

Test Series: September, 2013

MOCK TEST PAPER – 1
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) Mr. Yogesh carries on his own business. An analysis of his trading and profit & loss for the year ended 31-3-2013 revealed the following information:
- (1) The net profit was ₹ 12,80,000.
 - (2) The following incomes were credited in the profit and loss account:
 - (a) Dividend from UTI ₹ 30,000.
 - (b) Interest on debentures ₹ 21,000 (Gross).
 - (c) Winnings from races ₹ 25,000 (Gross).
 - (3) It was found that some stocks were omitted to be included in both the opening and closing stocks, the value of which were:

Opening stock ₹ 5,000.
Closing stock ₹ 10,000.
 - (4) ₹ 1,00,000 was debited in the profit and loss account, being contribution to a University approved and notified under section 35(1)(ii).
 - (5) Salary includes ₹ 30,000 paid to his brother which is unreasonable to the extent of ₹ 8,000.
 - (6) Advertisement expenses include 20 gift packets of dry fruits costing ₹ 1,500 per packet presented to important customers.
 - (7) Total expenses on car were ₹ 82,000. The car was used both for business and personal purposes. $\frac{1}{2}$ is for business purposes.
 - (8) Miscellaneous expenses include ₹ 34,000 paid to A & CO., a goods transport operator in cash on 31-1-2013 for distribution of the company's product to the warehouses.
 - (9) Depreciation debited in the books was ₹ 60,000. Depreciation allowed as per Income-tax Rules, 1962 was ₹ 50,000.

(10) Drawings ₹ 18,000.

(11) Investment in PPF ₹ 80,000.

Compute the total income of Mr. Yogesh for the assessment year 2013-14. (10 Marks)

- (b) (i) Riddhi Ltd. exported some goods to Harison Inc. of USA. It received US \$ 8,500 as consideration for the same and sold it @ ₹ 65 per US dollar. Compute the value of taxable service under rule 2B of the Service Tax (Determination of Value) Rules, 2006 in each of the following independent cases:-

(a) RBI reference rate for US dollar at that time is ₹ 66 per US dollar.

(b) RBI reference rate for US dollars is not available.

- (ii) What would be the value of taxable service if US \$ 8,500 are converted into UK £ 4,250. RBI reference rate at that time for US \$ is ₹ 67 per US dollar and for UK £ is ₹ 90 per UK Pound. (5 Marks)

- (c) Determine the liability of VAT of Mr. A for the month of May, 2013 using invoice method of computation from the following data:

Purchase price of goods acquired from local market (including VAT)	₹ 52 lakhs
VAT rate on input	4%
Transportation, insurance, warehousing and handling cost incurred by X	₹ 25,000
Goods sold at a profit margin (on cost of production)	15%
VAT rate on sales	12.50%

(5 Marks)

2. (a) Mr. Rahul, aged 55 years, an employee of a private sector company in Calcutta, received the following for the financial year 2012-13:

Sl. No.	Particulars	₹
1.	Basic pay	1,50,000
2.	House rent allowance	1,10,000
3.	Special allowance	1,00,000

Mr. Rahul was residing at Calcutta and was paying a rent of ₹ 12,000 a month.

Compute the eligible exemption under section 10(13A) of the Income-tax Act, 1961, in respect of house rent allowance received.

- (i) If Mr. Rahul opts for rent free accommodation whereby the company would be paying a rent of ₹ 12,000 per month to the landlord and recovers a sum of ₹ 1,500 per month from Mr. Rahul which was in excess of his entitlement, what will be the

- perquisite value in respect of such rent free accommodation?
- (ii) Which of the above would be beneficial to Mr. Rahul i.e., house rent allowance or rent free accommodation? (8 Marks)
- (b) Briefly explain the important points to be kept in mind while paying service tax. (4 Marks)
- (c) How can an auditor play a role to ensure that the tax payers discharge their tax liability properly under the VAT system? (4 Marks)
3. (a) State whether filing of income-tax return is mandatory for the assessment year 2013-14 in respect of the following cases:
- (i) A registered trade union eligible for provisions of section 10(24)(b) having following incomes:
- | | |
|---------------------------------------|------------|
| Income from house property (computed) | ₹ 1,00,000 |
| Income from other sources (computed) | ₹ 90,000 |
- (ii) A charitable trust registered under section 12AA, having total income of ₹ 3,00,000, before giving effect to the provisions of sections 11 and 12.
- (iv) A Limited Liability Partnership (LLP) with business loss of ₹ 2,05,000.
- (v) The total income of a university, without giving effect to exemption under section 10(23C), is ₹ 24 lacs. Its total income is, however, nil. (8 Marks)
- (b) Whether life insurer carrying on life insurance business has option to calculate service tax at a different rate? If yes, discuss the provisions relating to optional rate of service tax available to life insurer carrying on life insurance business. (4 Marks)
- (c) Can VAT be said to be non-beneficial as compared to single stage-last point system? (4 Marks)
4. (a) During the previous year 2012-13, the following transactions occurred in respect of Mr. Adinath.
- (i) Mr. Adinath had a fixed deposit of ₹ 1,00,000 in Axis Bank. He instructed the bank to credit the interest on the deposit @ 9% from 1-4-2012 to 31-3-2013 to the savings bank account of Mr. Bholenath, son of his brother, to help him in his education.
- (ii) Mr. Adinath holds 60% share in a partnership firm. Mrs. Aruna (wife of Mr. Adinath) received a commission of ₹ 32,000 from the firm for promoting the sales of the firm. Mrs. Aruna possesses no technical or professional qualification.
- (iii) Mr. Adinath gifted a flat to Mrs. Aruna on April 1, 2012. During the previous year, the flat generated a net income (computed) of ₹ 48,000 to Mrs. Aruna.

- (iv) Mr. Adinath gifted ₹ 1,80,000 to his minor son who invested the same in a business and he derived income of ₹ 18,000 from the investment.
- (v) Mr. Adinath's minor son derived an income of ₹ 35,000 through a business activity involving application of his skill and talent.

During the year, Mr. Adinath got a monthly pension of ₹ 15,000. He had no other income. Mrs. Aruna received salary of ₹ 22,000 per month from a part time job.

Discuss the tax implications of each transaction and compute the total income of Mr. Adinath, Mrs. Aruna and their minor child. (8 Marks)

- (b) Compute the interest payable for the delayed payment of service tax by the service providers relating to a period in the financial year 2013-14 in the following cases:

Name of the service provider	LMN Ltd.	Mr. Sharad
Service tax liability	₹ 1,25,600	₹ 2,18,000
Delay in payment of service tax	20 days	30 days

The aggregate value of taxable services rendered in the previous financial year 2012-13 by LMN Ltd. was ₹ 50 lakhs and by Mr. Sharad was ₹ 65 lakhs. (4 Marks)

- (c) State any two benefits and two drawbacks for a dealer who opts for composition scheme under VAT . (4 Marks)
5. (a) Discuss the taxability of the following gifts received by Mrs. Pari during the previous year 2012-13. Also, compute her income from other sources for Assessment Year 2013-14, based on the information given below:
- (i) On the occasion of her marriage on 15.07.2012, she has received ₹ 2,00,000 as gift out of which ₹ 75,000 are from relatives and balance from friends.
 - (ii) On 08.09.2012, she has received gift of ₹ 40,000 from her father's cousin.
 - (iii) On 10.10.2012, a friend gifted her an Ipad worth ₹ 25,000.
 - (iv) She got a cash gift of ₹ 35,000 from the younger sister of her husband's grandmother on 22.11.2012.
 - (v) She has received a cash gift of ₹ 15,000 from her friend on 25.12.2012. (8 Marks)
- (b) Mr. Om, a service provider has collected service tax from a client, but is unable to perform the service. Briefly explain the conditions subject to which he can adjust the service tax so collected, against his forthcoming service tax liability. (4 Marks)
 - (c) State the eligibility of purchases for input tax credit in the following cases:-
 - (i) Goyal & Co. purchased goods from Aryan Enterprises, a registered dealer. Aryan

Enterprises has opted for composition scheme under the VAT provisions.

- (ii) Anil purchased goods from Sunil. Sunil has not shown the amount of VAT paid by him separately in the invoice. (4 Marks)

6. (a) Gopal transfers land and building on 15-03-2013 and furnishes the following information:

Particulars	(₹)
(i) Net consideration received	20,00,000
(ii) Value adopted by Stamp Valuation Authority	25,00,000
(iii) Value ascertained by Valuation Officer on reference by the Assessing Officer	22,00,000
(iv) This land was acquired by Gopal on 1-04-1981. Fair Market value of the land as on 01-04-1981 was	1,50,000
(v) A Residential building was constructed on land by Gopal at a cost of ₹ 3,50,000 (construction completed on 01-12-2002) Brought forward short term capital loss incurred on sale of shares during financial year 2008-09 ₹ 2,00,000,	

What is the amount Gopal should invest in RECL bonds so as to enjoy exemption from capital gain tax under the Income-tax Act, 1961.

Cost inflation index for FY 1981-1982 : 100

Cost inflation index for FY 2002-2003 : 447

Cost inflation index for FY 2012-2013 : 852 (8 Marks)

- (b) Briefly explain the provisions relating to advance payment of service tax. (4 Marks)

- (c) Mr. Vishnu is a registered dealer and gives the following information. You are required to compute the net tax liability and total sales value under value added tax:

Vishnu sells his products to dealers in his State and in other States.

The profit margin is 15% of cost of production and VAT rate is 12.5% of sales.

- (i) Intra State purchases of raw material ₹ 1,50,000/- (excluding VAT @ 4%)
(ii) Purchases of raw materials from an unregistered dealer ₹ 80,000/- (including VAT @ 12.5%)
(iii) High seas purchases of raw materials are ₹ 1,85,000/- (excluding custom duty @ 10% of ₹ 18,500)
(iv) Purchases of raw materials from other States (excluding CST @ 2%) ₹ 50,000/-
(v) Transportation charges, wages and other manufacturing expenses excluding tax

₹ 1,45,000/-

(vi) Interest paid on bank loan ₹ 85,000/- (4 Marks)

7. (a) (i) Mr. Kaushal, a landlord, derived rental income of ₹ 75,000 per month from letting out of house property to M/s ABC Ltd. He charged service tax @ 12.36% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by M/s ABC Ltd. on payment made to Mr. Kaushal. What are the formalities to be complied with in relation to TDS?

(ii) Briefly discuss the provisions relating to payment of advance tax on income arising from capital gains and casual income. (4 x 2 = 8 Marks)

(b) Miss Tanya, a wedding planner, has rendered services to Mr. Raj Kundra in relation to marriage of his son. Miss Tanya, being a close relative of Mr. Raj Kundra, has not charged any fee from him. Is service tax payable on such free, but taxable service?

(4 Marks)

(c) State with reasons whether the following are true or false in the context of VAT:

(i) Taxpayer's Identification Number (TIN) is a 10 digit alpha numeral.

(ii) Self assessment concept on deemed basis is one of the important features of VAT.

(4 Marks)