

Roll No.

PAGE NO. 8 of CA VIJAY GAURAV
BOOK

Total No. of Questions – 7

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

GDP

Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever appropriate, suitable assumption/s should be made by the candidate.

Working notes should form part of the answer.

All questions pertaining to the income tax relate to assessment year 2012-13, unless stated otherwise in the question.

Marks

1. (a) Ms. Purvi is a Chartered Accountant in practice. She maintains her accounts on cash basis. Her Income and Expenditure account for the year ended March 31, 2012 reads as follows : 10

Expenditure	₹	Income	₹	₹
Salary to staff	5,50,000	Fees earned :		
Stipend to articled assistants	37,000	Audit	7,88,000	
Incentive to articled assistants	3,000	Taxation services	5,40,300	
Office rent	24,000	Consultancy	2,70,000	15,98,300
Printing and stationery	22,000	Dividend on shares of Indian companies (Gross)		10,524
Meeting, seminar and conference	31,600	Income from unit Trust of India		7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers		15,800
Repair, maintenance and petrol of car	4,000	Rent received from residential flat let out		85,600
Travelling expenses	35,000			
Municipal tax paid in respect of house property	3,000			
Net Profit	9,28,224			
	17,17,824			17,17,824

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Other Information :

- (i) Allowable rate of depreciation on motor car is 15%.
- (ii) Value of benefits received from clients during the course of profession is ₹ 10,500.
- (iii) Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- (iv) Repairs and maintenances of car include ₹ 2,000 for the period from 1-10-2011 to 30-09-2012.
- (v) Salary include ₹ 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- (vi) The total travelling expenses incurred on foreign tour was ₹ 32,000 which was within the RBI norms.
- (vii) Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to ₹ 5,000 and ₹ 10,000 respectively paid in cash.
- (viii) She invested an amount of ₹ 10,000 in National Saving Certificate. Compute the total income and tax payable of Ms. Purvi for the assessment year 2012-2013.

- (b) Infotech software systems is an information technology software company. The receipts during financial year 2011-12 are as under :

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Particulars	₹
(i) Receipts for the analysis of information technology software.	1,80,000
(ii) Receipts for providing advice, consultancy and assistance on matter related to specifications to secure a database.	4,10,000
(iii) Receipts for providing the right to use the canned software on which the amount of excise duty has been paid and the benefit under Notification (No. 31/2010 Cus Dated 27-02-2010 has not been availed).	5,10,000

- (iv) Receipts for the upgradation of the information technology software. 2,65,000
- (v) Infotech software systems in the financial year 2010-11 has provided the taxable services valuing of ₹ 15,00,000.

Determine the value of taxable service and the amount of service tax, education cess and secondary and higher education cess payable by Infotech software systems for the financial year 2011-2012. The amount of service tax has been charged separately.

- (c) R. Ltd of Mumbai made a total purchases of input and capital goods of ₹ 60,00,000 during the month of February, 2012. The following further information is available. 5
- (i) Goods worth ₹ 15,00,000 were purchased from Assam on which C.S.T 2% was paid.
- (ii) The purchases made in February, 2012 include goods purchased from unregistered dealers amounting to ₹ 18,50,000.
- (iii) It purchased capital goods (not eligible for input credit) worth ₹ 6,50,000 and those eligible for input credit for ₹ 9,00,000.
- (iv) Sales made in Mumbai during the month of February, 2012 is ₹ 10,00,000 on which VAT at 12.5% is payable.

Assuming that all purchases given are exclusive of tax and VAT 4% is paid on them calculate :

- (a) the amount of purchases eligible for input credit.
- (b) the amount of input credit available for the month of February, 2012.
- (c) the VAT payable for the month of February, 2012.

The input VAT credit on eligible capital goods is available in 36 equal monthly instalments.

2. (a) Answer any **two** sub-parts out of **three** sub-parts of the question.

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- (i) Paras is resident of India. During the F.Y 2011-12 interest of ₹ 1,88,000 was credited to his Non-resident (External) Account with SBI. ₹ 30,000 being interest on fixed deposit with SBI was credited to his saving bank account during this period. He also earned ₹ 3,000 as interest on this saving account. Is Paras required to file return of income ?

What will be your answer, if he owns one shop in kerala having area of 150 sq. ft. ?

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Q No. 5

- (ii) Mr. Sharma has four children consisting 2 daughters and 2 sons. The annual income of 2 daughters were ₹ 9,000 and ₹ 4,500 and of sons were ₹ 6,200 and ₹ 4,300 respectively. The daughter who has income of ₹ 4,500 was suffering from a disability specified under section 80U. Compute the amount of income earned by minor children to be clubbed in hands of Mr. Sharma.

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- (iii) Explain the treatment of unrealized rent and its recovery in subsequent years under the provisions of Income Tax Act, 1961.

- (b) A Partnership Firm, gives the following particulars relating to the services provided to various clients by them for the half-year ended on 30-09-2011.

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- (i) Total Bills raised for ₹ 8,75,000 out of which bill for ₹ 75,000 was raised on an approved International Organization and payments of bills for ₹ 1,00,000 were not received till 30-09-11.
- (ii) Amount of ₹ 50,000 was received as an advance from XYZ Ltd. on 25-09-2011 to whom the services were to be provided in October, 2011. You are required to find out the :
- Taxable value of services
 - Amount of service tax and education cess and secondary and higher education cess payable.

- (c) Explain the consumption variant of VAT. Mention the reasons for the preference of this variant of VAT. 4

3. (a) Anshu transfers land and building on 02-01-2012 and furnishes the following informations. 8

Particulars	₹
(i) Net consideration received	14,00,000
(ii) Value adopted by Stamp Valuation Authority	16,00,000
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer	17,00,000
(iv) This land was acquired by Anshu on 1-04-1981. Fair Market value of the land as on 01-04-1981 was	1,10,000
(v) A Residential building was constructed on land by Anshu at cost of ₹ 3,20,000 (construction completed on 01-12-2002 during financial year 2003-04.)	
Short term capital loss incurred on sale of shares during financial Year 2007-08 b/f of ₹ 1,50,000.	

Anshu seeks your advice to the amount to be invested in NHAI bonds so as to be exempt from capital gain tax under Income Tax Act.

Cost inflation index for FY 1981-1982 = 100

Cost inflation index for FY 2002-2003 = 447

Cost inflation index for FY 2011-2012 = 785

- (b) Test the veracity of the following assertions with reference to the statutory provisions relating to service tax. Do not assign any reason for them. $8 \times \frac{1}{2} = 4$

- (a) Services provided by consulting engineers in computer hardware engineering and computer software engineering are not includible in their taxable services.

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- (b) Services provided to any person by a mandap keeper for the use of the precincts of a religious place as a mandap are not exempt from service tax.

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- (c) The following are the person(s) who provides scientific or technical consultancy service

- (i) a scientist
- (ii) a technocrat
- (iii) any engineering organisation

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- (d) Pre-school coaching institutions services are taxable.

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- (e) X-took certificate of practice with effect from 25-1-2012. He has to make an application for registration before 24-3-2012.

Pg 242

- (f) Small scale service provider who is claiming exemption of ₹ 10 lakh shall have to apply for registration where the aggregate value of taxable services exceeds ₹ 9 lakhs.

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- (g) Gross amount charged for taxable services includes only that amount received towards the taxable service which is received after the provision of such services.

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- (h) Service tax for the month of March or quarter ending March should be deposited by 5th April.

- (c) Test the veracity of the following assertions with reference to the statutory provisions relating to value added tax. Do not assign any reason for them.

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- (a) Input credit under VAT is available in respect of Central Sales Tax paid on purchases.

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- (b) VAT is leviable at the first stage of sale.

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- (c) Input credit is available in respect of customs duty paid on goods imported from a country outside India.

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- (d) Input credit is available only if the purchaser has obtained proper tax invoice.

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- (e) No registration is required under any VAT regime.

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(f) A trader can take credit of the inputs purchased by him only if he has obtained proper tax invoice from the valuer.

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(g) VAT is inflationary in nature.

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(h) White paper on State level VAT provides a framework for drafting various State VAT legislations.

4. (a) Mr. Y carries on his own business. An analysis of his trading and profit & loss

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for the year ended 31-3-2012 revealed the following information :

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(1) The net profit was ₹ 11,20,000.

(2) The following incomes were credited in the profit and loss account :

(a) Dividend from UTI ₹ 22,000.

(b) Interest on debentures ₹ 17,500.

(c) Winnings from races ₹ 15,000.

(3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were :

Opening stock ₹ 8,000.

Closing stock ₹ 12,000.

(4) ₹ 1,00,000 was debited in the profit and loss account being contribution to a University approved and notified under section 35(1) (ii).

(5) Salary includes ₹ 20,000 paid to his brother which is unreasonable to the extent of ₹ 2,500.

(6) Advertisement expenses include 15 gift packets of dry fruits costing ₹ 1,000 per packet presented to important customers.

(7) Total expenses on car was ₹ 78,000. The car was used both for business and personal purposes. $\frac{3}{4}$ th is for business purposes.

(8) Miscellaneous expenses included ₹ 30,000 paid to A & Co., a goods transport operator in cash on 31-1-2012 for distribution of the company's product to the warehouses.

- (9) Depreciation debited in the books was ₹ 55,000. Depreciation allowed as per IT rules was ₹ 50,000.
- (10) Drawing ₹ 10,000 .
- (11) Investment in NSC ₹ 15,000.

Compute the total income of Mr. Y for the assessment year 2012-13.

- (b) Punjabi Banquets is engaged in providing 'mandap keeper services'. For the month of January, 2012, it provided the following information : 4

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S. No.	Particulars	Amount ₹
(1)	Banquet hall let out for marriage function : The gross amount charged for banquet hall including catering charges (Catering charges have been separately indicated in the invoice).	6,00,000
(2)	Amount received for rooms let out for stay of guests attending the marriage.	40,000
(3)	Amount collected for letting out the hall for All India Dance Competition. No food was supplied alongwith it.	5,00,000
(4)	Mandap for shooting of marriage sequence of a Daily Soap Opera.	2,40,000

Compute the amount of service tax, education cess and secondary and higher education cess payable by Punjabi Banquets for the month of January, 2012.

Additional Informations :

- (1) Point of taxation in all the aforesaid case is January, 2012.
- (2) All the amounts stated above are exclusive of service tax.
- (3) Punjabi Banquets is not eligible for small service providers exemption under notification. No.6/2005ST dated 01-03-2005 for the financial year 2011-12.

- (c) Determine the liability of VAT of X for the month of December 2011 using 4

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invoice method of computation from the following data :

Purchase price of goods acquired from local market (including VAT)	₹ 52 lakhs
VAT rate on input	4 %
Transportation, insurance, warehousing and handling cost incurred by X	₹ 20,000
Goods sold at a profit margin	14 %
VAT rate on sales	12.50 %

5. (a) During the previous year 2011-12 the following transactions occurred in 8
respect of Mr. A.

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- (a) Mr. A had a fixed deposit of ₹ 5,00,000 in Bank of India. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2011 to 31-3-2012 to the savings bank account of Mr. B, son of his brother, to help him in his education.
- (b) Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of ₹ 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
- (c) Mr. A gifted a flat to Mrs. A on April 1, 2011. During the previous year the flat generated a net income of ₹ 52,000 to Mrs. A.
- (d) Mr. A gifted ₹ 2,00,000 to his minor son who invested the same in a business and he got a share income of ₹ 20,000 from the investment.

- (e) Mr. A's minor son derived an income of ₹ 20,000 through a business activity involving application of his skill and talent.

During the year Mr. A got a monthly pension of ₹ 10,000. He had no other income. Mrs. A received salary of ₹ 20,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. A, Mrs. A and their minor child.

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- (b) What are the documents to be attached by a service provider alongwith an application for registration under service tax ? 4

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- (c) (i) What are the different variants of VAT and how is deduction available for tax paid on inputs including capital inputs ? 2

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- (ii) What are the different stages of VAT ? Can it be said that the entire burden falls on the final consumer ? 2

Q=19

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6. (a) MNP Ltd. commenced operations of the business of a new four-star hotel in Chennai on 1-4-2011. The company incurred capital expenditure of ₹ 40 lakh during the period January, 2011 to March, 2011 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2011. Further, during the Previous Year 2011-12, it incurred capital expenditure of ₹ 2.5 crore (out of which ₹ 1 crore was for acquisition of land) exclusively for the above business. Compute the income under the heading "profits and gains of business or profession" for the assessment year 2012-13, assuming that MNP Ltd. has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C.-Deductions in respect of certain incomes". The profits from the business of running this hotel (before claiming deduction under section 35AD) for the assessment year 2012-13 is ₹ 80 lakhs. Assume that the company also has another existing business of running a four-star hotel in Kanpur, which commenced operations 5 years back, the profits from which was ₹ 130 lakhs for assessment year 2012-13. 8

- (b) Avinash is a qualified Chartered Accountant. He acquired the certificate of practice from the ICAI in May, 2010. For the financial year 2011-12 his receipts (including service tax) are as follows : 4

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Particulars	Amount ₹
Services rendered in tax planning	50,000
Representation of client before CESTAT	40,000
Preparation of financial statements of XYZ Ltd.	4,00,000
Certification of documents under Export and Import policy of Government of India.	1,50,000
Receipts for the legal advice given to clients in the month of December, 2011.	50,000

In the financial year 2010-11 he has provided the value of taxable service of value of ₹ 11,00,000.

Using the above information, calculate the value of taxable services for the financial year 2011-2012.

- (c) Ms. Pragya, a dealer submits the following information. Compute the net VAT liability from the following information : 4

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	₹
Import of raw material (including 10% import duty)	1,10,000
Raw material purchased from Kerala. (including excise duty @ 12%)	2,24,000
VAT @ 4 % on the above purchase	
Raw material purchased from Karnataka	85,000
Transportation and manufacturing expenses	47,000

Pragya sold entire stock to Nishu at a profit of 10 % on the cost of production.

VAT rate on such sale is 4%.

Q=13

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7. (a) Mr. Mohit is employed with XY Ltd. on a basic salary of ₹ 10,000 p.m. He is also entitled to Dearness allowance @ 100% of basic salary, 50% of which is included in salary as per terms of employment. The company gives him house rent allowance of ₹ 6,000 p.m. which was increased to ₹ 7,000 p.m with effect from 1-1-2012. He also got an increment of ₹ 1,000 p.m. in his basic salary with effect from 1-02-2012. Rent paid by him during the previous year 2011-2012 is as under :

April and May, 2011	– Nil, as he stayed with his parents
June to October, 2011	– ₹ 6,000 p.m for an accommodation in Ghaziabad.
November, 2011 to March, 2012	– ₹ 8,000 p.m for an accommodation in Delhi.

Compute his gross salary for assessment year 2012-13.

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- (b) Mention the due dates for filing of service tax returns. Can an assessee submit a revised return ? 4

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- (c) Briefly explain the system of cross checking under VAT Act. 4