CA IPCC Taxation Nov 2014 solutions (Both Direct and Indirect taxes)

Compiled by

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This questions were solved by me under examination conditions within 2 hours 40 minutes and later on typed adding solution to Choice question.

Question1

(a) 10 Marks

Computation of Total Income of Devnash AY 2014-15

	Rs
Income from House property (WN1)	102,900
Income from Business (WN2)	55,600
Capital gains (WN3)	220,000
Income from Other Sources (WN 4)	179,000
Gross Total income	557,500
Less: deductions from GTI	
80 C- 300000 x15% (Restricting to 15% of sum assured	45,000
Total Income	512,500
Tax on above	
on LTCG 220000 x20%	44,000
On Other income Rs.292500 at slab rates	9,250
	53,250
Add: EC 3%	1,598
Total tax payable	54,848
Less TDs on Debenture interest	400
Net Tax payable	54,448

Working notes	
Income from House Property WN1	
Annual Value	165,000
Less: Municipal taxes -36000 x1/2	18,000
Net Annual Value	147,000
Less: Deduction u/s 24	
Standard deduction 30%	44,100
	102,900
Income from business WN2	
Particulars	Rs
Net Profit as per PL Account	132,200
Add: Items not allowed/disallowances	
Fire insurance- 10000 x75%	7,500
income tax and wealth tax	27,000
House hold expenses	42,500

Municipal taxes-36000 x75%	27,000
Repairs and mainantaince-24000x75%	18,000
(Assume relating to house property)	
	254,200
less: items not taxable under business	
Cash gifts received taxable under IFOS	120,000
Interest on debentures taxable under IFOS	3,600
Additional deduction for contribution to SR	75,000
Income from business	55,600
Income from Capital gains WN 3	
Sale of 5000 Bonus shares	220,000
Less Index Cost of Acquisition	NIL
Long term Capital gains	220,000
Income from Other sources WN 3	
Cash gift from non-relatives- Below Rs.50000	Not taxable
Debenture interest Gross	4,000
Interest on post office savings	exempt
Vacant site (2,80,000-105000)	175,000
	179,000

(b)

Computation of Service tax payable Mr. Shaksham Air Travel Agent	
Under normal provisions	6 marks
Basic air fare collected for domestic booking of tickets	Not taxable
Basic air fare collected for international booking of tickets	Not taxable
Commission received from the airlines on the sale	1,200,000
tickets	
Service tax @12.36%	148,320
Service tax payable Under Optional scheme	
Basic air fare collected for domestic booking of tickets	
4500000 x 0.6%	27,000
Basic air fare collected for international booking of tickets	
9000000x1.2%	108,000
	135,000
Education cess-3%	4,050
Service tax payable	139,050
Commission received from the airlines on the	
sale of tickets is not taxable under optional scheme	
By Choosing optional scheme ST liability is reduced.	

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Computation of Customs duty payable	4 marks

Assessable value	400,000
Basic customs duty-10% on above	40,000
	440,000
CVD @ 16% on above	70,400
Education cess 3% on BCD +CVD	3,312
Landing cost in India	513,712
Special CVD @4% on above	20,548
Total Customs duty payable	134,260
Importer can avail cenvat credit on CVD Rs.70400 and 3%	
Education Cess on this and Special CVD Rs.20548	

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Question 2 (a)

Computation of Total Income of Mrs. Geetha and Mrs Leena
8 marks

Particulars	**Geetha**	**Leena**
	Non Resident	**Resident and**
		Ordinarily
		Resident
Income from Profession in Malasia and set up in India		-
Profit from Business in Delhi	40,000	-
Rent from Property in Malasia- Not taxable	-	-
Dividend from PQR Company -Exempt	-	-
Dividend from Malasian company received in Malasia- Not taxable	-	8,000
Cash gift received on birth day	-	51,000
Agricultural income for land in Maharashtra- Exempt	-	-
Past untaxed income brought to India- Not taxable in AY 14-15	-	-
Fee for technical Services in India	25,000	-
Income from Business in Pune	12,000	5,000
Interest on Debentures in Indian Company	18,500	14,000
Short term Capital gain	15,000	25,500
Interest on SB Account	12,000	8,000
Gross total Income	122,500	111,500
Less Deduction u/s 80 C		30,000
Deduction u/s 80TTA SB Interest	10,000	8,000
Total income	**112,500**	**73,500**

(b)

Computation of Service tax payable by ABC Limited		5 marks
Particulars	Rs	Rs
Taxable Value of Services during January 2014		1,800,000

Less: Services not taxable		
Betting (negative list of service	100,000	
Service to Associated enterprise (reverse charge)	175,000	
Services in the state of J & K	150,000	
		425,000
Taxable value of service		1,375,000
Service tax payable - 1375000 x 12.36/112.36		151,255

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Determination of Taxable turnover and CST payable		3 marks
Total Turnover		4,500,000
Add: Freight Not shown separately		80,000
		4,580,000
Less: Deductions		
Goods returned within 6 months (assumed included in sales)	45,000	
Good Rejected (Assumed included in sales)	30,000	75,000
		4,425,000
taxable turnover- 44,25,000x 100/102		4,338,235
CST Payable -44,25,000 x 2/102		86,765

Question 3

(a) Computation of Deduction for Bad debts for Schedule bank		4 marks
Particulars	Rs in lakhs	Rs in lakhs
Bad debts written of in the books of accounts		210
Less:		
Current year provision		
7.5% od Gross total income - 800x 7.5%	60	
10% of Aggregate Rural advances- 300 x10%	30	
total provision for bad and doubtful debts	90	
Credit balance of Provision for bad and doubt full debts	100	190
Deduction available for bad debts to be written off in AY 2013-15		20

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(ii)		4 marks
Computation of Total income of charitable Trust		
Income from Voluntary contributions	1,920,000	
Income from Property held under trust	816,000	
	2,736,000	
Less: Income set apart -15%	410,400	
85% of the income to be applied for Objects	2,325,600	

Less: Income set apart for construction of hospital (Accumulation)		1,400,000
Income to be applied for objects during the PY 2013-14		925,600
Less: Income applied for objects		
Income spend for charitable purposes	850000	
donation to public trust	84560	934,560
		(8,960)
Taxable income		NIL
Note: corpus trust donations Rs.1300000 is not an income.		

(b)	4 marks
Computation of Cenvat Credit available	
Particulars	Cenvat Credit
	Available
Dumpers- capital goods	106,000
Electronic Transformer-Capital goods-	40,000
Refrigerator in office- Not a Capital goods	
diesel used in dumper- not an input	
Car for employees - not a capital goods for construction service	
Trucks for transportation- Capital goods	15,000
total Cenvat Credit available	161,000
Cenvat Credit available in the first year - 50%	80,500
Cenvat Credit available in the Second year - 50%	80,500

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Computation of Assessable Value for excise		4 marks
Particulars	Rs	Rs
total invoice Value including taxes	55000	
Less: Vat	5500	49,500
Add: Inclusions		
Packing charges		1200
Assessable Value		50,700
excise duty- 6%		3042
Education Cess- 3%		91
Total Excise duty payable		3133
Note: It is assumed that issuance and freight not included in invoice price		

Alternative solution

Assume invoice price includes insurance and freight		
Particulars	Rs	Rs
total invoice Value including taxes		55000
Less: exclusions		
State Vat	5500	
Insurance charges	275	
Outward freight	2100	7875
Add: Inclusions		47125

Packing charges		1200
Assessable Value		48325
excise duty- 6%		2900
Education Cess- 3%		87
Total Excise duty payable		2986

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Question 4 (a)	
Computation of income from Salary of Mr. Anand AY 2014-15	8 marks
Particulars	Rs
Basic salary @Rs 80000 Per month	720,000
Bonus	36,000
House Rent allowance WN 1	117,000
Employer contribution to PF 110000	
Less: 12% of the basic salary - 720000x 12% = 86400	23,600
Pension @ Rs.8000 for 3 months	24,000
taxable Gratuity WN 2	1,051,640
Taxable computed Value of pension WN 3	400,000
Gross Salary	2,372,240
Less Deduction u/s 16	
Profession tax	2,000
Taxable Salary	2,370,240

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WN 1 Computation taxable HRA	
Particulars	Rs
Actual HRA Received	135,000
Less: Exempt lease of below	
(a)Actual HRA Received 135000	
(b)50% of salary-720000x50% - -360000	
© Rent paid-105 of salary	
(10000 x9) -(720000x10%) 18000	18,000
	117,000
WN2 Computation of Taxable Gratuity	
Particulars	Rs
Actual Gratuity Received	2,051,640
Less: Exempt lease of below	
(a) Actual Gratuity Received - 2151640	
(b) 15/26 x 34 x 80000 = 1569231	
© Maximum Limit 1000000	1,000,000
	1,051,640
WN 3 Computation of Taxable Commuted pension	
full commuted value of pension- 450000 x100/75	600,000
Less: Exemption - 1/3 of commuted Value	200,000
taxable commuted pension	400,000
Note: Accumulated balance in Provident fund is exempt from tax	

(b)

Determination of Point of Taxation of Mr. Vineet	4 marks
Particulars	Point of taxation
Advance Rs. 1,00,000 (Date of receipt of payment)	05/04/2013
Remaining Amount Rs.1,50,000	10/04/2013
(Invoice not issued within 30 days hence date of Completion of service)	
Alternative: when the Service becomes taxable from 01/06/2013	
Service is not taxable since the service was completed and Invoice	
was issued before date when the service become taxable	

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Determination of Vat Liability of M/s vividha and co		4 marks
Particulars	**Rs**	**Rs**
Output tax payable on Local state Sales		
40,00,0000 x 10%		400,000
Less:		
Input tax Credit on purchases		
from Register dealers- 26,00,000 x 4%	104,000	
Opening balance of input credit	20,000	124,000
Net Output tax payable		276,000
Note: No input tax credit on		
1. Purchases from dealer opting for composition scheme		
2.Purchases from Outside state		

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Question 5

(a)

Computation of Depreciation as if no conversion	4 marks
Particulars	Depreciation
Block I- Plant and Machinery- 12,00,000 X 15%	180000
Block II Building-25,00,0000 X 10%	250000
Depreciation on additions purchased on Dec 2013	
Plant and Machinery- 10,00,000 x 15% x1/2	75000

Allocation of Depreciation Between Gopi and Gopi (Pvt) Limited		
Particulars	**Gopi**	**Gopi P Ltd**
Block I plant and Machinery		
for Gopi- from		
01.04.2013 to 30.06.2013- 91 days - 1,80,000 x 91/365	44,877	
for Gopi- Pvt Ltd from -		

01.07.2013 to 31.03.2014-274 days- 1,80,000 x 274/365		135,123
Block II Building		
for Gopi- from		
01.04.2013 to 30.06.2013- 91 days - 2,50,000 x 91/365	62,329	
for Gopi- Pvt Ltd from -		
01.07.2013 to 31.03.2014-274 days- 2,50,000 x 274/365		187,671
Additions : Plant and Machinery		75,000
Total Depreciation	107,205	397,795

(ii)

Specified business u/s 35AD

(1) setting up and operating a cold chain facility;

(2) setting up and operating a warehousing facility for storage of agricultural produce;

(3) building and operating, anywhere in India, a hospital with at least 100 beds for patients;

(4) Developing and building a housing project under a scheme for affordable housing framed by the Central Government or a State Government. Such scheme should be notified by the CBDT in accordance with the prescribed guidelines

Fiscal incentives

I. The above specified businesses" would be eligible for weighted deduction@150º/ of the capital expenditure (including capital expenditure incurred before commencement of operations and capitalized in the books of account on the date of commencement of operations) under section (IA), if they commence operations on or after 1st April, 2012

II. Capital expenditure, for this purpose, shall not include any expenditure incurred on the acquisition of any land or goodwill or financial instrument

(b) (i) 2 marks

- Not all services provided by an employee to the employer are outside the ambit of services.
- Only services that are provided by the employee to the employer in the course of employment are outside the ambit of services.
- Services provided outside the ambit of employment for a consideration would be a service.
- For example, if an employee provides his services on contract basis to an associate company of the employer, then this would be treated as provision of service.

(b) (ii) 2 Marks

Services provided on contract basis by a person to another:

Services provided on contract basis i.e. principal-to-principal basis are not services provided in the course of employment. Hence service is taxable

Services provided by a casual worker to employer who gives wages on daily basis to the worker.

These are services provided by the worker in the course of employment. Hence service is not taxable

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(c) 4 marks

(i) The statement is correct. Cost of freight or delivery is includible only if, (a)it is NOT shown separately in an invoice or (b)Contract is for sale FOR destination and property in goods is transferred only at destination.
(ii) The Statement is incorrect. Government subsidies - Where a product is 'controlled' and has to be sold at 'controlled price' subsidies are granted by the Government to manufacturers to compensate the cost of production which is usually higher than the controlled price. Such subsidy will not form part of sale price or turnover.
(iii) The Statement is incorrect. Charity or dharmada collected by the dealer will form part of the sale price because so far as the purchaser is concerned, he has to pay the whole amount for purchasing the goods.
(iv)) The Statement is incorrect. Free of cost material supplied by customer - is not includible in sale price.

Question 6 (a) (i) 4 marks

1. Deduction for Subscription to notified Long term Infrastructures Bonds was not available u/s 80CCF. It but has been discontinued from AY 2014—15.
   Deduction for Life Insurance Premium shall be available u/s 80C up to of Rs. 70,000 (being
   Maximum 20% of Rs. 3,50,000).
2. Employee can claim deduction u/s 80CCD of Rs. 30,000 (10% of Rs. 3,00,000) or actual contribution by employer Rs. 40,000 whichever is lower.

a(ii) 4 marks

Computation of Income to be clubbed with the Income of Mr. Mittal	Rs	Rs.
Income of first daughter including scholarship	10,000	
Less exempt u/s 10(16) for Scholarship assume for education	5,000	5,000
Income of second daughter		8,500
Income of third daughter with disability- Not to be clubbed		
Income of son including income from business		40,000
		53,500
Less exempt @ 1500 per child for 3 children		4,500
Income to be clubbed		49,000

Note: Gift by Mr. Mittal to his minor son and income from business Rs. 20,000 shall also to be clubbed in the hands of Mr. Mittal.

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(b)
Reverse Charge of full 100% is applicable in case of Advocate Services is when the Service provider is Individual Advocate/Advocate firm and Service receiver is Business entity turnover more than Rs.10 lakh during previous financial year
Applying the above in the give case

- When Service provided by Gupta Associates to Mr. Das and to M/s Surya Limited, is on the Agencies, Service tax liability is on the Service receivers Mr. Das and M/s Surya Ltd., because, turnover both the persons exceeds Rs. 10 lakhs during the previous financial year,
- The answer will the same even, Mr. Das and to M/s Surya Limited receives services from Individual advocate Mr. Dev.

(c)
As per Sec 3 of Central Excise Act, the excise duty will attract on excisable goods manufactured or produced in India. The duty will be payable at the time of removal for administrative convenience.

In the given case the goods manufactured on 20.06.2013 when goods are non-excisable on that date. Hence there is no excise duty liability on these goods when these goods removed on 20.09.2013, even goods brought in to excise tariff from 01.09.2013.

Question 7

(a) (i) 4 marks

1. TDS shall be deducted u/s 194E @ 20% . TDS shall be 20% of Rs. 27,000 = Rs. 5,400 .
2. There shall be no TDS u/s 194I because rent for the whole year does not exceed Rs. 1,80,000.
3. TDS shall be deducted u/s 194BB @ 30%. TDS shall be 30% of Rs. 1,50,000 = Rs. 45,000.
4. No TDS deductible u/s 194LA because amount paid does not exceed Rs. 2,00,000.

(ii) 4 marks

Filing of Return of Income on or before due date is necessary for carry forward of losses". This statement is partially correct. As per sec 139(3) the following losses cannot be carry forward if the Return of income is not filed within due date.

I. Carry forward and set off of business losses
II. Losses in speculation business
III. Losses under the head "Capital gains"
IV. Losses from activity of owning & maintaining race horses

The following losses can be carry forward without filing Return of income with in due date

I. Carry forward and set off of loss from house property
II. Unabsorbed depreciation

(iii) 4 marks

- Yes, a political party is required to file Return of Income.
- As per Section 139(4B), If total income of political party (without claiming any exemption u/s 13A) is greater than maximum amount which is not chargeable to tax i.e. Rs. 2,00,000, then filing of Return of Income by Chief Executive Officer of such Political Party is mandatory.
- In such case the audit of accounts by CA is Compulsory. The due date of filing of Return of income is 30th September.

(b) 4 marks		
Interest payable under Sec 75 of finance Act 1994	PQR Ltd.,	Mr.Manik
Particulars		
Service tax liability in Rs	123,600	216,000
Delay in no of days	20	25
Interest payable by PQR Ltd		
123600 x 15/100 x20/365	1016	
Interest payable by Manik		
216600 x 18/100 x25/365		2663
Note: Concessional rate of 3% of interest available to all		
assesse including company assesse		

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(C)

The issue was settled in Medley Pharmaceuticals Ltd. v. CCE & C., Daman 2011 (263) E.L.T. 641 (S.C.)

Supreme Court observed that merely because a product was statutorily prohibited from being sold, would not mean that the product was not capable of being sold. Sale is not a necessary condition for charging duty as excise duty is payable in case of free supply also. Since physician samples were capable of being sold in open market, the same were marketable and thus, liable to excise duty.

Moreover, the Drugs and Cosmetics Act, 1940 (Drugs Act) and the Central Excise Act, 1944 operated in different fields. The restrictions imposed under Drugs Act could not lead to non-levy of excise duty under the Central Excise Act thereby causing revenue loss. Prohibition on sale of physician samples under the Drugs Act did not have any bearing or effect on levy of excise duty.

Rule 4 of Excise Valuation Rules 2000 provides cases to determine Value when the time of delivery is different from time of removal (Valuation in case if goods are not sold)

As per the said rule ,Excise duty is payable even if goods are not sold. For example, samples and free warranty claims. In such cases the value will be determined as below:

- Value of identical/similar goods sold by the assessee at the same time to be considered as value
- If goods have not been sold on the same time, the value at the nearest date, subject to adjustment for price variance in dates of delivery, as may appear reasonable to proper officer, is to be considered.

Hence excise duty payable by M/s RR Pharma Ltd., on 2000 units of samples issued to physician. The value should be made at Rs.160 Per unit + profit reasonably 10%.

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