MOCK TEST PAPER FOR IPCC/PCC NOVEMBER 2012 EXAMS

This is 84 Marks Question Paper designed to give an idea to the Students about the Paper Pattern

[Students should not panic on seeing the Question paper and Solutions. The intention should be to cover or go through these solutions. Sometimes at the IPCC level the questions of Final level/advanced questions are asked. That's why it would be good enough to go through these solutions instead of getting depressed. This would be helpful for students even if the question paper in exam is tough. The questions of Service Tax and VAT are however very relevant for a good preparation of these two very important chapters.]

Answer all questions

Question 1:(a) With respect to the recent amendments state whether the following statements are True/False, with detail reason.

i) Central Government has the power to exempt certain persons from filing of return of income tax.

ii) Income of Competition Commission of India shall be exempted.

iii) A retired members of UPSC liable to pay tax on all allowances and perquisites received from Government.

iv) Income of an Infrastructure debt fund referred u/s. 10(47) shall be taxable under the head "other sources"

v) Interest on post office saving bank is fully exempted from tax u/s. 10(15) without any limit. **[5 Marks]**

Question 1(b): Mr. B draws a basic salary of Rs. 5,00,000 p.a. from his employer. His employer gives him an option either to take House Rent allowance of Rs. 10,000 p.m.[Rent paid 12,000 p.m.] or a Rent free Accommodation. Discuss. **[5 Marks]**

Question 1(c): Discuss the following w.r.t recent amendments under Service Tax .

i) Export of service ; ii) Unlimited Adjustment of excess service tax paid is now possible. **[5 Marks]**

Question 1(d): The particulars regarding sale, purchase etc. for the last quarter of the year 2011-12 are as under:

	Amount (₹)
(1) Purchases of Raw material within the state	
(i) taxable @1%	40,00,000
(ii) taxable @ 4%	60,00,000
(iii) taxable @ 12.5%	10,00,000
(2) Sale of goods manufactured from raw material purchased @ 4% tax rate	
(i) Taxable Intra state sale (tax rate 4%)	20,00,000
(ii) Exempted Intra State Sale	10,00,000
(iii) Sale in the course of Inter-state trade or Commerce (tax rate 4%)	10,00,000
(3) Sale of raw material purchased @ 1% tax rate	44,00,000

(4) Goods manufactured from the raw material purchased @ 12.5% tax rate were given on lease. The deemed sale price of such goods is ₹ 12,00,000, taxable @12.5%.

You may assume that input credit of tax on raw material used in manufacture of leased goods is available immediately.

Compute the amount of Value Added Tax (VAT) payable.

There was no opening or closing inventory

How can he utilise the balance of input tax credit available, if any? **[5 marks]**

Question 2: Mrs. Maheshwari, engaged in business. Her Profit & Loss Account for the year ended 31/3/2012 reads as follows:

Expenses	**Amount**	**Income**	**Amount**
Salaries to Paid Staff	4,25,000	Gross profit	18,37,600
Donation to Electoral Trust	24,000		
Interest on loan	56,000		
Advance Tax	1,00,000		
Postage and telegram	1,89,000		
Depreciation	29,500		
Travelling Expenses	55,000		
Net Profits	9,59,100		
	18,37,600		**18,37,600**

Other information:

1. The Advance tax shown above was paid on 15/3/2012.

The following items were not credited/debited to Income and Expenditure Account
2. During the year Maheshwari has also earned ₹ 2,00,000 from business in USA which was received there.
3. On 1/10/2011 she sold her personal furniture for ₹ 1,00,000 purchased in 2009-10 for ₹ 80,000. She received a LCD TV set worth ₹90,000 as gift from her Mother- in -Law on 1/1/2012.
4. Maheshwari contributed ₹ 80,000 to pension fund of New Pension Trust

From the following information you are required to
(i)Compute tax liability of Mrs. Maheshwari who is resident but not ordinarily resident
(ii) State whether any advance tax is payable and if yes, what is the amount payable. Compute amount payable or refundable after taking into account interest U/s 234A, 234B and 234C assuming return was filed on 10/7/2012 and all taxes were paid on that date. **[5+3 = 8 Marks]**

Question 2(b): VAT is regressive. Comment **[4 Marks]**

Question 2(c): Initial booking amount received 50 lakhs on 1.7.2012. It was agreed that ₹ 120 lakh and ₹ 80 lakh would be received on completion of 50% and 100% of the construction work of the building as certified by the Chartered Engineer. Determine the point of taxation in respect of each of following stages of completion with the help the relevant details furnished thereunder:

Stage	% of completion of the building	Date of completion	Date of issuance of invoice	Date of payment entry in books	Date of credit in bank A/c.
I	50%	15.8.2012	01.09.2012	10.09.2012	11.09.2012
II	100%	20.9 2012	01.11.2012	5.11.2012	06.11.2012

Question 3(a):Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2012. The Receipts and payments account of 2011-12 of her is as under :

To		By	
Balance B/f :	10,000	Purchase of commercial vehicle	4,00,000
Receipts from sale of Medicine	2,50,000	(Before 30 Sep. 2011)	
Consultation fee	50,000	Drawing	2,50,000
Visiting fee	2,00,000	Deposit in bank for 5 years	1,50,000
Lecturers	5,000	Surgical instrument purchased	
Family pension	2,80,000	Before 30 Sep. 2011	50,000
Saving bank interest	1,000	Instalment of loan paid	
Loan from bank	3,00,000	(including interest ₹ 22,333)	1,21,000
Share from HUF	50,000	Medical insurance premium	32,000
Agriculture income	1,00,000	Instalment of housing loan	
Income from lottery	35,000	(Principal component ₹ 48,000)	1,08,000
(net after deduction of		Advance tax paid	20,000
TDS @ 30%)		Purchase of medicine	47,000
		Payment for medical journal	5,000
		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 10,00,000 out of which 6,00,000 was still due. She got it refinanced from SBI on 01.04.10 at the rate of10%. One fourth portion of the house is used for clinic purposes. (WDV as on 1.4.2011 ₹ 2,82,430)

(ii) She invested in term deposit 1,50,000 in Bank of Baroda on 01.07.11 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 2011 at 4,00,000. A loan of 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 16,000 and for her mother 16,000. Her mother is dependent on her.

Compute Total Income and Tax liability. **[8 Marks]**

Question 3(b): Discuss the following with respect to recent amendments in service tax: (Attempt any two questions)
i) Define aggregate value under Small Service Provider.
ii) Discuss the tax treatment when small excess amount received in excess of invoice amount.
iii) Excise Officer now has the power to determine the Point of Taxation when other rules are not applicable. **[4 Marks]**

Question 3(c): Mr. X is a registered dealer under VAT. During the year he purchased and sold the goods as under:
(a) Purchase of goods for ₹ 5,00,000 within Maharashtra [excluding VAT]. Half the goods were sold in Rajasthan for ₹ 6,00,000 and half the goods were sold intra state for ₹ 6,00,000.

(b) Purchase of goods for ₹ 4,00,000 within West Bengal [excluding VAT]. Half the goods were sold in Rajasthan for ₹ 1,00,000 and half the goods were sold intra state for ₹ 8,00,000. **[4 marks]**

Question 4(a): Mr. Chatterbox has commenced a new business of manufacturing chemicals and introduced the following assets in his business on 1/4/2011:

	Date of Purchase	Historical Cost	Market Value on 1/4/2011
Personal Car	10/6/2007	2,00,000	3,00,000
Personal Building	10/8/2009	4,00,000	5,00,000

Besides above, he had purchased a Plant and Machinery on 1/7/2011 for ₹ 6,00,000. Compute depreciation Claim for P.Y. 2011-12. [8 Marks]

Question 4(b): X Ltd. is a distributor of lottery tickets and requests you to compute service tax under composition scheme for April 2012.

Particulars	**Printed Lottery Scheme**	**Online Scheme**
Gross face Value of tickets printed	₹ 400 lacs	₹ 600 lacs
Gross face value of lottery tickets sold	₹ 300 lacs	₹ 500 lacs
Payout ratio	85%	75%

[4 Marks]

Question 4(c): Compute VAT payable under Tax Credit method, Addition Method and under Subtraction Method from the following given that Profit is 20% of Total Cost

Intra State Purchases	₹ 5,00,000 [excluding VAT @ 12.5%]
Processing Charges	₹ 2,00,000
Wages	₹ 1,00,000
Other Admn, S & D and Transport Costs	₹ 50,000

[4 Marks]

Question 5(a): Ms. V purchased 10,000 equity shares of R Pvt. Ltd. on 28-2-2006 for ₹1, 20, 000. The company was wound up on 31-7-2011. The following is the summarized financial position of the company as on 31-7-2011:

Liabilities	**₹**	**Assets**	**₹**
60, 000 Equity Shares	6, 00, 000	Agricultural land	45, 50, 000
General reserve	39, 50, 000	(Market Value ₹ 63.5 lacs)	
(after payment of CDT)			
	45, 50, 000		45, 50, 000

Discuss the tax consequences in the hands of the company and Ms. V for the AY 2012-13. **[8]**

Question 5(b): **State the applicable rate of service tax from the following:**
1. Date of invoice 25/3/2012 ; 2. Date when payment recorded in books 25/3/2012;
3. Date when service provided 5/4/2012
4. Date when cheque credited in bank account 10/4/2012 **[4 Marks]**

Question 5 (c): State what are the **documents required to be submitted by the assessee along with FORM ST-1?** **[4 Marks]**

Solution to Test paper

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Answer 1 (a):

Answer to Question 1(a):

i) True – w.e.f 1.6.2011 The Govt has exempted employees whose total income consisting salary income and Bank interest (max ₹10,000) does not exceed ₹ 5,00,000 and the employer has deducted entire amount as tax at source and neither any tax is payable or refundable.

ii) **True: Following Specified income** of t**he Competition Commission of India is exempted:**
(a) amount received in the form of Government grants;
(b) fee received under the Competition Act, 2002; and
(c) interest income accrued on Government grants and interest accrued on fee received under the Competition Act, 2002.

iii) False- The Finance Act, 2011 inserted section 10(45) w.r.e.f. A.Y 2008-09, which provides exemption in respect of specified allowances and perquisites paid to the retired Chairman or any other member or retired member of the UPSC:

Accordingly, the following allowances and perquisites are specified by the Central Government for exemption:

For retired chairman and retired members of UPSC –
(a) a sum of maximum ₹ 14,000 per month for defraying the service of an orderly and for meeting expenses incurred towards secretarial assistance on contract basis.

(b) the value of residential telephone free of cost and the number of free calls to the extent of ₹ 1500 p.m (over and above free calls per month allowed by the telephone authority).

iv) False - Section 10(47) [w.e.f 1.6.2011]: any income of an infrastructure debt fund, set up in accordance with the guidelines as may be prescribed, which is notified by the Central Government in the Official Gazette for the purposes of this clause, shall be fully exempted.

v) False: Interest on Post Savings Bank U/s 10(15) shall **be exempted to the extent of ₹ 3500 in case of Individual account and ₹ 7000 in case of a Joint account.**

Answer to Q. 1(b):
Sir's Note : **This is a very advanced question. Whether the assessee shall opt for HRA or RFA will be decided by cash inflows and a cash flow statement will be prepared for it**

(1) Computation of Tax liability

		Option 1 HRA	Option 2 RFA
		-----------	-----------
(1) Basic Salary		500000	500000
(2) HRA received	120000		

Exemption u/s.10(13A):
Least of the followings-

a) Amount Received 120000				
b) Rent paid (-) 10 % of salary 94000				
c) 40% of 5,00,000 200000	94000		26000	-
Perquisite value of RFA (15% of 5,00,000)			-	75000
Salaries / Gross Total Income/ Total income			526000	575000

Tax on Total Income

Up to 180000	-----	------
Next 320000 @ 10 %	32000	32000
Balance @ 20%	5200	15000
	37200	47000
EC/ SHEC @ 3%	1116	1410
	38316	48410
Rounding Off	38320	48410

(2)Cash Flow Statement

	Option (1) (HRA)	Option (2) (RFA)
Basic Salary	500000	500000
HRA Recd	120000	-----
Rent Paid	(144000)	------
Tax Paid	(38320)	(48410)
Net Cash inflow:	437680	451590

Since Net cash inflow is higher in option 2, therefore option 2 is better. The assessee shall opt for RFA.

Answer to Q. 1(c): i) (a) Export of service is exempted. **However, where export proceedings has not been received within time prescribed by RBI then service Tax shall be payable as per the time limit prescribed under Rule 6(1) of Service Tax rules, 1994. [w.e.f 1.4.2012]**

(b) REFUND TO EXPORTER IN RESEPCT OF SERVCIE TAX PAID FOR EXPORTED GOODS.
Notification No. 52/2011-Service Tax, dated 30-12-2011This notification Supersede the earlier notification No. 17/2009
(1) Exporter can claim refund of service tax paid in relation to **specified services** received for exported goods
Condition:-
1. The exporter claiming the exemption should have actually paid the service tax on the specified service to its provider.
2. No CENVAT credit of service tax paid shall be taken under the CENVAT Credit Rules, 2004.
3. The claim for refund shall be filed within one year from **the date of export** of the said goods.
4. Minimum amount of refund is ₹ 50.

Manner of claiming refund: electronically or on the basis of documents.

ii) Refer amendment Sheets.

Answer to Q. 1(d):

Computation of VAT /CST payable

	VAT	CST

Output VAT/CST:

Sale of goods manufactured from raw material purchased @ 4% tax rate

	VAT	CST
(i) Intra state sale @ 4% of ₹ 20,00,000	80,000	NA
(ii) Exempted Intra State Sale -	NIL	NA
(iii) Inter-state trade or Commerce @ 4% of ₹ 10,00,000	NA	40,000
Sale of raw material purchased @ 1% of 44,00,000	44,000	NA
Goods sold on lease –		
lease is a deemed sales, hence liable to VAT @ 12.5% on 12,00,000	1,50,000	
	2,74,000	40,000
Less: Input tax credit (refer Note 1)	**2,74,000**	**40,000**
VAT/CST payable	NIL	NIL

Note 1: Input Tax credit

	₹
Purchases of Raw material within the state	
(i) taxable @ 1% of ₹ 40,00,000 =	40,000
(ii) taxable @ 4% of 60,00,000 = 2,40,000 x $\frac{30,00,000}{40,00,000}$	1,80,000
Being proportionate credit not allowed for exempted goods	
(iii) taxable @ 12.5% of ₹ 10,00,000	1,25,000
	3,45,000
Less: Set off for output VAT payable	**2,74,000**
	71,000
Less: Set off CST payable	**40,000**
Balance credit	31,000

(can be carried forward to 1 to 2 years or claim that refund in the same year depending on law of the State)

Solution 2 (a): Computation of Total income of Mrs. Maheswari for the P.Y 2011-12(A.Y 2012-13)

	Amount (₹)	**Amount (₹)**
(I)Income under the head Business/profession		
a) Business carried on in India		
Net profit as per P/L Account		9,59,100
Add: Item not allowed or treated separately but debited to P/L		
Donation to electoral trust	24,000	
Advance Tax –not allowed as it is Income tax	1,00,000	1,24,000
Income from business in India		10,83,100
b) Income from business carried on in USA- Since she is a resident and not ordinarily resident of India, therefore business Income of USA is not taxable .		NIL
income under the head Business/profession		**10,83,100**
(II) Capital gains		**NIL**
Since personal furniture is a "personal movable effects" therefore not a capital asset for the purpose of Capital gains. Hence, No Capital gain arises on transfer of such assets.		
(III) Other sources		**NIL**
Gift in kind received from relative is not taxable u/s. 56(2)(vii). Further, LCD TV is also not a Property as defined under the said section. Hence, nothing taxable under the head other sources.		
Gross Total income (I+II+III)		**10,83,100**
Less: Deduction under Chapter VIA		

U/s. 80CCD- amount contributed or 10% of GTI-lower		80,000
U/s. 80GGC- Donation to electoral trust – 100% of amount donated		24,000
Total Income		**9,79,100**

Tax on Total Income

Up to190000	NIL
Next 310000 @ 10 %	31000
Next 300000 @20%	60000
Balance 179100 @ 30%	53730
	1,44,730
EC/ SHEC @ 3%	4,342
	1,49,072
Rounding Off	1,49,070
Less: Advance tax paid	1,00,000
Balance tax payable	49,070
Add: Interest u/s. 234B @ 1% p.m for 4months on ₹ 49,000	1960
Interest u/s. 234C (Note 4)	4,513
Tax payable including Interest	**55,543**
Rounded off	**55,540**

Note:

(1) Assuming depreciation as per books is also depreciation as per IT rules it has not been added back as in the question depreciation as per Income Tax Act is not given.

(2) Computation of interest u/s. 234C for short fall

Due dates	Amount Reqd. to pay	Actual payment	shortfall	interest charged
15th September – 30%	44,700	Nil	44,700	44,700@ 3%= 1341
15th December – 60%	89,400	Nil	89,400	89,400@ 3% = 2682
15th March 100%	1,49,000	1,00,000	49,000	49,000 @1% = 490
Interest u/s. 234C				**4513**

(5) Since return is filed within the due date i.e, before 31/7/2011. Therefore, Interest u/s. 234A shall not be chargeable.

Solution 2(b): Refer ICAI study material.

Solution 2 (c): Initial Booking amount: since it is received as an advance therefore it is taxable as when received. Hence the point of taxation shall be 1.7.2012. [Rule 3 of POT Rules, 2011]

Stage 1: Since invoice is issued within 30 days from the date of completion of event in terms of contract i.e., in the given case is 15.8.2012, therefore the point of taxation shall be date of invoice or date of entry in books or date of credit in bank A/c.; whichever is earlier. Hence, in the given case 1.9.2012 is the Point of taxation. [proviso to Rule 3 of POT Rules, 2011]

Stage 2: Since invoice is not issued within 30 days from the date of completion of event in terms of contract i.e., in the given case is 20.9.2012, therefore the point of taxation shall be date of completion of service or date of entry in books or date of credit in bank A/c.; whichever is earlier. Hence, in the given case 20.9.2012 is the Point of taxation. [proviso to Rules 3 of POT Rules, 2011]

Solution 3(a): Computation of total income of Dr. Shuba for A.Y. 2011-12

Particulars	**₹**	**₹**

Income from house property:

Annual value of self-occupied house	Nil	
Less: Interest on loan [₹45,000, being [3/4th of ₹60,000] (Restricted to ₹30,000)	(30,000)	(30,000)

Income from profession:

Sale of medicine	2,50,000	
Consultation fees	50,000	
Visiting fee	2,00,000	
Total income (a)	**5,00,000**	
Less: Expenses		
Medicine purchases	47,000	
Medical journal	5,000	
Depreciation-		
Surgical instrument (15% of ₹50,000)	7,500	
Vehicle (3/4th of 15% of ₹4,00,000)	45,000	
On House (1/4 10% of 2,82,430)	7,061	
Vehicle expenses (3/4th)	37,500	
Interest on loan (3/4th)	16,750	
Interest on housing loan(1/4th)	15,000	
Total expenses (b)	**1,80,811**	
Income from profession (a-b)		3,19, 189

Income from other sources

Family Pension		2,80,000	
Less : 33. 1/3% or ₹15,000 whichever is lower		15,000	
		2,65,000	
Lecture fees		5,000	
Savings bank interest		1,000	
Interest on bank FD in the name of minor daughter			
[1,50,000 x 9% x 9/12]	10,125		
Less: Exempt u/s 10(32)	1,500	8,625	
Winnings from lottery		50,000	3,29,625
Gross Total Income			6,18,814

Less: Deductions under Chapter VI-A		
U/s. 80C Repayment of housing loan (48,000 x 3/4)		36,000
U/s. 80D		
Medical Insurance Premium:		
Own (₹16,000 restricted to ₹15,000)	15,000	
Mother (Senior Citizen, hence fully allowed since premium is less than ₹20,000)	16,000	31,000
Total income		**5,51,814**
Add: Agricultural Income for rate purpose		1,00,000
Rounded off		6,51,810

Tax on Total Income

At special rate on winning from lotteries @ 30% of 50,000		15,000
At normal rate on ₹ 6,01,810		
Up to ₹ 2,50,000	NIL	
Next 2,50,000 @ 10%	2,500	

Balance 1,01,810 @ 20%	20,362	22,862
		37,862
Less: Tax on ₹ (1,00,000 + 2,50,000)		
Upto 2,50,000 NIL		
Balance ₹ 1,00,000 @ 10%		10,000
		27,862
Add: EC and SHEC @ 3%		836
		28,698
Rounded off		28,700

Notes:

(1) Since the residential house was constructed before 01.04.1999,the deduction for interest is restricted to ₹30,000.

(2) Since 1/4th portion of house is used for business purposes, therefore, 1/4th share of interest paid is deductible while computing business income.

(3) Term deposit of ₹1,50,000 in the name of minor daughter does not qualify for deduction under section 80C. However, principal repayment of housing loan (3/4th) would qualify for deduction under section 80C. Therefore, the deduction under section 80C would be ₹36,000 (i.e. 3/4th of ₹48,000).

Answer 3(b): Refer Amendment sheet.

Answer 3(c): Particulars	**VAT**	**CST**
1) VAT/CST payable in Maharashtra		
Output VAT/CST on sale	66,667 (12.5/112.5 x 6,00,000)	11,765 (2/102 x 6,00,000)
Less: Input VAT on purchase (5,00,000 x 12.5%)	62,500	NIL
Net VAT/CST payable in the state of Maharashtra	**4,167**	**11,765**
2) VAT/CST payable in West Bengal		
Output VAT/CST on sale	88,889 (12.5/112.5 x 8,00,000)	1,961 (2/102 x 1,00,000)
Less: Input VAT on purchase (4,00,000 x 12.5%)	50,000	NIL
Net VAT/CST payable in the state of Maharashtra	**38,889**	**1,961**

(Assuming VAT rate is @ 12.5% both at the time of purchase and sale. Further, it is assumed in case of inter-state sale goods are sold to registered dealer through C Form, therefore the rate of CST is considered as 2%. Also assumed that the sale figures are including taxes. Students can make different assumption)

Answer to Q. 4(a):

Sir's Note:- This question is from special cases of depreciation. Students should first refer page 99 Question 22 and 23 and then see this solution]

Computation of depreciation of Mr. Chatterbox for P.Y. 2011-12 (A.Y. 2012-13)

Particulars	Amount(₹)	Amount(₹)
Block 1: Plant & Machinery (rate 15%)		
Opening WDV		NIL

Add:

(1) Car introduced in business from personal purpose at Historical cost [01/04/2011]	200000	
(2) P&M purchased on [01/07/2011]	600000	800000
Closing WDV (before depreciation)		800000

Depreciation

Normal depreciation

15% on Rs 800000	120000
Additional depreciation (since engaged in manufacturing business) 20% on ₹ 600000/-	120000
Total depreciation	240000

Block -2: Building [10% Rate]

Opening WDV	NIL
Add: Personal Bldg introduced to Business [Refer W. N. 1]	324000
Closing WDV before depreciation:	324000
Depreciation @ 10%	32400

Total Depreciation (Block 1 + Block 2) = ₹ 2,72,400

Working Note 1

On 10/08/09 original cost	400000
Less: depreciation 10%	40000
On 01/04/10 WDV	360000
Less: depreciation 10 %	36000
01/04/2011 WDV =>	324000

[Even though the building was residential building the depreciation of earlier years is provided considering the rate which is applicable when asset is introduced to business. Refer pg 96 Explanation 5]

Solution 4(b):

For printed ticket scheme we consider face value of tickets printed = (₹ 7000/10 lacs) x ₹ 400 lacs =	₹ 280000
For Online scheme we consider face value of tickets sold = ₹ (11000/10lacs) x ₹ 500 lacs =	₹ 550000
Service Tax =	₹ 830000
Add: EC and SHEC 3%	₹ 24900
Total Service Tax =	**₹ 854900**

Solution 4 (c):

Particulars	**Tax credit Method**	**Addition Method**
Purchases	5,00,000	**5,62,500**
Value addition		
wages	1,00,000	1,00,000
Processing charges	2,00,000	2,00,000
Admin, selling & Dist. Exp	50,000	50,000
Profit @ 20% on Total Cost	1,70,000	1,70,000
	10,20,000	5,20,000
Add: VAT @ 12.5%	1,27,500	65,000(12.5% on 5,20,000)
Selling Price	11,47,500	11,47,500
Output Vat	1,27,500	
Less: Input VAT (5,00,000 x 12.5%)	62,500	
Net VAT payable	65,000	

Note: Even while calculating profit under Addition Method purchases should be taken at 5,00,000.

Subtraction method

Selling Price (including VAT)	11,47,500
Less: Purchase (including VAT)	5,62,500
Value addition including VAT	5,85,000

VAT = 12.5/112.5 X 5,85,000 = ₹ 65,000.

Answer to Qustion 5(a):
Sir's Note: This is a final level question. You may ask me that why I have set the question in your paper. Every term there are some final level advanced questions being asked in your paper. I consider it as relevant for your term.

Solution: **Tax treatment in the hands of Company [Refer chapter of Taxation of dividend]**
The company has accumulated profits of ₹ 39,50,000. The company is distributing all its assets to shareholders and distribution to the extent of accumulated profits is deemed dividend. Hence the company will be liable to pay Corporate dividend Tax at applicable rate.

Tax treatment for shareholders
Since the company goes into liquidation the ownership of shares will be extinguished. There will be capital gain in the hands of shareholder for transfer of shares.

The shareholder holds 10,000 equity shares of the total 60,000 shares and therefore his voting right is $1/6^{th}$. The total distribution to the shareholders will be $1/6^{th}$ of ₹ 63,50,000 = ₹ 10,58,333.

Total amount received by shareholder	₹ 10,58,333
Less: Dividend Exempted U/s 10(34) $1/6^{th}$ of Rs. 39,50,000	₹ 6,58,333
Amount received for transfer of Shares	₹ 4,00,000
Less: Indexed Cost of Acquisition [1,20,000 x 785/497]	₹ 1,89,537
Taxable Long term capital Gain	₹ 2,10,463

Answer 5(b): The date of payment shall be the date of credit in the bank account when, the following condition is satisfied -

(i) there is a change in effective rate of tax or when a service is taxed for the first time during the period between such entry in books of accounts and its credit in the bank account; and
In this case the date when payment recorded in books is 25/3/2012 and credit is 10/4/2012

(ii) the credit in the bank account is after four working days from the date when there is change in effective rate of tax or a service is taxed for the first time; and
In this the date of credit in bank account is 10/4/2012 i.e. After 4 days from 1/4/2012

(iii) the payment is made by way of an instrument which is credited to a bank account,
In this case payment is by way of cheque.

Accordingly, in this case the date of payment shall be 10/4/2012. Applicable rate of service tax shall be 12.36%.

Answer 5(c): The CBEC may, by an order specify the documents which are to be submitted by the assessee along with FORM ST-1 within such period, as may be specified in the said order. [Amendment w.e.f. 19-10-2011] Rule 4(1A) of Service Tax Rules, 1994

Accordingly the following document is specified by CBEC vide its order No. 2 dated 13.12.2011

(a) Copy of Permanent Account Number (PAN)
(b) Proof of Residence
(c) Constitution of the Applicant.
(d) Power of Attorney in respect of authorised person (s).

It is further stated that the above documents must be submitted to the concerned authority within a period of 15 days from the date of filing of the application for registration. Failure to do so would lead to rejection of the registration application.

Note: Service tax is not chargeable on delayed payment charges collected by stock broker.