Book No. 1 (containing 36 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

CA - IPCC Examination

Group No. I Paper No. 4

Subject TAXATION

Number of Answer Books used

For use by ICAI only

984484

Q. No.	Please put ✓ against the Questions answered	Marks Awarded (to be filled by Examiner) a	b	c	d	e	Total
1	✓	3	3½	4			10½
2	✓	1	1	1½			3½
3	✓	0	1	3½			4½
4	✓	2	2	2			6
5	✓	4	0	3			7
6	✓	2	0	0			2
7							
8							
9							
10							
Total							33½

Say 34

Total Marks awarded (in words) Thirty four only

Examiner's Signature

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Use only Blue / Black Ball Point Pen to write and shade the circles. **AVOID RED PEN.** Write the marks in the boxes before shading the respective circles.

Total Marks awarded

34

INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

number should be written in figures and words in the allotted space at the right hand corner of the ...ver sheet only and nowhere else including additional answer book/s and graph paper.

2. Roll number should be written in the box in numbers and darken the appropriate circles of the OMR portion provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

3. Fill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the perforated Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page, or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"

1(C):- Computation of ~~NET~~ Net VAT Liability of Rohan for the Month of February, 2016

½	Particulars	₹
½	Raw Material from foreign Market (Including customs duty)	₹1,50,000
½	Raw Materials Purchased from Local Market (Including Excise duty but not VAT)	₹3,37,500
½	Raw Materials Purchased from Neighbour State (Including CST)	₹51,000
	Storage & Transportation Costs	₹11,000
	Manufacturing Expenses	₹25,000
	Total Cost of Production	5,74,500
½	+: Profit @ 12% on Cost of Production	₹68,940
½	Sales Value	₹6,43,440
½	VAT on sales (6,43,440 × 4%)	₹25,737.6
½	∴ ~~VAT~~ (–) Input Tax credit on local purchases	₹(13,500)
½	Net VAT Liability (Rounded off)	₹12,238

Assumptions :-

→ It is assumed that Cost of Storage & Transportation are part of cost of production

→ The purchases from ~~Loca~~ Local Market is from registered dealer

→ The sales of Rohan are Local sales

4 @

1(b):- i. Computation of Value of Taxable services

Particulars	₹
i) Total Bills raised	17,50,000
(-) Services to SEZ Unit (Note-1)	(1,50,000)
(+) Advances received for future services $\left(\frac{1,14500 \times 100}{114}\right)$	1,00,439
Total value of Taxable Services	17,00,439

½

½

½

ii. Amount of service Tax Payable :-

Service Tax Payable = 17,00439 × $\frac{14}{100}$

1/2 = 2,38,061

iii. ~~Due~~ Since Dharmendra Ltd is a corporate assessee. The last date for payment of service tax is 6^{th} of next month

1 i.e 6-2-16.

Notes :-

1. Services provided to Special Economic Zone is exempt from service tax. as per the provisions

1/2 of Finance Act.

2. Even though payment is not received but invoice has been raised ~~for~~ for ₹ 2,00,000. So it attracts service Tax.

3 1/2 @

2(c):- Computation of Customs duty Payable by Madhav Enterprises.

	Particulars	₹	₹ of Duty Payable
	~~Basic Customs duty (24,00,000 × 10%)~~	~~2,40,000~~	~~2,40,000~~
	Assessable Value	20,00,000	
1	Basic Customs duty (20,00,000 × 10%) [Note-1]	₹2,00,000	₹2,00,000
		22,00,000	
1/2	C.V.D @ 12.5% (22,00,000 × 12.5%)	₹2,75,000	2,75,000
		24,75,000	
	Education cess @ 1% (2,75,000 × 1%)		2750
0	Secondary & higher education cess @ 2% (2,75,000 × 2%)		5500
0	Special C.V.D @ 4% (24,75,000 × 4%)	99,000	99,000
	Total Customs duty Payable		5,82,250

Notes :-

1. Rate of duty applicable in case of imports is Rate on
   - the date of Bill of Entry – 10%
   - the date of Entry inwards – 8%

   } which ever is later

   i.e 30-9-15 which is 10%.

1½ ®

2(b). Computation of Taxable services & Service Tax Paid by Mandi & Co. for the quarter ending 31-3-2016

Particulars	₹
0 Amount received for upgradation & enhancement of Software	₹ 7,00,000
½ Services Provided to UNICEF (Note-1)	Nil
0 Services Provided to A ltd, but service Tax was not received (Note-2)	₹ 3,00,000
½ Services Provided to B ltd, but service Tax was not received due to insolvency (Note-2)	5,00,000

0 Amount received from other clients ₹ 70,00,000

~~Total~~ ~~85,00,000~~

Total 85,00,000

0 ∴ Value of Taxable services ₹ 74,56,140

[~~85,74,500~~ $\frac{85,00,000 \times 100}{114}$]

0 Value of Service Tax Payment ₹ 10,43,560

[$\frac{85,00,000 \times 14}{114}$]

85,00,000

Notes :-

1. Services provided to UNO & related organisations is exempt from services

2. Even though ~~T~~ Service Tax has not been Collected due to any reasons, the amount recovered from the client shall be taken as amount inclusive of Service Tax tax & Tax shall be paid accordingly.

1 @

(C) i, Here, service provider is in taxable Territory but the service recipient & the place of provision of service are in Non Taxable Territory.
SO, It is not Chargable to service Tax

1

ii, Here, Service provider, Service recipient & ~~So~~ Place of provision of service are in taxable territory & providing Taxable service
SO, It is Chargable to Service Tax.

1

iii, Here, service Provider, Service recipient & ~~So~~ place of provision of service are in taxable territory, but Services of religious ceremony is not a taxable service, SO, It is not chargeable to Service Tax.

1

iv, Here ~~Ser~~ the said service is related to environmental development i.e Solid Waste Management. SO, It is not chargeable to service Tax.

0

3

5(b):- Concessional / Composition rates of service Tax applicable to Air Travel agents:-

→ Concessional rate of service Tax on local (or) National bookings is @ 0.7% of booking fare.

0

→ Concessional rate of Service Tax on International bookings is @ 1.4% of booking fare.

0

→ This Composition scheme is an optional one, if the assessee want he can avail these rates.

0

→ Generally when the service Tax payable is lower by Comparing the composition & Normal schemes, that lower scheme shall be preferable.

0

0

(b) Small service Provider Exemption :-

Introduction:-

→ SSP exemption has been interduced to Safeguard the small service providers ~~whose~~ whos Value of taxable severes is too low

0

Explanation:-

* On the following situation an assessee can avail the benefit of SSP exemption :-

→ Where the Value of Taxable services Provided by the assessee is not exceeding ₹ 10 lakhs during the last year, he Can avail the SSP Exemption

1

→ which means he need not pay services Tax on taxable services upto ₹ 10 lakhs in the Current year.

1

* Situations where SSP exemption is not available:-

i, When the Service Provider is not registered then SSP exemption is not available.

0

ii, When the Value of Taxable service in the last year exceeds ₹10lakhs the SSP exemption is not available.

0

2 @

4(c):- i, Since, electrical energy is excluded from the definition of goods, CST is not applicable on sale of electrical energy. So, the given statement is true

1

ii, Even though cost of freight is not shown seperately in the invoice, it will form part of sale price. So, the given statement is False.

1

2

3(b):- Computation of CENVAT Credit that can be availed by Yahoo Pvt Ltd during the Month of March 2016.

Marks	Bill No.	Particulars	Date of Bill	Available Duty/Tax Paid
	801	Input Goods 'A'	15/1/15	N.A (Note-1)
0	802	Input Goods 'B'	16/5/15	N.A (Note-1)
½	810	Input Goods 'C'	12/3/16	N.A (Note-2)
½	757	Machinery	11/3/15	1,00,000 (Note-3)

Total amount available as CENVAT Credit   1,00,000

Notes:-

1, CENVAT Credit on Inputs & ~~Input services~~ is available only when the Inputs are received. ~~as~~ As the Input A & B is received on 15/1/15 & 16/5/15 they can be available in their respective Months but not on March 2016.

2, When the Bill / Invoice is not available then the CENVAT credit is also not available.

3, CENVAT credit on capital goods is available only ~~of for~~ 50% for the Current year & 50% for the next year.
i.e. 2,00,000 x 50% = 1,00,000

1 (a)

3(c):- Computation of Excise Duty Payable by M/s Rajiv Enterprises

Particulars	₹
Price of Machinery excluding duties & Taxes	6,00,000
½ Less:- Discount @2%. (Note-1)	₹(12,000)
Add: Installation & erection expenses (Note-2)	Nil
½ Add: Packing charges (Note-3)	₹12,000
½ Add:- Design & Engineering charges (Note 3)	₹4,500
Add:- Boughtout accessories which are optional (Note-4)	Nil
½ Transaction value	₹6,04,500

Notes:-

1. Discount in the normal course of business can be excluded from the cost of the goods. Since in the given case, ~~it is~~ the discount is in the normal course of business it was deducted

2, Installation & erection ~~exp~~ expenses of machinery which is fitted to earth shall be deducted because it is not regarded as manufacture activity as per the definition.

½

3, Packing charges whether primary / secondary shall be included in the transaction value, because it is treated as Manufacture

4, Bought out accessories which are optional viz. without which the Machine can be used shall be excluded from the transaction value. So it was not Included

½

∴ Excise Duty Paid = $6,04,500 \times \frac{12.5}{100}$

= ₹75,563. (rounded off)

½

3½ ©

5(a):- Calculation of amount of Depreciation that can be availed as per income Tax act.

Particulars	₹
½ * On opening W.D.V. (20,00,000 × 15%)	₹3,00,000
½ * On New Machinery Purchased on 1-9-15 (10,00,000 × 15%)	₹1,50,000
½ Additional Depreciation on the above (10,00,000 × 20%)	₹2,00,000
½ * On Machinery Purchased in 14-15 i.e 50% of additional depreciation (10,00,000 × 20% × 50%)	₹1,00,000
Total Depreciation on Plant & Machinery	7,50,000

0 Depreciation on Car Purchased (8,00,000 × 25% × 50%) ₹ 1,00,000

½ Depreciation on Computer (4,00,000 × 60% × 50%) ₹ 1,20,000

∴ Computation of Closing W.D.V :

Particulars	Plant & Machinery of 15%	Car of 25%	Computer of 60%
Opening W.DV	20,00,000	Nil	Nil
½+½+½ Add: Additions	₹ 10,00,000	₹ 8,00,000	₹ 4,00,000
Less: Monies Payable	Nil	Nil	Nil
W.DV available for Depreciation	30,00,000	8,00,000	4,00,000
Less: Depreciation	(7,50,000)	(1,00,000)	(1,20,000)
0 Closing W.DV	22,50,000	7,00,000	2,80,000

4 ⓔ

7

4(a):- ii, Mr A received ₹ 50,000 on 1-9-15 which is after 1-4-14 & due to Cancelation of contract. ₹ 50,000 has been forfieted, so, upto 1-4-14 this forfieted advance shall be reduced from the cost of the asset, but from 1-4-14 this forfieted advance shall be regarded as Income from other Sources as per finance Act amendment bill 2015.

1

iii, The asset transfered by the member of HUF to the HUF for no consideration. As the stamp duty value is ₹ 10,00,000 which is more than 50,000, the entire ₹ 10,00,000 shall be taxed in the hands of HUF under the head Income from Other Sources

0

iv, Mr. Kumar gifted a car to his Sister's son who is not a relative asper Income Tax act. So, as the value of the gift is ₹ 5,00,000 which is more than 50,000 the entire ₹ 5,00,000 shall be taxed in the handed of Sunil

0

i, ABC private ltd. a closely held company issued 10,000 shares at ₹130 i.e for premium, so, the premium amount received more than the fair market value of ₹120 per share i.e ₹10 per share shall be regarded as Income from other sources
1 i.e ₹10,000×10 = ₹1,00,000 shall be taxed.

2 ⓟ

6

3(a) i,

Conditions to be fulfilled by the political party for ~~and~~ enjoying exemption in relation to certain incomes under Income-Tax Act, 1961

→ The political party shall be a recognised political party & should be registed in more than one state as national party.
0

→ The ~~expen~~ funds & donations received by the party should be utilised only for the development of party.
0

→ Sec. 10 has contained certain benefits regarding to the incomes received ~~from~~ to the political party.
0

3(a) ii, Calculation of ~~deduction~~ exemption ~~As per~~ available to Mr Suresh

Particulars	₹ (in lakhs)
Total Turnover of Unit A (In SEZ)	180
Export Turnover of Unit A	150
Total Profit of Unit A	60

∴ Proportion Profit of Export Turnover

ie $60 \times \frac{150}{180}$ = ₹ 50

∴ The amount of Exemption is ₹ 50 lakhs

Note:

→ As per 10 AA Profit of a unit in SEZ which is in export business shall be exempted from Income.

2(a) i, <u>Residential status of Companies</u>:-

Companies

Resident

Company in which the activities are wholely or Mainly Controled & ~~situated~~ from India

Non Resident

Company in which the activities are wholely Controled from outside India.

0

ii, <u>Assessee</u>:-

As per the relevant sections of the Income Tax act, 1961, An assessee means —

1 a person whose income is assessable to tax in the assessment year.

which means —

an Person, i.e individual, HUF, Company, Firm, AOP or, BOI etc, whos income is assessable to tax in the assessment year.

1 @

3½

6(a):-

Computation of Total Income of Mr. Aditya

	Particulars	₹	₹
	Income from Salaries	2,50,000	
0	(–) Loss from House Property	1,50,000	1,00,000
	Income from Trading business	45,000	
1	(–) Brought forward loss	(5,000)	40,000
	Long Term Capital gain	2,00,000	
	(–) Long Term Capital loss (STT Not Paid)	(95,000)	
0	(–) Long Term Capital loss (STT Paid)	(82,000)	43,000
	Income from speculative business B	5,000	
1/2	(–) Loss from speculative business A	(5,000)	Nil
	Total Income		1,83,000

∴ Items eligible for Carry forward are:

i, Losses from owning & Maintaining race horses - ₹2,000

ii, Loss from speculative business. A ₹20,000
(25,000 5000)

iii, Loss from specified business under Sec-35AD ₹20,000

1/2

2 ©

6(b):- Provisions relating to Interest payable for delayed Payment of Service Tax

→ As Per the provisions of Service Tax, Payment must be Made through electronically

Payment

Individual/Firm	Others
6th day of the first Months of next Quarter	6th day of the next Month.

D

→ For delayed Payment / non Payment of service Tax the payment must be made alonge with interest @ 18% P.a. for the delayed Period.

0

0 @

6(c):- The Following are the due dates for filing the service Tax returnes

* For Individual / Firms,
  - The due date is 5th ~~of the~~ day of the 1st Month of the next quarter & 6th day of the 1st Month of the next quarter in Case of ~~E-Payment Return~~ E-Return

0

* For others
  - The due date is 5th day of the 1st next Month & 6th day of the next Month for every months in Case of ~~E-Payment~~ E-Return.

0

* But for the Month of March or for the quarter of March the due date is 31st March.

0

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1(a)- Computation of Taxable Income of Mr. Vinod Kumar for the Assessment year 2016-17

Particulars	₹
Income from Salaries	Nil
Income from House Property	Nil
Income from Profits & Gains from Business / Profession (W.N-1)	4,30,000
Income from Capital gains (W.N-2)	1,89,000
Income from other sources (W.N-3)	8,30,000
Gross Total Income	14,49,000
Less:- Deductions Under Chapter VI A (W.N-4)	(4,27,000)
Taxable Income	10,22,000

0

0

Computation of Income Tax Liability :-

Particulars / Calculation		₹
Net Taxable Income		10,22,000
(-) Long Term Capital gains		(1,24,000)
(-) Short Term Capital gains		(65,000)
0		8,33,000
upto - 3,00,000	Nil	0
3,00,000 - 5,00,000	10% (2,00,000 × 10%)	20,000
5,00,000 - 8,33,000	20% (3,33,000 × 20%)	66,600
0 (+) Cess @ 3% (E.C @ 1% & SHC @ 2%)		2,598
		89,198
		~~86,600~~
(-) T.D.S on Pension		(25,000)
(+) Tax @ 20% on Long Term Capital gains (1,24,000 × 20%)		24,800
(+) Tax @ 10% on Short Term Capital gain u/s 111A (65,000 × 10%)		6,500
0 Net Tax Payable		95,498

Working Notes :-

1. Income from Profits & Gains from business/Profession

Particulars	₹
Gross Receipts	12,60,000
Less :-	
½ Rent for Premises	(1,44,000)
½ Salary of P.A	(1,20,000)
½ Stenographer's Salary	(1,00,000)
½ Business Development Expenditure	(91,000)
0 Conveyance (3,00,000 × ¾)	(2,25,000)
0 Net receipts	~~5,05,000~~
	₹ 4,30,000

2. Income from Capital gains :

Particulars	₹
Short term Capital gains	65,000
0 Long Term Capital gains	₹ 1,24,000
	1,89,000

3. Income from other Sources

Particulars	₹
½ Interest on Fixed deposit from bank	₹1,60,000
0 Interest received from Post office Savings	₹18,000
0 Pension received (6,27,000 + 25,000)	₹6,52,000
Total	8,30,000

4. Eligible amount of deduction ~~under~~ under Chapter VI A

Particulars	₹
½ Contribution to PPF (u/s 80 C)	₹1,10,000
0 Premium on Life Insurance Policy (5,00,000 × 20%)	₹1,00,000
0 Medeclaim Insurance Premim & Preventive helth checkup	25,000
0 Donation given to a charitable Trust register under - 12AA	₹14,000

	Interest on Fixed deposit from bank	1,60,000
0	Interest on Post office savings scheme	₹ 18,000
0	Total	₹ 4,27,000

3

10½