

**Paper-7 – Applied Direct Taxation**

**Time Allowed: 3 hours**

**Full Marks: 100**

All the questions relate to the assessment year 2014-15, unless stated otherwise.  
Working notes should form part of the answers.

Answer **Question No. 1** which is compulsory and **any five** from the rest

**Question No 1.**

**(a) Choose the most appropriate alternative:**

- (i) The amount of exemption for leave encashment in case of Government employee on termination of service or after retirement is —
  - (A) Actual amount of leave encashment received
  - (B) fully exempted from tax
  - (C) ₹ 3,00,000
  - (D) 10 months average salary preceding the month of retirement
  
- (ii) The basis of chargeability under the head income from house property is —
  - (A) Annual Value
  - (B) Municipal Value
  - (C) Standard Rent
  - (D) Fair Rent
  
- (iii) The Cost Inflation Index as notified by the Central Government for the previous year 2013-14 is —
  - (A) 852
  - (B) 711
  - (C) 939
  - (D) 100
  
- (iv) Which one of the following is not considered for deduction u/s 80C of the Income-tax Act?
  - (A) contribution by an employee to a recognised provident fund
  - (B) contribution by an employee to an approved superannuation fund
  - (C) medical insurance premium paid by any mode of payment other than cash
  - (D) subscription to any such security of the Central Government or any such deposit scheme as that Government may, by notification in the Official Gazette, specify in this behalf
  
- (v) Advance tax is payable by any person for the assessment year immediately following the financial year when the tax payable is —
  - (A) ₹ 10,000 or more
  - (B) Less than ₹ 10,000

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- (C) ₹ 5,000 or more  
(D) Less than ₹ 5,000
- (vi)** Residential status of a company can be determined by which of the following sections of Income-tax Act:  
(A) Section 6(4)  
(B) Section 6(1)  
(C) Section 6(6)  
(D) Section 6(3)
- (vii)** Which of the following is not the condition for claiming exemption for House Rent Allowance:  
(A) Assessee is in receipt of HRA  
(B) Pays Rent  
(C) Rent paid is more than 10% of salary  
(D) Location of the accommodation
- (viii)** Capital assets include:  
(A) House property  
(B) Stock in trade  
(C) Personal effects  
(D) Rural agricultural lands in India
- (ix)** Wealth tax is payable on amount by which 'net wealth' exceeds —  
(A) ₹ 15,00,000  
(B) ₹ 30,00,000  
(C) ₹ 1,00,000  
(D) ₹ 20,00,000
- (x)** The return of net wealth is to be filed in form:  
(A) BA  
(B) ITR-1  
(C) ITR-2  
(D) ITR-4
- (xi)** The following is not "plant" under section 43(3) of the Income-tax Act, 1961:  
(A) Ships  
(B) Vehicles  
(C) Books  
(D) Livestock
- (xii)** An individual is said to be resident in India in a previous year if he is in India in that year for a period or periods amounting in all to:  
(A) 60 days or more  
(B) 180 days or more  
(C) 182 days or more  
(D) 150 days or more

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(xiii) As per section 44AB of the Income-tax Act, a person carrying on business is required to get his accounts audited if his total sales turnover or gross receipts, as the case may be, in business exceeds:

- (A) ₹ 1 crore
- (B) ₹ 25 lakhs
- (C) ₹ 30 lakhs
- (D) ₹ 10 lakhs

[13 × 1]

**(b). Fill up the blanks:**

- (i) The rate of TDS for dividend paid by a company to any person u/s 194 will be @ \_\_\_\_% if PAN is provided.
- (ii) In case of an individual cash in hand on the last moment of the valuation date in excess of \_\_\_\_\_ is an 'asset' u/s 2(ea) of Wealth Tax Act.
- (iii) Standard deduction of \_\_\_\_ % of \_\_\_\_\_ shall be allowed to the assessee in computation of income from house property which is let out to tenants.
- (iv) Rate of additional depreciation is \_\_\_\_ % of the actual cost of Plant or Machinery.
- (v) Loss incurred by an assessee from a source, income from which is exempt \_\_\_\_\_ be set off against income from a taxable source.
- (vi) 15% of Advance Tax should be paid by a corporate assessee on or before \_\_\_\_\_.
- (vii) Proviso to Section 36(1)(iii) of the Income Tax Act, 1961 provides that interest on borrowed funds utilized for acquisition of an asset as part of the extension of business, for the period commencing from the date of borrowing till the date on which such asset was first put to use, \_\_\_\_\_ be allowed as deduction under Section 36(1)(iii) of the Income Tax Act, 1961.
- (viii) Under the provisions of Section 140 of the Income Tax Act, 1961, the return of income has to be signed by the \_\_\_\_\_, and in his absence, by one of the \_\_\_\_\_, in the case of a company.
- (ix) Under Section 2(ea)(iii) of the Wealth Tax Act, 1957, jewellery, bullion and utensils made of precious metals are treated as 'assets', provided these are not held as \_\_\_\_\_, by the assessee.
- (x) By virtue of Section 45 of the Wealth Tax Act, 1957, wealth tax \_\_\_\_\_ chargeable on the net wealth of a Mutual Fund specified under Section 10(23D) of the Income Tax Act, 1961.

[12 × 1]

**Question 2.**

(a) From the following particulars compute the 'Income from House Property' of Mr. Mitra for the Assessment Year 2014 - 2015 :

Mr. Mitra inherited a property on 1.4.2010 from which gross rental income is ₹ 30,000 per year. Municipal Tax of the property is ₹ 1,000 per quarter of which 50% is borne by the tenant Mr. Mitra took loan of ₹ 80,000 from a bank for heavy repairing of the property out of which he spent ₹40,000 for his sister's marriage and the balance spent for repairing of the property. He paid during the year 2013-2014 ₹ 6,000 as interest on bank loan and spent ₹100 per month for collection of rent.

[6]

(b) State, whether an assessee can claim depreciation under section 32, on capital expenditure incurred on construction of any structure in a building, which is taken on lease, for the purposes of business or profession.

[2]

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(c) From the following information of Mr. A. S. Ghosh, compute the income from salary for the Assessment Year 2014-15.

(1) Net salary ₹ 1,20,000. (2) Amount deducted from salary at source ₹ 10,000 for employee's contribution to R.P.F. and for rent ₹ 500 p.m. (3) Bonus ₹ 10,000 (4) Dearness allowance ₹ 12,000. (5) Conveyance allowance ₹ 5,000. (6) Medical allowance ₹ 4,000. (7) Employer's contribution to R.P.F. @ 13% on basic plus D.A. (8) Interest on R.P.F. @ 14% is ₹ 5,600.

He has been provided a rent-free accommodation at Kolkata including furniture costing ₹50,000. [7]

### Question 3.

(a) Miss Titir started a business of manufacturing cosmetic goods. She incurred the following expenses before the commencement of her business:

S.N.		₹
(a)	Expenses for market survey	25,000
(b)	Legal charges for drafting an agreement with other for setting up her business	20,000
(c)	Expenses for preparation of feasibility report	15,000
(d)	Expenditure for raising loan for the business	4,000

Her business was started on 1.7.08:

Book value of assets on 31.3.09 were:

S.N.		₹
(a)	Building	10,00,000
(b)	Machinery	10,00,000
(c)	Furniture	4,00,000
(d)	Stock	4,00,000
(e)	Patent	1,00,000

Calculate the allowable preliminary expenditure for the Assessment Year 2014-15. [7]

(b) Discuss the provisions of the Income Tax Act relating to Capital Expenditure incurred by an Assessee, for the purpose of scientific research. Sri P. K. Nag a spare parts dealer, furnishes the following particulars of his income for the Previous Year ended 31.03.13.

Profit and Loss A/c  
for the year ended 31.03.14

Dr.		Cr.	
Particulars	₹	Particulars	₹
To Salaries	50,000	By Gross Profit b/d	2,50,000
„ Rent, Rates & Taxes	12,000	„ Dividend	5,000
„ Legal charges	4,000	„ Bank Interest	1,000
„ Interest on Capital	3,000		

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„ Office Expenses	14,000		
„ Provision for Bad Debt	2,600		
„ Income Tax	22,000		
„ Depreciation	13,000		
„ Insurance Premium	6,000		
„ Net Profit	1,29,400		
	2,56,000		2,56,000

### Other Information

- i. One-third of the premises is used by him for his own residence.
- ii. Legal charges include ₹ 1,000 in connection with Income Tax proceedings.
- iii. Office expenses include ₹ 1,000 as daily Puja Expenses in the shop.
- iv. Depreciation as per Income Tax Rules ₹ 15,000. Compute Shri Nag's Income from Business for the Assessment Year 2014-15. [5]

**(c)** Mr. Dey sells a residential house property at a long-term capital gain of ₹ 75,000. He invests ₹ 80,000 within 3 years in construction of the first floor and barsati (to be used for residence) to another house owned by him since 1949. Is ₹ 75,000 exempt from tax under section 54? (Specify in details) [3]

### Question 4.

**(a)** Ravi purchases the following movable and immovable properties from persons who are not his relatives. State the tax liability in the hands of Ravi.

Date of purchase	Property	Purchase price ₹	Stamp duty value ₹	Fair market value ₹
April 22, 2013	House I	21 lakh	21.5 lakh	----
June 27, 2013	Plot of land	30 lakh	30.5 lakh	----
August 22, 2013	Gold ring	5 lakh	----	5.5 lakh
October 23, 2013	Shares	8 lakh	----	8.5 lakh

[7]

**(b)** State whether assets having personal effects are also capital assets or not [as per section 2(14)(ii) of Income-tax Act]? [3]

**(c)** State the circumstance, when interest is levied under Section 234A of the Income Tax Act, 1961. Also, state the rate at which interest is payable. [2]

**(d)** The W.D.V of a block (plant and machinery, rate of depreciation 15%) as on 01.04.2013 is ₹6,40,000. A machinery costing ₹1,00,000 was acquired on 10.08.2013, but put to use on 10.11.2013. During February 2014, part of this block was sold for ₹4,00,000. Calculate the amount of depreciation. [3]

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### Question 5.

(a) State the taxability of the following five incomes —

- A. Dividend
- B. Bonus
- C. Winning from lotteries etc.
- D. Fees and commission
- E. Gift

[10]

(b) Write to whom Alternate Minimum Tax shall not be applicable as per Section 115JEE (2). [3]

(c) Vinod Mehta, an Indian resident, is provided with furnished accommodation from February, 2014, by his employer. The value of furniture amounts to ₹95,000. The actual hire charges paid by his employer, for the furniture is ₹6,000 p.a. What would be the value of furniture to be included along with value of unfurnished house for A.Y 2014-15? [2]

### Question 6.

(a) Ms. Jennifer D' Souza, an individual resident Indian, aged 62 years, frequently visits a foreign university to deliver lectures and receives honorarium of ₹ 3,35,000 for the same. Tax of ₹33,500 was deducted in the foreign country. India did not have any double taxation avoidance agreement with that foreign country. The particulars of income earned in India are stated as follows:

- (i) In India, her total income amounted to ₹10,20,000.
- (ii) Contribution to the Public Provident fund - ₹ 1,40,000.
- (iii) Contribution to the approved Pension Fund of LIC- ₹ 64,000.
- (iv) Contribution to Central Government Health Scheme during the previous year- ₹36,000.
- (v) Payment of medical Insurance premium, for mother (who is not dependent on her) - ₹21,000.

Compute the tax liability of Ms. Jennifer D' Souza for the Assessment Year 2014-15. [8]

(b) Mr. Satish submits the following details of his income for the assessment year 2014-15:

Particulars	₹
Income from salary	6,00,000
Loss from house property	(80,000)
Income from sugar business	1,00,000
Loss from iron ore business (b/f) (discontinued in 2007-08)	(2,40,000)
Short term capital loss	(1,20,000)
Long term capital gain	80,000
Dividend	10,000
Lottery Winnings	1,00,000
Winnings from card games	12,000
Agricultural Income	40,000
Long term capital Gain on sale of shares	20,000
Short term Capital Loss under Section 111A	20,000
Bank Interest	10,000

Calculate gross total income and losses to be carried forward for the A.Y 2014-15. [7]

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### Question 7.

(a) Discuss in respect of the following items, the manner of treatment for Mrs. P's wealth-tax assessment for the assessment year 2014-15.

1. Mrs. P has two cars for her personal use each being of value of ₹ 95,000.
2. She has another house property at Nainital given to her as a gift by her father on January 1, 1971 on the occasion of her birthday. This house is also used by her as her own residence where she lives during summer vacations only. The value of the house on March 31, 2014 was ₹ 25,00,000.
3. Jewellery received from her father at the time of her marriage in 1956 was of the value of ₹ 1,20,000 on March 31, 2014. **[3]**

(b) Compute the taxable net wealth and wealth tax payable by X Ltd. from the following particulars:

- Land in urban area (Construction is not permitted as per Municipal Laws in force) ₹50,00,000.
- Cash Balance (as per books) ₹ 2,75,000.
- Guest House (situated in a place which is 30 kms away from the local limits of the municipality) ₹ 35,00,000. **[4]**

(c) Mr. Rajendra Sinha, an individual, furnishes the following information, relating to the assets and liabilities as on 31.03.2014:

Sl. No	Particulars	Amount (₹)
(i)	Plot of land at Mumbai, comprising an area of 1200 square meters, (on which building has been constructed without the approval of the appropriate authority).	50,00,000
(ii)	Building constructed on land at Mumbai, without the approval of the appropriate authority, and used for his business purposes.	20,00,000
(iii)	Two residential house properties, (one of the house properties is used for the purpose of business, by Mr. RajendraSinha)	10,00,000 (each)
(iv)	Urban Land was purchased in August 2011 located in Pune, in the name of his son who is suffering from a disability specified under Section 80U of the Income Tax Act, 1961. The age of his son on 31.03.2014 was 17 years.	5,00,000
(v)	House located in Ahmedabad, shown in his wealth-tax return for the A.Y 2013-14 at ₹50 Lakh was sold on 20.03.2014 for ₹60 Lakh, but the sale deed thereof was executed on 03.04.2014.	55,00,000
(vi)	Motor cars held as stock-in-trade.	75,00,000
(vii)	Gold jewellery brought into India from Singapore, where he was residing, on his return to India on 01.11.2009, for permanently residing in India.	12,00,000
(viii)	Jewellery made of platinum.	18,00,000
(ix)	Jewellery gifted to wife from time to time, were available with her on the valuation date. The jewellery was acquired for ₹10 Lakhs.	35,00,000 (Fair Market Value)

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(x)	Interest in the coparcenary property of the Hindu Undivided Family, of which he is a member.	25,00,000
(xi)	Cash in hand, recorded in the books of account.	10,00,000
(xii)	Fixed Deposits in a co-operative bank.	20,00,000
Liabilities		
(xiii)	Loan borrowed for marriage of daughter	12,00,000
(xiv)	Loan borrowed for construction of building at Mumbai	10,00,000

The minor married daughter of Mr. RajendraSinha holds a plot of land at Bhopal, valued at ₹40 Lakhs. The amounts stated against the assets, except cash in hand, are the values determined as per Section 7 of the Wealth Tax Act, 1957 read with Schedule III thereto.

Compute the net wealth of Mr. RajendraSinha, as on the valuation date 31.03.2014.

State the reasons for inclusion, or exclusion of the various items.

**[8]**

### Question 8.

**(a)** Merry International Ltd. incurs an expenditure of ₹ 255 crores for acquiring the right to operate telecommunication services for Assam & Sikkim. The payment was made in November 2011 and the licence to operate the services was valid for 15 years. In December 2012, the company transfers part of the licence, in respect of Assam, to Banerjee International Ltd. for a sum of ₹ 56 crores and continue to operate the licence in Sikkim. What is the deduction allowable u/s 35ABB of the Income-tax Act to Merry International Ltd. for the Assessment Year 2014-15? **[4]**

**(b)** What is the amount of deduction in respect of royalty of authors allowed as per section 80QQB of the Income-tax Act? **[2]**

**(c)** What are the differences between Nationality and Citizenship in relation to residential status? **[5]**

**(d)** Give some examples of those assets which are not eligible for additional depreciation. **[4]**