

Test Series: October, 2013

MOCK TEST PAPER – 2
INTERMEDIATE (IPC): GROUP – I
PAPER – 4 : TAXATION

Question 1 is compulsory.

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

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) Dr. Siddharth, a resident individual at Mangalore, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2013 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	9,70,000	By Consultation and Medical charges	24,00,000
To Staff salary	5,75,000		
To Clinic consumables	1,85,000	By Income-tax refund (principal ₹ 16,000, interest ₹ 2,000)	18,000
To Rent paid	1,55,000		
To Administrative expenses	3,20,000		
To Donation to IIT Kanpur for Research approved under section 35(2AA)	80,000	By Dividend from Indian companies	25,000
		By Winning from lottery (Net of TDS)	35,000
To Net Profit	<u>2,51,000</u>	By Rent	<u>58,000</u>
	<u>25,36,000</u>		<u>25,36,000</u>

- (i) Rent paid includes ₹ 45,000 paid by cheque towards rent for his residence.
- (ii) Clinic equipments are:
- 01.04.2012 Opening WDV ₹ 3,00,000
- 26.12.2012 Acquired (cost) ₹ 1,10,000
- (iii) Rent received relates to property let out at Mangalore. Gross Annual Value ₹ 58,000. The municipal tax of ₹ 12,000, paid in January 2013 has been included in "administrative expenses".
- (iv) Dr. Siddharth availed a loan of ₹ 6,00,000 from a bank for higher education of his son. He repaid principal of ₹ 80,000, and interest thereon ₹ 75,000 during the year 2012-13.

- (v) He paid ₹ 65,000 as tuition fee to the university for full time education of his daughter.

From the above, compute the total income of Dr. Siddharth for the assessment year 2013-14. (10 Marks)

- (b) M/s Rohini, an advertising agency furnishes the following information relating to services provided during the quarter ending 31.03.2013:-

Services rendered	Amount (₹)
Aerial bill-boards	64,000
Sale of time for advertisement to be broadcast on TV Channel	1,10,000
Advertisement via banner at public places	87,000
Services related to preparation of advertisement	95,000
Sale of space for advertisement in newspaper	78,000
Sale of time for advertisement to be broadcast on FM Radio	55,000
Canvassing advertisement for publishing on a commission basis	25,000

Compute the value of taxable service and the service tax liability of Rohini Advertising agency for the quarter ending 31.03.2013.

Notes:

- Point of taxation for all the aforesaid cases falls during the quarter ending 31.03.2013.
 - All the charges stated above are exclusive of service tax.
 - Rohini Advertising agency is not eligible for small service providers' exemption under *Notification No. 33/2012 – ST dated 20.06.2012*. (5 Marks)
- (c) Bestop Enterprises is a dealer in Gujarat and deals in consumer goods. It submits the following information pertaining to the month of April, 2013:
- Exempt goods 'X' purchased for ₹ 3,00,000 and sold for ₹ 3,50,000.
 - Goods 'Y' purchased for ₹ 3,25,000 (excluding VAT) and sold at a margin of 10% profit on purchase value (Input and output VAT rate is 12.5%).
 - Goods 'Z' purchased for ₹ 4,00,000 (excluding VAT) and sold for ₹ 6,50,000 (Input and output VAT rate is 4%);
 - His unutilized balance of VAT input credit on 01.04.2013 was ₹ 5,500.

Compute the turnover, input VAT, output VAT and net VAT payable by Bestop Enterprises. (5 Marks)

2. (a) Mr. Chandan, a Credit Manager of Beta Ltd, furnishes you with the following information for the year ended 31.03.2013:

- Basic salary ₹ 6,500 per month
- Dearness Allowance ₹ 2,200 per month (30% forms part of retirement benefit)
- Commission as a percentage of turnover 1%
- Turnover during the year ₹ 4,00,000
- An unfurnished accommodation in Delhi, taken on lease rent of ₹ 1,500 per month by Beta Ltd. was provided to Mr. Chandan. Mr. Chandan is required to pay a rent of ₹ 1,000 per month to the company, for the use of this accommodation. The company allotted the house to him on 1.05.2012, but he occupied the same from 1.11.2012.
- Gift voucher of ₹ 5,000 given on the occasion of his marriage anniversary.
- Company reimbursed the medical treatment bill amounting to ₹ 25,000 of his brother, who is wholly dependent on him.
- An Alto which is owned by Beta Ltd. was given to Mr. Chandan, to be used both for official and personal purpose. All running and maintenance expenses are fully met by the employer. He is also provided with a chauffeur.
- Mr. Chandan has paid medical insurance premium:
In cash - ₹ 2,000
In cheque- ₹ 3,200
- Professional tax paid ₹ 5,000 (₹ 2,000 was paid by his employer).

Compute the total income of Mr. Chandan for the A.Y. 2013-14. (8 Marks)

- (b) State whether the following statements are true or false giving reasons to substantiate your answer:
- (i) The rate of service tax shall be rate in force on the date of receipt of payment for the taxable services.
 - (ii) Services provided by RBI are not chargeable to service tax.
 - (iii) Provision of service by an employee to the employer is outside the ambit of service tax.
 - (iv) Duties performed by Members of Parliament and State Legislatures are liable to service tax. (4 × 1 = 4 Marks)
- (c) "It is said that VAT is a logical beauty. Further, the greatest advantage of the system is that it does not interfere in the choice of decision for purchases." Discuss the validity of the statement (4 Marks)
3. (a) Mr. Khurana, a citizen of the U.S.A., is a resident and ordinarily resident in India during the financial year 2012-13. He owns a house property at Phoenix, U.S.A.,

which is used as his residence. The annual value of the house is \$18,000. The value of one USD (\$) may be taken as ₹ 63.

He took ownership and possession of a flat in Surat on 1.6.2012, which is used for self-occupation, while he is in India. The flat was used by him for 8 months only during the year ended 31.3.2013. The municipal valuation is ₹ 40,000 p.m. and the fair rent is ₹ 4,50,000 p.a. He paid municipal tax of ₹ 17,400 during the year.

He had taken a loan from ICICI Bank for purchasing this flat. Interest on loan was as under:

	₹
Period prior to 1.4.2012	39,200
1.4.2012 to 31.5.2012	42,000
1.6.2012 to 31.3.2013	1,50,100

He had a house property in Warangal, which was sold in March, 2011. In respect of this house, he received arrears of rent of ₹ 88,000 in March, 2013. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mr. Khurana for the assessment year 2013-14, exercising the most beneficial option available. (8 Marks)

- (b) According to Section 65B (44) the term "service", inter alia, means any activity carried out by a person for another for consideration. In this context, explain the meaning of monetary consideration as well as non-monetary consideration?

(4 Marks)

- (c) Mr. Vivek Gupta is a trader selling raw materials to a manufacturer of finished products. He imports his stock in trade as well as purchases the same from the local markets. Following transaction took place during financial year 2012-13:-

Calculate the VAT and invoice value charged by him to a manufacturer. Assume the rate of VAT @ 12.50%:

		₹
(1)	Cost of imported materials (from other State) excluding tax	2,00,000
(2)	Cost of local materials including VAT	2,25,000
(3)	Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	90,000

(4 Marks)

4. (a) Shikha is engaged in various types of activities, gives the following particulars of her income for the year ended 31.3.2013:

	Particulars	₹
(a)	Profit of business of consumer and house-hold products	50,000
(b)	Loss of business of readymade garments	10,000
(c)	Brought forward loss of catering business which was closed in A.Y. 2012-13	15,000
(d)	Short-term capital loss on sale of securities and shares	15,000
(e)	Profit of speculative transactions entered into during the year	12,500
(f)	Loss of speculative transactions of A.Y.2008-09 not set off till A.Y. 2012-13	15,000

Compute the total income of Shikha for the A.Y. 2013-14. (5 Marks)

- (b) Saurabh is a resident of India. During the F.Y. 2012-13, interest of ₹ 2,00,000 was credited to his Non-resident (External) Account with SBI. Saurabh has been permitted by RBI to maintain the aforesaid account. ₹ 51,000, being interest on fixed deposit with SBI, was credited to his saving bank account during this period. He also earned ₹ 7,500 as interest on this saving account. Is Saurabh required to file return of income?

What will be your answer, if he owns one shop in Cochin having area of 170 sq. ft.?

(3 Marks)

- (c) Mahajan Consultancy Ltd. provides management consultancy services to its client Rati Industries for agreed consideration of ₹ 8,90,000. Rati Industries makes the payment on 15th February, 2013. However, the date of completion of service is 5th February, 2013. Determine the point of taxation if the relevant invoice for ₹ 8,90,000 is raised by Mahajan Consultancy Ltd. on:

CASE I 20th February, 2013

CASE II 6th March, 2013

CASE III 10th February, 2013

(4 Marks)

- (d) Jeet Mishra purchases goods for ₹ 5,00,000 (excluding VAT). He incurs manufacturing and transport expenses of ₹ 25,000 and sold these goods at a profit margin of ₹ 30,000. Compute the invoice value to be charged and amount of VAT payable by him assuming that the rate of VAT on purchases and sales is 12.5%.

(4 Marks)

5. (a) Mr. Suri is having a trading business and his Trading and Profit & Loss Account for the financial year 2012-13 is as under:

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	95,000	By Sales	85,00,000
To Purchase	50,00,000	By Closing stock	30,000
To Gross profit	<u>34,35,000</u>		
Total	<u>85,30,000</u>	Total	<u>85,30,000</u>
Salary to employees (Including Contribution to PF)	5,50,000	By Gross Profit b/d	34,35,000
Donation to Prime Minister Relief Fund	80,000		
Provision for bad debts	45,000		
Bonus to employees	55,000		
Interest on bank loan	55,000		
Family planning expenditure incurred on employees	28,000		
Depreciation	18,000		
Income-tax	1,20,000		
To Net profit	<u>24,84,000</u>		
Total	<u>34,35,000</u>	Total	<u>34,35,000</u>

Other information:

- Depreciation allowable ₹ 28,000 as per Income-tax Rules, 1962.
- No deduction of tax at source on payment of interest on bank loan has been made.
- Payment of bonus to workers made in the month of October, 2012 on the occasion of Diwali festival.
- Out of salary, ₹ 29,000 pertains to his contributions to recognized provident fund which was deposited after the due date of filing return of income.
- Further, employees contribution of ₹ 26,000 was also deposited after the due date of filing return of income.

Calculate the income of Mr. Suri chargeable under the head "Profits and gains of business or profession" for the Assessment Year 2013-14. (8 Marks)

- (b) Mrs Neelam Goyal, an assessee wants to adjust ₹ 2,60,000, the excess payment of service tax against her liability of service tax for the subsequent periods. Can she do so? What is the condition to be satisfied for it? (4 Marks)

- (c) Which variant of VAT is most widely used in the world? Mention the reasons for the preference of this variant of VAT. (4 Marks)
6. (a) Mr. Shobhit, a landlord, derived income from rent from letting of house property to Praveen Corporation Ltd. at ₹ 1,40,000 per month for a period of 6 months. He charged service tax @ 12.36% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by Praveen Corporation Ltd. on payment made to Mr. Shobhit. (4 Marks)
- (b) Determine the residential status as per the Income-tax Act, 1961 for the assessment year 2013-14 in following cases:
- (i) Mr. Foogy, a British citizen, has visited India for 90 days during every financial year for the past 10 years.
- (ii) Ms. Madhu left India for the first time on 20.08.2012 after her marriage, to Italy. She is a home maker and not in employment. (2 x 2 = 4 Marks)
- (c) A customer gets US \$ 1,80,000 converted into UK £ 90,000. RBI reference rate at that time for US \$ is ₹ 45 per US dollar and for UK £ is ₹ 80 per UK pound. Compute the value of taxable service as per rule 2B of the Service Tax (Determination of Value) Rules, 2006. (4 Marks)
- (d) State with reasons whether the following are true or false in the context of VAT as per White Paper:
- (i) Taxpayer's Identification Number (TIN) is a 10 digit alpha numeral.
- (ii) No declaration form is prescribed under VAT system. (2 x 2 = 4 Marks)
7. (a) Specify the persons who are authorized to sign and verify under section 140, the return of income filed under section 139 of the Income-tax Act, 1961 in the case of:
- (i) Local authority;
- (ii) Association of persons, and
- (iii) Limited Liability Partnership (LLP). (3 Marks)
- (b) Mr. Ashutosh furnishes the following particulars for the financial year 2012-13:

	Particulars	₹
(i)	Rent from let out residential house	2,40,000
(ii)	Arrears of rent received consequent to court decree (Entire amount relates to the preceding financial year 2010-11)	60,000
(iii)	Net income from growing of bamboo	90,000
(iv)	Subsidy from rubber board for replacement of rubber plants	4,00,000
(v)	He manufactured latex from rubber plants grown in India. Cost of growing rubber plants ₹ 7 lakh, expenditure for	

	manufacture of latex ₹ 5 lakh. Entire latex sold for ₹ 16 lakh	
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Compute his total income for the assessment year 2013-14. (5 Marks)

- (c) Tascum Private Limited is engaged in providing the taxable services. Compute the value of taxable service and the service tax payable by it in the month of March, 2013 from the information furnished below:-

Receipts	Amount (₹)
Advances received from clients for which no service has been rendered so far	8,00,000
Demurrage charges recovered for use of the services beyond the agreed period	50,000
Security deposits forfeited for damages done by service receiver owing to his negligence in the course of receiving a service	5,00,000

Besides, the above receipts, one of the clients-ABC Ltd. made a payment of ₹ 1,50,000 (out of which ₹ 25,000 were paid extra by mistake). However, Tascum Private Limited refused to return the excess payment received.

Note: Tascum Private Limited is not eligible for small service providers' exemption under *Notification No. 33/2012 – ST dated 20.06.2012*. (4 Marks)

- (d) Aarav Private limited furnishes you the following information:

Raw material purchased ₹ 6,00,000 plus VAT @4%.

Manufacturing expenses (revenue nature) ₹ 2,25,000.

Sale price ₹ 9,00,000 plus VAT @ 4%.

Plant & machinery acquired ₹ 2,50,000 plus VAT @ 4% eligible for input tax credit in the year of acquisition itself.

Compute VAT liability under :

- gross product variant.
- consumption variant.

State which variant is beneficial to the dealer?

(4 Marks)