

Roll No. ....

**IPCC  
GROUP-I PAPER-4  
TAXATION**

Total No. of Questions – 7

Total No. of Printed Pages – 8

Time Allowed – 3 Hours

**NOV 2012**

Maximum Marks – 100

**RAM**

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 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 necessary suitable assumptions may be made and disclosed by way of a note.

Working Notes should form part of the answer.

	<b>Marks</b>
1. (a) Mr. Hari provides the following information for the year ending 31-03-2012 :	<b>10</b>
	₹
(i) Rent from vacant site let on lease	1,12,000
(ii) Rent from house property at Delhi	20,000
	per month
(iii) Turnover from retail trade in grains (No books of account maintained)	24,37,500
(iv) Arrears of salary received from ex-employer	40,000
(v) Purchase of 10,000 shares of X Co. Ltd., on 01-01-2008	1,00,000
He received a 1 : 1 bonus on 01-01-2009. Sale of 5,000 bonus shares in September, 2011	2,20,000

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**P.T.O.**

- (vi) Received ₹ 1,50,000 on 12-02-2012 being amount due from Mr. A relating to goods supplied by Hari's father, which was written off as bad debt by his father in Assessment Year 2010-11 and allowed as deduction. Hari's father died in July 2010.
- (vii) Brought forward business loss relating to discontinued textile business of Hari relating to the Assessment Year 2010-11. 1,97,500
- (viii) Brought forward depreciation relating to discontinued textile business of Hari. 1,50,000
- (ix) Hari contributed ₹ 30,000 to Prime Minister's National Relief Fund and ₹ 40,000 to Charitable Trust enjoying exemption u/s 80G.

Compute the total income and the tax thereon of Mr. Hari for the Assessment Year 2012-13.

- (b) Mr. Ghosh is a practising Chartered Accountant. He has furnished the following information for the month of January 2012. 5
- (i) A bill for annual professional service was raised on Amco Ltd., for ₹ 7,20,000 on 22<sup>nd</sup> December 2011. However he received ₹ 7,00,000 in full and final settlement of the above bill on 23<sup>rd</sup> January 2012.
- (ii) An advance of ₹ 3,00,000 was received from Atul Ltd., for services to be provided in the month of April and May.
- (iii) Services were provided to a friend free of cost in January 2012 for which Ghosh normally charges ₹ 1,20,000 from other clients.
- (iv) ₹ 1,00,000 was received on 20<sup>th</sup> January 2012 from client 'C' whom Ghosh represented in the Income-tax Appellate Tribunal which sent a notice to Mr. C.
- (v) ₹ 1,00,000 was received on 18<sup>th</sup> January 2012 for services rendered as a part time lecturer in a local college.

(3)

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Mr. Ghosh provides the following additional informations :

- (i) In all the aforesaid cases the service tax has not been charged separately.
- (ii) He is not eligible for the exemption available to the small service provider.

Compute the service tax, education cess and higher education cess payable by Mr. Ghosh for the month of January 2012. The rate of service tax is 10%, education cess is 2% and higher education cess is 1%.

- (c) The following are details of purchases, sales, etc. effected by Varadan & Co., a registered dealer, for the year ended 31-03-2012 : 5

Particulars	Amount (₹)
Purchase of raw materials within State (500 units, inclusive of VAT levy at 12.5%)	11,25,000
Inter-State purchases of raw materials, inclusive of CST at 4%.	4,08,000
Import of packing material, inclusive of customs duty of ₹ 10,000	2,10,000
Capital goods purchased on 01-04-2011 of VAT levy at 10% (input credit to be spread over 2 financial years)	5,50,000
Sales of taxable goods within State, inclusive of VAT levy at 4%	40,24,000
Sales of goods within State, exempt from levy of VAT (Goods were manufactured from the Inter-State purchase of raw materials)	1,20,000

Compute the VAT liability of the dealer for the year ended 31-03-2012.

2. (a) Mr. B is the Kartha of a HUF, whose members derive income as given below : 8

	₹
(i) Income from B's profession	45,000
(ii) Mrs. B's salary as fashion designer	76,000
(iii) Minor son D (interest on fixed deposits with a bank which were gifted to him by his uncle)	10,000
(iv) Minor daughter P's earnings from sports	95,000
(v) D's winnings from lottery (gross)	1,95,000

Discuss the tax implications in the hands of Mr. and Mrs. B.

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- (b) D & Co. has been providing taxable services for the past few years. Its gross value of taxable services provided during the financial year 2009-10 and 2010-11 is 12 lakhs and 8.75 lakhs respectively. During the financial year 2011-12 it provided service for ₹ 13 lakhs. Calculate the service tax liability of D & Co. for the financial year 2011-12. Rate of Service Tax 10%, Education cess 2% and Higher Education cess @ 1%. 4
- (c) How is VAT computed under the subtraction method ? 4
3. (a) Mr. C inherited from his father 8 plots of land in 1980. His father had purchased the plots in 1960 for ₹ 5 lakhs. The fair market value of the plots as on 1-4-1981 was ₹ 8 lakhs. (₹ 1 lakh for each plot) 8
- On 1<sup>st</sup> June 2001, C started a business of dealer in plots and converted the 8 plots as stock in trade of his business. He recorded the plots in his books and ₹ 45 lakhs being the fair market value on that date. In June 2005, C sold the 8 plots for ₹ 50 lakhs.
- In the same year he acquired a residential house property for ₹ 45 lakhs. He invested an amount of ₹ 5 lakhs in construction of one more floor in his house in June 2006. The house was sold by him in June 2011 for ₹ 63,50,000/-.
- The valuation adopted by the registration authorities for charge of stamp duty was ₹ 85,50,000. As per the assessee's request the assessing officer made a reference to a valuation officer. The value determined by the valuation officer was ₹ 87,20,000. Brokerage of 1% of sale consideration was paid by C.

The relevant Cost Inflation Indices are

F.Y.	1981-82	100
F.Y.	2001-02	426
F.Y.	2005-06	497
F.Y.	2006-07	519
F.Y.	2011-12	785

Give the tax computation for the relevant assessment years with reasoning.

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- (b) State whether the following are true or false giving reasons to substantiate your answer : 4
- (i) A multiple service provider should file multiple service tax returns, one for each service provided.
- (ii) A Ltd., a foreign company incorporated in the U.K., provides taxable services in India to B Ltd., an Indian company incorporated in Mumbai. In the instant case, the service recipient and not the service provider is liable to service tax.
- (iii) Even if no service has been provided during a half year and no service tax is payable; the assessee has to file a nil return within the prescribed time limit.
- (iv) The assessee cannot file a revised return under Service Tax Law.
- (c) Enlist any six purchases eligible for availing input tax credit. 4
4. (a) Following is the profit and loss account of Mr. Q for the year ended 31-03-2012 : 8

Particulars	₹	Particulars	₹
To Repairs on Building	1,81,000	By Gross Profit	6,01,000
To Amount paid to IIT, Mumbai for an approved Scientific research programme	1,00,000	By I.T. Refund	8,100
To Interest	1,10,000	By Interest on Company Deposits	6,400
To Travelling	1,30,550		
To Net Profit	93,950		
	<b>6,15,500</b>		<b>6,15,500</b>

Following additional informations are furnished :

- (1) Repairs on building includes ₹ 1,00,000 being cost of laying a toilet roof.
- (2) Interest payments include ₹ 50,000 on which TDS has not been deducted and penalty for contravention of Central Sales Tax Act of ₹ 24,000.

Compute the income chargeable under the head "Profits and gains of Business or Profession" of Mr. Q for the year ended 31-03-2012 ignoring depreciation.

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- (b) Pranav Private Ltd., is engaged in providing a taxable service and furnishes you the following information :

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Services billed and received	Amount (₹)
December, 2011 (includes ₹ 2,00,000 for the services rendered to the United Nations Organisation)	5,00,000
January, 2012 (includes ₹ 1,50,000 for the services rendered within the Indian territorial waters)	4,00,000
February, 2012 (includes ₹ 1,75,000 for services rendered to the RBI)	5,00,000
March, 2012 Advance receipt for services to be rendered in April 2012 (includes ₹ 1,60,000 for services rendered in the State of Jammu & Kashmir)	5,00,000

Compute the taxable services for the year ended 31-03-2012.

- (c) What are the conditions to be fulfilled by the dealer accepting the composition scheme under the value added tax ?

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5. (a) Mr. Rahul an assessee aged 61 years gives the following information for the previous year 31-03-2012 :

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Sr.	Particulars	₹
a.	Loss from profession	1,05,000
b.	Capital loss on the sale of property-short term	55,000
c.	Capital gains on sale of shares-long term	2,05,000
d.	Loss in respect of self occupied property	15,000
e.	Loss in respect of let out property	30,000
f.	Share of loss from firm	1,60,000
g.	Income from card games	55,000
h.	Winnings from lotteries	1,00,000
i.	Loss from horse races in Mumbai	40,000
j.	Investment in infrastructure bonds	21,000
k.	Medical Insurance premium paid by cheque	18,000

Compute the total income of Mr. Rahul for the assessment year 2012-13.

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- (b) What are the consequences of non-payment or delayed payment of service tax ? 4
- (c) What is meant by input tax credit in the context of VAT provisions ? How does input tax credit help in achieving the essence of VAT ? 4
6. (a) Discuss whether the following receipts are taxable and also indicate the head of income under which the same is taxable : 8
- (i) Bonus shares received by equity shareholder and preference share holder.
  - (ii) Loan advanced by a company in which public are not substantially interested to a person holding 15% of the beneficial ownership of the share capital of the company.
  - (iii) Medical allowance received by an employee, the entire amount of which has been spent by him for medical treatment.
  - (iv) Receipt of a cash gift of ₹ 60,000/- from a friend on the occasion of wedding anniversary.
  - (v) Contribution to provident fund recovered from an employee by an employer.
  - (vi) Gift of a plot of land given to a chartered accountant by one of his clients. The chartered accountant has been fully compensated for his services and this gift has been given in appreciation of his personal qualities.
  - (vii) A lawyer closed down his profession. Subsequently he accepted a case on the insistence of his friend but advised his friend to pay the fee payable to him directly to a charitable trust.
  - (viii) Payment from unrecognised provident fund at the time of retirement which consists of employee's contribution, employer's contribution and interest on both contributions.
- (b) Briefly explain the provision relating to advance payment of Service Tax. 4
- (c) Discuss the compulsory and voluntary registration under VAT. 4

7. (a) Answer any **two** of the following, three subsidiaries : 2×4

(i) Bharghav doing textiles business furnishes you the following information : =8  
4

Total turnover for the financial year :

	₹
2010-11	61,00,000
2011-12	59,00,000

State whether the provisions of tax deduction at source are attracted for the following expenses incurred during the financial year 2011-12 :

	₹
Interest paid to Indian Bank on Term Loan	92,800
Advertisement expenses to R (two individual payments of ₹ 24,000 and ₹ 34,000)	58,000
Factory rent paid to C	1,85,000
Brokerage paid to B, a sub-broker	6,000

(ii) Enumerate the circumstances in which an individual assessee is empowered to sign & verify his return of income u/s 139 by himself or otherwise by an authorized signatory. 4

(iii) Discuss the tax implication arising consequent to conversion of a Capital Asset into stock-in-trade of business and its subsequent sale. 4

(b) Explain the treatment for excess amount of service tax collected from the Recipient under Service Tax. 4

(c) Since the VAT system emphasizes on self assessment the need for a system of cross-checking has arisen. Elaborate. 4