

AATMAN ACADEMY

Model Test Paper – 4 IPCC Gr. 1 Tax Nov 2013

Time : 3 Hours

[100 marks]

Question 1 is compulsory, Attempt any Five from remaining.

Q.1

[10 + 5 + 5 Marks]

1. (a) Dr. Siddharth, a resident individual at Mangalore, aged 50 years is running a clinic. His Income and Expenditure Account for the year ending March 31st 2013 is as under:

Expenditure	₹	Income	₹
To Medicine consumed	9,70,000	By Consultation and Medical charges	24,00,000
To Staff salary	5,75,000		
To Clinic consumables	1,85,000	By Income-tax refund (principal ₹ 16,000, interest ₹ 2,000)	18,000
To Rent paid	1,55,000		
To Administrative expenses	3,20,000	By Dividend from Indian companies	25,000
To Donation to IIT Kanpur for Research approved under section 35(2AA)	80,000	By Winning from lottery (Net of TDS)	35,000
To Net Profit	2,51,000	By Rent	58,000
	<u>25,36,000</u>		<u>25,36,000</u>

- (i) Rent paid includes ₹ 45,000 paid by cheque towards rent for his residence.
- (ii) Clinic equipments are:
01.04.2012 Opening WDV ₹ 3,00,000
26.12.2012 Acquired (cost) ₹ 1,10,000
- (iii) Rent received relates to property let out at Mangalore. Gross Annual Value ₹ 58,000. The municipal tax of ₹ 12,000, paid in January 2013 has been included in "administrative expenses".
- (iv) Dr. Siddharth availed a loan of ₹ 6,00,000 from a bank for higher education of his son. He repaid principal of ₹ 80,000, and interest thereon ₹ 75,000 during the year 2012-13.

- (v) He paid ₹ 65,000 as tuition fee to the university for full time education of his daughter.

From the above, compute the total income of Dr. Siddharth for the assessment year 2013-14. (10 Marks)

- (b) M/s Rohini, an advertising agency furnishes the following information relating to services provided during the quarter ending 31.03.2013:-

Services rendered	Amount (₹)
Aerial bill-boards	64,000
Sale of time for advertisement to be broadcast on TV Channel	1,10,000
Advertisement via banner at public places	87,000
Services related to preparation of advertisement	95,000
Sale of space for advertisement in newspaper	78,000
Sale of time for advertisement to be broadcast on FM Radio	55,000
Canvassing advertisement for publishing on a commission basis	25,000

Compute the value of taxable service and the service tax liability of Rohini Advertising agency for the quarter ending 31.03.2013.

Notes:

- Point of taxation for all the aforesaid cases falls during the quarter ending 31.03.2013.
 - All the charges stated above are exclusive of service tax.
 - Rohini Advertising agency is not eligible for small service providers' exemption under Notification No. 33/2012 – ST dated 20.06.2012. (5 Marks)
- (c) Bestop Enterprises is a dealer in Gujarat and deals in consumer goods. It submits the following information pertaining to the month of April, 2013:
- Exempt goods 'X' purchased for ₹ 3,00,000 and sold for ₹ 3,50,000.
 - Goods 'Y' purchased for ₹ 3,25,000 (excluding VAT) and sold at a margin of 10% profit on purchase value (Input and output VAT rate is 12.5%).
 - Goods 'Z' purchased for ₹ 4,00,000 (excluding VAT) and sold for ₹ 6,50,000 (Input and output VAT rate is 4%);
 - His unutilized balance of VAT input credit on 01.04.2013 was ₹ 5,500.
- Compute the turnover, input VAT, output VAT and net VAT payable by Bestop Enterprises. (5 Marks)

- (a) Mr. Jatin, employed as General Manager in Beta Ltd., furnishes you the following information for the year ended 31.03.2013:

Basic salary	₹ 25,000 per month
Dearness allowance (forming part of salary for retirement benefits)	60% of basic salary
Transport allowance (for commuting between place of residence and office)	₹ 1,600 per month
Conveyance Allowance (reimbursement of actual expenditure incurred on conveyance in performance of duties of an office)	₹ 1,000 per month
Employer's contribution to recognized provident fund	15% of basic salary and dearness allowance
Interest credited to recognized provident fund @ 12%	24,000
Rent free unfurnished accommodation provided to Mr. Jatin in Delhi which is owned by company.	
Motor car running and maintenance charges fully paid by employer (The motor car is owned and driven by the employee. The engine cubic capacity is above 1.60 litres. The motor car is used for both official and personal purpose by the employee.)	₹ 50,000
Gift voucher given on the occasion of his birthday	₹ 4,500
Value of medical facility in a hospital maintained by the company	₹ 18,000
Reimbursement of salary of a domestic servant by the company which was engaged by Mr. Jatin at his residence	₹ 2,500 per month
Free education was provided to his three children in a school maintained and owned by the company. The cost of such education is computed at ₹ 800 per child per month.	
Housing loan of ₹ 10,00,000 given on 01.01.2013 at the interest rate of 8% p.a. (No repayment was made during the year). The rate of interest charged by State Bank of India as on 01.04.2012 in respect of housing loan is 10%.	

(b)

You are required to compute his taxable salary for the assessment year 2013-14.

17. Miss Diya, an authorized dealer in foreign exchange, exchanged in the following gross amount of currency in the month of July, 2013:-

	₹
Case-I	26,000*
Case-II	22,000*
Case-III	1,50,000*
Case-IV	21,00,000*

Compute the amount of service tax liability in each of the aforesaid independent cases assuming that Miss Diya has opted for option available for payment of service tax under Rule 6(7B) of the Service Tax Rules, 1994. Miss Diya is not eligible for small service providers' exemption under Notification No. 33/2012 – ST dated 20.06.2012 for the financial year 2012-13.

*exclusive of service tax

- (c) Mr. Pankaj, a registered dealer is required to make payment of ₹ 1,75,000 under VAT for the month of July, 2013. His unutilized balance of VAT input credit for the month of June, 2013 is ₹ 2,80,000. He has also made interstate sale of goods upon which he is liable to pay CST of ₹ 30,000 for the month of July, 2013. Determine the input tax credit to be carried forward, if any, by Mr. Pankaj to the next month.

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)

Q. 4

[8 + 4 + 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)

Q. 5

[8 + 4 + 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:
- 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.
 - On 08.09.2012, she has received gift of ₹ 40,000 from her father's cousin.
 - On 10.10.2012, a friend gifted her an Ipad worth ₹ 25,000.
 - She got a cash gift of ₹ 35,000 from the younger sister of her husband's grandmother on 22.11.2012.
 - 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:-
- Goyal & Co. purchased goods from Aryan Enterprises, a registered dealer. Aryan Enterprises has opted for composition scheme under the VAT provisions.
 - Anil purchased goods from Sunil. Sunil has not shown the amount of VAT paid by him separately in the invoice. (4 Marks)

Q. 6

[5 + 3 + 4 + 4 Marks]

- (a) State with reasons, whether the following statements are true or false, with regard to the provisions of the Income-tax Act, 1961:
- Payment made in respect of a business expenditure incurred on 16th February, 2012 for ₹ 25,000 through a cheque duly crossed as "& Co." is hit by the provisions of section 40A(3).
 - It is a condition precedent to write off in the books of account, the amount due from debtor to claim deduction for bad debt.
 - Failure to deduct tax at source in accordance with the provisions of Chapter XVII-B, inter alia, from the amounts payable to a resident as rent or royalty, will result in disallowance while computing the business income where the resident payee has not paid the tax due on such income.
 - Co-operative banks are not allowed to claim provision for bad and doubtful debts in respect of advances made by rural branches of such banks.
 - Where the payment is made by way of adjustment against the amount of any liability incurred by the payee for any goods supplied or services rendered by the assessee to such payer, in excess of ₹ 20,000 in a day, no disallowance gets attracted under section 40A(3) of the Income-tax Act, 1961, read with Rule 6DD of the Income-tax Rules, 1962.
- (b)
- Where any transaction of taxable service is entered into with an associated enterprise, receipt of service tax is not material for levy of service tax. Explain with reasons, whether you agree or disagree with this statement. (2 Marks)
 - Briefly discuss about the adjustment of excess amount of service tax paid in case of renting of immovable property service, owing to property tax payment. (2 Marks)
- (c)
- What are the different variants of VAT and how is deduction available for tax paid on inputs including capital inputs? (2 Marks)
 - What are the different stages of VAT? Can it be said that the entire burden falls on the final consumer? (2 Marks)

Q. 7

[4 x 4 Marks]

- (a) Mr. Shobhit, a landlord, derived income from rent from letting of house property to Praveen Corporation Ltd. at ₹ 1,40,000 per month for a period of 6 months. He charged service tax @ 12.36% on lease rent charges. Calculate the deduction of tax at source (TDS) to be made by Praveen Corporation Ltd. on payment made to Mr. Shobhit. (4 Marks)

- (b) Determine the residential status as per the Income-tax Act, 1961 for the assessment year 2013-14 in following cases:
- (i) Mr. Foogy, a British citizen, has visited India for 90 days during every financial year for the past 10 years.
 - (ii) Ms. Madhu left India for the first time on 20.08.2012 after her marriage, to Italy. She is a home maker and not in employment. (2 x 2 = 4 Marks)
- (c) A customer gets US \$ 1,80,000 converted into UK £ 90,000. RBI reference rate at that time for US \$ is ₹ 45 per US dollar and for UK £ is ₹ 80 per UK pound. Compute the value of taxable service as per rule 2B of the Service Tax (Determination of Value) Rules, 2006. (4 Marks)
- (d) State with reasons whether the following are true or false in the context of VAT as per White Paper:
- (i) Taxpayer's Identification Number (TIN) is a 10 digit alpha numeral.
 - (ii) No declaration form is prescribed under VAT system. (2 x 2 = 4 Marks)