ltd has a Block of Assets carrying 15% rate of Depreciation, whose Written Down Value on 01.04.2010 was Rs.40 lacs. It purchased another asset of the same Block on 01.11.2010 for Rs.14.40 lacs and put to use on the same day. Sai Ltd was amalgamated with Shridi Ltd with effect from 01.01.2011.

You are required to compute the Depreciation allowable to Sai Ltd & Shirdi Ltd for the Previous Year ended on 31.03.2011 assuming the assets transferred to Shridi Ltd at Rs.60 lacs.

Solution:

Note: Write the principles relating to apportionment. Refer Page No. 6.16, Question No. 29 for apportionment principle.

1. **Apportionable Depreciation:**

Asset	Rs.
(a) Block at 15%	
WDV as on 01.04.2009 [40,00,000 x 15%]	6,00,000
Additions as on 01.11.2009 [14,40,000 x 15% x 50%]	1,08,000
Total Apportionable Depreciation	**7,08,000**

2. **Apportionment of Depreciation:**

Assessee	No. of days	Total Depreciation allowable
Sai Ltd.	01.04.10 to 31.12.10 = **275 days**	7,08,000 × 275/365 = **Rs.5,33,425**
Shirdi Ltd.	01.01.11 to 31.03.11 = **90 days**	7,08,000 × 90/365 = **Rs.1,74,575**

Question 6 (b) 4 Marks

State with reasons in brief whether the following statements are correct or incorrect with reference to the provisions of Service Tax.

(i) The scope the taxable service shall include any service provided or to be provided to business entity, by any other business entity, in relation to advice, consultancy or assistance in any branch of law including service provided by way of appearance before any court, tribunal or authority.

(ii) Service tax provisions are not applicable in Jammu And Kashmir because State Government concurrence was not obtained in respect of Finance Act, 1944.

Solution:

(i)	**False:** Page No. 17.49, Question No. 104.
(ii)	**False:** Service Tax is brought into effect by Finance Act, 1994 and not by Finance Act, 1944.

Question 6 (c) 4 Marks

Mention the purchases which are not eligible for input tax credit (any eight items) under Value Added Tax.

Solution: Page No. 18.14, Question No. 25, Point 6. (ANY 8)

Question 7 (a) (i) 4 Marks

Mr. Shah, an Accounts Manager, has retired from JK Ltd. On 15.1.2011 after rendering services for 30 years 7 months. His salary is Rs.25,000/- p.m. upto 30.09.2010 and Rs.27,000/- thereafter. He also gets Rs.2,000/- p.m. as dearness allowance (55% of it is a part of salary for computing retirement benefits). He is not covered by the Payments of Gratuity Act, 1972. He has received Rs.8 Lacs as gratuity from the employer company.

Solution:

Assessee: Mr. Shah **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Income from Salaries

		Particulars	**Rs.**
1.	Basic Salary	(Rs.25,000 × 6 + Rs.27,000 × 3.5)	2,44,500
2.	Dearness Allowance	(Rs.2,000 × 9.5)	19,000
3.	Taxable Gratuity	[W.N. 1]	3,99,500
		Gross Salary	**6,63,000**

Computation of Taxable Gratuity

Avg. Salary for 10 Mts preceding the month of retirement= $\frac{(25,000 \times 7) + (27,000 \times 3) + (2,000 \times 10 \times 55\%)}{10}$= Rs.26,700

	Particulars	**Rs.**	**Rs.**
	Amount of Gratuity Received		8,00,000
Less:	**Exempt u/s 10(10) =** Least of the following –		
	(a) Actual Gratuity Received	8,00,000	
	(b) 1/2 month's salary for every completed years of Service (½ × 26,700 × 30)	4,00,500	
	(c) Notified Amount	10,00,000	4,00,500
	Taxable Value of Gratuity		**3,99,500**

Question 7 (a) (ii) 4 Marks

State under which heads the following incomes are taxable:

- (i) Rental income in case of dealer in property
- (ii) Dividend on shares in case of a dealer in shares
- (iii) Salary by a partner from his partnership firm
- (iv) Rental income of machinery
- (v) Winnings from lotteries by a person having the same as business activity
- (vi) Salaries payable to a Member of Parliament
- (vii) Receipts without consideration
- (viii) In case of retirement, interest on employee's contribution if provident fund is unrecognized.

Solution:

(i)	Income from House Property
(ii)	Income from Other Sources
(iii)	Profits and Gains of Business or Profession
(iv)	Profits and Gains of Business or Profession or Income from Other Source
(v)	Profits and Gains of Business or Profession
(vi)	Income from Other Sources
(vii)	Gift – Income from Other Sources
(viii)	Income from Other Sources – On Accrual, taxable under the head Other Sources. On retirement, receipt of the same is not taxable.

Question 7 (a) (iii) 4 Marks

Explain briefly the applicability of Section 22 for chargeability of Income Tax for:

- (i) House Property situated in foreign Country and
- (ii) House Property with disputed Ownership.

Solution:

(i)	Page No. 5.14, Question No. 25
(ii)	Page No. 5.2, Question No. 4, Point 2(h)

Question 7 (c) 4 Marks

Compute the VAT amount payable by Mr. Shyam, who purchased goods from a manufacturer on payment of Rs.4,16,000 (including VAT) and earned 20% profit on purchase price. VAT rate on both purchases and sales is 4%.

Solution: Page No. 18.8, Question No. 14

Gurukripa's Guideline Answers to Nov 2010 PCC Exam Questions

Question No.1 is compulsory **(4 X 5 = 20 Marks).**
Answer **any five** questions from the **remaining six** questions **(16 X 5 = 80 Marks).**

Question 1 (a) 5 Marks

Mr. Ram an Indian Citizen left India on 22.09.2010 for the first time to work as an officer of a Company in Germany.
Determine the Residential Status of Ram for the Assessment Year 2011-2012 and explain the conditions to be fulfilled for the same under the Income-Tax Act, 1961.

Solution: Write the Principles relating to Residential Status of Individual. Refer Page No. 2.2, Question No. 1
Hint: Non – Resident.

Question 1 (b) 5 Marks

Mrs. Kasturi transferred her immovable property to ABC Co subject to a condition that out of the rental income, a sum of Rs.36,000 per annum shall be utilised for the benefit of her son's wife.
Mrs. Kasturi claims that the amount of Rs.36,000 (utilized by her son's wife) should not be included in her Total Income as she no longer owned the property.
State with reasons whether the contention of Mrs. Kasturi is valid in Law?

Solution: Page No. 9.1, Question No. 1, Section 64(1)(viii)
Therefore the contention of Mrs. Kasturi is not valid in law. The amount of Rs.36,000 should be included in Mrs. Kasturi's Total Income.

Question 1 (c) 5 Marks

Determine the Total Income of Mr. Chand from the following information for the Asst. Year 2011–2012:

	Particulars	Rs.
(i)	Interest received on Enhanced Compensation (It relates to transfer of Land in the Financial Year 2005–2006. Out of the above Rs.65,000 relates to Financial Year 2010–2011 and the balance relate to preceding years)	4,00,000
(ii)	Business Loss relating to discontinued Business of the AY 2005–2006 brought forward and eligible for set off.	1,50,000
(iii)	Current year Business Income (i.e. Financial Year 2010–2011) (Computed)	1,10,000

Solution:

Assessee: Mr. Chand **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Gross Total Income

	Particulars	**Rs.**	**Rs.**
	Profits and gains of Business or Profession		
	Current year Business Income	1,10,000	
	Brought forward Loss of Discontinued Business – Restricted to Profits available	(1,10,000)	NIL
	Income from Other Sources		
	Interest Received on Enhanced Compensation – Current Year	4,00,000	
Less:	Deduction u/s 57 – 50% of Interest Received	(2,00,000)	2,00,000
	Gross Total Income		**2,00,000**
Less:	Deduction under Chapter VIA		NIL
	Total Income		**2,00,000**

Note: Balance Loss of Rs.40,000 (Rs.1,50,000 – Rs.1,10,000) is carried forward to subsequent Assessment Year.

Question 1 (d) 5 Marks

Compute Net VAT liability of Rishi from the following information:

Particulars	Rs.	Rs.
Raw Material from foreign market (Includes duty paid on imports @ 20%)		1,20,000
Raw material purchased from local market		
Cost of raw material	2,50,000	
Add: Excise duty @ 16%	40,000	
	2,90,000	
Add: VAT @ 4%	11,600	3,01,600
Raw material purchased from neighbouring State (Includes CST @ 2%)		51,000
Storage and transportation cost		9,000
Manufacturing expenses		30,000

Rishi sold goods to Madan and earned Profit @ 12% on the Cost of Production VAT rate on Sale of such Goods is 4%.

Solution: Page No. 18.18, Question No. 33

Question 2 (a) 12 Marks

Mr. Raju, a Manufacturer at Chennai, gives the following Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2011.

Manufacturing, Trading and Profit & Loss Account for the year ended 31.03.2011.

Particulars	Rs.	Particulars	Rs.
To Opening Stock	71,000	By Sales	32,00,000
To Purchase of Raw Materials	16,99,000	By Closing Stock	2,00,000
To Manufacturing Wages & Expenses	5,70,000		
To Gross Profit	10,60,000		
Total	34,00,000	Total	34,00,000
To Administrative Charges	3,26,000	By Gross Profit	10,60,000
To State VAT Penalty paid	5,000	By Dividend from Domestic Companies	15,000
To State VAT paid	1,10,000	By Income from Agriculture (Net)	1,80,000
To General Expenses	54,000		
TO Interest to Bank (On Machinery Term Loan)	60,000		
To Depreciation	2,00,000		
To Net Profit	5,00,000		
Total	12,55,000	Total	12,55,000

Following are the further information relating to the Financial Year 2010 – 2011:

(i) Administrative Charges include Rs.46,000 paid as Commission to brother of the Assessee. The Commission amount at the market rate is Rs.36,000.

(ii) The Assessee paid Rs.33,000 in Cash to a Transport Carrier on 29.12.2010. This amount is included in Manufacturing Expenses. (Assume that the provisions relating to TDS are not applicable to this payment.)

(iii) A sum of Rs.4,000 per Month was paid as Salary to a staff throughout the year and this has not been recorded in the books of account.

(iv) Bank Term Loan Interest actually paid upto 31.03.2011 was Rs.20,000 and the balance was paid in October 2011.

(v) Housing Loan Principal repaid during the year was Rs.50,000 and it relates to Residential Property occupied by him. Interest on Housing Loan was Rs.23,000. Housing Loan was taken from Canara Bank. These amounts were not dealt with in the Profit and Loss Account given above.

(vi) Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	Rs.
Opening WDV (as on 01.04.2010)	12,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation U/s. 32 (iia)	

Compute the total income of Mr. Raju for the assessment year 2011 – 2012.

Note: Ignore application of Sec. 14A for disallowance of expenditures in respect of any exempt income.

Solution:

Assessee: Mr. Raju **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Total Income

Particulars	**Rs.**	**Rs.**
1. Income from House Property – Self Occupied, So, Annual Value u/s 22	NIL	
Less: Deduction u/s 24 – Interest	(23,000)	
Income from House Property		(23,000)

Particulars			Rs.	Rs.
2. Profits and Gains of Business or Profession				
Particulars	**Add**	**Deduct**		
Net Profit as per Profit and Loss Account			5,00,000	
Dividend from Domestic Companies – Exempt u/s 10(34)		15,000		
Income from Agriculture		1,80,000		
State VAT Penalty (Penalty is not an Allowable Expenditure)	5,000			
Interest to Bank **[W.N. 1]**	40,000			
Depreciation as per Books	2,00,000			
Depreciation as per IT Act **[W.N. 2]**		2,25,000		
Commission to Brother – u/s 40 A(2) – (Rs.46,000 – Rs.36,000)	10,000			
Salary to Staff		48,000		
	20,25,000	22,38,000	**+** 20,25,000 **–** 22,38,000	
Profits and Gains from Business				2,87,000
Gross Total Income				**2,64,000**
Less: Deduction under Chapter VI A – U/s 80C – Housing Loan Repayment				(50,000)
Total Income (Excluding Agricultural Income)				**2,14,000**

Working Notes:

1. U/s 43B payments not made within due dates u/s 139 are not allowed as expenditures. Therefore, Rs.40,000 is not allowed in the Current year.
2. **Depreciation:**

Particulars of Asset	Opening WDV	Additions	Deductions	Net Value of Block	Depreciation	Closing WDV
Plant & Machinery 15%	12,00,000	4,00,000	NIL	16,00,000	2,25,000	13,75,000
Total Depreciation Admissible					**2,25,000**	

Depreciation on Rs.14,00,000 @ 15% and Depreciation on Rs.2,00,000 @ 7.5% (i.e. 50% of 15%).

3. Where an assessee incurs any expenditure, for which, payment or aggregate of payments is made to a person in a day is in excess of Rs.20,000. (Rs.35,000 in case of payment made for plying, hiring or leasing goods carriages), otherwise than by an Account Payee Cheque drawn on a Bank or an Account Payee Bank Draft, the **whole** of such expenditure shall not be allowed as a deduction **[w.e.f. A.Y. 2009–10]**.

   Since the payment is after 01.10.2009 and is less than Rs.35,000, it is an allowable expenditure. Since it is already debited in the Profit and Loss Account, no adjustment need be made.

Question 2 (b) 4 Marks

Prasad & Co. seeks your advise for the following in the context of Service Tax:

(i) It wants to file revised Service Tax Return even though the Original Return was filed belatedly.

(ii) It will pay Service Tax only on actual receipt of Money from the customers though it maintained its books of account on mercantile basis.

Your answer must be with reasons.

Solution:

(iii)	Page No. 17.38, Question No. 89, Rule 7B. **Hint:** Even if Original Return is filed belatedly, the Service Tax Return can be Revised.
(iv)	Page No. 17.8, Question No. 19, Point 6. **Hint:** It is Valid.

Question 3 (a) 12 Marks

Two brothers Arun and Bimal are Co–Owners of a House Property with equal share. The property was constructed during the Financial Year 1997–98. The property consists of eight identical units and is situated at Cochin.

During the Financial Year 2010–2011, each Co–Owner occupied one unit for residence and the balance of six units were let out at a rent of Rs.12,000 per Month per unit. The Municipal Value of the House Property is Rs.9,00,000 and the Municipal Taxes are 20% of Municipal Value, which were paid during the year. The other expenses were as follows:

Particulars	Rs.
Repairs	40,000
Insurance premium (paid)	15,000
Interest payable on loan taken for construction of house	3,00,000

One of the Let – Out units remained vacant for four months during the year.
Arun could not occupy his unit for six months as he was transferred to Chennai. He does not own any other house.
The Other Income of Mr. Arun and Mr. Bimal are Rs.2,90,000 and Rs.1,80,000 respectively for the Financial Year 2010–2011.
Compute the Income under the head 'Income from House Property' and the Total Income to two brothers for the Assessment Year 2011 – 2012.

Solution:

Similar to Page No. 5.21, Question No. 18 and 19.

1. **Computation of Income from Let–Out House Property**

Particulars	**6 Units**	
	Rs.	**Rs.**
Determination of Annual Value u/s 23(1)(a)/(b)		
Municipal Value or Actual Rent whichever is higher Rs.9,00,000 ÷ 8 × 6 (OR) Rs.12,000 × 12 months × 6 Units (But owing to vacancy in one of the let-out property, the actual rent received with respect to that property is reduced to actual rent received i.e. Rs.12,000 × 8 = Rs.96,000) [Therefore, the Annual Value is (Rs.12,000 × 12 months × 5 units) + Rs.96,000]		8,16,000
Less: Municipal Taxes Paid (20% on Municipal Value) [(Rs.9,00,000 ÷ 8 × 6) × 20%)]		(1,35,000)
Net Annual Value		**6,81,000**
Less: Deductions u/s 24		
(a) 30% of Net Annual Value	(2,04,300)	Nil
(b) Interest (Rs.3,00,000 ÷ 8 Units × 6 Units)	(2,25,000)	(4,29,300)
Income from House Property		**2,51,700**

2. **Computation of Total Income of Mr. Arun**

Particulars	**Rs.**	**Rs.**
1. Income from House Property – Self Occupied, So, Annual Value u/s 22	NIL	
Less: Deduction u/s 24 – Interest **[W.N. 1]**	(30,000)	
Income from Self-occupied Property		**(30,000)**
Share of Income from Let–out Property (Rs.2,51,700 ÷ 2)		1,25,850
2. Other Income		2,90,000
Total Income		**3,85,850**

3. **Computation of Total Income of Mr. Bimal**

Particulars	**Rs.**	**Rs.**
1. Income from House Property – Self Occupied, So, Annual Value u/s 22	NIL	
Less: Deduction u/s 24 – Interest **[W.N. 1]**	(30,000)	
Income from Self-occupied Property		**(30,000)**
Share of Income from Let–out Property (Rs.2,51,700 ÷ 2)		1,25,850
2. Other Income		1,80,000
Total Income		**2,75,850**

Working Notes:

1. Interest on Loan is Rs.3,00,000 ÷ 8 Units = Rs.37,500. Since the loan is taken prior to 01.04.1999, maximum allowable interest is only Rs.30,000.
2. Repairs and Insurance Premium are not allowed as deduction.
3. Municipal Taxes paid is not allowed as deduction while computing income from Self–occupied property.

Question 3 (b) 4 Marks

ABC & Co. received the following amounts during the half year ended 31-3-2011:

		Rs.
(i)	For services performed prior to the date of levy of Service Tax (Assume Service Tax was levied from a specified date by change of law)	3,50,000

(ii)	Advance amount received in March, 2011 (No service was rendered and the amount was refunded to the client in July 2011)	75,000
(iii)	For free services rendered to customers, amount reimbursed by the manufacturer of such product. (for the period after the imposition of Service Tax)	50,000
(iv)	Amounts realised and on which service tax s payable (excluding the items (i) to (iii) above)	14,26,500

Calculate the service tax liability duly considering the threshold limit.

Solution: Page No. 17.10, Question No. 22

Question 4 (a) 7 Marks

Mukesh (ages 55 years) owned a Residential House at Nagpur. It was acquired by Mukesh on 10.10.1984 for Rs.4,00,000. It was sold for Rs.55,00,000 on 04.11.2010. The State Stamp Valuation Authority fixed the value of the Property at Rs.60,00,000. The Assessee paid 2% of the Sale consideration as brokerage for the Sale of said Property.

Mukesh acquires a Residential House at Chennai on 10.12.2010 for Rs.15,00,000 and deposited Rs.10,00,000 on 10.04.2011 in the capital gain bond of Rural Electrification Corporation Ltd(REC). He deposited Rs.5,00,000 on 06.07.2011 in the Capital Gain Deposit Scheme in a Nationalised bank for construction of additional floor on the Residential House Property acquired at Chennai.

Compute the Capital Gain chargeable to Tax in the hands of Mr. Mukesh for the Assessment Year 2011-2012. Calculate the Income Tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index: Financial year 1984–85 = 125
Financial year 2010–11 = 711

Solution:

Assessee: Mr. Mukesh **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Tax Payable

	Particulars	Rs.	Rs.
	Sale Consideration	60,00,000	
Less:	Expenses on Transfer (2% of Rs.55,00,000)	(1,10,000)	
	Net Consideration		58,90,000
Less:	Indexed Cost of Acquisition = Cost of Acqn. × CII of Year of Transfer ÷ CII of Year of Acqn. = Rs.4,00,000 × 711/125		(22,75,200)
	Long Term Capital Gain		**36,14,800**
Less:	**Exemption u/s 54** –		
	Purchase of New House	(15,00,000)	
	Deposit in Capital Gain Account Scheme	(5,00,000)	(20,00,000)
Less:	**Exemption u/s 54EC** –		
	Investment in REC Bond		(10,00,000)
	Taxable Long Term Capital Gain		**6,14,800**
	Total Income		**6,14,800**
	Tax on Total Income [(Rs.6,14,800 – Rs.1,60,000) × 20%]		90,960
Add:	Education Cess at 2%		1,819
Add:	Secondary and Higher Education Cess at 1%		910
	Total Tax Payable (Rounded off)		**93,690**

Note:

1. Investment u/s 54EC should be made within 6 months of transfer of Asset. Since it is invested within the time limit, the amount invested is allowed as an exemption.
2. Deposit in Capital Gain Account Scheme should be made before the time limit specified u/s 139. Since it is deposited before the time limit, it is allowed as an exemption.
3. Acquiring a New House and providing Deposit for Construction of additional floor on the same house is eligible for exemption u/s 54.

Question 4 (b) 5 Marks

M/s Arora Ltd submits the following details of expenditure pertaining to the Financial Year 2010–2011:

(i) Payment of Professional Fees to Mr. Mani Rs.50,000. Tax not deducted at source.

(ii) Interior Works done by Mr. Hari for Rs,2,00,000 on a contract basis. Payment made in the month of March 2011. Tax deducted in March 2011, was paid on 30.06.2011.

(iii) Factory Rent paid to Mrs. Rao Rs.15,00,000. Tax Deducted at Source and paid on 01.10.2011.
(iv) Interest paid on Fixed Deposits Rs.2,00,000. Tax deducted on 31-12-2010 and paid on 28.09.2011.
(v) Payment made to M/s Green & Co towards Import of Raw Materials Rs.25,00,000. No Tax was deducted at source. The supplier Green & Co is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2011 – 2012 under the Income-Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant Tax Deduction at Source provisions.

Solution:

Write the Principles. Refer Page No. 6.51, Question No. 76

Particulars	Allowability	Amount (Rs.)
(i) Payment of Professional Fees (TDS not Deducted)	NO	NIL
(ii) Interior Works (TDS of March paid on 30.06.2011)	YES	2,00,000
(iii) Factory Rent (TDS deducted but paid on 01.10.2011)	NO	NIL
(iv) Interest on Fixed Deposits (TDS on 31.12.2010 but paid on 28.09.2011)	YES	2,00,000
(v) Payment made to M/s Green & Co. (TDS not Deducted)	NO	NIL

Question 4 (c) 4 Marks

X & Co., is a service provider. It received Rs.19,80,000 during the Financial Year 2010-2011 after deduction of tax at source under Section 194 J of the Income-Tax Act, 1961.

The rate of tax deduction being 10% (i.e. after deduction of Rs.2,20,000).

(i) Calculate the Service Tax Liability of X & Co.
(ii) Can a multiple service provider use a single challan for payment of service tax for various services rendered by it?

Solution: Page No. 17.21, Question No. 53

Question 5 (a) 8 Marks

Mr. Raghu, Marketing Manager of KL Ltd. based at Mumbai furnishes you the following information for the year ended 31.03.2011:

Basic salary	- Rs.1,00,000 per month
Dearness Allowance	- Rs.50,000 per month
Bonus	- Rs. 2 Months basic salary
Contribution of employer to Recognised Provident Fund	@ 15% of basic salary plus Dearness Allowance

Rent Free Unfurnished Accommodation was provided by the Company at Mumbai (Accommodation owned by the Company).

Particulars	Rs.
(i) Recognised Provident Fund contribution made by Raghu	1,50,000
(ii) Health Insurance Premium for his family	20,000
(iii) Health Insurance Premium in respect of parents (senior citizens)	28,000
(iv) Medical expenses of dependent brother with 'Severe Disability' (covered by Section 2(o) of National Trust for Welfare of Persons with Autism, Cerebral Palsy, Mental Retardation and Multiple Disabilities Act, 1999).	60,000
(v) Interest on Loan taken for Education of his son studying B.Com (full-time) in a recognised College.	24,000
(vi) Interest on Loan taken for Education of a student for whom Mr. Raghu is the Legal guardian for pursuing B.Sc. (Physics) (full-time) in a recognised University.	20,000

Compute the total income of Mr. Raghu for the Assessment Year 2011 – 2012.

Solution:

Assessee: Mr. Raghu **Previous Year: 2010–2011** **Assessment Year: 2011–2012**

Computation of Total Income

	Particulars	Rs.	Rs.
	Basic Salary (Rs.1,00,000 × 12)		12,00,000
	Dearness Allowance (Rs.50,000 × 12) **[W.N. 1]**		6,00,000
	Bonus (Rs.1,00,000 × 2)		2,00,000
	Contribution to Provident Fund [(Rs.12,00,000 + Rs.6,00,000) × (15% – 12%)]		54,000
	Rent Free Unfurnished Accommodation **[W.N. 2]**		3,00,000
	Gross Salary/Gross Total Income		**23,54,000**
Less:	Deduction under Chapter VI–A U/s 80C – RPF (Amount Restricted u/s 80CCE to Rs.1,00,000)	1,00,000	

U/s 80D – Health Insurance Premium			
– Family (Restricted to a maximum of Rs.15,000)	15,000		
– Parents (Restricted to a maximum of Rs.20,000)	20,000	35,000	
U/s 80DD – Medical Expenses of Dependent Brother (Fixed Deduction)		1,00,000	
U/s 80E – Interest on Loan For Education of his son		24,000	
– Interest on Loan For Education of a student for whom the Assessee is a Legal Guardian (W.e.f 2010-2011, student for whom individual is a legal guardian is also eligible u/s 80E)		20,000	2,79,000
Total Income			**20,75,000**

Working Note:

2. Dearness Allowance is assumed to be considered for Retirement Purposes.
3. **Valuation of Rent Free Unfurnished Accommodation:**

Particulars	Amount	Amount
(a) Computation of Salary for Valuation of Accommodation Facilities		
Basic Salary		12,00,000
DA		6,00,000
Bonus		2,00,000
Salary for the purpose of valuation of Accommodation Facilities		**20,00,000**
(b) Computation of Taxable Unfurnished Accommodation		
15% of Salary (15% of Rs.20,00,000)	3,00,000	
Less: Rent recovered from employee	NIL	**3,00,000**

Question 5 (b) 4 Marks

State the conditions for deductibility of bad debt written off under the Income Tax Act, 1961.

Solution: Page No. 6.43, Question No. 71, Section 36(1)(vii)

Question 5 (c) 8 Marks

State how the Service Tax paid would be adjusted when the service is not provided either wholly or partially?

Solution: Page No. 17.22, Question No. 56

Question 6 (a) 12 Marks

State with reasons the taxability/deductibility of the following items in the context of Income-tax Act, 1961:

(i) Agriculture Income to a Resident of India from a Land situated in Malaysia.
(ii) Bad Debt written off & allowed in the Financial Year 2008–2009 of Rs.50,000 recovered in the Financial Year 2010–2011.
(iii) Allowance received by an Employee working in a Transport System at Rs.10,000 per Month to meet his personal expenditure while in duty. He is not receiving any Daily Allowance.
(iv) Amount withdrawn from Public Provident Fund as per relevant rules.
(v) Telephone provided at the Residence of Employee and the bill aggregating to Rs.25,000 paid by the Employer. Determine the Perquisite value taxable in the hands of Employee.
(vi) Payment of Rs.50,000 to an Electoral Trust by an Indian Company.

Assume that all the facts given above relate to Financial Year 2010-2011.

Solution:

Particulars	Taxability/Deductibility
1. Agricultural Income to a Resident of India from a land situated in Malaysia	U/s 2(1A), Agricultural Income should be derived from land situated in India & used for Agricultural purposes. Hence Taxable
2. Bad Debts written off and allowed in FY 2008-2009 and recovered in FY 2010-2011	All Assessees **including** Successor of business, recovery of Loss or Expenditure or trading liability which was already allowed, including remission or cessation of liability effected by a unilateral act shall be their deemed income. Hence taxable.
3. Allowance received by an employee working in Transport system to meet his personal expenditure while in duty.	Running Allowance is Taxable subject to Exemption u/s 10(14). The Exemption is Least of 70% of amount received or Rs.10,000 per Month. In this case Rs.84,000 (70% of Rs.1,20,000) is less than Rs.1,20,000 (Rs.10,000 × 12). Therefore, the taxable portion is Rs.36,000 (Rs.1,20,000 – Rs.84,000)
4. Amount withdrawn from Public Provident Fund	Exempt u/s 10(11)

5. Telephone provided at the residence of employee and bill paid by the employer.	Perquisite or benefit by way of telephone or mobile phones are fully exempt [Rule 3(7)(ix)]
6. Payment of Rs.50,000 to an Electoral Trust by Indian Company.	Voluntary contribution received by Electoral Trust is fully exempt. U/s 80GGB amount contributed to Electoral Trust (W.e.f. 2010-2011) is allowed as deduction.

Question 6 (b) 4 Marks

Raj and Co., a manufacturer of Product 'X' sold its goods to a distributor at Rs.11,250 inclusive of tax. The distributor sold the goods to wholesaler for Rs.13,500. The wholesaler sold the goods to a retailer for Rs.16,875. The retailer sold the goods to consumer at Rs.22,500. All the sales were inclusive of VAT @ 12.5%.

Compute the total VAT payable under the subtraction method.

Solution: **Page No. 18.12, Question No. 23**
Similar to Page No. 18.12, Question No. 24

Question 7 (a) 4 Marks

Explain the Tax treatment of Limited Liability Partnership under the Income Tax Act, 1961.

Solution: Page No. 7.13, Question No. 23

Question 7 (b) 4 Marks

Sachin received Rs.15,00,000 on 23.01.2011 on transfer of his Residential Building in a transaction of Reverse Mortgage under a scheme notified by the Central Government. The building was acquired in March 1991 for Rs.8,00,000.
Is the amount received on Reverse Mortgage chargeable to Tax in the hands of sachin under the head 'Capital Gains'?
Cost Inflation Index for the Financial Year 1990 – 91 = 182, Financial Year 2010 – 11 = 711.

Solution:
U/s 47(xvi), transfer of a Capital Asset in a transaction of Reverse Mortgage (W.e.f. 1.4.2008) is not a transfer provided the scheme is notified by the Central Government.
Conclusion: In the given case, transfer of Residential Building will not attract Capital Gain Tax.

Question 7 (c) 4 Marks

AB Co. Ltd allotted 1000 Sweat Equity Shares to Sri Chand in June 2010. The shares were allotted at Rs.200 per Share as against the fair market value of Rs.300 per Share on the date of exercise of Option by the allotted viz. Sri chand. The Fair Market Value was computed in accordance with the method prescribed under the Act.

(i) What is the Perquisite Value of Sweat Equity Shares allotted to Sri Chand?
(ii) In the case of subsequent sale of those Shares by Sri Chand, what would be the Cost of Acquisition of those Sweat Equity Shares?

Solution: **For Principle, refer Page NO. 4.22, Question No. 38**

(i) Perquisite = 1,000 Shares × (Rs.300 – Rs.200)
= Rs.1,00,000

(ii) Value of Security = FMV of the security / Sweat Equity Shares as on the date of Exercise of Option **Less:** Amount recovered from the Employee
Therefore value of Security = 1,000 Shares × Rs.300 = Rs.3,00,000.

Question 7 (d) 4 Marks

Discuss briefly on carry forward and set off of losses in the case of change in constitution of firm or on succession under Section 78 of the Income-tax Act, 1961.

Solution: Page No. 10.6, Question No. 6

Question 7 (e) 4 Marks

List out the merits of VAT.

Solution: Page No. 18.24, Question No. 51 (Only the Sub-Headings)