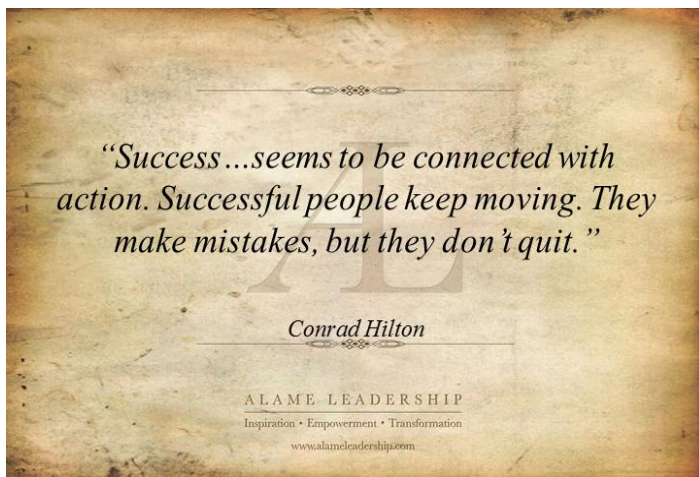


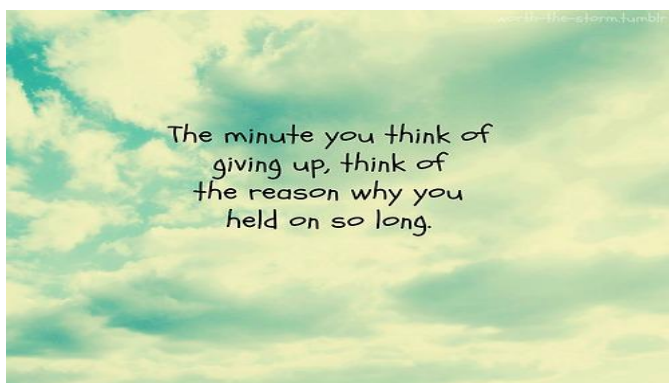


"The beautiful thing about learning is that no one can take it away from you." -B. B. King



"When you say 'It's hard', it actually means 'I'm not strong enough to fight for it'. Stop saying its hard. Think positive!" -

Anonymous



Dear Students,

This edition is strategically published a week after release of Practice Test Papers, of Intermediate and Final subjects under Syllabus 2012, Set 1 of which are already uploaded in the website on 16th September,2013.

We are going to upload the Set 2 by 28th September,2013 and Set 3 by 5th October,2013. The Revisionary Test Papers under both the Syllabus 2008 and Syllabus 2012 would be uploaded by 25th October,2013.

By the month of November,2013 the Mock Test Papers would be uploaded which would enable students/prospective examinees to take a test and make a self-analysis to judge their status of progress in studies and preparation for examination.

(1) On Accounting Standard

(a) Reversal of Impairment Loss

Expectation Industries Ltd. a manufacturing company exports its products to different countries outside India. Sometimes, back in 2010, Expectation Industries Ltd. impaired its assets due to some legal restriction that was imposed on the use of that asset. At the end of 2006 Expectation Industries Ltd. paid ₹18,000 lakhs of which ₹12,000 lakhs was for the identifiable asset, balance was treated as goodwill. Useful life of the asset were 10 years. Depreciation on the asset is on straight line basis. The company recognized impairment loss by determining the recoverable amount of asset as ₹6,500 lakhs. In 2012 the legal restriction was lifted as there was a favourable change in the value of asset, at that time the written down value of the goodwill was ₹1,200 and that of the identifiable asset was ₹4,800. Expectation Industries Ltd. re-estimated the recoverable amount, which was ₹8,600.

Required:

Reversal of an impairment loss and its allocation as per AS – 28 in 2012.

Solution:

Calculation and allocation of impairment loss for assets at the end of 2010
(₹ in lakhs)

End of 2010	Goodwill	Identifiable Asset	Total
Carrying amount	1,200	7,200	8,400
Recoverable amount at the end of 2010			6,500
Impairment Loss (₹8,400 – ₹6,900)			1,900
Impairment loss was first allocated to goodwill & balance to other assets	1,200	700	1,900
Carrying amount after Impairment Loss	NIL	6,500	6,500

Reversal of Impairment Loss (₹ in lakhs)

End of 2012	Goodwill	Identifiable Asset	Total
Carrying Amount	NIL	6,500 – 2,167	4,333
Recoverable amount			8,600
Excess of recoverable amount over carrying amount			4,267

As per AS 28 the impairment loss to be reversed in 2012 will be as under:
(₹ in lakhs)

	Amount
(a) Carrying amount of the asset at the end of 2012 (if there were no impairment loss on 2010) i.e. (₹12,000 less (₹12,000/10) × 6)	4,800
(b) Carrying amount of the asset at the end of 2012 (after recognizing the impairment loss and depreciation for next two years)	4,333
Now it is clear that there is a scope of reversal of impairment loss, which is equal to (a) – (b) i.e. ₹4,800 – ₹4,333	467

₹ 467 lakhs will be credited to Profit / Loss Statement.



(2) Direct Taxation

(a) Trust – a Bird's Eye View

Trusts can broadly be classified into two categories, viz. — Private Trust and Public Trust.

However, there may be trusts which are a blend of both and are known as Public-cum-Private Trusts.

Private Trust

The following are the requisites for creation of a Private Trust:

- (i) The existence of the author/settlor of the Trust or someone at whose instance the Trust comes into existence and the settlor to make an unequivocal declaration which is binding on him.
- (ii) There must be a divesting of the ownership by the author of the trust in favour of the trustee for the beneficial enjoyment by the beneficiary.
- (iii) A Trust property.
- (iv) The objects of the trust must be precise and clearly specified.
- (v) The beneficiary who may be particular person or persons.

In case of private trust, the beneficiaries are individuals or families.

Private trusts are further broadly classified into:—

- (i) Private Specific Trust referred to as Private Discretionary Trust with beneficiaries and shares determinate in respect of both.
- (ii) Private Discretionary Trust where the beneficiaries or their share or either is indeterminate.

The trustees of a private trust are assessable at the rates applicable to each beneficiary, if shares of beneficiaries are determinate or known. In case, shares of beneficiaries are indeterminate or unknown, income is taxable at the rates applicable to an AOP subject to fulfillment of the conditions as follows-

- none of the beneficiaries has taxable income or is a beneficiary in any other trust
- the trust is non-testamentary trust created before 1.3.1970
- exclusively for the relative dependents of the settlor; or
- it is the only trust declared by a Will exclusively for the benefit of any dependent relative

In any other cases, maximum marginal rate will apply.

In short, we can say in the following cases maximum marginal rate will apply:

- Where the private trust carries on business
- Where shares of beneficiaries are not distinct and known
- Where the trust is a discretionary trust which can accumulate the income or where the trust has a choice among the beneficiaries for the benefit

Example:

During the previous year 2012-13, income of RK Trust, declared by a Will exclusively for the benefit of any dependent relative of

the settlor, is ₹2,00,000. What is the basis of tax liability of a trust, where individual shares of beneficiaries are not known?

Solution:

Tax will be at normal rate of ₹2,00,000, except in the following cases:

- ✓ If the trust is created on or after 01.03.1970, tax will be charged at the maximum marginal rate.
- ✓ If the income consists of profits and gains of business, tax will be charged at the maximum marginal rate.
- ✓ If one of the beneficiaries is a beneficiary under any other trust or has income exceeding the minimum exemption limit, tax will be charged at the maximum marginal rate.

Public Trust

Public trusts may be created inter vivos or by will. Public trust can be of two types, viz. – Public Charitable Trust and Public Religious Trust.

In the case of Hanmantram Ramnath vs. CIT (1946) 14 ITR 716 (Bom), it was held that although the Indian Trusts Act does not specifically apply to charitable trusts, there are three certainties required to create a charitable trust. They are:

- (i) a declaration of trust which is binding on settlor,
- (ii) setting apart definite property and the settlor depriving himself of the ownership thereof, and
- (iii) a statement of the objects for which the property is thereafter to be held.

It is essential that the transferor of the property viz. the settlor or the author of the trust must be competent to contract. Similarly, the trustees should also be persons who are competent to contract. It is also very essential that the trustees should signify their assent for acting as trustees to make the trust a valid one.

When once a valid trust is created and the property is transferred to the trust, it cannot be revoked. If the trust deed contains any provision for revocation of the trust, provisions of sections 60 to 63 of the Income-tax Act will come into play and the income of the trust will be taxed in the hands of the settlor as his personal income.

Sections which are applicable for charitable or religious trust are as follows:

Section	Details
11	Exemption of Income from property held in trust or other legal exemption for religious or charitable purposes
12	Exemption of income derived by such a trust from voluntary contributions not being contributions made with a specific direction that they shall form part of the corpus of the trust or institution



12A	Prescribes the contributions for registration of a trust etc.
12AA	Prescribes the procedure for registration
13	Enumerates the circumstances under which exemption available u/s 11 and 12 will be denied

Exemption outlined in section 11 is subject to the fulfillment, not only of the various conditions set out in this section but also those set out in section 12, 12A, 12AA, 13 and 60 to 63.

However, any profit or gain of a business carried on by a charitable or religious trust shall not be exempt unless the business is incidental to the attainment of the objectives of the trust and separate books of account are maintained by such trust in respect of such business.

Section 13(8) provides that where the commercial receipt of a charitable trust exceeds ₹25,00,000 in any previous year, there will be no need to cancel the registration of the trust but the exemption u/s 11 and 12 shall not be allowed for that previous year.

Income of a Public Trust, not exempt u/s 11 or 12, is taxable at the rates applicable to an Association of Person. However, if the exemption is forfeited due to contravention of Section 13(1)(c) or 13(1)(d), such income to a Public Trust is taxable at maximum marginal rate.

Public-cum-Private Trusts

Trusts whose part of the income may be applied for public purposes and a part may go to a private person or persons are known as Public-cum-Private Trusts. In this case, in respect of the portion of the income going to private person or persons are assessable as Private Trusts and in respect of the portion of the income, applied for public purposes, shall be eligible for exemption u/s 11.

Oral Trust

Another type of trust is also found which is called Oral Trust. "Oral Trust" means a trust which is not declared by a duly executed instrument in writing including any wakf deed which is valid under the Mussalman Wakf Validating Act, 1913 and which is not deemed to be trust by virtue of explanation 1 to Sec. 160.

Income of Oral Trust is taxable at maximum marginal rate.

However, if Oral Trust is declared to be a trust by furnishing a statement in writing containing purposes, particulars and details of trust, beneficiaries and property to the Assessing Officer within 3 months from the date of declaration of the trust, indicating the share of beneficiaries, the income of the trust is assessable in the hands of trustee at the rates applicable to beneficiaries.

Certain funds of national importance, educational institutions and medical institutions

Income of certain funds of national importance (e.g. The Prime Minister's National Relief Fund, The National Foundation of Communal Harmony etc.), certain educational institutions and certain medical institutions is exempt from tax u/s 10(23C) subject to fulfillment of certain conditions.

Anonymous Donation

➤ Anonymous donations received by wholly religious institutions shall remain exempt from tax.

➤ In the case of partly religious and partly charitable institutions, anonymous donations directed towards a medical or educational institutions run by such entities shall be taxable @ 30% on the aggregate of anonymous donation received in excess of the higher of the following, namely:—

- (a) 5% of the total donations received by the assessee, or
- (b) ₹ 1,00,000.

➤ In the case of wholly charitable institutions, anonymous donations shall be taxable @ 30% on the aggregate of anonymous donation received in excess of the higher of the following, namely

- (a) 5% of the total donations received by the assessee, or
- (b) ₹ 1,00,000.

(b) Advance Tax

Every income is liable to pay advance tax and it is obligatory to pay advance tax in every case where tax payable is ₹10,000 or more.

However, an assessee who has opted for the scheme of computing business income u/s 44AD on presumptive basis at the rate of 8% of turnover shall be exempt from payment of advance tax related to such business.

A senior citizen (i.e. he or she is at least 60 years of age at any time during the financial year) being a resident individual not having any income from business or profession, is also not liable to pay advance tax.

Advance tax should be paid during a financial year in installments as below:

Due Date of Installment in a	Amount payable by Corporate	Amount payable by Non-
On or before June 15	15% of Advance tax payable	Not Applicable
On or before September 15	45% of Advance tax payable	30% of Advance tax payable
On or before December 15	75% of Advance tax payable	60% of Advance tax payable
On or before March 15	100% of Advance tax payable	100% of Advance tax payable



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Where, the amount of Advance Tax Payable can be calculated as under:

Particulars	₹
Tax on Total Income	xxxx
Less: Rebate and Relief	xxxx
	xxxx
Add: Surcharge	xxxx
Tax and Surcharge	xxxx
Add: Education Cess and Higher Education Cess	xxxx
Amount of Advance Tax Payable	xxxx

Note: For the purpose of calculating advance tax, estimated agricultural income of the relevant financial year shall also be included for rate purposes.

Example:

The following are the particulars submitted by different taxpayers for the assessment year 2013-14:

Particulars	A (a resident individual)	B (a Hindu Undivided Family)	C (a firm)	D Ltd. (a company)
Income from business	4,50,000	3,00,000	4,00,000	5,45,000
Income from house property	(25,000)	15,000	25,000	20,000
Income from other sources	15,000	45,000	1,25,000	1,55,000
Gross Total Income	4,40,000	3,60,000	5,50,000	7,20,000
Less: Deduction under Chapter VI-A				
U/s 80C	1,00,000	65,000	—	—
U/s 80G	10,000	15,000	20,000	50,000
Net Income	3,30,000	2,80,000	5,30,000	6,70,000
Tax on Net Income	13,000	8,000	1,59,000	2,01,000
Add: Surcharge	—	—	—	—
Tax and Surcharge	13,000	8,000	1,59,000	2,01,000
Add: Education Cess	260	160	3,180	4,020
Add: Secondary	130	80	1,590	2,010

and Higher Education Cess				
Total	13,390	8,240	1,63,770	2,07,030
Less: Tax Deducted at Source	3,000	1,540	44,570	57,730
Tax Payable	10,390	6,700	1,19,200	1,49,300

From the above information we can calculate the amount of advance tax payable during the previous year 2012-13 by each of them.

Advance Tax to be paid by A, B, C & D Ltd. during the financial year 2012-13 can be calculated in the following way:

Particulars	A (a resident individual)	B (a Hindu Undivided Family)	C (a firm)	D Ltd. (a company)
Amount of Advance Tax payable on or before June 15, 2012	—	—	—	₹22,395 (i.e. 15% of ₹1,49,300)
Amount of Advance Tax payable on or before September 15, 2012	₹3,117 (i.e. 30% of ₹10,390)	—	₹35,760 (i.e. 30% of ₹1,19,200)	₹44,790 (i.e. 45% of ₹1,49,300) minus ₹22,395 paid in 1 st Installment)
Amount of Advance Tax payable on or before December 15, 2012	₹3,117 (i.e. 60% of ₹10,390) minus ₹3,117 paid in 1 st Installment)	—	₹35,760 (i.e. 60% of ₹1,19,200) minus ₹35,760 paid in 1 st Installment)	₹44,790 (i.e. 75% of ₹1,49,300) minus ₹22,395 paid in 1 st Installment minus ₹44,790 paid in 2 nd Installment)
Amount of Advance Tax payable on or before March 15, 2013	₹4,156 (i.e. 100% of ₹10,390) minus ₹3,117 paid in 1 st Installment minus ₹3,117 paid in 2 nd Installment)	—	₹47,680 (i.e. 100% of ₹1,19,200) minus ₹35,760 paid in 1 st Installment minus ₹35,760 paid in 2 nd Installment)	₹37,325 (i.e. 100% of ₹1,49,300) minus ₹22,395 paid in 1 st Installment minus ₹44,790 paid in 2 nd Installment minus ₹44,790 paid in 3 rd Installment)

Note: In the above example, provisions of MAT and AMT are ignored. It is to be noted that any amount paid before 31st March of the previous year shall also be treated as advance tax paid during the previous year.



(c) Certain Special Cases under Advance Tax

❖ Last date of payment of installment of advance tax is 15.09.2012 on which the bank was closed. Its first working day is 17.09.2012. Because of the holidays, Arup cannot pay his due amount of advance tax. He paid the amount on 17.09.2012.

Though Arup cannot pay advance tax within the due date, the mandatory interest leviable under sections 234B and 234C would not be charged because he has made the payment on the next immediately following working day.

❖ Karan won a lottery of ₹4,00,000 on 22nd September, 2012. He did not pay any amount as advance tax on 15th September, 2012. Karan has no other income.

The Act has been provided that if any income arises from capital gains and winning from lotteries, crossword puzzles, etc. after the due date of any installment, then, the entire amount of tax payable (after deducting tax at source, if any) on such capital gains or casual income should be paid in remaining installment of advance tax which are due or where no such installment is due by 31st March of the relevant previous year.

In this case, the tax payable on the lottery income is ₹20,000. Karan has to pay ₹12,000 (i.e. 60% of ₹20,000) on or before 15th December, 2012 and ₹8,000 (i.e. 100% of ₹20,000 minus ₹12,000). He is not liable to pay any interest for non-payment of advance tax on 15th September, 2012.

❖ R&T Ltd. is not liable to pay any tax for the previous year 2013-14 on the total income computed as per Income Tax Act, 1961. However, it is liable to pay tax on the Book Profit for that year.

Companies liable to pay tax on the basis of MAT are required to pay advance tax and failure to pay advance tax in respect of the same will attract interest under sections 234B and 234C.

Hence, in this case, R & T Ltd. is required to pay advance tax on MAT within the stipulated time and in specified manner as discussed earlier.

❖ Rahul paid the due amount of advance tax by cheque on 14th September, 2012. However, the cheque is encashed on 18th September, 2012.

The Supreme Court, in case of CIT vs. Ogale Glass Works Ltd. (1954) 25 ITR 529 (SC), held that the date of payment of amount by a cheque would be the date of the presentation of the cheque and not the date of clearing, if it is not dishonoured.

In the above case, Rahul has paid the cheque on 14th September, 2012 i.e. before 15th September, 2012. Hence, interest under sections 234B and 234C is not leviable.

(d) Tax Deducted at Source

In case of certain income, tax is deducted at source by the payer at the prescribed rate at the time of accrual or payment of such incomes to the payee.

The tax deducted as advance tax in the previous year itself is known as pre-paid taxes. Such pre-paid tax is deductible from the total tax due from the assessee.

Example 1:

The estimated taxable salary of Bina for the previous year 2012-13 is ₹4,50,000. Determine the amount of tax to be deducted at source every month by her employer.

Solution:

Statement showing calculation of the amount of tax deducted at source

Particulars	₹
Tax on ₹4,50,000	25,000
Add: Education Cess	500
Secondary and Higher Education Cess	250
Tax payable (a)	25,750
Amount of tax deductible at source every month [(a)÷12]	2146

Example 2:

Abhi won a lottery prize of ₹3,00,000 on 28th March, 2013 out of which ₹30,000 is payable to the agent. Determine amount of tax to be deducted at source.

Solution:

Taxable lottery income = ₹3,00,000 - ₹30,000 = ₹2,70,000

The amount of Tax Deducted at Source = ₹2,70,000 × 30%

= ₹81,000