

**PAPER – 16: Tax Management & Practice**

**Paper 16 – Tax Management & Practice**

Time Allowed: 3 hours

Full Marks: 100

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

**Question 1.**

- (a) A Partnership firm, consisting of three partners X, Y and Z was engaged in wholesale business of textiles:
- (i) Gross Sales ₹60 Lakhs.
  - (ii) Establishment expenses related to business ₹12 lakhs.
  - (iii) Depreciation u/s. 32 as per IT Act, 1961 ₹50,000.
  - (iv) Brought forward business loss relating to previous year 2014-15 ₹80,000.
  - (v) Each partner had contributed ₹5 lakhs and interest @ 20% was paid by the firm and each partner was entitled to draw ₹5,000 p.m. by way of salary as per the terms of the Partnership Deed.

Compute the total income of the firm for the assessment year 2016-17 by applying the provisions of Sec. 44AD. 5

- (b) Sun & Co. furnish the following expenditure incurred by them and you are required to determine the assessable value for the purpose of excise duty in terms of Rule 8 of CER and as per CAS – 4:
- (i) Direct material cost inclusive of excise duty @ 12.50% ₹9 Lakhs.
  - (ii) Administrative overhead (25% relating to production) ₹2 lakhs.
  - (iii) Selling and distribution expenses ₹1.5 lakhs.
  - (iv) Sale of scrap ₹0.3 Lakhs.
  - (v) Margin of profit @ 15%. 5

- (c) Sachin Ltd, a manufacturer, has furnished the following information regarding inputs received in the factory and input service used for manufacture:

	Inputs	Invoice Date	CENVAT ₹
(i)	Raw Material	15-3-2014	25,000
(ii)	Office equipment	25-6-2015	8,000
(iii)	Light Diesel Oil	30-7-2015	4,000
(iv)	Paints	Invoice is missing	2,000
(v)	Storage service	31-10-2015	7,500

Determine the total CENVAT credit that can be availed during the months of December, 2015. 5

- (d) Kaushal Industries imported goods from U.S.A at CIF value of US \$ 3,000. Air freight US \$ 700, Insurance Cost US \$ 100 and landing charges ₹1,500. Date of bill of entry is 25-10-2015 and BCD is 10% and exchange rate notified by CBEC is US \$ 1 = ₹68. Date of entry inward is 20-11-2015 and BCD is 12% and exchange rate notified by CBEC is US \$ 1 = ₹64. Additional

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duty payable u/s. 3(1) and u/s. 3(5) of the Customs Tariff Act is 12.5% and 4% respectively. However, the goods are covered under excise exemption notification. Compute the assessable value and amount of total customs duty payable under the Customs Act, 1962.

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### Question 2.

- (a) X & Co. is a partnership firm consisting of three partners Mr. X (Managing Partner), Mr. Y (working partner) and Mr. Z (non-working partner), sharing profit/loss in the ratio of 3 : 2 : 1. The firm is engaged in the manufacturing of electrical appliances and it discloses net profit for the year ended 31-3-2016 as ₹8 lakhs. The firm submits you the following information:
- (i) It purchases a machine on 31-10-2015 for its manufacturing activities and debited depreciation in P & L A/c @ 15%. The cost of machine is ₹1,50,000.
  - (ii) Loss from speculation activities debited to Profit and Loss Account ₹50,000.
  - (iii) Salary paid to partners : Mr. X ₹8,000 p.m, Mr. Y ₹7,000 p.m. and Mr. Z ₹6,000 p.m.
  - (iv) Interest paid to partners on their capital contribution: Mr. X @ 16% ₹8,000; Mr. Y @ 14% ₹7,000 and Mr. Z @ 12% ₹6,000.
  - (v) Interest received from partners and credited to P & L a/c on their drawings: Mr. X @ 10% ₹10,000 and Mr. Y @ 12% ₹12,000.
  - (vi) Dividend from X Ltd, a non-domestic company credited to P & L a/c ₹20,000.
  - (vii) Profit on sale of rural agricultural land ₹3 lakh not considered in P & L a/c.
  - (viii) The firm has brought forward business loss pertaining to the year 2013-14 ₹30,000.

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- (b) What are the salient features of Income computation and Disclosure Standards relating to Government Grants and discuss significant deviations between ICDS VII and AS-12? 6

### Question 3.

- (a) Raj Ltd has two units. Unit I is established in Special Economic Zone on 31-3-2008 and Unit II is established in Free Trade Zone on 31-3-2009. Both the units are engaged in manufacturing of consumer products. It submits the following particulars for the year ended 31-3-2016:

Particulars	Unit I (₹ in lakhs)	Unit II (₹ in lakhs)
Total Sales	450	150
Export Sales	300	100
Net Profit	120	40

Out of export sales of Unit I ₹20 lakhs become irrecoverable due to insolvency of one of the foreign customer and out of the balance only 75% of the proceeds brought into India within 30<sup>th</sup> September 2016. Out of export sales of Unit II ₹30 lakhs was deposited in foreign banks with the prior permission of RBI and the balance brought into India within 30<sup>th</sup> September, 2016. Depreciation is charged at 20% and ₹6 lakhs was charged to Profit and Loss Account in the proportion of total sales. Rate of depreciation as per Income Tax Act, 1961 is 15%. Compute exemption u/s. 10AA and taxable income of Raj Ltd for AY 2016-17. 8

- (b) Compute the amount of tax deduction at source on the following payments made by Namu Ltd during the year 2015-16 as per the provisions of the Income Tax Act, 1961:
- (i) Payment to Contractor, being a firm ₹20,000 and an outstanding balance shown in the books as on 31-3-2016 ₹60,000.

- (ii) Payment to owner of the premises ₹1,75,000.
  - (iii) Payment to a foreign cricketer ₹1,50,000 for acting in an ad-film.
  - (iv) Payment to an agent ₹2,50,000 by way of commission for non-professional services.
  - (v) Payment to a professional ₹60,000 by way of fees for professional services.
  - (vi) Payment to a landlord ₹25 lakhs towards acquisition of urban land.
  - (vii) Payment to a resident individual ₹20,000 towards interest on securities, who is not having PAN.
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**Question 4.**

- (a) Viswas Ltd, a finance company engaged in the business of leasing trucks. It purchased trucks from Sathya Motors and leased out these trucks to its customers. As per the lease agreement, Viswas Ltd has right to repossess the trucks in case of default by lessee. However, the trucks are registered in the name of lessee as per the Motor Vehicles Act, 1988. Viswas Ltd. claimed ₹3 lakhs as depreciation on the trucks leased out for the year ending 31-3-2016. The claim was rejected by the assessing officer on the ground that the assessee has merely financed the purchase of trucks and was neither the registered owner nor the user of these trucks. Is the action of the assessing officer tenable in the law? 6
- (b) HSP Ltd., a company operating chain of hotels charges a nominal amount of ₹50 in each bill of the resident guests which is specifically earmarked only for the purpose of 'local charities'. This amount of ₹50 so collected in each bill is credited to a separate account named "Charity Account". The Assessing Officer doing assessment for A.Y. 2016-17 has issued a show cause notice to tax this amount of charity as income of the company for the relevant assessment year. The company, for objecting the stand of the Assessing Officer, consults you and seeks your opinion. 5
- (c) R Ltd. was engaged in the business of manufacturing and trading activities. The company was declared a sick industrial company and as a part of restructuring programme, a part of the term loan for purchase of machinery and cash credit and interest was waived. The Assessing Officer was of the view that the waiver of loans and interest amounted to remission or cessation of liability and was taxable under section 41(1) of the Income-Tax, 1961. Give your views on the correctness of the action of the Assessing Officer. 5

**Question 5.**

- (a) M/s. Sinha Ltd sold machinery to Mr. Varma at a price of ₹16 lakhs on 15-6-2015. The machinery was removed from the factory on 1-7-2015. The rate of excise duty on 15-6-2015 is 12.50% and the rate is reduced to 8.50% on 1-7-2015. However, Mr. Varma refused to take delivery and subsequently M/s. Sinha Ltd sold the machine to Mr. Sharma at the revised price of ₹18 lakhs on 15-7-2015. Rate of excise duty on 15-7-2015 is 10.50%. Explain the following with reasons:
  - (i) What is the value to be taken as assessable value?
  - (ii) What is the rate of duty applicable?
  - (iii) Does cost of production have any bearing on assessable value? 8
- (b) Patel Ltd, purchased raw material 'X' 5,000 kg @ ₹100 per kg plus excise duty. The raw material was used to manufacture intermediate product 'Y'. The intermediate product was used for the manufacture of finished product 'Z', which was exempt from excise duty. Other information:
  - (i) Process Loss : 2% of inputs in manufacture of 'Y'.
  - (ii) Assessable value of 'Y' ₹120 per kg.

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- (iii) Total assessable value of 'Z' is ₹25 lakhs.  
(iv) Duty on capital goods imported during the period and used in manufacture of 'Y': BCD u/s. 12 ₹ 15,000, CVD u/s. 3(1) ₹ 12,000 and CVD u/s. 3(5) ₹ 5,000.  
(v) Rate of excise duty is 12.50%.  
Compute CENVAT Credit available and Central Excise Duty payable by Patel Ltd. 8

### Question 6.

- (a) Mr. X provides man power supply service to X Ltd: -  
a. Wages paid to labour ₹ 4,00,000  
b. Contribution to PF etc ₹ 40,000  
c. Amount paid to Mr. X ₹ 60,000  
Calculate service tax liability. Does it make any difference if X Ltd. provides such service to Mr. X if Mr. X is:  
(i) A business entity.  
(ii) Not a business entity. 8
- (b) An importer imported certain goods from USA. CIF value was US \$ 40,000 @ \$ 4 per unit. Insurance and air freight is \$ 2000 and \$ 8000 respectively. There is no BED. As per notification issued by GOI, anti dumping duty is levied. You are required to calculate CD and ADD payable by such importer on the basis of information given below -  
i) FOB value of exports to Australia is US \$ 35,000  
ii) Fair selling price in India is ₹ 300 per unit.  
iii) Ad-valorem rate of duty is 5%  
iv) Consolidated rate of duty (other than BCD) is 50% of FOB value  
v) ROE on presentation of BOE is ₹ 60 per one US dollar. 8

### Question 7.

- (a) Fresh Air Ltd manufacturers ceiling fans excluding Regulators which are purchased from other manufacturers. The company contends that since the Regulators are not manufactured by them, and are only purchased from outside, the value of the same should not form part of Assessable Value of fans. Discuss the legality of the contention. 5
- (b) The goods imported by Best Ltd were detained on 14-9-2015. However, the assessee could not produce the documentary evidence. Consequently, the goods were seized on 8-2-2016. The department issued a show cause notice to the assessee on 15-5-2016. The assessee contended that the goods were detained on 14-9-2015, but the show cause notice was issued after the specified time limit as per Section 124 (a) and sought for quash the show cause notice and also for return of the goods. Examine whether the contention of assessee valid as per law. 6
- (c) If the assessee has no intention to evade service tax and if there is no evidence to prove the intention to evade tax, can extended period of limitation be invoked by the department for mere contravention of statutory provisions by the assessee? Discuss with reference to case law, if any. 5

### Question 8.

- (a) Discuss, whether transfer pricing provisions of the Income Tax Act, 1961 are applicable to the following cases:  
(i) Mr. Gokul, a resident Indian and a director of Super Ltd, an Indian Company. Super Ltd sold goods for ₹75 lakhs to the spouse of Mr. Gokul.

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- (ii) Goodwill Ltd. transferred technical know-how to Sound Ltd, an American Company in consideration of supply of 100% raw materials required by Goodwill Ltd.
  - (iii) Nice Ltd sold a machine to Smart Ltd, a British Company in which Nice Ltd is holding 30% of voting rights.
  - (iv) Heavy Ltd provides services to Weak Ltd an Australian Co. which is having thirteen Board of Directors. Out of the total number of directors, seven directors were appointed by Heavy Ltd. 8
- (b) Who are the Status Holders? How many categories are there in Status Holders? Discuss the privileges available to Status Holder under the Foreign Trade Policy. 8