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**Fourth Semester MBA Degree Examination, December 2012**  
**Tax Management**

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any FOUR questions, from Q.No.1 to Q.No.7.**  
**2. Q.No. 8 is compulsory.**

- 1 a. Distinguish between Direct Tax and Indirect Tax. (03 Marks)  
b. X sells the following capital assets during the previous year 2011 – 12 , compute the capital gains.

|   | Non listed shares (Rs) | House property (Rs) |
|---|------------------------|---------------------|
| Sales consideration                       | 24,00,000              | 6,80,000            |
| Year of acquisition                       | 1992 - 93              | 1985 - 86           |
| Cost of acquisition                       | 2,90,000               | 18,000              |
| Cost of improvement incurred in 1991 - 92 | -                      | 70,000              |

Cost inflation index for the year 2011 – 2012 = 785, 1992 – 92 = 223 , 1985 – 86 = 133, 1991 – 92 = 199. (07 Marks)

- c. Mrs X (63 years), a sales executive in A Ltd., in Delhi, gets the following emoluments during the previous year ending March 31, 2012:

Basic salary : Rs 54000 PM , Dearness allowance (part of salary for super annuation) Rs 2000 per month, Entertainment allowances : Rs 24,500PM , Special allowances : Rs 50,000 PM , House Rent allowance : Rs 9,000 PM , Rent paid by her : Rs 16,000 PM and helper allowance for domestic use : Rs 5,000PM. The employer – company provides a Maruti Alto Car for personal use of Mrs X (employer's expenditure : Rs 1,37,800, depreciation of the car @ 10% : Rs 12,600). The employer also provides free club facility for personal use of Mrs X (expenditure of the employer : Rs 52,100) and free lunch (cost being Rs 55 per day for 100 days).

While her employer contributes Rs 7000PM towards RPF, she contributes Rs 8000PM. Her income from other sources is Rs 1,67,900. Interest credited on August 10, 2011 @ 12% in the provident fund account is Rs 30,000. During the year Mrs X pays insurance premium of Rs 10,000 on insurance policy on the life of her mother and Rs 3000 on her own life insurance policy (sum assured : Rs 50,000). Premium of Rs 9000 on insurance policy on the life of her husband falls due on March 23,2012, though she pays the same on April 13, 2012. Determine the total income of Mrs X for the A.Y 2012 – 13. (10 Marks)

- 2 a. Distinguish between sale and deemed sale. (03 Marks)  
b. Explain the provisions u/s 44AD and 44AE. (07 Marks)  
c. Explain any 10 permissible deductions u/s 80C – 80U. (10 Marks)
- 3 a. What do you mean by Fringe Benefit tax? (03 Marks)  
b. What is the procedure for set off and carry forward of losses? (07 Marks)  
c. "The incidence of income – tax depends upon the residential status of an assessee". Discuss fully. Also calculate the income chargeable to tax for the A.Y 2012 – 13 of Mr X who is a non – resident in India, from the following information :  
i) Royalty received by him outside India from the Government of India – Rs 17000.

- ii) Technical fees received from A Ltd (an Indian Co.) in Germany for advise given by him in respect of a project situated in Iran – Rs 1,17,000.
- iii) Income from a business situated in Sri Lanka (goods are sold in Sri Lanka, sale consideration is received in Sri Lanka but business is controlled partly in Sri Lanka and partly in India) – Rs 2,17,000.
- iv) Income from a business connection in India (it is received outside India) – Rs 3,17,000.
- v) Capital gain on sale of a house situated in Pune (sale consideration is received in Nepal) – Rs 40,000. **(10 Marks)**
- 4 a. What are the conditions to be fulfilled to avail depreciation deduction U/S 32? **(03 Marks)**
- b. X retires from ABC Co. on June 30, 2011. He gets pension of Rs 20,000PM up to January 31, 2012. With effect from February 1, 2012 he gets 60% of pension commuted for Rs 10,71,000. Does it make any difference if he also gets gratuity of Rs 40,000 at the time of retirement? Calculate taxable pension under the above cases. **(07 Marks)**
- c. Briefly explain the procedure of central excise to be followed by an assessee. **(10 Marks)**
- 5 a. What are excisable goods? **(03 Marks)**
- b. What do you mean by provident fund? Explain the types of provident funds and their tax treatment. **(07 Marks)**
- c. X Ltd., owns an industrial undertaking at Kanpur which is situated in urban area. As per policy of the State Government, the industrial undertaking is shifted to a rural area. In the process of shifting, the company sells the following assets :

|  | Plant & Machinery | Building  | Furniture | Land      |
|--|-------------------|-----------|-----------|-----------|
| Rate of depreciation   | 15%               | 10%       | 10%       | -         |
| Year of acquisition  | 1977              | 1978      | 1976      | 1975      |
| WDV of the block on 1-4-2011   | 9,50,000          | 10,75,000 | 25,000    | -         |
| Cost of acquisition of land [FMV as on 1-4-1981 : Rs 60,000]   | -                 | -         | -         | 20,000    |
| Sale proceeds [data of sale : June 25, 2011]   | 47,92,000         | 88,90,000 | 17,32,000 | 50,00,000 |
| Value for stamp duty purpose   | NA                | 80,00,000 | NA        | 60,00,000 |
| Cost of assets acquired during April – May 2012 for the purpose of shifting the undertaking to a rural area. | 30,50,000         | 4,00,000  | 3,70,000  | 50,70,000 |

Assuming the industrial undertaking is transferred to rural area by June 15, 2012, ascertain the capital gains chargeable to tax for the A.Y 2012 – 13. Cost Inflation Index : 1981 – 82 : 100 , 2011 – 12 : 785. **(10 Marks)**

- 6 a. Explain the provisions U/S 35D with respect to amortization of preliminary expenses. **(03 Marks)**
- b. Critically evaluate VAT as an indirect tax. **(07 Marks)**
- c. Mr X (age : 26 years), a leading tax consultant, who maintains books of accounts on cash basis furnishes the following particulars to income and expenditure for the A.Y 2012 – 13. Receipts and Payments A/c for the year ending March 31, 2012

|                      | Rs       |                          | Rs     |
|----------------------|----------|--------------------------|--------|
| Balance brought down | 12,400   | Purchase of a typewriter | 6000   |
| Fees from clients :  |          | Car expenses             | 18,000 |
| - of 2011 – 12       | 730,500  |                          |        |
| - of 2010 – 11       | 1,11,500 |                          |        |
| - of 2012 - 13       | 1,13,000 |                          |        |

|   |           |   |           |
|---|-----------|---|-----------|
|   |           | Office expenses   | 40,000    |
|   |           | Salary to staff :   |           |
|   |           | - of 2011 – 12  | 32,000    |
|   |           | - of 2012 - 13  | 11,000    |
| Presents from clients                                 | 24,000    | Expenses in respect of let out property (Municipal taxes : 2000, repairs : 1000, insurance : 3,000] | 6000      |
| Interest free loan from a client or purchase of a car | 2,38,000  | Car purchased on December 10, 2011  | 2,40,000  |
| Winnings from lottery                                 | 46,000    | Repairs of office   | 12,000    |
| Interest from UTI (received on sep 11, 2011)          | 12,000    | Interest on loan  | 10,000    |
| Rent of a let out property                            | 60,000    | Income tax  | 2,000     |
| Share of income form a firm                           | 15,000    | Life insurance premium  | 8,000     |
|   |           | Balance carried down  | 2,77,400  |
| Total   | 13,62,400 | Total   | 13,62,400 |

Car is partly used for official purpose (40%) and partly for private purpose (60%).

Determine the taxable income and tax liability of X for the A.Y 2012 – 13. (10 Marks)

- 7 a. Mention the provisions relating to the valuation of rent free accommodation provided by the employer to the employee. (03 Marks)
- b. What are the conditions to be satisfied to avail deductions U/s 184 and 40(b)? (07 Marks)
- c. Profit and loss account of A Co. [a firm of chartered accountants which satisfies all conditions of sections 184 and 40(b) for year ending March 31, 2012 is as follows :

|                                 | Rs       |                                      | Rs       |
|---------------------------------|----------|--------------------------------------|----------|
| Expenses                        | 2,88,000 | Receipts from clients for tax advice | 3,60,000 |
| Depreciation                    | 2,32,000 | Audit fees                           | 2,72,000 |
| Remuneration to partners        | 2,75,000 | Net loss                             | 2,18,000 |
| Interest on capital to partners | 55,000   |                                      |          |
| Total                           | 8,50,000 | Total                                | 8,50,000 |

Other information :

1. Out of expenses of Rs 88,000, Rs 57,250 is not deductible U/s 36 & 37.
2. Depreciation as per section 32 is Rs 323,100.
3. Interest on capital to partners, not deductible U/s 40(b) is Rs 17,900.

Compute the income of the firm and partners remuneration.

(10 Marks)

## 8 Compulsory :

Explain the tax treatment of the following :

- a. Transfer of capital asset at the time of liquidation.
- b. Expenditure incurred for Medical treatment of the employee.
- c. Advance tax paid by the employee.
- d. Telephone / mobile provided to an employee by the employer.
- e. Family planning expenditure incurred by the firm for its employees.
- f. Leave encashment received by a Government employee while in service.
- g. Professional tax paid by the employee on behalf of the employee.
- h. Amortization of expenditure under voluntary retirement scheme.
- i. Hostel expenditure allowance.
- j. House rent allowance received by an employee.

(20 Marks)

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