

Postal Test Papers_P7_Intermediate_Syllabus 2012

P7 (Direct Taxation) Test Paper—I/7/LEG/2012/T-1

Full Marks: 100

Time: 3 hours

Group A

Question 1

(a) Ms. Kohli, a citizen of India, is an export manager of Arjun Overseas Limited, an Indian Company, since 1-5-2008. She has been regularly going to USA for export promotion. She spent the following days in U.S.A. for the last five years:

Previous year ended	No. of days spent in USA
31-3-2009	319 days
31-3-2010	150 days
31-3-2011	270 days
31-3-2012	310 days
31-3-2013	295 days

Determine her residential status for assessment year 2013-14 assuming that prior to 1-5-2008 she had never travelled abroad. [4]

OR

(b) What is the difference between dispersal and diversion of income? [4]

Question 2

(a) Is Agricultural Income from a business of growing rubber, tea and coffee taxable in India? If so, what are the existing rules of classification of agricultural income and business income? [4]

OR

(b) Ms. A, a Sikkimese woman married Mr. B, a non-sikkimese on 17th March, 2008. During the previous year 2011-12, she received rent of ₹6 lakhs from letting out house properties situated in the State of Sikkim. Is she liable to income tax for the assessment year 2012-2013? What will be your opinion, if she married Mr. B on 10th April, 2008? [4]

Question 3

(a) Mr. King is getting a salary of ₹5,400 pm since 1.1.11 and dearness allowance of ₹3,500 pm, 60% of which is a part of retirement benefits. He retires on 30th November 2012 after 30 years and 11 months of service. His pension is fixed at ₹ 3,800 pm. On 1st February 2013 he gets 3/4ths of the pension commuted at ₹ 2,16,000. Compute his gross salary for the previous year 2012-13 in the following cases:

- If he is a government employee, getting gratuity of ₹ 2,90,000
- If he is an employee of a private company, getting gratuity of ₹ 2,90,000
- If he is an employee of a private company but gets no gratuity. [4]

OR

(b) The assessee took a loan of ₹6,00,000 on 1.4.2006 from a bank for construction of a house property. The Loan carries an interest @ 9.50 %p.a. The construction is completed on 15.6.2010. The entire loan is still outstanding. Compute the interest allowable u/s 24(b). [4]

Question 4

(a) (i) A firm comprising of four partners A, B, C and D carrying on business in partnership, sharing profits/losses equally shows a profit of ₹2,50,000 in its books after deduction of the following amounts for the year :

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Particulars	₹
Remuneration to partner 'A' who is not actively engaged in business	60,000
Remuneration to partners 'B' & 'C' actively engaged in business	
Partner 'B'	80,000
Partner 'C'	90,000
Interest to partner 'D' on loan of ₹1,50,000	36,000

The deed of partnership provides for the payment of above remuneration and interest to partners. You are required to work out the taxable income of the firm as well as partners for assessment year 2013-14. [7]

(ii) Vineet had been working with M Ltd., in a tribal area since 1-10-1998. He was entitled to the following emoluments:

- (1) Basic salary w.e.f. 1-1-2012 ₹ 16,000 p.m.
- (2) Dearness allowance 40% of basic salary (50% of which forms part of salary for retirement benefits)
- (3) Medical allowance ₹ 1500 p.m., (entire amount is spent on his own medical treatment).
- (4) Entertainment allowance ₹ 400 p.m.
- (5) Children education allowance ₹ 80 p.m. per child for three children.
- (6) Hostel expenditure allowance ₹ 100 p.m. per child for three children.
- (7) Uniform allowance ₹ 250 p.m. (He spends ₹ 1,500 on the purchase and maintenance of uniform)
- (8) House rent allowance ₹ 750 per month. He pays ₹ 1,000 per month as rent.
- (9) He contributes ₹ 900 per month to a recognised provident fund to which his employer contributes an equal amount.

He resigned from his job on 1.1.2013 and shifted to Delhi. He was entitled to the following benefits at the time of his retirement:

- (a) Gratuity ₹ 1,95,000
 - (b) Pension from 1.1.2013 ₹ 5,000 p.m.
 - (c) Payment from recognised provident fund ₹ 3,00,000
 - (d) Encashment of earned leave for 150 days ₹ 66,000
- He was entitled to 40 days leave for every completed year of service. He got 60% of his pension commuted in lump sum w.e.f. 1.3.2013 and received ₹ 1,20,000 as commuted pension.

He joined K Ltd. at Mumbai w.e.f 1-2-2013 and was entitled to the following emoluments:

- (1) Basic salary ₹ 5,000 p.m.
- (2) Dearness allowance (forming part of salary) 20% of basic salary
- (3) Rent-free unfurnished accommodation in Delhi which is owned by the employer and whose fair rental value is ₹48,000 p.a.

He was also given the following facilities by the employer:

- (a) Motor car (1.4 ltr. engine capacity) with driver, which he uses partly for official and partly for personal purposes.
- (b) The monthly expenses incurred by 'A' on gas and electricity were ₹ 500 which were reimbursed by the employer.
- (c) Reimbursement of educational expenses of his two children which amounted to ₹ 350 p.m.
- (d) On 4.3.2011 his wife fell ill and the employer reimbursed the expenditure of medical treatment amounting to ₹ 17,500.
- (e) A watchman, a sweeper, a cook and a gardener have been provided to whom the company pays a salary of ₹ 400 p.m. each.
- (f) Loan of ₹ 1,00,000 @ 8% p.a. for construction of his house was given by the company. SBI rate of interest is 7% p.a.

He made the following payments during the previous year:

- (1) Professional tax ₹ 500
- (2) Premium on Life Insurance Policy of his own, ₹ 1,00,000 amounting to ₹ 15,000.
- (3) Deposit in PPF account ₹ 50,000.

Compute his total income and tax liability for the assessment year 2013-14.

[15]

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OR

(b) (i) SK Industries, a diversified group, discloses profit from the following sources for the previous year 2012-2013:

	(₹ in lakhs)
(i) Profits from small-scale unit, started in 2003-2004	16.00
(ii) Profit from industrial undertaking 1998-99, in Vidisha, a B-class industrially backward district.	20.00
(iii) Profit from multiplex theatre, started in 2007-2008	
(a) Delhi	9.00
(b) Allahabad	3.00
(iv) Profits from convention centre, started in 2009-2010	
(a) Delhi	7.00
(b) Allahabad	5.00
(v) Profits from Hill View, a hotel started in 2004-2005 at Manali in Himachal Pradesh. Hotel is approved by prescribed authority	10.00
(vi) Profits from undertakings engaged in refining of mineral oil since 1 January, 2005 in Uttar Pradesh, not listed in backward state in Eighth Schedule.	10.00

Compute the total income for the assessment year 2013-2014.

[7]

(ii) Mr. Krishna is a lawyer of Allahabad High Court. He keeps his accounts on cash basis. His Receipts and Payments A/c for the year ended 31-03-2013 is given below :

Receipts and Payments Account

Dr.

Cr.

Receipts	₹	Payments	₹
Balance b/d	3,820	Purchase of Infrastructure Bonds	20,000
Legal fees	3,45,000	Subscription and membership	4,500
Special commission fees	5,500	Purchase of legal books	17,500
Salary from Law College	87,000	Rent	47,500
		Municipal Tax paid on H. P.	23,000
Exam. Remuneration	1,480	Car expenses	44,000
Interest on Bank Deposit	3,500	Office expenses	38,500
Sale proceeds of residential	3,01,000	Electricity Expense	4,000
		Income tax	8,000
Dividend from Co-operative society	1,000	Gift to daughter	12,000
Dividend received from units of UTI	2,000	Domestic expenses	85,000
Rent from house property	2,15,000	Donation to Institutions Approved u/s 80G	12,000
		Car purchased	3,27,000
		Life Insurance premium	16,000
		Balance c/d	3,06,300
	9,65,300		9,65,300

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Following information is available:

- (1) The Rent and electric expenses are related to a house, of which half portion is used for self residence and remaining half portion is used for office.
- (2) Car is used only for professional purposes.
- (3) Outstanding legal fees ₹ 10,000.
- (4) Rent has been paid for 10 months only.
- (5) Car was purchased on 25-09-2012. Law books purchased are annual publications out of which books of ₹2,000 were purchased on 6-4-2012 and balance on 31-10-2012.
- (6) The house was purchased in January 1988 for ₹ 50,000 and sold on 1-7-2012.
- (7) Rent of the property which has been sold was ₹ 5,000 p.m. The property was vacated by the tenant on 30-6-2012

Compute his Total Income for the assessment year 2013-14.

[10]

(iii) Sawant is a fashion designer having lucrative business. His wife is a model. Sawant pays her a monthly salary of ₹20,000. The Assessing Officer, while admitting that the salary is an admissible deduction, in computing the total income of Sawant, had applied the provisions of Sec. 64(1) and had clubbed the income (salary) of his wife in Sawant's hands.

Discuss the correctness of the action of the Assessing Officer.

[5]

Question 5

R, S and T Ltd. (a widely held domestic company) are members in an AOP for the Previous Year 2012-2013. They share profit and losses in the ratio 30%, 40% and 30%. Taxable business income of AOP is determined at ₹ 8,00,000. Personal incomes of the partners are given below:

R - House Property	₹ 90,000
S - Short-term Capital Loss	(1,00,000)

R deposits ₹ 20,000 in CTDS-15-year account in Post Office in February 2013. S purchases NSC VIH-Issue for ₹ 25,000 in December 2012. Determine the tax liability of the AOP and its partners. [7]

Question 6

(a) D Ltd., a closely-held Indian company, is engaged in the business of manufacture of chemical goods (value of plant and machinery owned by the company is ₹55 lakh). The following information for the financial year 2012-13 are given:

	₹
Domestic Sales	25,00,000
Export Sales	7,00,000
Amount withdrawn from general reserve (reserve was created in 1997-98 by debiting P&L A/c)	2,00,000
Amount withdrawn from revaluation reserve	1,50,000
Total	35,50,000
Less : Expenses	
Depreciation (normal)	6,16,000
Depreciation (extra depreciation because of revaluation)	2,70,000
Salary and wages	2,10,000
Wealth tax	10,000
Income-tax	3,50,000

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Outstanding customs duty (not paid as yet)	17,500
Proposed dividend	60,000
Consultation fees paid to tax expert	21,000
Other expenses	1,65,000
Net Profit	18,20,500

For tax purposes the company wants to claim the following:

—Deduction under section 80-1B (30 per cent of ₹14,65,500).

—Depreciation under section 32 (₹5,63,000)

The company wants to set off the following losses/allowances:

	For tax purposes ₹	For accounting purpose ₹
Brought forward loss of 2004-05	14,80,000	4,00,000
Unabsorbed depreciation	—	90,000

Compute the net income and tax liability of D Ltd. for the assessment year 2012-13 assuming that D Ltd. has a (deemed) long-term capital gain of ₹60,000 under proviso (i) to section 54D(2) which is not credited in Profit and Loss Account. [7]

OR

(b) (i) From the following information, determine the tax liability of Z Ltd., domestic company, for the Assessment Year 2012-2013 and 2013-2014.

S. No.	Assessment year	Book-profits (₹)	Total income (₹)
1.	2012-2013	4,80,000	2,30,000
2.	2013-2014	6,00,000	3,00,000

[4]

(ii) A company issued discount coupons to its shareholders which entitled them to purchase the products of the company at a discount. The Assessing Officer is of the opinion that this is to be considered as deemed dividend. Discuss the tenability. [3]

Question 7

(a) A firm made the following payments of advance tax during the Financial Year 2012-13:

	Figures in ₹ Lakhs
15.09.2012	9.30
15.12.2012	9.70
15.03.2013	13.9
	32.90

The income returned by the firm is ₹100 Lakhs under the head "Business" and ₹10 Lakhs by way of Long-term Capital Gains on sale of a property effected on 1.3.2013. What is the interest payable by the assessee u/s 234B and 234C of the Income Tax Act for Assessment Year 2013-2014? Assume that the return of income was filed on 31.07.2013 and tax was fully made upon self-assessment. [7]

OR

(b) Find out the amount of advance tax payable by Mr. Amanat on specified dates under the Income tax Act, 1961 for the Previous Year 2012-13:

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	₹
Business income	2,75,000
Long Term Capital Gain on 31-7-2012	1,60,000
Winning from lotteries on 12-9-2012	50,000
Bank interest	10,000
Other income	5,000
Investment in PPF	40,000
Tax deducted at source :	
Case I	48,000
Case II	25,000

[7]

Question 8

Answer any five of the following:

[2×5]

- Why is tax planning necessary?
- When should planning be done?
- Has tax planning any effect on the rate of tax?
- How to select a location for business?
- What is the best investment?
- What is the difference between amalgamation in terms of company law and income-tax law?

Group B

Question 9

(a) Samir furnishes the following particulars for the compilation of his Wealth Tax return for Assessment Year 2013-14.

- Gifts of jewellery made to wife from time to time aggregating ₹90,000. Market value on valuation date ₹3,70,000
- Flat purchased under installment payment scheme in 1979 for ₹9,50,000. Used for purposes of his residence and market value as on 31.3.2013. (Installment remaining unpaid ₹ 80,000) ₹20,00,000
- Urban land transferred to minor handicapped child valued on 31.3.2013 ₹5,00,000. [5]

(b) Property Company Ltd. has let-out a premise with effect from 1.10.2012 on monthly rent of ₹1.5 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to ₹2 lakhs. What will be the value of the property under Schedule III of the Wealth Tax Act for assessment to wealth tax? [5]

Group C

Question 10

(a) What is arm's length price? State the methods prescribed for its computation. [4]

(b) Branco Inc., French Company, holds 45% of Equity in the Indian company Chirag technologies Ltd (CTL). CTL is engaged in development of software and maintenance of the same for customers across the globe. Its clientele includes Branco Inc. During the year, CTL had spent 2,400 Man hours for developing and maintaining software for Branco Inc, with each hour being billed at ₹1,500. Costs incurred by CTL for executing work for Branco Inc. amount to ₹22,00,000.

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CTL had also undertaken developing software for Harsha Industries Ltd for which CTL had billed at ₹2,900 per Man hour. The persons working for Harsha Industries Ltd. and Branco Inc. were part of the same team and were of matching credentials and caliber. CTL had made a gross profit of 60% on the Harsha Industries work.

CTL's transactions with Branco Inc. are comparable to the transactions with Harsha Industries, subject to the following differences:

- (i) Branco Inc. gives technical know-how support to CTL which can be valued at 10% of the normal gross profit. Harsha Industries does not provide any such support.
- (ii) Since the work for Branco involved huge number of man hours, a quantity discount of 16% of Normal Gross Profits was given.
- (iii) CTL had offered 90 days credit to Branco the cost of which is measured at 4% of the Normal Billing rate, no such discount was offered to Harsha Industries Ltd.

Compute ALP and the amount of increase in Total income of Chirag technologies Ltd. [7]

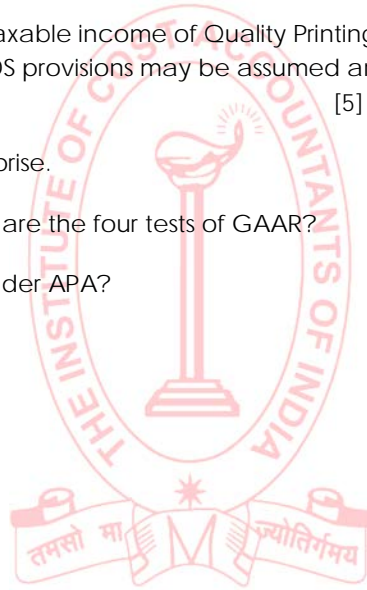
(c) Fox Solutions Inc. a US Company, sells Leaser Printer Cartridge Drums to its Indian Subsidiary Quality Printing Ltd. at \$ 50 per drum. Doc Solutions Inc. has other takers in India for its Cartridge Drums. For whom the price is \$ 70 per drum. During the year, Fax Solutions had supplied 15,000 Cartridge Drums to Quality Printing Ltd.

Determine the Arm's Length Price and taxable income of Quality Printing Ltd if its income after considering the above is ₹65,00,000. Compliance with TDS provisions may be assumed and Rate per USD is ₹65. Also determine income of Doc Solutions Inc. [5]

(d) Write short note on Associated Enterprise. [3]

(e) What is the full form of GAAR? What are the four tests of GAAR? [3]

(f) What do you mean by Agreement under APA? [2]



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Full Marks: 100

Time: 3 hours

Group A

Question 1

- (a) (i) State the situations, when previous year and assessment years are same.
(ii) State the undisclosed sources of income.

[2+2]

OR

(b) Mr. X furnishes the particulars of his income earned during previous year 2012-13:

- (i) Income from agriculture in Bangladesh, received there ₹2,00,000, subsequently remitted to India,
(ii) Interest on Asian Development Bonds, ₹90,000, one-third of which received outside India,
(iii) Gift of ₹50,000 received in foreign currency from a relative in India,
(iv) Arrears of salary ₹50,000 received in India from a former employer in Pakistan.
(v) Income from property received outside India ₹3,00,000 (₹1,00,000 is used in Bahrain for the educational expenses of his son in Bahrain, and ₹2,00,000 later on remitted to India).
(vi) Income from business in Iran which is controlled from India (₹90,000 being received in India) ₹2,00,000.
(vii) Dividends received on 30.06.2012 outside India from an Indian company, ₹2,50,000.
(viii) Untaxed profit of the FY 2008-2009 brought to India in July 2012, ₹2,50,000.
(ix) Profit (computed) on sale of building in India received in Pakistan ₹2,00,000.
(x) Profit from business outside India managed from India ₹90,000, received outside India.

Find out gross total income of Mr. X for AY 2013-2014, if Mr. X is resident but not ordinarily resident. [4]

Question 2

- (a) State the conditions under which the political party gets tax exemption under section 13A in respect of certain types of income/receipts. [4]

OR

- (b) Explain the concept of Reverse Mortgage and discuss its tax implications. [4]

Question 3

- (a) Chris, an employee of Beautiful World Ltd. was presented a gift voucher of Pantaloons amounting to ₹17,000, on the occasion of his marriage. Discuss taxability. Would your answer differ, if the same was presented to Chris on the occasion of her first marriage anniversary? [4]

OR

- (b) Mr. Prabir Nandy is a Manager in H Ltd. He gets salary @ ₹ 30,000 pm. He is also allowed free use of computer, video-camera and television of the company. H Ltd. has purchased (i) Computer for ₹ 1,00,000 (ii) Video-camera for ₹ 30,000. Their written down value on 1.4.12 is ₹ 60,000 and ₹ 30,000 respectively. Television set has been taken on lease rent @ ₹ 100 pm. The employer recovers ₹ 500 per month for use of the assets. Compute his gross salary for the assessment year 2013-14. [4]

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Question 4

(a) (i) Aniket was holding 5,000 listed shares in Blue Arrow Ltd. purchased by him on 15.9.2012 at ₹50 per share. He gifted them to his girlfriend, Chitrlekha on 14.2.2013. Aniket married Chitrlekha on 17.2.2013. Chitrlekha was allotted bonus shares by the company at the rate of one for every four shares held on 21.9.2013. She sold all shares including bonus shares at ₹135 per share. State in whose hands capital gain on sale of shares is taxable. Also compute the capital gain. [5]

(ii) Mr. Maity, a resident individual, furnishes the following particulars of his income/expenditure for the Previous Year 2012-2013:

	₹
(i) Gross Salary	5,00,000
(ii) Income from House Property	2,70,000
(iii) Share of profit from an AOP	1,25,000
(iv) Long-term Capital Gain	1,50,000

He has paid medical insurance on his life, his wife and his dependent children. Total premium paid under GIC approved policies is ₹ 10,000 but a sum of ₹ 1,000 was paid in cash due to a prolonged bank clearing strike. He has spent ₹ 20,000 on the treatment of his brother, a dependant with disability. He has also deposited ₹ 25,000 with a specified company u/s 2(h) of Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2003 for maintenance of his brother.

He has paid the following donations during the year:

Particulars of donations made during the year	₹
• Donation to P.M.'s National Relief Fund	10,000
• Donation to Jamia Milia University	5,000
• Donation to National Cultural Fund, set up by Central Government	5,000
• Donation to Delhi Municipal Corporation for Family Planning	12,000
• Donation to Birla Temple (notified)	
(i) for repair and renovation of the temple	2,000
(ii) for religious ceremonies, prasad, etc. for the benefit of devotees in general	5,000
• Donation to a temple managed by the Residents Welfare Association for its much needed repair and maintenance. The Association is a non-profit entity registered with the Registrar of Societies.	5,000
• Following donations to Pt. Pyare Lai Charitable Trust recognised by the Commissioner u/s 80G(5)(vi).	
(i) Donation in form of equity shares of blue chip companies: The shares were sold by the Trust at their market value of ₹75,000 and used wholly towards its charitable objectives. However, shares were transferred at cost,	25,000
(ii) Donation paid in cash,	5,000
(iii) Donation made by cheque,	7,000

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(iv) 50 blankets costing ₹100 each.	5,000
• Donation made to Indian Olympic Association 80G(2)(c) paid by A/c payee cheque,	7,500
• Donation for developing low cost homes for slum-dwellers, paid	
(i) Delhi Development Authority, and	3,000
(ii) Delhi Slum-dwellers Rehabilitation Society duly registered with the Registrar,	2,500
• The Rajiv Gandhi Foundation	6,000
• National Children's Fund	3,000

Mr Maity borrowed a sum of ₹2,00,000 in 2003 @ 9% interest from Harsh Vardhan Charitable Trust (registered under Sec. 80G) to complete his B.Tech. degree from Nalanda University. In March 2013, he repaid a sum of ₹75,000 (including ₹20,000 interest) to the said trust.

Compute his total income for the Assessment Year 2013-2014.

[14]

OR

(b) (i) During the Previous Year ending March 31, 2013, Adi, a salaried employee (age: 40 years), received ₹10,70,000 as basic salary and ₹20,000 as arrears of bonus of the financial year 1992-93. During the Previous Year 1992-93, Adi has received ₹50,000 as salary. Adi deposits ₹1,500 (during 1992-93) and ₹13,000 (during 2012-13) in public provident fund.

[5]

(ii) RP (HUF), furnishes the following particulars of its income and outgoing for the Previous Year 2012-2013.

Receipts :	
(i) Short-term Capital Gain	4,00,000
(ii) Gross winning from lottery	1,00,000
(iii) Sale consideration of 3/4th of agriculture produce, derived from land located in India, the balance produce has been kept for family use.	12,00,000
(iv) Net sale proceeds of wild grass and fruits from trees of spontaneous growth	50,000
Payments:	
(i) Repair of tube-well	60,000
WDV of tube-well on 1-4-2012	10,00,000
(ii) Wages paid to agriculture labour	6,00,000
(iii) Manuring and spraying charges	50,000
(iv) Rent of the building, used for storing agriculture produce on site	50,000
(v) Petrol, repair, salary of driver and insurance of motor car.	1,50,000
WDV of motor car on 1-4-2012	2,00,000
50% use of the motor car is for personal purpose of the family	

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(vi) LIP paid to insure members of the family	20,000
(vii) School fees paid for 3 children of the family @ ₹ 15,000 per child	45,000
(viii) Purchase of infrastructure bonds	90,000
(ix) Deposit with LIC for maintenance of a dependant member with disability: Unabsorbed losses brought forward:	
AY: 2003-2004	40,000
AY: 2005-2006	5,00,000
AY: 2008-2009	1,00,000

Determine the total income of the HUF and its tax liability for the Assessment Year 2013-2014. [9+5]

Question 5

(a) Prem was the Karta of HUF. He died leaving behind his major son Anand, his widow, his grandmother and brother's wife. Can the HUF retain its status as such or the surviving persons become co-owners? [3]

(b) Discuss whether Mr. Das, an individual, can become a partner in dual capacity, that is, one representing HUF as Karta and the other as representing himself. Is a firm constituted by partners, including a partner in dual capacity, entitled to get the deduction of salary and interest paid to its partner? [3]

(c) J.Hazra was the Karta of a Hindu Undivided Family which was assessed to income tax. He died in an air crash and his two sons received ₹ 8 lakhs as compensation and ₹ 6 lakhs from the insurance company. The said amount of ₹ 14 lakhs was invested in units. The assessee claims that the income from these units is assessable as income of the Hindu Undivided Family composed of his sons and their families. Discuss. [2]

Question 6

Classic Exporters Ltd, runs a new industrial undertaking set up in 2006-2007 which satisfies the conditions of Sec. 80-IB. Given below is the profit and loss account for the Previous Year 2012-2013:

Particulars	₹	Particulars	₹
Stock	4,00,000	Domestic sales	24,00,000
Purchases	23,00,000	Export sales	43,00,000
Salaries and wages	9,70,000	Export incentives Sec. 28(iia)/(iic)	50,000
Entertainment expenses	1,30,000	Profit of foreign branch	2,50,000
Freights and insurance attributable to exports	3,00,000	Brokerage/commission/interest/rent, etc	50,000
Travelling expenses	2,20,000	Transfer from contingency reserve	10,00,000
Depreciation	1,50,000	Stock	4,50,000
Selling expenses	1,20,000		
Income tax paid	90,000		
Income-tax penalty	20,000		
Wealth tax paid	10,000		
Custom duty payable against demand notice	30,000		
Provision for unascertained liabilities	20,000		
Provision for ascertained liabilities	50,000		
Proposed dividend	3,00,000		
Loss of subsidiary company	50,000		
Net Profit	33,40,000		
	85,00,000		85,00,000

You are further informed:

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- (i) Excise duty for 2011-2012, amounting ₹ 1,20,000 was paid on 15 December 2012.
- (ii) Depreciation under Sec. 32 is ₹ 2,20,000.
- (iii) During the year 2008-2009, contingency reserve, amounting ₹ 10,00,000, debited to Profit and Loss A/c, was added back to the extent of ₹ 4,00,000 in the computation of Book-profits. The company has transferred the said reserve to the Profit and Loss A/c during the year.
- (iv) Brought forward business loss/depreciation:

PY	Accounting purposes		Tax purposes	
	Loss	Depreciation	Loss	Depreciation
2008-2009	(-) 10,00,000	(-) 1,00,000	(-) 5,00,000	(-) 2,50,000
2009-2010	(-) 2,00,000	(-) 3,00,000	(-) 1,00,000	(-) 2,00,000

Compute the following: (a) Total Income, (b) Book-profits and (c) Tax Liability. [8]

Question 7

(a) X is in employment of A Ltd., drawing salary of ₹ 6,70,670 during the previous year 2012-13. He contributes ₹75,000 towards public provident fund. The following information is submitted by X in respect of other income to his employer.

Particulars	Amount (₹)
Income from consultancy	1,80,000
Tax deducted by the payer under section 194J	27,000
Expenses on earning the above income	68,000
Short-term capital loss	(-)16,000
Loss from self occupied house property	(-)40,000
Loss from let out house property	(-)61,000
Tax deducted by the payer of rent	6,240

You are required to calculate the amount of tax to be deducted. [5]

(b) Who shall sign and verify the return of income of a Limited Liability Partnership? [1]

(c) Is a Company liable to pay advance tax on Book profits? [2]

Question 8

Answer any five of the following:

- (a) A certain family has four concerns in which it has controlling interest. Different members are controlling the concerns. There are disputes that one group is favoured more than others. How is this to be resolved?
- (b) What is the difference between amalgamation in terms of company law and income-tax law?
- (c) Does the liability of shareholder get altered in amalgamation, demerger or slump sale?
- (d) What is meant by reverse merger?
- (e) What are the main advantages in conducting business in corporate form?
- (f) What is meant by dividend policy? How does it affect the tax liability of company and its shareholders?
- (g) Is advance tax payable with reference to MAT? Is interest under section 234B/234C chargeable where the liability is only for MAT? [2×5]

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Group B

Question 9

(a) Anu Constructions Ltd. is engaged in the construction of residential flats. For the valuation date 31.3.2013, furnishes the following data and requests you to compute the taxable wealth:

- (i) Land in urban area (construction is not permitted as per Municipal laws in force) ₹ 60 lakhs
- (ii) Motor-cars (in the use of company) ₹20lakhs
- (iii) Jewellery (Investment) ₹40 lakhs
- (iv) Cash balance (As per books) ₹ 3 lakhs
- (v) Bank Balance (As per books) ₹ 16 lakhs
- (vi) Guest House (Situated in rural area) ₹ 18 lakhs
- (vii) Residential flat occupied by Managing Director (Annual remuneration of whom is ₹8 Lakhs excluding perquisites) ₹ 30 lakhs
- (viii) Residential house let-out for 100 days in the financial year ₹ 15 lakhs
- (ix) Loan obtained for:
 - ❖ Purchase of Motor Car ₹ 12 lakhs
 - ❖ Purchase of Jewellery ₹ 20 lakhs

[7]

(b) X' received a vacant site under his father's will. The value of the site on 31.3.2013 is ₹45 Lakhs. As per terms of the 'Will' in the event 'X' wants to sell the site he should offer it to his brother for sale at ₹20 Lakhs. 'X', therefore, claims that the value of the site should be taken at ₹20 Lakhs as at 31.3.2013. Is the claim correct? [3]

Group C

Question 10

(a) An Indian software company receives an order from an European union country. The buyer will pay in four quarterly installments each of €0.5 million, starting from the end of the first quarter. The rates for euros in India is as follows:

Spot	3 month forward	6 months forward	9 month forward	1 year forward
₹52.80	₹52.70	₹52.55	₹52.50	₹52.48

In the light of taxation of international transactions, estimate revenue earned by an Indian company, if it hedges its foreign exchange rate risk in the forward market? [5]

(b) Estimate whether arbitrage gains possible from the following set of information to the arbitrageur, which calls for and has an impact on arm's length price in case of international transactions?

Spot rate: 47.88/\$
3 month forward rate: ₹ 47.28/\$
3 month interest rates:
₹: 7% p.a.
\$: 11% p.a.

[7]

(c) Write short notes on:

- (i) RPM
- (ii) CPM

[4+4]

(d) Write short note on GAAR

[3]

(e) Who are eligible to enter into an agreement under Advance Pricing Agreement Scheme? [2]

Postal Test Papers_P7_Intermediate_Syllabus 2012

P7 (Direct Taxation)
Test Paper—I/7/LEG/2012/T-3

Full Marks: 100

Time: 3 hours

Group A

Question 1

Write short notes on (i) Seventh Schedule of the Constitution (ii) Subordinate Legislation [2+2=4]

Question 2

(a) State the conditions for claiming exemption u/s 11. [4]

OR

(b) State the difference between Exemption u/s 10 and deduction under Chapter VIA of the Income Tax Act. [4]

Question 3

Answer the following questions:

(a) EPABX and Mobile Phones owned by a company are charged to depreciation @ 60%, similar to Computers. Discuss the tenability.

(b) X Ltd. transferred unpaid excise credit to the Profit & Loss A/c. Discuss taxability, if any.

(c) A Plantation company, holding several acres of land, sold trees of spontaneous growth. The Assessing officer is of the opinion that there arise capital gains. Discuss

(d) Well Wishers & Associates, a partnership firm, is holding land. This firm is not engaged in real estate business. The land was sold during the year. Discuss taxability, whether; this would be assessed to tax as business income or capital gain. [4×1=4]

Question 4

(a) Mr. P has estates in Rubber, Tea and Coffee. He has also a nursery wherein he grows plants and sells. For the Previous Year ended 31.3.2013, he furnishes the following particulars of his sources of income from estates and sale of Plants. You are requested to compute the taxable income for the Assessment Year 2013-2014:

Manufacture of Rubber	₹ 15,00,000	
Manufacture of Coffee grown and cured	₹ 13,50,000	
Manufacture of Tea	₹ 17,00,000	
Sale of Plants from Nursery	₹ 5,00,000	[7]

(b) Mr. N discloses the following incomes for the Previous Year 2012-2013 :

House Property ₹	Business or Profession		Capital Gains		Income from Other Sources
	Speculation ₹	Non-speculation ₹	STCG ₹	LTCG ₹	
A 1,50,000	P 5,00,000	X 5,00,000	C 6,00,000	F 7,00,000	Family pension 95,000
B (-) 1,40,000	S (-) 2,00,000	Y (-) 6,00,000	D (-) 3,00,000	E (-) 5,00,000	Loss from (-) 50,000 letting out from machinery/plant

Determine income under head of income for the A. Y. 2013-2014 [6]

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(c) Mr Jamal, a resident assessee, runs a manufacturing business in Delhi. For the Previous Year 2012-2013, he disclosed his taxable income as below:

	₹
Business Profits	6,55,000
Long-term Capital Gains	75,000
Short-term Capital Loss	(85,000)

He has hired furnished accommodation for his own use and pays ₹ 11,000 p.m. He has paid donation amounting to ₹10,000 to National Defence Fund. He has deposited ₹ 65,000 under a scheme framed by the Life Insurance Corporation for maintenance of his dependant brother with a disability. The disability is certified by the medical authority. Compute his total income for the Assessment Year 2013-2014. [7]

Question 5

(a) ABC LLP is liquidated. What is the liability of partners of XYZ LLP in respect of its tax dues? [2]

(b) A, B and C Ltd. are three members of an AOP, sharing profit and losses in the ratio 2:2:1. The AOP discloses its income for the PY 2012-2013 as below:

Particulars	₹
Long-term Capital Gains	7,00,000
Business Profits	8,00,000

Determine tax liability of AOP in the following cases:

- (i) C Ltd. is an Indian company
(ii) C Ltd. is a foreign company [6]

Question 6

(a) Write short notes on Minimum Alternate Tax (MAT) [2]

(b) A foreign company has put forth the following arguments amongst others to say that provisions of Sec.115JB regarding minimum alternate tax are not applicable to it:

- (i) The company does not prepare the accounts in accordance with the provisions of Revised Schedule VI of the Companies Act, 1956
(ii) It does not lay its accounts before the general meeting in accordance with Sec.210 of the Companies Act, since no meeting is held in India.
(iii) It does not declare any dividend in India. [2]

(c) Is it possible to convert a firm into a company? If so, state the procedure of conversion and highlight the provisions of tax laws which may attract such conversion. [3]

Question 7

(a) (i) During the previous year 2012-13, X is employed simultaneously by A Ltd. (salary: ₹1,60,000) and B Ltd. (salary: ₹2,72,000) on part-time basis. Calculate the amount of tax to be deducted by both the companies. [4]

(ii) Briefly describe the consequence of non-compliance of TDS provisions. [4]

OR

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(b) (i) During the previous year 2012-13, Mrs. X (aged 64 years) pays the following installments of advance tax :

	₹
On September 15, 2012	6,000
On December 15, 2012	14,000
On March 15, 2013	16,000
On March 16, 2013	18,000

Mrs. X files return of ₹ 7,01,000. Assessment is also completed on the basis of income returned by Mrs. X after making addition of ₹ 25,000 (date of assessment order : January 20, 2014). Mrs. X is entitled to tax credit of ₹ 12,510 on account of tax deducted at source. Compute interest under sections 234B and 234C. [5]

(ii) Briefly describe the consequence of non-payment or delay in payment of tax as demanded by Notice u/s 156. [3]

Question 8

- (a) Is it possible for a firm to be treated as a company? If so, state those circumstances. [2]
 (b) Under taxation laws, which is better - slump sale or severable itemised sale? [3]
 (c) Is there a gift element when a firm is converted into a company? [3]
 (d) During the period, when dividend income is exempt, could the loss arising on payment of interest on borrowings for acquiring shares be treated as business loss, so as to be available for set off against other heads of income and be carried forward? [2]

Group B

Question 9

(a) Net wealth of firm consisting of three partners Bidyut, Kingshuk and Deepak in 2:2:1 and a capital contribution of ₹ 25 Lakhs, ₹ 20 Lakhs, and ₹ 15 Lakhs respectively is as under -

(i)	Value of assets located outside India	₹ 60,00,000
(ii)	Value of assets located in India	₹ 90,00,000
(iii)	Debts incurred in relation to assets in India	₹ 70,00,000

Determine the value of interest of the partners in the firm under the Wealth Tax Act, 1957. [5]

- (b) State the persons on whom no Wealth Tax is chargeable? [3]
 (c) What are the benefits available to Indian repatriates under the Wealth Tax Act? [2]

Group C

Question 10

(a) Answer any four of the following:

- (i) Briefly discuss the conditions for applicability of arm's length price in the international transaction.
 (ii) Discuss in brief the Resale Price Method.
 (iii) Discuss in brief the Profit Split Method.
 (iv) Discuss in brief the Transaction Net Margin Method.
 (v) Discuss in brief the Comparable Uncontrolled Price Method. [4×5]
 (b) Discuss in short the applicability of GAAR. [3]

(c) Briefly discuss the purpose of Advance Pricing Agreement. [2]

Postal Test Papers_P7_Intermediate_Syllabus 2012

Test Paper—I/7/LEG/2012/T-4

Full Marks: 100

Time: 3 hours

Group A

Question 1

(a) (i) Ashim incurred an expenditure of ₹5 lakhs, on the occasion of his daughter's marriage on 14th February, 2013. He has no explainable source of this expenditure. Is there any tax implication for this? [2]

(ii) Define "Substantial Interest". [2]

OR

(b) (i) Mr. Harry, after 25 years of residing in India, returns to UK on 2.2.2009. He again returns to India on 19th September, 2012 to join British Company in India. Determine his residential status for the assessment year 2012-13. [3]

(ii) What do you mean by Assessment Year? What is the previous year for a newly started business, which has less than a year of commercial transactions during a previous year? Give example. [1]

Question 2

What are the consequences of amalgamation in respect of availing deduction u/s 10AA? [4]

Question 3

(a) Abhi owns a plot of land acquired on 1.7.2002 for a consideration of ₹4 lakhs. He enters into an agreement to sell the property on 23.3.2013 for a consideration of ₹15 lakhs. In part performance of the contract, he handed over the possession of land on 25.3.2013 on which date, he received the full consideration. As on 31.3.2013, the sale was pending registration. Discuss tax liability of capital gains for the assessment year 2012-13 (no computation is required) [1]

(b) Trisha was the owner of two residential houses. On 5th April, 2012, she disposed one of the house and utilized the entire sale proceeds to construct first floor on her second house which he completed by 15th March, 2013. She seeks your advice as to the taxability of transaction to capital gains under the provisions of Income Tax Act, 1961. [2]

(c) A farmer resident of Bikaner sold his rural agricultural land in Nepal and received Indian Rupees of 15 lacs over the cost of acquisition of this land. Explain the taxability of sale. [1]

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Question 4

(a) Mr. Samil submits the following information for the A.Y. 2013-14.

Particulars	₹
Taxable Income from Salary	2,64,000
Income from House property :	
House 1 Income	37,000
House 2 loss	(53,000)
Textile Business (discontinued on 10.10.2012)	(20,000)
Brought forward loss of textile business - A.Y. 2009-10	(80,000)
Chemical Business (discontinued on 15.3.2012)	
– b/f loss of Previous Year 2009-10	(25,000)
– unabsorbed depreciation of Previous Year 2009-10	(35,000)
– Bad debts earlier deducted recovered in July '2012	40,000
Leather Business	62,000
Interest on securities held as stock in trade	20,000

Determine the gross total income for the Assessment Year 2013-14 and also compute the amount of loss that can be carried forward to the subsequent years. [7]

(b) Mrs. Z is the owner of the business units A and B. A unit has been started with capital contribution from Mr. Z and B unit has been started out of capital contribution from Mrs. Z. The particulars of their income for the Previous Year 2012-2013 are as follows:

Particulars	Mrs. Z	Mr. Z
(i) Income from A unit	—	(–) 6,00,000
(ii) Income from B unit	4,00,000	—
(iii) Income from House Property	—	2,50,000

How would you assess them for the Assessment Year 2013-2014? [3]

(c) Mr. Jamal resident in India, has paid ₹ 60,000 for medical expenses during the Previous Year 2012-2013 for his wife suffering from cancer. Mrs. Jamal is also resident in India and turns 60 years of age on 31st March 2013. The full treatment cost has been reimbursed by the General Insurance Corporation of India. Please determine if Mr. Jamal is entitled to any deduction under Sec. 80DDB and if the answer is yes, determine the quantum of deduction. Also, please work out the quantum of deduction in the following circumstances:

- I. Mrs. Jamal turns 60 years of age on 1 April 2013 and the amount reimbursed by the insurer is ₹ 25,000. Payment of medical treatment was made out of exempted income.
- II. Jamal turns 60 years of age on 1 April 2012 but Mrs. Jamal is 59 years, 11 months and 30 days as on 31 March 2013 and the insurer has not reimbursed any expenditure.
- III. Mrs. Jamal is 61 years of age, a non-residential in India and the insurer has reimbursed ₹ 35,000
- IV. Mr. Jamal, though having assessable income in India, is actually resident in Sri Lanka and is getting his wife treated in India for sake of better and more advanced medical facilities Mrs. Jamal is residential in India and the insurer has reimbursed ₹ 20,000.
- V. The expenditure is incurred by the assessee on cancer treatment of his 25 year old grandson who is dependent on him and is resident in India. The insurer has not reimbursed the claim.
- VI. Mr. Jamal is able to produce the receipt of the medical expenditure only to the extent of ₹ 10,000 as he misplaced other receipts and the certificate in Form 10-I regarding the treatment of his wife does not mention the total amount incurred by him during the previous year. The insurer has reimbursed only ₹ 5,000.

[6]

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(d) Gross Total Income ₹5,00,000 (including LTCG ₹3,90,000]. Deductions under Chapter VIA [Sections 80C to 80U] ₹1,79,000. Compute tax liability for Mr.A. [5]

Question 5

(a) (i) PDM Charitable Trust submits the particulars of its receipts and outgoing during the Previous Year 2012-2013 as below :

	₹
(i) Income from property held under trust for charitable purposes	20,00,000
(ii) Voluntary contribution (out of which ₹ 5,00,000 will form part of the corpus)	15,00,000
(iii) Donations paid to blind charitable school	6,00,000
(iv) Scholarship paid to poor students	4,00,000
(v) Amount spent on holding free eye camps in urban slums	3,00,000
(vi) Amount set apart for setting up an old age home by March 2015	10,00,000

Compute the total income of the trust for the Previous Years' 2012-2013 and 2015-2016 if it spends ₹ 5,00,000 during the Previous Year 2014-2015 and ₹ 3,00,000 during the Previous Year 2015-2016 in setting up the old age home. [5]

(ii) A co-operative society, engaged in the business of banking, seeks your opinion by the matter of eligibility of deduction under Sec. 80P on the following items of income earned by it during the year ended 31-3-2013.

- (a) Interest on investment in Government securities made out of statutory reserves
 (b) Hire charges of safe deposit lockers. [2]

OR

(b) (i) Salil was running a business. He died on 20th December, 2012, leaving behind his wife Sruti and two minor sons - Sampat and Samar. He did not have any will. Sruti is running the business for and on behalf of herself and the minor children. Salil owned two house properties. Discuss how the rental income and the business income of the financial year 31st March, 2013 will be assessed and in whose hands. [4]

(ii) Write short notes on Alternate Minimum Tax (AMT) [3]

OR

(c) The following is the Profit and Loss Account for the year ended 31.3.2013 of XYZ (LLP) having 3 partners :

Profit and Loss Account

Particulars	₹	₹	Particulars	₹
Establishment & other expenses		45,50,000	Gross Profit	69,20,000
Interest to partner @ 15%			Rent from house property	1,60,000
X	90,000		Interest on Bank deposits	20,000
Y	1,20,000	2,70,000		
Z	<u>60,000</u>			
Salary to designated partners				
X	2,40,000			
Y	<u>1,80,000</u>	4,20,000		
Net Profit		18,60,000		
		<u>71,00,000</u>		<u>71,00,000</u>

The LLP is eligible for 100% deduction under section 80-IC as it is established in notified area in Himachal Pradesh. Compute the tax payable by the Limited Liability Firm. [7]

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Question 6

Fashion Ltd., a well-diversified group, gives below its Profit and Loss Account for the Previous Year 2012-2013 :

Particulars	₹	Particulars	₹
Manufacturing expenses	9,00,000	Sale of manufactured goods	10,00,000
Salaries/wages	5,50,000	Sale of agriculture produce	15,00,000
Cultivation expenses	4,00,000	Receipt from generation /distribution of power	15,00,000
Power generation/distribution expenses	4,00,000	Receipt from I.U. set up in backward district in July 2004	10,00,000
Irrigation expenses	6,00,000	Transfer from Reserve & Provision A/c, debited to Profit and Loss Account in 2005-06	5,00,000
Expenses of I.U., located in backward district	5,00,000	on account of free service under warranty period	9,50,000
Expenses of I.U., located in free trade zone(Sec. 10A)	1,50,000	Sale of goods of I.U. (Sec. 10B)	2,00,000
Expenses of I.U. (Sec. 10B) Expenses of I.U. located in NRE Provision for losses of subsidiary Sundry expenses	1,00,000	Sale of goods of I.U, located in free trade zone (Sec. 10A)	2,00,000
Provision for bad and doubtful debts	50,000	Sale of goods of I.U. located in Northern Eastern Region (NER) (Sec. 10C)	1,00,000
Provision for bills under discount	4,00,000	Income from UTI	2,00,000
Provision for sales tax, wealth tax against demand notice	10,000		
Income tax provision against demand notice	2,00,000		
Dividend paid on preference shares	50,000	Long Term Capital Gain on sale of equity shares, transaction chargeable to Securities Transaction Tax	5,00,000
Proposed dividend on equity shares	3,30,000		
Transfer to General Reserve Dividend Equalisation reserve Penalties under direct tax laws Goodwill written off	1,05,00,000		1,05,00,000

The following additional information is provided as below:

1. Depreciation includes, a sum of ₹ 1,00,000 on account of revaluation of building and plant and machinery.
2. Past year losses, before depreciation, are given below:

	Loss (₹)	Depreciation (₹)
2008-2009	(-) 5,00,000	(-) 6,00,000
2009-2010	Nil	(-) 5,00,000
2010-2011	(-) 7,00,000	(-) 4,00,000
2011-2012	(-) 5,00,000	Nil

Compute book-profits for the Previous Year 2012-2013/AY 2013-2014 for MAT under Sec. 115 JB. [8]

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Question 7

- (a) A foreign enterprise enters into a contract for the fabrication and supply of components for machinery with X & Co., a firm in India. X & Co. in turn subcontracts the work to Y & Co (a Partnership firm) and pays it ₹23 lakhs during the previous year 2012-13. Discuss the liability for tax deduction at source. [4]
- (b) Write short notes on Tax Return Preparer. [2]
- (c) Can a revised return be further revised? [1]

Question 8

- (a) How is the work in progress valued? Should the overheads be treated as part of cost? [4]
- (b) Is it possible to capitalise expenditure as cost of the asset for purposes of depreciation? [1]
- (c) A certain family has four concerns in which it has controlling interest. Different members are controlling the concerns. There are disputes that one group is favoured more than others. How is this to be resolved? [2]
- (d) Where there is a shift from straight line method to WDV method of depreciation, larger arrears of depreciation are to be provided. This enables reduction in tax liability. Could arrears be treated as a proper charge on taxable book profits? Can an upward revision be made to enable larger depreciation? [1]
- (e) Can wealth-tax payable by company be treated as a charge on book profits? [2]

Question 9

- (a)(i) Mr. Kushal Sengupta owns a house at Jharkhand, which is let-out at ₹1,35,000 per annum. The annual value of the property as per municipal records also is ₹1,00,000. Municipal taxes are partly borne by the owner (₹5,000) and partly by the tenant (₹6,000). Repair expenses are borne by tenant (₹10,000) the difference between the un-built area and specified area does not exceed 5%. The property was acquired on 10.5.1998 for ₹15,00,000. Determine for purposes of Wealth Tax Act, the value of the property as on 31.3.2013 on the following situations —
- (1) The house is built on a freehold land.
 - (2) It is built on a leasehold land, the unexpired period of lease of the land is more than 50 years.
 - (3) If the area of the plot on which the house is built is 800 sq. meters. FSI, permissible is 1.4 and
 - (4) FSI utilised is 1088 Sq. metres. (136 Sq. metres × 8 Storeys)
 - (5) The tenant had made interest free deposit of ₹1,00,000 with the landlord. [6]
- (ii) Is a charitable trust liable to pay wealth Tax? Is it entitled for exemption under Wealth Tax Act if it loses exemption under Income Tax Act? [4]

OR

- (b) (i) From the following dated furnished by Mr. Souma, determine the value of house property built on leasehold land as at the valuation date 31.3.2013:

Particulars	₹
Annual Value as per Municipal valuation	1,40,000
Rent received from tenant (Property vacant for 3 months during the year)	1,08,000
Municipal tax paid by tenant	10,000
Repairs on property borne by tenant	8,000
Refundable deposit collected from tenant as security deposit which does not carry any interest	50,000

The difference between unbuilt area and specified area over aggregate area is 10.5%. [5]

- (ii) Briefly define the term "Asset" u/s 2(ea) of the Wealth Tax Act. [5]

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Question 10

(a) The following quotes are available for 3 months options in respect of a share currently traded at ₹31:

Strike Price ₹30 ; Call Option ₹3 ; Put Option ₹2

An investor devises a strategy of buying a call and selling the share and a put option. Draw his profit/loss profile if it is given that the rate of interest is 10% per annum. What would be the position if the strategy adopted is selling a call and buying the put and the share? [3]

(b) What is the difference between Forward and Futures contracts and its impact on determining arm's length price in cases of international transactions? [2]

(c) Write short notes on:

(i) Berry Ratio

(ii) Return on Asset Ratio

(iii) Cost Cover Ratio

[3×2]

(d) Briefly describe the steps in computation of Arm's Length price using Transaction Net Margin Method. [3]

(e) Explain the legislative objective of bringing in the provisions relating to Transfer Pricing. [3]

(f) Define the term "Enterprise" for the purpose of Section 92 to 92F. [3]

(g) Shortly describe the procedure for invoking GAAR? [3]

(h) What do you mean by Bilateral Agreement under APA. [2]

