

IPCC TAX PAPER MAY 2012

Total No of Questions-7

Time allowed-3Hours

Max Marks - 100

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 5 questions from the remaining 6 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 AY 2012-13, unless stated otherwise.

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 Marks]**

Expenditure	Rs.	Income	Rs.
Salary to staff	5,50,000	<u>Fees earned:</u>	
Stipend to articles assistants	37,000	Audit	7,88,000
Incentives to articles assistants	3,000	Taxation service	5,40,300
Office rent	24,000	Consultancy	2,70,000
Printing and stationery	22,000	Dividend on shares of indian companies	10,524
Confreneces and exp	31,600	Income from UTI	7,600
Purchase of car	80,000	Honorarium received from various institutions for valuation of answer papers	15,800
Repairs of car	4,000	Rent recd from let out house property	85,600
Travelling exp	35,000		
Municipal taxes paid in respect of house property	3,000		
Net Profit	9,28,224		
	17,17,824		17,17,824

Other Information:

- Allowable rate of depreciation on motor car is 15%.
- Value of benefits received from clients during the course of profession is Rs. 10,500.
- Incentives to articled assistants represent amount paid to two articled assistants for passing IPCC Examination at first attempt.
- Repairs and maintenances of car include Rs. 2,000 for the period from 1-10-2011 to 30-09-2012.
- Salary includes Rs. 30,000 to a computer specialist in cash for assisting Ms. Purvi in one professional assignment.
- The total travelling expenses incurred on foreign tour was Rs. 32,000 which was within the RBI norms.
- Medical Insurance Premium on the health of dependent brother and major son dependent on her amounts to Rs. 5,000 and Rs. 10,000 respectively paid in cash.
- She invested an amount of Rs. 10,000 in NSC.

Compute the Total Income and tax payable of Ms. Purvi for the AY 2012-2013.

Solution:

PGBP: $9,28,224 - 12,000 + 10,500 + 30,000 + 80,000 + 3,000 - 10,524 - 7,600 - 15,800 - 85,600$
 $= 9,20,200$

IOS: 15,800

IHP: 57,820

GROSS TOTAL INCOME: 9,93,820

TOTAL INCOME = 9,93,820 – 10,000 = 9,83,820.

TAX PAYABLE: 1,50,530

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

- | | |
|--|----------|
| (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 <u>2010-11</u> has provided the taxable services valuing of Rs. 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. **[5 Marks]**

Solution: Value of taxable services: 1,80,000 + 4,10,000 + 2,65,000 = 8,55,000

ST Payable: 88,065

(c) R. Ltd of Mumbai made a total purchases of input and capital goods of Rs. 60,00,000 during the month of Feb, 2012. The following further information is available.

- Goods worth Rs. 15,00,000 were purchased from Assam on which C.S.T 2% was paid.
- The purchases made in Feb, 2012 include goods purchased from unregistered dealers amounting to Rs. 18,50,000.
- It purchased capital goods (not eligible for input credit) worth Rs. 6,50,000 and those eligible for input credit for Rs. 9,00,000.
- Sales made in Mumbai during the month of February, 2012 is Rs. 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:

- the amount of purchases eligible for input credit.
- the amount of input credit available for the month of February, 2012.
- the VAT payable for the month of Feb, 2012.

The input VAT credit on eligible capital goods is available in 36 equal monthly instalments. **[5 M]**

Solution: Purchase eligible for Input credit : 20,00,000

Input credit available for Feb 2012

Capital Goods: 9L X 4% X 1/36 = 1,000

Other purchase : 11L X 4% = 44,000 : 45,000

Vat payable : Output vat (1,25,000) – Input VAT (45,000) = 80,000

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

- Paras is resident of India. During the F.Y 2011-12 interest of Rs. 1,88,000 was credited to his Non-resident (External) Account with SBI. Rs. 30,000 being interest on fixed deposit with SBI was

credited to his saving bank account during this period. He also earned Rs. 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?

Solution: Yes, he is required to file ROI as per Sec 139(1).

(ii) Mr. Sharma has 4 children consisting 2 daughters and 2 sons. The annual income of 2 daughters is Rs. 9,000 and Rs. 4,500 and of sons were Rs. 6,200 and 4,300 respectively. The daughter who has income of Rs. 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.

Solution: $9,000 + 6,200 + 4,300 - (1,500 \times 3) = 15,000$

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

2. (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

(i) Total Bills raised for Rs. 8,75,000 out of which bill for Rs. 75,000 was raised on an approved International Organization and payments of bills for Rs. 1,00,000 were not received till 30-09-11.

(ii) Amount of Rs. 50,000 was received as an advance from XYZ Ltd. on 25-09-2011 to whom the services were to be provided in Oct, 2011. You are required to find out the:

(a) Taxable value of services

Ans: 8,50,000

(b) Amount of service tax payable.

Ans: 87,550

Note: Assume advance received is exclusive of service tax.

2(c) Explain the consumption variant of VAT. Mention the reasons for the preference of this variant. [4Marks].

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

Particulars	Rs.
(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 Rs. 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 Rs. 1,50,000.	
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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

[8 Marks]

Solution:

LTCG	1,74,531
B/f STCG	<u>(1,50,000)</u>
Balance taxable LTCG	<u>24,531</u>

Amount to be invested in NHAI Bonds : 24,531

(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 X ½ = 4Marks]

1. Services provided by consulting engineers in computer hardware engineering and computer software engineering are not includible in their taxable services. - **False**

2. 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. - **False**

3. The following are the person(s) who provides scientific or technical consultancy service

(i) a scientist

(ii) a technocrat

(iii) any **engineering** organization - **False**

4. Pre-school coaching institutions services are taxable. - **False**

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

6. Small scale service provider who is claiming exemption of Rs. 10 lakh shall have to apply for registration where the aggregate value of taxable services exceeds Rs. 9 lakhs. - **True**

7. Gross amount charged for taxable services includes only that amount received towards the taxable service which is received after the provision of such services. - **False**

8. Service tax for the month of March or quarter ending March should be deposited by 5th April. - **False**

(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. [8 X ½ = 4Marks]

1. Input credit under VAT is available in respect of Central Sales Tax paid on purchases - **False**

2. VAT is leviable at the first stage of sale - **False**

3. Input credit is available in respect of customs duty paid on goods imported from a country outside India - **False**

4. Input credit is available only if the purchaser has obtained proper tax Invoice - **True**

5. No registration is required under any VAT regime - **False**

6. A trader can take credit of the inputs purchased by him only if he has obtained proper tax invoice from the valuer - **False**

7. VAT is inflationary in nature - **False**

8. White paper on State level VAT provides a framework for drafting various State VAT legislations - **True**

4 (a) Mr. Y carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2012 revealed the following information:

(1) The net profit was Rs. 11,20,000.

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

(a) Dividend from UTI Rs. 22,000.

(b) Intt on debentures Rs. 17,500.

(c) Winnings from races Rs. 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 Rs. 8,000.

Closing stock Rs. 12,000.

(4) Rs. 1,00,000 was debited in the P&L A/c being contribution to a University approved and notified u/s 35(1) (ii).

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

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

(7) Total expenses on car was Rs.78,000. The car was used both for business and personal purposes. 3/4th is for business purposes.

(8) Miscellaneous expenses included Rs. 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 Rs. 55,000. Depreciation allowed as per IT rules was Rs. 50,000.

(10) Drawing Rs. 10,000.

(11) Investment in NSC Rs. 15,000.

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

[8 Marks]

Solution:	PGBP	-	10,46,500
	IOS	-	32,500
	GTI	-	10,79,000
	Less: NSC		<u>(15,000)</u>
	TI	-	<u>10,64,000</u>

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

S.N. 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 service tax payable by Punjabi Banquets for the month of Jan, 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 SSP exemption under N/N 06/2005 [4Marks]

Solution: Value of taxable services: $[6,00,000 - 40\%] + 40,000 + 5,00,000 = 9,00,000$

Service tax payable: $90,000 + 3\% \text{ Cess} = 92,700.$

(c) Determine the VAT liability of X for the month of Dec'2011 using invoice method of computation from the following data:

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

Solution:

Input VAT	-	2L
Output VAT	-	Sales of Rs. 57,22,800 X 12.5% = 7,15,350
VAT Payable	-	5,15,350

5. (a) During the PY 2011-12 the following transactions occurred in respect of Mr. A:

1. Mr. A had a fixed deposit of Rs. 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.
 2. Mr. A holds 75% share in a partnership firm. Mrs. A received a commission of Rs. 25,000 from the firm for promoting the sales of the firm. Mrs. A possesses no technical or professional qualification.
 3. Mr. A gifted a flat to Mrs. A on April 1, 2011. During the previous year the flat generated a net income of Rs. 52,000 to Mrs. A.
 4. Mr. A gifted Rs. 2,00,000 to his minor son who invested the same in a business and he got a share income of Rs. 20,000 from the investment.
 5. Mr. A's minor son derived an income of Rs. 20,000 through a business activity involving application of his skill and talent.
- During the year Mr. A got a monthly pension of Rs. 10,000. He had no other income. Mrs. A received salary of Rs. 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. [8 Marks]

Solution: Mr. A: $45,000 + 25,000 + 52,000 + (20,000 - 1,500) + 1,20,000 = 2,60,500$

Mrs. A : 2,40,000

Minor Son: 20,000

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

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

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

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 Rs. 40L during the period Jan, 2011 to Mar, 2011 exclusively for the above business and capitalized the same in its books of account as on 1st Apr, 2011. Further, during the PY 2011-12, it incurred capital expenditure of Rs. 2.5 cr (out of which Rs. 1cr was for acquisition of land) exclusively for the above business.

The profits from the business of running this hotel (before claiming deduction u/s 35AD) for the AY 2012-13 is Rs. 80L. 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 Rs. 130L for AY 2012-13. Compute total income. [8 Marks]

Solution: TI - Rs. 20,00,000

(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:

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 Rs. 11L. Using the above information, calculate the value of taxable services for the year 2011-2012. [4M]

Solution: Value of Taxable services: $6,90,000 / 110.3 \times 100 = 6,25,567$

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

Import of raw material (including 10% import duty)	1,10,000
Raw material purchased from Kerala (incl. 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%. [4 Marks]

Solution:	Purchase of Raw material (incl import duty)	1,10,000
	Purchase of Raw material (excl excise duty)	2,00,000
	Inter state purchase from Karnataka	85,000
	Total cost of raw material	3,95,000
	Add: Cost of transportation & Mfg Exp	47,000
	Cost of production	4,42,000
	Add: profit @10%	44,200
	Sale price	4,86,200
	Output VAT (4,86,200 X 4%)	19,448
	Input VAT (2,24,000 X 4%)	8,960
	VAT Payable	10,488

7. (a) Mr. Mohit is employed with XY Ltd. on a basic salary of Rs. 10,000 p.m. He is also entitled to DA@ 100% of basic salary (Half forming). The company gives him HRA of Rs. 6,000 p.m. which was increased to Rs. 7,000 p.m w.e.f. 1-1-2012. He also got an increment of Rs. 1,000 p.m. in his basic salary w.e.f. 1-02-2012. Rent paid by him during the PY 2011-2012 is as under:

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

Compute his gross salary for AY 2012-13.

[8 Marks]

Solution: Gross Salary : 2,65,300

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

(c) Briefly explain the system of cross checking under VAT Act. **[4 Marks]**