

Paper 7 – Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

Section-A (25 Marks)

Answer question No. 1 a, b, c & d which is compulsory.

1. a) Multiple Choice Questions: [10 x 1=10]

- i) Where the entire block of the depreciable asset is transferred after 36 months there will be
 - A. Short term capital gain
 - B. Short term capital gain or loss
 - C. Long term capital gain
 - D. Long term capital gain or loss

- ii) Which of the following transaction is not regarded as transfer?
 - A. Conversion of asset into stock in trade
 - B. Maturity of a Zero Coupon Bond
 - C. Any distribution of capital asset of a HUF among its member at the time of partition
 - D. Exchange of land for gold

- iii) Annual value of the house property located outside India is –
 - A. Taxable in hands of all assessee.
 - B. Taxable in hands of non-resident assessee
 - C. Exempted from tax in India
 - D. Taxable in hands of resident and ordinarily resident assessee

- iv) The normal rates of income tax are mentioned in :
 - A. Income tax Act 1961
 - B. Finance Act
 - C. Income-tax Rules
 - D. None of these

- v) Rebate under section 87A is available to an individual when the income doesn't exceeds-
 - A. 400000
 - B. 500000
 - C. 350000
 - D. 300000

- vi) Defective return need to be rectified within;
 - A. 10 days of receipt of notice
 - B. 15 days of receipt of notice
 - C. 20 days of receipt of notice
 - D. 25 days of receipt of notice

- vii) Marriage gift from a non-relative is _____.
 - A. Exempted from tax
 - B. Not exempted from tax
 - C. Taxable
 - D. None of these

- viii) E-Commerce stands for:
 - A. Commerce carried out by the European Community

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- B. Electronic Commerce
C. Economy of Commerce
D. None of this.
- ix) Income from Equalization Levy is exempt from tax u/s
A. 10 (45)
B. 10(38)
C. 10 (50)
D. None of these
- x) What is the rate of penalty for under reporting of income under Section 270A?
A. 100%
B. 200%
C. 300%
D. 50%

b) State whether the following statements is true or false: [5x1=5]

- i. TDS is deducted u/s 194BB is taxable @ 30%.
ii. Due date of filling of return u/s 139 is 30th September for resident individual.
iii. Interest u/s 234A is levied @ 1% per month or part of the month.
iv. Education cess is levied @ 2%.
v. Tax rate applicable for local authorities is 30%.

c) Fill in the blanks [5x1=5]

- i. Where an assessee fails to furnish the statement within the time prescribed under sub-section or subsection (3) of section 167, he shall be liable to pay a penalty of ₹ _____ for each day during which the failure continues.
ii. The number of cost formula recognized by ICDS II are _____.
iii. Average rate is the mean of the _____ rates in force during a period.
iv. Reimbursement of any medical bill for treatment in a private hospital is exempt up to _____.
v. Mr. A withdraws goods costing ₹ 100000 for personal use from his proprietorship concern at an agreed value of ₹ 120000. Amount Taxable as profit is _____.

d) Match the followings: [5x1=5]

	Column A		Column B
1	Section 234B	A	ICDS III
2	Securities	B	Presumptive Income of Eligible Business
3	Section 234C	C	For non payment of advance tax
4	Construction Costs	D	For deferment of Advance tax Payment
5	Section 44AD	E	ICDS VIII

Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

- 2. a)** Following details are furnished by Mr. A for the year ended 31.03.2016 [5]

Particulars	Amount (₹)
Profit on sale of shares in Indian company, sold in India but proceeds received in France	30,000
Dividend from a Korean company received in France	50,000

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Rent from property in Sri Lanka deposited in Sri Lanka but latter remitted to India through approved banking channel – Gross	1,00,000
Dividend from ABC (P) Ltd.	20,000
Income from nursery in Gujarat	40,000

2. b) Distinguish between Capital Receipts and Revenue Receipts. [6]
 2. c) Write a short note on Assessee as per section 2(7) of Income Tax Act 1961. [4]

3. a) V Pharma Ltd. informs that it has net profit of ₹60 lakhs for the year ended 31st March, 2017.

It gives you the following further information:

- (i) Depreciation as per books ₹3,50,000.
- (ii) Bad debts written off in the books ₹5,00,000, which includes ₹1 lakh due from one customer who has disputed the liability to pay but continues to have business relationship with the company.
- (iii) Proposed dividend debited to profit and loss account ₹6 lakhs.
- (iv) One machinery which has become useless has been written off in P & L Account, the amount debited being ₹90,000.
- (v) Provident Fund collections from employees for the year ₹1,50,000 and company's own contribution of ₹1,10,000 for the year have not been remitted. These amounts are shown as Sundry Liability in the books. Assume it will be remitted after 31st December, 2017.
- (vi) Income from agricultural lands surrounding the factory ₹50,000 credited to Profit and Loss account.
- (vii) Bank term loan for purchases of machinery waived ₹2 lakhs is credited to capital reserve account.
- (viii) The opening WDV of plant and machinery was ₹15,90,000. One machinery for 4,10,000 was acquired on 01.06.2016 and was put to use immediately.
- (ix) Provisions for taxation debited in the Profit and Loss Account amounts to ₹15 lakhs.
- (x) You are required to compute the income of the company under the head of profits and gains of "Business or Profession" for the assessment year 2017-18. [7]

3. b) V Limited has two units - one engaged in manufacture of computer hardware and the other involved in developing software. As a restructuring drive, the company has decided to sell its software unit as a going concern by way of slump sale for ₹ 385 lakh to a new company called S Limited, in which it holds 74% equity shares.

The balance sheet of V Limited as on 31st March, 2017 being the date on which software unit has been transferred, is given hereunder—

Balance Sheet as on 31.3.2017

Liabilities	in lakh ₹	Assets	in lakh ₹
Paid up Share Capital	300	Fixed Assets	
General Reserve	150	Hardware unit	170
Share Premium	50	Software unit	200
Revaluation Reserve	120	Debtors	
Current Liabilities		Hardware unit	140
Hardware unit	40	Software unit	110
Software unit	90	Inventories	
		Hardware unit	95
		Software unit	35
	750		750

Following additional information are furnished by the management:

- (i) The Software unit is in existence since May, 2009.

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- (ii) Fixed assets of software unit includes land which was purchased at ₹40 lakh in the year.
- (iii) 2006 and revalued at ₹ 60 lakhs as on March 31, 2017.
- (iv) Other Fixed assets of software unit mirrored at ₹140 lakh (₹ 200 lakh minus land value ₹60 lakh) is written down value of depreciable assets as per books of account. However, the written down value of these assets under section 43(6) of the Income Tax Act is ₹90 lakh.

Ascertain the tax liability, which would arise from slump sale to S Limited.

[8]

4. a) B acquired a house property in March, 1981 for ₹ 2 lakhs. The fair market value as on 01.04.1981 was ₹ 3,40,000. He gifted the property to his son R in December 2001 when the fair market value was ₹ 10 lakhs. R entered into a sale agreement in January 2014 and received ₹ 1 lakh from R which was subsequently forfeited as the buyer R did not fulfill the commitment.

In June, 2016 an agreement was made for sale of property with D and a sum of ₹2 lakh was received as advance. This advance was also forfeited by R due to failure of D. Finally R sold the property to P for ₹ 90 lakhs in January, 2017. He started construction of a residential house in August, 2016 and incurred ₹ 10 lakhs till March, 2017.

R subscribed to REC bonds for ₹30 lakhs in March, 2017 and wished to invest the balance amount in construction of residential house in the financial year 2017-18 in such a way that his Income from Capital Gains reduce to "NIL".

Compute his income under the head "capital gains" for the assessment year 2017-18.

Cost Inflation Index:

[7]

Financial Year	Cost inflation index
1980-1981	100
2001-2002	426
2013-2014	939
2016-2017	1125

4. b) The following details of income of Mr. X and his wife, for the assessment year 2017-18 are made available to you:

Particulars	Mr. X (₹)	Mrs. X (₹)
Income from own business/profession	1,20,000	90,000
Income from other sources	2,10,000	1,10,000
Income received from Z & Co.	20,000	4,10,000
Salary received from Z & Co.	96,000	84,000

Mr. X and Mrs. X are partners in Z & Co. each having 10% profits sharing. Determine the total income of Mr. X and Mrs. X. Will your answer be different, (a) If each one of them holds 8% shares in profits of Z & Co.? (b) Mr. X and Mrs. X both possess professional qualifications. [8]

5. a) From the particulars given below, compute taxable income of X for the assessment Year 2017- 2018: [7]

Net income from manufacturing business	1,30,000
Interest on Post Office Savings Bank Account	1,900
Share of profit from a partnership concern	22,000
Short-term capital gains on sale of land	24,000

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Long-term capital gain on sale of house property	1,20,000
Share of income from HUF in which X is a member	8,200
Winning from camel race	10,000
Interest on bank fixed deposit:	
(i) Deposit in his own name	4,000
(ii) In the name of minor son	1,300
Expenditure incurred on medical treatment of 67 years old brother [Who being a person with disability, is dependent on X]	40,000
Repayment of loan (including interest 4,000) taken for part-time Studies for postgraduate course in Management	10,000
Donation to Prime Minister's National Relief Fund	20,000

5. b) The income and related particulars of Mr. C, aged 56, for the year ended 31.03.2017 are given below:

- (a) Salary ₹ 24,000 per month.
- (b) He was provided with a rent free accommodation in Hyderabad for which rent of ₹ 6,000 per month was paid by the employer.
- (c) His wife was sick and treatment was taken in a private hospital, for which an amount of ₹ 32,000 was paid towards medical expenses by his employer in December 2016.
- (d) An allowance of ₹ 13,200 was paid by his employer towards his son's education.
- (e) The employer paid D.A. ₹10,000 per month (considered for retirement benefits), Professional tax of ₹2,400 and Income Tax liability of ₹ 15,000.
- (f) He encashed earned leave of his credit to the tune of ₹ 10,000.
- (g) Loss from speculative business ₹20,000.
- (h) Loss from sale of shares in ABC Pvt. Ltd. Held for 10 months ₹ 8,000.
- (i) Profit on sale of long term capital assets ₹ 10,000.

Compute the total income and tax liability of Mr. C for the Assessment Year 2017-18. **[8]**

6. a) H is the owner of a small scale industry. The following are the particulars of his business and other related matters during the accounting year 2016-2017.

- (a) Net Profit as per Profit and Loss Account ₹36,000.
- (b) The Profit and Loss Account was debited for ₹1,200 as his interest on capital and for ₹2,400 as remuneration to self.
- (c) H has taken goods for his personal consumption valued ₹8,000. On this account sales account was credited for ₹6,000 only.
- (d) Opening and closing stock of finished goods are valued for ₹4,500 and ₹7,200 respectively which were 10% below the cost of production.
- (e) Profit and Loss Account is debited for ₹1,500 as rent for godown owned by H.
- (f) Profit and Loss Account has been credited for ₹2,500 as interest on fixed deposit with Bank and for ₹5,000 (Gross) as dividend from Indian company.
- (g) Profit and Loss Account is excess debited by ₹2,500 on account of depreciation.
- (h) Profit and Loss Account is debited for ₹ 4,000 as donation to National Defence Fund.

From the above particulars, compute the taxable income of H for the assessment year 2017-2018. **[8]**

6. b) S constructed his house on a plot of land acquired by him in Kolkata. The house has two floors of equal size. He started construction of the house on 1st April, 2015 and completed construction on 30th June, 2016. He occupied the ground floor on 1st July, 2016 and let out the first floor at a rent of ₹ 20,000 per month on the same date. However, the tenant vacated the first floor on 31st January, 2017 and S occupied the entire house from 1st February, 2017 to 31st March, 2017.

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Other information

Fair rent of each floor	₹ 1,20,000 per annum
Municipal value of each floor	₹ 80,000 per annum
Municipal tax paid	₹ 10,000
Repair expenses	₹ 5,000

S obtained a housing loan of ₹ 15 lacs at interest of 10% per annum on 1st July 2015. He did not repay any part of the loan till 31st March, 2017. [7]

7. a) State the due dates of filling of return of Income. [5]

7. b) Discuss in brief report of the committee on taxation to examine the business model for e-commerce. [5]

7. c) Write a short note notes on ICDS-IX on "Borrowing Cost". [5]

8. a) Discuss the special provision for avoiding repetitive appeal. [5]

8. b) What is the procedure of rectification of mistake as per section 154. [6]

8. c) Discuss the provision of return of loss u/s 139(3) of the IT Act 1961. [4]