

Roll No. ....

**NOV 2011**

**PCE  
GROUP II-PAPER 5  
TAXATION**

Total No. of Questions – 7

Total No. of Printed Pages – 12

Time Allowed – 3 Hours

Maximum Marks – 100

## **MNC**

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi medium, his answers in Hindi will not be valued.

Question No. 1 is compulsory.

Attempt any **five** questions from the remaining **six** questions.

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer, Working notes should form part of the answer.

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1. (a) Mr. Vaibhav started a proprietary business on 01-04-2009 with a capital of ₹ 5,00,000. He incurred a loss of ₹ 2,00,000 during the year 2009-10. To overcome the financial position, his wife Mrs. Vaishaly, a software Engineer, gave a gift of ₹ 5,00,000 on 01-04-2010, which was immediately invested in the business by Mr. Vaibhav. He earned a profit of ₹ 4,00,000 during the year 2010-11. Compute the amount to be clubbed in the hands of Mrs. Vaishaly for the Assessment Year 2011-2012. If Mrs. Vaishaly gave the said amount as loan, what would be the amount to be clubbed ?

- (b) Mr. Batra furnishes the following details for year ended 31-03-2011 :

	₹
Short term capital gain	1,40,000
Loss from speculative business	60,000
Long term capital gain on sale of land	30,000

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Long term capital loss on sale of shares (securities transaction tax not paid)	1,00,000
Income from business of textile (after allowing current year depreciation)	50,000
Income from activity of owning and maintaining race horses	15,000
Income from salary	1,00,000
Loss from house property	40,000

Following are the carry forward losses :

- (i) Losses from activity of owning and maintaining race horses-pertaining to A.Y. 2008-09 ₹ 25,000.
- (ii) Carry forward loss from business of textile ₹ 60,000 – Loss pertains to A.Y. 2003-04.

Compute gross total income of Mr. Batra for the assessment year 2011-12. Also state the eligible carry forward losses for the Assessment Year 2011-12.

(c) The gross total income of Mr. Nepal for the Assessment Year 2011-12, was ₹ 12,00,000. He has made the following investments / Payments during the year 2010-11.

1. L.I.C. Premium paid (Policy value ₹ 1,00,000)	25,000
2. P.P.F. amount paid	25,000
3. Repayment of Housing Loan to Indian Bank	50,000
4. Payment made to L.I.C. pension fund	20,000
5. Infrastructure Bonds of IDBI Ltd.	30,000
6. Medical insurance premium for self, wife and dependant Children.	18,000
7. Mediclaim premium for parents (aged over 80 years)	30,000

Compute eligible deduction under Chapter VI A for the Assessment Year 2011-12.

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(d) The following particulars are provided by Mr. Prohit of Calcutta, who has purchased Raw materials for manufacturing PVC Cans and PVC Pipes from Mr. Arvind. The State VAT for Raw Materials and other materials was 12.5%.

	₹
1. Cost of Raw materials purchased.	1,00,000 ✓
2. VAT paid by Mr. Arvind	✓ 12,500
3. Cost of other materials Local	20,000 ✓
– Interstate Purchases	40,000 ✓
4. VAT paid on Local Materials Purchased- 12.5%	✓ 2,500
5. CST Paid @ 2%	800 ✓
6. Manufacturing Expenses	39,200 ✓
7. Profit Margin (on Sale Value)	20%

Mr. Prohit utilized and manufactured 75% of production as PVC Cans and 25% of production as PVC Pipes. While PVC Cans are subject to 12.5% VAT, PVC Pipes are exempt. All materials were used in production and there was no closing stock of Raw materials and other materials.

What would be the invoice value of Sales charged by Mr. Prohit if all the manufactured goods were sold within the State? What would be his liability to VAT?

2. (a) Ms. Rachna was gifted a land by her father in December, 2001 at the occasion of her marriage. The land was allotted to her father in November, 1991 at cost of ₹ 6 lac by DDA for commercial purpose. She set up a nursery on land, earns profit ₹ 2 lacs during the year 2010-11 from seedlings grown in nursery. She sold the nursery to her friend at ₹ 50 lacs in October, 2010. Her friend paid ₹ 20 lacs in cash and ₹ 30 lacs in the form of shares. Market value of land on

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date of sale was ₹ 90 lacs and shares ₹ 70 lacs. Rachna, with an intention to earn profit, invested ₹ 20 lacs in shares by purchasing shares for ₹ 15 lacs from National Stock Exchange and ₹ 5 lacs in subscription to equity shares forming part of eligible issue of capital by a public company. She spent ₹ 60,000 on purchase of computers, ₹ 20,000 on net connectivity and ₹ 2 lacs toward salary and other expenses. She paid monthly rent ₹ 2,500 for a shop which was taken in October 2010, for trading in shares. Depreciation rate on computers is 60%.

The value of Shares purchased and sold during the year are as follows :

Purchases including received from friend	₹ 80,00,000
Sales	₹ 1,00,00,000

The market value of shares remains unsold as on 31-03-2011 is ₹ 40 lakhs. Ms. Rachna

- made contribution of ₹ 20,000 to approved pension fund.
- paid ₹ 25,000 to LIC for medical insurance premium of self and spouse.
- repay loan ₹ 1,00,000 and interest ₹ 20,000 to SBI taken in February, 2011 for her son's admission in Sri Ram College of Commerce B.Com.
- invested ₹ 1,00,000 in log term infrastructure bonds.
- contributed ₹ 25,000 to research association has its object to undertake scientific research.

Rachna did not earn any short term capital gain during the year. Rachna has not celebrated her 40<sup>th</sup> birthday yet. Compute the total income of Ms. Rachna and tax thereon payable by her for the Assessment Year 2011-12. Cost inflation index for financial year 1991-92 is 199, 2001-02 is 426 and 2010-2011 is 711.

(b) Chandra Limited ~~was~~ started to provide taxable services. The services became taxable from 01-10-2010. confusing  
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Chandra Limited for the month of March, 2011, received following receipts (inclusive of Service Tax)

S. No.	Particulars	Amount (₹)
1.	Amount received in respect of Services rendered in July and August, 2010.	10,30,000
2.	Services provided to the Branch of World Health Organisation-a unit of UN.	1,03,000

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3.	Services rendered to its Auditors against <u>Audit Free Payable.</u>	5,15,000
4.	Advance received for Services to be rendered in May, 2011.	6,18,000
5.	Services provided to office Staff and their relatives free of cost.	20,000

Out of Advance received, 50% was returned on 15-04-2011 to the party, as they have closed their operations from 31-03-2011.

Compute the Taxable Services and Service Tax payable for March, 2011 by Chandra Limited.

- (a) Mrs. Deepali (aged 40 years) is working with M/s Good Company Ltd., a manufacturer of tyres based at Mumbai, has received the following payments during the financial year 2010-11 from her employer :

Basic salary : ₹ 60,000 per month.

Dearness allowance : 40% of basic salary.

Her employer has taken on rent her own house on a monthly rent of ₹ 15,000 and the same has been provided for residence of Mrs. Deepali. Company is recovering ₹ 2,000 per month as rent of house.

Mrs. Deepali has further furnished the following details :

- (i) Subscription to notified long term infrastructure bonds of ₹ 30,000 under section 80CCF of the Income-Tax Act.
- (ii) She has paid professional tax of ₹ 6,000 during financial year 2010-11.
- (iii) She is owning only one house and payment of interest of ₹ 1,75,000 and principal of ₹ 1,00,000 was made for housing loan taken for purchase of house.
- (iv) She has also taken a loan of ₹ 2,00,000 from her employer for study of her son. SBI rate for such loan is 10%. Her employer has recovered ₹ 10,000 as interest from her salary for such loan during the year.

Compute taxable income and tax liability for assessment year 2011-12.

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- (b) Mr. Mithun purchased 100 shares of M/s Goodmoney Co. Ltd. on 01-04-2005 at rate of ₹ 1,000 per shares in public issue of the company. 4

Company allotted bonus shares in the ratio of 1 : 1 on 01-12-2009. He has also received dividend of ₹ 10 per share on 01-05-2010.

He has sold all the shares on 01-10-2010 at the rate of ₹ 3,000 per share through a recognized stock exchange and paid brokerage of 1% and securities transaction tax of 0.02% to celebrate his 75<sup>th</sup> birthday. The cost inflation Index are as follows :

Financial Year	Cost Inflation Index
2005-06	497
2010-11	711

Compute his total income and tax liability for Assessment Year 2011-12 assuming that he is having no income other than given above.

- (c) (i) Whether service tax is payable by independent directors who are part of the Board of Directors under management consultancy service. 4
- (ii) S. Ltd. paid service tax of ₹ 8 lacs during the preceding financial year and utilized CENVAT credit of ₹ 3 lacs. Whether he is required to deposit service tax electronically for the financial year 2010-11. *confusion*

4. (a) Mr. X retired from the services of M/s Y Ltd. on 31-01-2011 after completing service of 30 years and one month. He had joined the company in 1980 at the age of 30 years and received the following on his retirement : 8

- (i) Gratuity ₹ 6,00,000. He was covered under the Payment of Gratuity Act, 1972.
- (ii) Leave encashment of ₹ 3,30,000 for 330 days leave balance in his account. He was credited 30 days leave for each completed year of service.

- (iii) As per the scheme of the company, he was offered a car which was purchased on 01-02-2008 by the company for ₹ 5,00,000. Company has recovered ₹ 2,00,000 from him for the car. Company depreciates the vehicles at the rate of 15% on Straight Line Method.
- (iv) An amount of ₹ 3,00,000 as commutation of pension for 2/3 of his pension commutation.
- (v) Company presented him a gift voucher worth ₹ 6,000 on his retirement.
- (vi) His colleagues also gifted him a Television (LCD) worth ₹ 50,000 from their own contribution.

Following are the other particulars :

- (i) He has drawn a Basic Salary of ₹ 20,000 and 50% Dearness allowance per month for the period from 01-04-2010 to 31-01-2011.
- (ii) Received pension of ₹ 5,000 per month for the period 01-02-2011 to 31-03-2011 after commutation of pension.

Compute his gross total income from the above for Assessment Year 2011-12.

- (b) Mr. Asim, a 60 years old individual, is engaged in the business of roasting and grounding of coffee, derives income ₹ 10 lacs during the financial year 2010-11. Compute the tax payable by him assuming he has not earned any other income during the financial year 2010-11. 4

- (c) Briefly explain the following <sup>with</sup> in reference to service tax : 4

- (i) Applicability of service tax liability in case of job work.
- (ii) Exemption available to small scale service providers.
- (iii) Liability of service tax in case of sponsorship services.
- (iv) Liability of service tax in case of export of services.

5. (a) State with reasons the allowability of the following expenses under Income-Tax Act, 1961 while computing income from business or profession for the Assessment Year 2011-12 : 7

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹ 5,00,000. However, no payment on account of gratuity was made before due date of filling return.
- (ii) Purchase of oil seeds of ₹ 50,000 in cash from a farmer on a banking day.
- (iii) Tax on non monetary perquisite provided to an employee ₹ 20,000.
- (iv) Payment of ₹ 50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹ 2,00,000 by a company outside India without deduction of tax.
- (vi) Sales tax deposited in cash ₹ 50,000 with State Bank of India.
- (vii) Payment made in cash ₹ 30,000 to a transporter in a day for carriage of goods.

(b) Mr. David a Government employee serving in the Ministry of External Affairs left India for the first time on 31-03-2010 due to his transfer of High Commission of Canada. He did not visit India any time during previous year 2010-11. He has received the following income for the Financial Year 2010-11. 5

	₹
(i) Salary	5,00,000
(ii) Foreign Allowance	4,00,000
(iii) Interest on fixed deposit from bank in India	1,00,000
(iv) <i>Income from agriculture</i> in Pakistan	2,00,000
(v) Income from house property in Pakistan	2,50,000

Compute his gross total income for Assessment Year 2011-12.

(c) Briefly explain the consumption variant of VAT and reasons for its preference over other variants. 4



6. (a) Compute amount of tax deduction at source on the following payments made by M/s S Ltd. during the financial year 2010-11 as per the provisions of the Income-Tax Act, 1961. 6

Sr. No.	Date	Nature of Payment
(i)	1-10-2010	Payment of ₹ 2,00,000 to Mr. "R" a transporter who is having PAN.
(ii)	1-11-2010	Payment of fee for technical services of ₹ 25,000 and Royalty of ₹ 20,000 to Mr. Shyam who is having PAN.
(iii)	30-06-2010	Payment of ₹ 25,000 to M/s X Ltd. for repair of building.
(iv)	01-01-2011	Payment of ₹ 2,00,000 made to Mr. A for purchase of diaries made according to specifications of M/s S Ltd. However, no material was supplied for such diaries to Mr. A by M/s S Ltd.
(v)	01-01-2011	Payment made ₹ 80,000 to Mr. Bharat for compulsory acquisition of his house as per Law of the State Government.
(vi)	01-02-2011	Payment of commission of ₹ 6,000 to Mr. Y.

- (b) Mr. Gupta is having a trading business and his Trading and Profit & Loss Account for the financial year 2010-11 is as under : 6

Particulars	Amount (₹)	Particulars	Amount (₹)
To Opening stock	1,00,000	By Sales	70,00,000
To Purchases	49,00,000	By Closing stock	50,000
To Gross profit	20,50,000		
Total	70,50,000	Total	70,50,000
		By Gross Profit b/d	20,50,000

Salary to employees (Including Contribution to PF)	5,00,000		
Donation to Prime Minister Relief Fund	1,00,000		
Provision for bad debts	50,000		
Bonus to employees	50,000		
Interest of bank loan	50,000		
Family planning expenditure incurred on employees	20,000		
Depreciation	30,000		
Income Tax	1,00,000		
To Net profit	11,50,000		
<b>Total</b>	<b>20,50,000</b>	<b>Total</b>	<b>20,50,000</b>

Other information :

- (i) Depreciation allowable ₹ 40,000 as per Income Tax Rules.
- (ii) No deduction of tax at source on payment of interest on bank loan has been made.
- (iii) Payment of bonus to workers made in the month of October on the occasion of Diwali festival.
- (iv) Out of salary, ₹ 25,000 pertains to his contributions to recognized provident fund which was deposited after the due date. Further, employees contribution of ₹ 25,000 was also deposited after the due date.

Calculate gross total income of Mr. Gupta for the Assessment Year 2011-12.

(c) State the liability of service tax in respect of the following services : 4

- (i) Services provided for personal use or use by the family members of a foreign diplomatic agent/in a foreign diplomatic mission.
- (ii) Services provided for issuing fitness certificate of vehicles by Regional transport office.
- (iii) Services received from outside India and consumed in India.
- (iv) Services rendered to a friend free of cost.

7. Answer the following :

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= 16

(a) M/s. Dollar Ltd. a manufacturing concern furnishes the following particulars :-

	₹
(i) Opening writing down value under Income Tax of block plant and machinery	5,00,000
(ii) Purchase of plant and machinery (put to use before 01-10-2010)	2,00,000
(iii) Sale proceeds of plant and machinery which became obsolete – the plant and machinery was purchased on 01-04-2008 for ₹ 5,00,000.	5,000

Further, out of purchase of plant and machinery :

- (a) Plant and machinery of ₹ 20,000 has been installed in office.
- (b) Plant and machinery of ₹ 20,000 was used previously for the purpose of business by the seller.

Compute depreciation and additional depreciation as per Income-Tax Act for the Assessment Year 2011-12.

(b) State the Service Tax provisions regarding adjustment of Service tax paid when service was not provided either wholly or partly.

OR

Briefly explain the important points to be kept in mind while paying Service Tax.

- (c) (i) State when a return of income can be treated as defective ?
- (ii) An assessing officer finds a defect in the return of income and intimated the defect Vide letter dated 09-10-2010, which was received by Mr. Ram on 14-12-2010. What is the date by which Mr. Ram has to rectify the defect, assuming that Mr. Ram has not applied for extension of time.

(d) Discuss the taxability of agricultural income under the Income Tax Act, 1961. How will income be computed where an individual derives agricultural and non-agricultural income ?