

Test Series : February, 2012

MOCK TEST PAPER – 1

IPCC: 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) Compute the taxable income of Dr. Sandeep from the following information for the year ended 31.03.2012:

Income and Expenditure Account for the year ended 31st March 2012

Particulars	₹	Particulars	₹
To Staff salary	1,95,000	By Rent	27,000
To Medicines consumed	1,97,000	By Fee Receipts	8,47,500
To Hospital consumables	67,500	By Dividend from Indian companies	9,000
To Administrative expenses	1,18,000		
To Rent paid	60,000		
To Net income	<u>2,46,000</u>		
	<u>8,83,500</u>		<u>8,83,500</u>

- (i) Hospital equipments (eligible for depreciation @ 15%)
01.04.2011 Opening WDV ₹ 5,00,000
07.12.2011 Acquired (Cost) ₹ 2,00,000
- (ii) Rent paid is in respect of a building situated in Delhi, half portion of which is used by Dr. Sandeep for residential purpose.
- (iii) Medicines consumed include medicines (cost) ₹ 10,000 used for Dr. Sandeep's family.
- (iv) Rent received relates to a property situated at Madurai (Gross Annual Value). The municipal tax of ₹ 2,000 paid in March, 2012 has been included in the "administrative expenses".
- (v) He received ₹ 5,000 per month as salary from Life Care Hospital which is not included in the above income and expenditure account.

- (vi) He has sold a land in December, 2011 for ₹ 5,00,000. It was inherited by him from his father in August, 1997. The site was acquired by his father in February, 1993 for ₹ 1,50,000.

(Cost inflation index 1992-93 = 223; 1997-98 = 331 and 2011-12 = 785)

(10 Marks)

- (b) Adlaps Pvt. Ltd. has agreed to render services to Mr. Mukesh. The following are the chronological events:

Particulars	₹
Contract for services entered into on 25.9.2011 for ₹ 2,50,000	
Advance received in October, 2011 towards all services	60,000
Bill for the entire contract price raised in January, 2012	
Above includes non-taxable services of	50,000
Balance amount is received in March, 2012	

When does the liability to pay service tax arise and for what amount? Contract contains clear details of services; consideration and service tax are charged separately, as mutually agreed upon.

(5 Marks)

- (c) Mr. Shanky, a trader sells 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 2011-12:-

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

		₹
(1)	Cost of local materials including VAT	1,50,000
(2)	Cost of imported materials (from other State) excluding tax	50,000
(3)	Other expenditure including storage, transport, interest and loading and unloading and profit earned by him	96,500

(5 Marks)

2. (a) Mrs. Akanksha aged about 69 years is employed in Arihant Pvt. Ltd. as an Executive Officer. From the following details given by her for the year ended 31.03.2012, find out the tax liability for the assessment year 2012-13 :

- Basic Salary (₹ 50,000 x 12) = ₹ 6,00,000
- Dearness Allowance (₹ 20,000 x 12) = ₹ 2,40,000 (forms part of pay for retirement benefits)
- Bonus – 2 months basic pay.

- (iv) Commission – 0.2% of the turnover of the company. The turnover for the F.Y. 2011-12 was ₹ 7.50 crores.
- (v) Entertainment Allowance – ₹ 30,000.
- (vi) Hostel allowance for three children – ₹ 5,000 each.
- (vii) Contribution of the employer and employee to the recognized provident fund account ₹ 3,00,000 each.
- (viii) Interest credited to recognized provident fund account at 9.5% - ₹ 60,000.
- (ix) Rent free unfurnished accommodation provided by the company for which the company pays a rent of ₹ 70,000 per annum.

She makes the following payments and investments:

- (i) Premium paid to insure the life of her major son – ₹ 15,000.
- (ii) LIC Pension Fund – ₹ 12,000.
- (iii) Medical Insurance premium for self – ₹ 6,000 ; Spouse – ₹ 6,000.
- (iv) Donation to a public charitable institution registered under 80G ₹ 2,00,000.

(8 Marks)

- (b) Mr. Raman, a self employed professionally qualified engineer provided service to its client Mehta Enterprises in relation to hardware engineering. Mr. Raman did not charge service tax on the bill raised for service rendered as he was of the view that he cannot be considered as a consulting engineer and his service is not liable to service tax. Explain the correctness of statement as per service tax provisions.

(4 Marks)

- (c) "Every registered dealer is eligible for the composition scheme". Explain the validity of the statement.

(4 Marks)

- 3. (a) Mrs. Neha, a citizen of the UK, is a resident and ordinarily resident in India during the financial year 2011-12. She owns a house property at London, UK, which is used as her residence. The annual value of the house is £10,000. The value of one pound (£) may be taken as ₹ 90.

She took ownership and possession of a flat in Jaipur on 1.7.2011, which is used for self-occupation, while she is in India. The flat was used by her for 7 months only during the year ended 31.3.2012. The municipal valuation is ₹ 32,000 p.m. and the fair rent is ₹ 4,20,000 p.a. She paid the following to Corporation of Jaipur :

Property Tax	₹ 16,200
Sewerage Tax	₹ 1,800

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

	₹
Period prior to 1.4.2011	49,200
1.4.2011 to 30.6.2011	50,800
1.7.2011 to 31.3.2012	1,31,300

She had a house property in Mumbai, which was sold in March, 2009. In respect of this house, she received arrears of rent of ₹ 60,000 in March, 2012. This amount has not been charged to tax earlier.

Compute the income chargeable from house property of Mrs. Neha for the assessment year 2012-13, exercising the most beneficial option available. (8 Marks)

(b) Answer the following:

(a) Ms. Priyanshi Jain, a registered service provider did not render any services during the financial year 2011-12. Whether she is required to file service tax return?

(b) "Once filed, service tax return cannot be revised further." Critically examine the statement. (4 Marks)

(c) "VAT helps in checking tax evasion and in achieving neutrality". Elaborate the statement. (4 Marks)

4. (a) State with reasons, for the following sub-divisions, whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961:

(i) Where a person follows mercantile system of accounting, an expenditure of ₹ 25,000 has been allowed on accrual basis and in a later year, in respect of the said expenditure, assessee makes the payment of ₹ 25,000 through a crossed cheque, the taxability provision under section 40A(3A) are attracted in respect of such amount.

(ii) For a dealer in shares and securities, securities transaction tax paid in a recognized stock exchange is permissible business expenditure.

(iii) It is mandatory for an assessee to claim depreciation under section 32 of the Income-tax Act, 1961.

(iv) An existing assessee engaged in trading activities, can claim additional depreciation under Section 32(1)(ia) in respect of new plant acquired and installed in the trading concern, where the increase in value of such plant as compared to the approved base year is more than 10%.

(iv) The mediclaim premium paid to GIC by Mr. Ritesh for his employees, by a draft, on 29.10.2011 is a deductible expenditure under section 36.

- (v) Under section 35DDA, amortization of expenditure incurred under eligible Voluntary Retirement Scheme at the time of retirement alone, can be done. (8 Marks)
- (b) Honey Limited took a contract for rendering service for ₹ 15,00,000. It sub-contracted a part of the work to Moon Limited for a sum of ₹ 6,00,000. Honey Limited paid service tax on the amounts realized and advised the sub-contractor Moon Limited not to raise bill inclusive of service tax since it had paid service tax on the total amount of contract.
- Examine the correctness of advice given by Honey Limited to Moon Limited as per service tax provisions. (4 Marks)
- (c) Explain the importance of VAT invoice in administering VAT. (4 Marks)
5. (a) Mr. Yogesh purchased a residential house on January, 1994 for ₹ 5,00,000. He sold the said house to Mr. Tiwari on 7th September, 2011 for a consideration of ₹ 31,00,000. The stamp valuation authority fixed the value of the said house for stamp duty purpose at ₹ 35,00,000. He deposited ₹ 5,00,000 in eligible bonds issued by National Highways Authority of India (NHAI) on 14th February, 2012. He acquired a residential house at Delhi for ₹ 12,00,000 on 7th August, 2012. He gives other particulars as follows:
- During the year, he has received interest of ₹ ₹ 32,000 on Bank deposits. He has invested ₹ 75,000 in public provident fund during the year ended 31.03.2012.
- Compute the total income and tax liability of Mr. Yogesh for the A.Y. 2012-13.
- Cost inflation index for F.Y.1993-94 and 2011-12 are 244 and 785, respectively.
- (8 Marks)
- (b) A particular service has been brought into the service tax net with effect from 1.9.2011. Mr. Palkit has provided this service on 25.8.2011 and issued the invoice on 2.09.2011, the payment for the same was received on 10.9.2011. Is service tax payable on the same? (4 Marks)
- (c) Under what circumstances registration can be cancelled under VAT. (4 Marks)
6. (a) Compute the taxable income of Mr. Amit and his tax liability for the assessment year 2012-13 from the following information for the year ended 31.03.2012.
- | | |
|--|----------|
| (i) Income from plying of vehicles (computed as per books)
(He owned 5 heavy goods vehicle throughout the year) | 2,10,400 |
| (ii) Income from retail trade of garments
(Computed as per books) (Sales turnover ₹ 21,70,000) | 75,000 |
| (iii) He has brought forward depreciation relating to A.Y. 2011-12 | 1,00,000 |
| (iv) He deposited ₹ 70,000 into his PPF account on 9.2.2012 and
₹ 30,000 in 5 year bank fixed deposit | |

(8 Marks)

- (b) Explain the conditions to be fulfilled for availing the exemption from service tax to packaged canned software under "information technology software services".
(4 Marks)
- (c) "There is no need to maintain any record under VAT system." Critically examine the statement.
(4 Marks)
7. (a) State whether the following assesseees have to file return of income and if so, the due date for the Assessment Year 2012-13:
- (i) A public charitable trust registered under the Act is running an educational institution with aggregate annual receipt of ₹ 65,00,000 and total income of ₹ 3,20,000. Is the accounts of the trust liable for audit under section 44AB of the Act?
 - (ii) A registered trade union having income from let out property of ₹ 1,00,000.
 - (iii) A public trust hospital having an aggregate annual receipt of ₹ 200 lacs and availing exemption under section 10(23C)(via) with total income of ₹ 1,10,000.
 - (iv) Mr. Vimal, an individual, aged 54 years, whose gross total income (i.e. salary income) before deduction under section 80C is ₹ 2,60,000 and total income after deduction under section 80C is ₹ 1,05,000.
(4 Marks)
- (b) Mrs. Priyanka, a landlord, derived income from rent from letting a house property to M/s SSG Infrastructure Limited of ₹ 1,00,000 per month. She charged service tax @ 10.3% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by M/s SSG Infrastructure Limited on payment made to Mrs. Priyanka and narrate related formalities in relation to TDS.
(4 Marks)
- (c) M/S Sharda & Co., a CA Firm raised a bill of ₹ 4,69,450 (including service tax) on his client for auditing services rendered by him in November, 2011. A partial payment of ₹ 2,26,640 was received by M/S Sharda & Co. in March, 2012. Compute the service tax amount payable by M/S Sharda & Co. and the due date by which service tax can be deposited.
(4 Marks)
- (d) What are the major deficiencies of VAT system in India
(4 Marks)