

Test Series: August, 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

* Pursuant to the Examination Committee's decision regarding non-applicability of taxable services for November 2012 examinations, the said questions are not relevant.

1. (a) Mr. Varun has not maintained books of account for the year ended 31.3.2012. Following information is furnished by him to compute his total income and tax payable for the assessment year 2012-13 :

- (i) He is employed in Maxx Ltd. as an Accounts Manager and receiving salary @ ₹ 45,300 p.m comprising of basic salary of ₹ 35,000 p.m., House rent allowance of ₹ 7,000 p.m., City compensatory allowance of ₹ 1,500 p.m. and education allowance of ₹ 600 per month per child for all the three of his children.
- (ii) Actual expenditure (tution fees only) during the year on education of his all the three children amounts to ₹ 20,000, ₹ 14,000 and ₹ 10,000 respectively.
- (iii) He is residing in Mumbai in a rented house and paying a rent of ₹ 8,000 per month.
- (iv) On 17.8.2011, he purchased a truck (heavy goods vehicle) at ₹ 6,00,000 and has been letting it on hire from the same date. He declares an income of ₹ 35,500 from the same.
- (v) Interest from company deposits is ₹ 20,000 and bank interest is ₹ 10,000 during the year .
- (vi) Interest is payable on bank loans availed for buying the truck and making company deposits as follows:-

Purpose	Date of loan	Amount	Interest rate
Truck purchase	17.8.2011	5 lakhs	11% p.a.
Company deposit	1.10.2011	2 lakhs	10% p.a.

- (vii) Brought forward loss arising from share speculation business during the preceding previous year and eligible for set-off is ₹ 75,000.
- (viii) Varun has made following payments and investments :

- ₹ 22,000 in purchase of NSC,
- ₹ 55,000 in PPF paid in wife's name
- ₹ 13,500 as life insurance premium for his major son (sum assured ₹ 60,000) and
- ₹ 15,000 towards pension fund of LIC. (10 Marks)

*(b) Sharma Coaching Centre, engaged in commercial training and coaching service, furnishes you the following information and the amounts received by it for the half-year ended 30-09-2012:-

Particulars	₹
Coaching fee for play school	1,50,000
Coaching fee for Civil Service examinations	2,60,000
Postal coaching fee for University examinations	3,40,000
Sports coaching fee from a local college	1,90,000
Fee for management diploma of a foreign university (not recognized by law in force in India)	4,80,000
Coaching and training provided by sending staff to the residence of service receivers.	5,20,000

Sharma Coaching Centre is not eligible for exemption available to small service providers. Determine the value of taxable service. Your answer must be with reasons. (5 Marks)

- (c) Mr. Abhi, a manufacturer sold goods to Mr. Nitin, a distributor for ₹ 20,000. Mr. Nitin sold the goods to Mr. Avinash, a wholesaler for ₹ 24,000. Mr. Avinash, the wholesaler sold the goods to Mr. Vishal, the retailer for ₹ 30,000. Mr. Vishal, the retailer sold the goods to Mr. Piyush, the final consumer for ₹ 40,000. The VAT rate is 12.5% which is charged separately.

Compute VAT liability under Invoice method. State, why this method is preferable.

(5 Marks)

2. (a) Mr. Lalit, Sales Manager of Anchor Ltd., Bangalore, furnishes the following particulars for the financial year 2011-12:
- (i) Salary ₹ 51,000 per month
 - (ii) Medical facility given to his family in a hospital maintained by the company. The estimated value of benefit because of such facility is ₹ 25,000
 - (iii) Rent free accommodation which is owned by the company has been provided to him.
 - (iv) Housing loan of ₹ 5,50,000 given on 01.04.2011 at the interest rate of 4% p.a.

The rate of interest charged by State Bank of India (SBI) as on 01.04.2011 in respect of housing loan is 10%. Mr. Lalit has not repayed the loan during the year ended 31.03.2012.

- (v) A Cupboard was provided to Mr. Lalit at his residence for his use. This was purchased on 01.08.2008 for ₹ 75,000 and sold to Mr. Lalit on 01.05.2011 for ₹ 35,000.
- (vi) Mr. Lalit has incurred personal purchases amounting to ₹ 12,000 through credit card provided by the company which was paid by the company. No part of the amount was recovered from Mr. Lalit.
- (vii) A maruti car which was purchased by the company on 21.06.2008 for ₹ 4,50,000 was sold to the assessee on 19.08.2011 for ₹ 1,80,000.

Compute the income chargeable under the head "Salaries" of Mr. Lalit for the Assessment year 2012-13. (8 Marks)

- (b) Shubham Private Limited is engaged in providing the taxable services. Compute the service tax payable by it in the month of April, 2012 from the information furnished below:-

Particulars	Amount
Services rendered to poor people free of cost (Value of the services computed on comparative basis)	65,000
Advances received in April, 2012 from clients for which no service has been rendered so far	45,000
Services provided to UNICEF	4,75,000
Amount received for the services rendered in January, 2012 (Bills for the same were issued on January 05, 2012)	80,000

Note: The aforesaid amounts are exclusive of service tax. Shubham Private Limited is not eligible for small service providers' exemption in the financial year 2012-13.

(4 Marks)

- (c) Can it be said that a Chartered Accountant help a client in the handling of VAT audit called for by the Department and in conducting external audit of VAT records?

(4 Marks)

- 3. (a) Mr. Tony and Harry constructed their houses on a piece of land purchased by them in Pune. The built up area of each house was 1,500 sq.ft. ground floor and an equal area in the first floor. Tony started construction on 01.05.2009 and completed construction on 01.04.2011. Harry started the construction on 01.04.2009 and completed the construction on 31.05.2011. Tony occupied the entire house on 01.04.2011. Harry occupied the ground floor on 01.06.2011 and let out the first floor

for a rent of ₹ 20,000 per month on 01.07.2011. However, the tenant vacated the house on 28.02.2012 and Harry occupied the entire house during the period 01.03.2012 to 31.03.2012.

Following are the other information:

		₹ (per annum)
(i)	Fair rental value of each unit (ground floor /first floor)	1,20,000
(ii)	Municipal value of each unit (ground floor / first floor)	1,05,000
(iii)	Municipal taxes paid by	Tony – 12,000 Harry – 12,000
(iv)	Repair and maintenance charges paid by	Tony – 31,000 Harry – 35,000

Tony has taken a housing loan of ₹ 30 lakhs @ 12% p.a. on 01.06.2009. Harry has taken a housing loan of ₹ 20 lakhs @ 12% p.a. on 01.07.2009. No repayment was made by either of them till 31.03.2012. Compute income from house property for Tony and Harry for the assessment year 2012-13. (8 Marks)

- (b) State the provisions which enable the Central Government to make rules for administering service tax. For what purposes are such rules made? Name any four such rules issued by the Central Government so far. (4 Marks)
- (c) Can VAT be said to be non-beneficial as compared to single stage-last point system? (4 Marks)
4. (a) Following is the Manufacturing, Trading and Profit & Loss Account of Mr. Satish for the year ended 31.03.2012.

Particulars	₹	Particulars	₹
To Opening Stock	2,85,000	By Sales	29,90,000
To Purchase of Raw Materials	15,72,000	By Closing stock	7,70,000
To Manufacturing Wages & Expenses	6,21,000		
To Gross Profit	<u>12,82,000</u>		
	<u>37,60,000</u>		<u>37,60,000</u>
To Administrative charges	3,72,000	By Gross Profit	12,82,000
To Interest	1,59,000	By Income-tax Refund	1,27,500
To State VAT paid	1,36,000	By Interest on Income-tax	18,300

To General Expenses	80,000	Refund By Interest from Company deposits	79,000
To Interest to Bank (On machinery term loan)	90,000		
To Amount paid to IIT, Delhi for an approved Scientific Research Programme	1,00,000		
To Depreciation	1,69,800		
To Net Profit	<u>4,00,000</u>		
	<u>15,06,800</u>		<u>15,06,800</u>

Following additional information is furnished:

- Administrative charges include ₹ 60,000 paid as commission to Satish's son. However, another person was ready to do the same work for ₹ 50,000.
- The assessee paid ₹ 35,000 in cash to a transport carrier on 31.12.2011. This amount is included in manufacturing expenses. No tax was deducted at source since the transporter had furnished his PAN.
- Interest payments include interest of ₹ 18,000 payable outside India to a resident Indian on which tax has not been deducted and penalty of ₹ 32,000 for contravention of Central Sales Tax Act, 1956.
- Interest actually paid on bank term loan upto 31.03.2012 was ₹ 50,000 and the balance was paid in October 2012.
- Depreciation allowable under the Act is to be computed on the basis of following information:

Plant & Machinery (Depreciation rate @ 15%)	₹
Opening WDV (as on 01.04.2011)	16,00,000
Additions during the year (used for more than 180 days)	2,00,000
Total additions during the year	4,00,000
Note: Ignore additional depreciation under section 32(1)(ia)	

You are required to compute the income chargeable under the head 'Profits and Gains of Business or Profession' of Mr. Satish for the Assessment Year 2012-13.

(8 Marks)

- Pihu Ltd. is engaged in providing business exhibition services. It was liable to pay the service tax amounting to ₹ 20,000, electronically, for the month of June 2012. However, due to some unavoidable circumstances, it could not pay the said amount

on due date and paid the service tax on 30th September, 2012. You are required to compute the interest payable by Pihu Ltd. on delayed payment of service tax.

(4 Marks)

- (c) Mr. Aaditya is a trader selling raw materials to a manufacturer of finished products. Determine the liability of VAT of Mr. Aaditya for the month of March, 2012 using invoice method of computation from his following details:

Purchase price of goods acquired from local market (including VAT) ₹ 65 lakhs

VAT rate on input 4%

Transportation, insurance, warehousing and handling ₹ 30,000

Cost incurred by Mr. Aaditya

Goods sold at a profit margin of cost 15%

VAT rate on sales 12.50% (4 Marks)

5. (a) Mr. Krishna gifted to his wife Mrs. Radha 200 listed shares on 11.02.2011, which had been bought by him on 27.12.2009 at ₹ 2,000 per share. On 15.9.2011, bonus shares were allotted in the ratio of 1:1.

Mrs. Radha has sold all the shares held (including bonus shares) as under:

Date of sale	Manner of sale	No. of shares	Net sales value (₹)
17.4.2011	Sold in recognized stock exchange, STT paid	100	2,45,000
12.11.2011	Private sale to an outsider	All bonus shares	1,25,000
24.3.2012	Private sale to her friend Mrs. Meera (Market value on this date was ₹ 2,00,000)	100	1,70,000

You are required to show the income-tax consequences in the hands of the persons in whose hands the above transactions are chargeable.

Financial Year	Cost Inflation Index
2011-12	785
2010-11	711
2009-10	632

(8 Marks)

- (b) Examine the veracity of the following assertions with reference to the statutory provisions relating to service tax providing proper reasoning for the same:-
- Service Tax Code Number is a 10-digit alphanumerical number allotted to the assessee.
 - Since the aggregate value of taxable services of Mr. Sambhav is ₹ 49 lakh in previous year 2011-12, he can pay service tax on payment basis in financial year 2012-13 upto a total value of taxable services of ₹ 50 lakh. (4 Marks)
- (c) Mr. Ajay Singla, a dealer in Delhi dealing in tyres has transferred the stock of goods worth ₹ 2,50,000 (excluding VAT @ 12.5%) to Mr. Rohan in Punjab. Determine the amount of input tax credit available on the stock transferred by Mr. Ajay Singla. (4 Marks)
6. (a) The following are the details relating to Mr. Nikunj for the year ended 31.03.2012 :

S.No.	Particulars	₹
(i)	Salary received as a partner from a partnership firm (allowed as deduction in the hands of firm)	1,00,000
(ii)	Net house property income as computed under the head "Income from house property"	3,20,000
(iii)	Income from own business before adjusting the following	1,20,000
	(a) Brought forward business loss	1,85,000
	(b) Current depreciation	36,000
	(c) Brought forward unabsorbed depreciation	1,60,000
(iv)	Short term capital gain – jewellery	1,90,000
(v)	Long term capital loss –listed equity shares (STT paid)	55,000
(vi)	Long term capital gains – Debentures	2,20,000
(vii)	Dividend on shares held as stock in trade	24,000
(viii)	Dividend from a company carrying on agricultural operation (held as investment)	8,000
(ix)	Income from growing and manufacturing coffee (cured and roasted)	1,20,000
(x)	Investment in notified equity linked saving scheme of UTI	1,50,000
(xi)	Donation to an approved local authority for the promotion of family planning	35,000

Compute the total income and tax liability of Mr. Nikunj for the Assessment year 2012-13. (8 Marks)

- (b) Does a service provider have an option to pay service tax at a rate different from the general rate applicable on gross value of taxable services, in the case of purchase or sale of foreign currency? (4 Marks)
- (c) "Registration can be cancelled under VAT in case of transfer of business to a new location." Examine the validity of the statement. What are the circumstances under which registration can be cancelled under VAT? (4 Marks)
7. (a) Examine the applicability of the provisions for deduction of tax at source in the following cases for the assessment year 2012-13:
- (i) State Bank of India pays ₹ 45,000 per month without deducting tax at source as rent to the Central Government for a building in which one of its branches is situated.
 - (ii) Accurate Ltd. paid ₹ 2,00,000 to Mr. Sodi, a transporter, who is having PAN.
 - (iii) Mr. Sekhar has made a payment of ₹ 51,000 to Mr. Harshit for compulsory acquisition of his house as per Law of the State Government.
 - (iv) DSM & Co. (a partnership firm) has made a payment of commission of ₹ 10,000 to Mr. Sumit. (4 Marks)
- (b) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:
- (i) Mr. Gupta (aged 80 years) is carrying on retail trade business. During the previous year 2011-12, the turnover of his business was ₹ 58 lakhs and he declares his business income from such trade as ₹ 4,50,000 (which also represents his taxable income) in his return of income for the assessment year 2012-13. The due date of filing the return of income in the case of Mr. Gupta is 30th September, 2012.
 - (ii) The Central Government is empowered to notify the class or classes of persons who will be exempted from the requirement of filing of return of income. (2 x 2 = 4 Marks)
- (c) Ms. Shalini Jindal who has entered into a future contract approached FDBC Bank for selling US \$ 40,000 at the rate of ₹ 52 per US \$. RBI reference rate for US \$ is ₹ 52.50 at that time. However, rate of exchange declared by CBEC for the day is ₹ 53.50 per US\$. Calculate the value of taxable service. (4 Marks)
- (d) M/s. Rainbow & Co., is a registered dealer under the local VAT law. He possesses the stock of goods worth ₹ 1,20,000 purchased from outside the State. He wishes to opt for the Composition Scheme. Advise him whether the same is possible. Will the VAT chain be broken if the dealer opts for the said scheme? (4 Marks)