

Roll No.

NOV 2011

Total No. of Questions – 7

Total No. of Printed Pages – 11

Time Allowed – 3 Hours

Maximum Marks – 100

KFC

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

Working notes should form part of the answer.

- | | | Marks |
|----|---|-------|
| 1. | (a) Rao & Jain, a partnership firm consisting of two partners, reports a net profit of ₹ 7,00,000 before deduction of the following items : | 5 |
| | (1) Salary of ₹ 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership). | |
| | (2) Depreciation on plant and machinery under section 32 (computed) ₹ 1,50,000. | |
| | (3) Interest on capital at 15% per annum (as per the deed of partnership). The amount of capital eligible for interest ₹ 5,00,000. | |
| | Compute : | |
| | (i) Book-profit of the firm under section 40(b) of the Income-tax Act, 1961. | |
| | (ii) Allowable working partner salary for the assessment year 2011-12 as per section 40(b) of the Income-tax Act, 1961. | |

- (b) Shri Madan (age 67 years) gifted a building owned by him to his son's wife Smt. Hema on 01-10-2010. The building fetched a rental income of ₹ 10,000 per month throughout the year. Municipal tax for the first half-year of ₹ 5,000 was paid in June 2010 and the municipal tax for the second half-year was not paid till 30-09-2011.

Incomes of Shri Madan and Smt. Hema other than income from house property are given below :

Name	Business income	Capital gain	Other sources
Shri. Madan	1,00,000	50,000 (long-term)	1,50,000
Smt. Hema	(75,000)	2,00,000 (short-term)	50,000

Note : Capital gain does not relate to gain from shares and securities.

Compute the total income of Shri. Madan and Smt. Hema taking into account income from property given above and also compute their income-tax liability for the assessment year 2011-12.

- (c) Vikas 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 31-03-2011.

	₹
① ✓ Coaching fee for Civil Service examinations	3,50,000
② ✓ Postal coaching fees for University examinations	2,40,000
③ ✗ Sports coaching fee from a local college	1,10,000
④ Fee for management diploma of a foreign university (not recognized by law in force in India)	4,40,000
⑤ Coaching and training provided by sending staff to the residence of service receivers	6,40,000

Determine the value of taxable service. Your answer must be with reasons.

- (d) Laxman, a registered dealer submits the following information for the month of February, 2011.

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	Particulars	Amount ₹	Rate of VAT
	<u>Details of purchase</u>		
①	Raw material purchased from another State (CST @ 2%).	10,00,000	
②	Raw material X purchased within the State	15,00,000	1%
③	Raw material Y imported from Singapore (includes customs duty paid @ 10%).	11,00,000	
④	Raw material Z purchased within the State.	6,00,000	12.5%
	<u>Details of Sales</u>		
⑤	Sale of goods produced from raw material X.	27,00,000	4%
⑥	Sale of goods produced from inter-State purchase and imported raw materials.	32,00,000	1%
⑦	Sale of goods produced from raw material Z.	8,00,000	12.5%

Note : The purchase and sales figures given above do not include VAT / CST.

Assume that there was no opening or closing inventory. Compute the amount of Value Added Tax (VAT) payable by Laxman for the month of February, 2011.

2. (a) Mr. Balaji, employed as Production Manager in Beta Ltd., furnishes you the following information for the year ended 31-03-2011 :

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- (i) Basic salary upto 31-10-2010. ₹ 50,000 p.m.
Basic salary from 01-11-2010. ₹ 60,000 p.m.

Note : Salary is due and paid on the last day of every month.

- (ii) Dearness allowance @ 40% of basic salary.
- (iii) Bonus equal to one month salary. Paid in October 2010 on basic salary plus dearness allowance applicable for that month.
- (iv) Contribution of employer to recognized provident fund account of the employee @ 16% of basic salary.
- (v) Profession tax paid ₹ 3,000 of which ₹ 2,000 was paid by the employer.
- (vi) Facility of laptop and computer was provided to Balaji for both official and personal use. Cost of laptop ₹ 45,000 and computer ₹ 35,000 were acquired by the company on 01-12-2010.
- (vii) Motor car owned by the employer (cubic capacity of engine exceeds 1.60 litres) provided to the employee from 01-11-2010 meant for both official and personal use. Repair and running expenses of ₹ 45,000 from 01-11-2010 to 31-03-2011, were fully met by the employer. The motor car was self-driven by the employee.
- (viii) Leave travel concession given to employee, his wife and three children (one daughter aged 7 and twin sons – aged 3). Cost of air tickets (economy class) reimbursed by the employer ₹ 30,000 for adults and ₹ 45,000 for three children. Balaji is eligible for availing exemption this year to the extent it is permissible in law.

Compute the salary income chargeable to tax in the hands of Mr. Balaji for the assessment year 2011-12.

- (b) (i) When does e-payment of service tax become mandatory ? 4
- (ii) State the 'due date' for e-payment of service tax by individuals and companies.

- (c) Explain the role of chartered Accountants in proper compliance of VAT. (Any 4 points). 4

3. (a) Mr. Selvan, acquired a residential house in January, 2000 for ₹ 10,00,000 and made some improvements by way of additional construction to the house, incurring expenditure of ₹ 2,00,000 in October, 2004. He sold the house property in October, 2010 for ₹ 75,00,000. The value of property was adopted as ₹ 80,00,000 by the State stamp valuation authority for registration purpose. He acquired a residential house in January, 2010 for ₹ 25,00,000. He deposited ₹ 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June, 2011. 8

Compute the capital gain chargeable to tax for the assessment year 2011-12.

What would be the tax consequence and in which assessment year it would be taxable, if the house property acquired in January, 2010 is sold for ₹ 40,00,000 in March, 2012 ?

Cost inflation index : F.Y. 1999-2000 = 389

F.Y. 2004-2005 = 480

F.Y. 2010-2011 = 711

F.Y. 2011-2012 = 785

- (b) ABC Private Ltd., is engaged in providing a taxable service. For the month of January 2011, its gross receipts were ₹ 18,00,000. The break-up of these receipts are as follows :

Month in which services are performed	Receipt (₹)
① March, 2010 (includes ₹ 1,00,000 for the services rendered to an international organization)	4,00,000
② April, 2010 (includes ₹ 1,25,000 for the services rendered within the Indian territorial waters)	3,00,000
③ January, 2011 (includes ₹ 1,75,000 for services rendered to its associated enterprise)	5,00,000
④ February, 2011 (includes ₹ 1,50,000 for services rendered in the State of Jammu & Kashmir)	6,00,000

In the financial year 2009-10, ABC Private Ltd., had paid ₹ 2,06,000 as service tax (@ 10.3%). State the amount of service tax payable for the month of January, 2011.

- (c) State any two benefits and two drawbacks for a dealer who opts for composition scheme under VAT as per White Paper. 4

4. (a) Ramji Ltd., engaged in manufacture of medicines (pharmaceuticals) furnishes the following information for the year ended 31-03-2011 : 8

- Municipal tax relating to office building ₹ 51,000 not paid till 30-09-2011.
- Patent acquired for ₹ 20,00,000 on 01-09-2010 and used from the same month.
- Capital expenditure on scientific research ₹ 10,00,000 which includes cost of land ₹ 2,00,000.

- (iv) Amount due from customer X outstanding for more than 3 years written off as bad debt in the books ₹ 5,00,000.
- (v) Income tax paid ₹ 90,000 by the company in respect of non-monetary perquisites provided to its employees.
- (vi) Provident fund contribution of employees ₹ 5,50,000 remitted in July 2011.
- (vii) Expenditure towards advertisement in souvenir of a political party ₹ 1,50,000.
- (viii) Refund of sales tax ₹ 75,000 received during the year, which was claimed as expenditure in an earlier year.

State with reasons the taxability or deductibility of the items given above under the Income-tax Act, 1961.

Note : Computation of total income is not required.

- (b) Explain optional composition scheme under Service tax for distributor or selling agents of lotteries. 4
- (c) State with reasons whether the following are true or false in the context of VAT as per White Paper : 4
 - (i) No declaration form is prescribed under VAT system.
 - (ii) Taxpayer's Identification Number (TIN) is a 10 digit alpha numeral.
 - (iii) Self assessment concept on deemed basis is one of the important features of VAT.
 - (iv) Set off of input tax credit on capital goods is available only to manufacturers and not to traders.

5. (a) Mr. Chandran (aged 38) owned 6 heavy goods vehicles as on 01-04-2010. He acquired 2 more heavy goods vehicles on 1-7-2010. He is solely engaged in the business of plying goods vehicles on hire since financial year 2006-07.

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He did not opt for presumptive provision contained in section 44 AE for the financial year 2009-10. His books were audited under section 44 AB and the return of income was filed on 5-8-2010. He has unabsorbed depreciation of ₹ 70,000 and Business loss of ₹ 1,00,000 for the financial year 2009-10.

Following further information is provided to you :

- (i) Deposited ₹ 20,000 in Tax Saver Deposit with UCO Bank in the name of married son.
- (ii) Paid medical insurance premium of ₹ 23,000 for his parents (both aged above 70) by means of bank demand draft.
- (iii) Paid premium on life insurance policy of his married daughter ₹ 25,000.
- (iv) Repaid principal of ₹ 40,000 and interest of ₹ 15,000 to Canara Bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. Chandran has opted for presumptive provision contained in section 44 AE of the Income-tax Act, 1961, compute the total income of Mr. Chandran for the assessment year 2011-12.

- (b) State the contents of Service tax return. (any **eight** points).

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- (c) Ashok, purchased raw material 'A' for ₹ 30,00,000 plus VAT @ 4%. Out of such raw material 60% was used for manufacture of taxable goods and the remaining for manufacture of goods which are exempt from VAT. 4

Another raw material 'B' was purchased for ₹ 15,00,000 on which VAT was paid at 1%. Entire raw material 'B' was used for manufacture of taxable goods only.

The entire taxable goods were sold for ₹ 50,00,000 plus VAT @ 12.5%.

Compute VAT liability of Ashok on the assumption that there was no opening or closing inventory.

Note : Ashok is not a dealer who opted for Composition Scheme.

- (a) (i) Brett Lee, an Australian cricket player visits India for 100 days in every financial year. This has been his practice for the past 10 financial years. Find out his residential status for the assessment year 2011-2012. 2×4 =8

- (ii) On 10-10-2010, Mr. Govind (a bank employee) received ₹ 5,00,000 towards interest on enhanced compensation from State Government in respect of compulsory acquisition of his land effected during the financial year 2005-06.

Out of this interest, ₹ 1,50,000 relates to the financial year 2007-08; ₹ 1,65,000 to the financial year 2008-09; and ₹ 1,85,000 to the financial year 2009-10. He incurred ₹ 50,000 by way of legal expenses to receive the interest on such enhanced compensation.

How much of interest on enhanced compensation would be chargeable to tax for the assessment year 2011-12 ?

- (b) Write short notes on Service Tax Code Number and the objective sought to be achieved thereunder. 4
- (c) Briefly explain the benefits of the system of cross-checking under VAT as per White Paper. 4

7. (a) Answer any **two** of the following **three** sub-divisions :

2×4
=8

- (i) State any four of the specified businesses eligible for deduction under section 35 AD of the Income-tax Act, 1961.
- (ii) State the applicability of TDS provisions and TDS amount in the following cases :
 - (a) Rent paid for hire of machinery by B Ltd. to Mr. Raman ₹ 2,10,000.
 - (b) Fee paid to Dr. Srivatsan by Sundar (HUF) ₹ 35,000 for surgery performed to a member of the family.
- (iii) State with reasons whether you agree or disagree with the following statements :
 - (a) Return of income of Limited Liability Partnership (LLP) could be signed by any partner.
 - (b) Time limit for filing return under section 139(1) in the case of Mr. A having total turnover of ₹ 45 lakhs for the year ended 31-03-2011, whether or not opting to offer presumptive income under section 44AD is 30th September 2011.

(b) Vaibhav Cargo Ltd., is engaged in providing Cargo Handling Service. In January 2011, it received ₹ 150 lakhs for the service rendered.

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The break-up of the total receipts are given below :

Nature of receipt	₹
(in lakhs)	
① For Export Cargo and handling of passenger baggage.	55
② For Storage and cleaning of empty containers of shipping lines.	13
③ For Packing and transport of Cargo.	10
④ For handling Cargo of agriculture produce.	20
⑤ Other receipts for providing Cargo handling service.	52

Calculate the value of taxable service under "Cargo Handling Services" for the month of January, 2011.

(c) X Co., furnishes you the following information :

Raw material purchased ₹ 5,00,000 plus VAT @ 4%.

Manufacturing expenses (revenue nature) ₹ 2,00,000.

Sale price ₹ 8,00,000 plus VAT @ 4%.

Plant & machinery acquired ₹ 2,50,000 plus VAT @ 4% eligible for input tax credit in the year of acquisition itself.

Compute VAT liability under (i) gross product variant.
(ii) consumption variant.

State which variant is beneficial to the dealer ?
