

MOCK TEST FOR MAY 2012 EXAM (IPCC TAXATION)
COMPLIED BY : CA. AMIT KHANDAL (B.COM, LL.B, FCA)

Total No. of Questions :- 7
 Time Allowed :- 3 Hours

Total No. of Printed Pages - 7
 Maximum Marks : 100

IPCC PAPER (INCOME TAX , VAT & SERVICE TAX)

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi medium. If a candidate who has not opted for Hindi medium, answers in Hindi, his answers in Hindi will not be valued.

Question no. 1 is compulsory.
Attempt any Five questions from the remaining six questions.

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer.

All questions relate to the assessment year 2012-13, unless stated otherwise in the question.

1. (a) Ram & Hari , a partnership firm consisting of two partners, reports a net profit of Rs. 7,00,000 before deduction of the following items :
- (1) Salary of Rs. 20,000 each per month payable to two working partners of the firm (as authorized by the deed of partnership).
 - (2) Depreciation on plant & machinery under section 32 (computed) Rs. 1,50,000.
 - (3) Interest on capital at 15 % per annum (as per the deed of partnership). The amount of capital eligible for interest Rs. 5,00,000.

Compute :

- i) Book profit of the firm under section 40(b) of the Income tax Act, 1961.
- ii) Allowable working partner salary for the assessment year 2012-13 as per section 40(b) of the Income tax Act, 1961. **(5 Marks)**

(b) X, an employee of a PSU, Furnishes the following particulars for the Previous year ending March 31, 2012:

	Rs.
Salary income for the year	5,25,000
Salary for Financial year 2006-07 received during the year	40,000
Assessed income for the Financial year 2006-07	1,40,000

You are requested by the assessee to compute relief under Section 89 in terms of tax payable for Assessment year 2012-13. The rates of income tax for the assessment year 2007-08 are : On First Rs. 1,00,000 of net income : Nil, On next Rs. 50,000 : 10%, On next Rs. 1,00,000 : 20%, on balance : 30%, education cess : 2 % **(5 Marks)**

- (c) Expert Coaching Centre engaged in commercial training and coaching service furnishes you the following information and the amounts received by it for the half year ended 31-3-2012.

	Rs.
Coaching fee for Civil Services examinations	3,50,000
Postal coaching fees for University examinations	2,40,000
Sports coaching fees from a local college	1,10,000

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Fee for management diploma of a foreign university (not Recognized by law in force in india)	4,40,000
Coaching and training provided by sending staff to the residence Of service receivers	6,40,000

Determine the value of taxable service . Your answer must be with reasons. **(5 Marks)**

(d) Rosesh Ltd. of Gujarat made a total purchases of input and capital goods of Rs. 55,00,000 during the month of January, 2012. The following further information is available:

- (i) Goods worth Rs. 15,00,000 were purchased from Assam on which C.S.T. @ 2% was paid
- (ii) The purchases made in January, 2012 include goods purchased from unregistered dealers amounting to Rs. 18,50,000.
- (iii) It purchased capital goods (not eligible for input credit) worth Rs. 6,50,000 and those eligible for input credit for Rs. 9,00,000.
- (iv) Sales made in Gujarat during the month of January, 2012 is Rs. 10,00,000 on which VAT @ 12.5% is payable.

Assuming that all purchases given are exclusive of tax and VAT @ 4% is paid on them, calculate.

- (i) the amount of input tax credit available for the month of January, 2012
- (ii) VAT payable for the month of January, 2012 and
- (iii) input tax credit carried forward.

Note : The input VAT credit on eligible capital goods is available in 36 equal monthly installments.

(5 Marks)

2. (a)

Dr. Shuba is medical practitioner. Her age is 64 as on 1 Jan 2012. The receipts and payments account of 2011-2012 of her is as under:

To		By	
Balance B/f:	10,000	Purchases of commercial vehicle before 20 Sep. 2011	4,00,000
Receipts from sale of Medicine	2,50,000	Drawings	2,50,000
Consultation fee	50,000	Deposit in bank for 5 years	1,50,000
Visiting fee	2,00,000	Surgical instrument purchased before 30 Sep. 2011	50,000
Lecturers	5,000	Installment of loan paid (including interest Rs. 22,330)	1,21,000
Family pension	2,80,000	Medical insurance premium	32,000
Saving bank interest	1,000	Installment of housing loan (Principal	1,08,000

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		component Rs. 48,000)	
Loan from bank	3,00,000	Advance tax paid	20,000
Share from HUF	50,000	Purchase of medicine	47,000
Agriculture income	1,00,000	Payment of medical journal	5,000
Income from lottery (net after deduction of TDS @ 30%)	35,000	Vehicle expenses	50,000
		Balance C/f:	48,000
Total	12,81,000	Total	12,81,000

Other relevant information is as under:

(i) She resides in her own house which was constructed in 1998 with a loan from LIC Housing of Rs. 10,00,000 out of which 6,00,000 was still due. She got it refinanced from SBI on 01.04.2011 at the rate of 10%. One fourth portion of the house is used for clinic purposes.

(ii) She invested in term deposit Rs. 1,50,000 in Bank of Baroda on 01.07.2011 for a period of 5 years in the name of her minor daughter at 9% interest p.a.

(iii) She purchased a commercial vehicle on 1 July 2011 at Rs. 4,00,000. A loan of Rs. 3,00,000 was taken to buy the van at 8% interest. One fourth use of vehicle is estimated to be personal.

(iv) She paid medical insurance premium for herself of Rs. 16,000 and for mother Rs. 16,000. Her mother is dependent on her.

(v) She got her share from HUF's income of Rs. 50,000.. **(8 Marks)**

(b)

(i) List the documents to be submitted along with the First Service tax return . **(2 Marks)**

(ii) What are the sources of service tax law ? **(2 Marks)**

(c) List out six purchases which are not eligible for input tax credit. **(4 Marks)**

3. (a) Mr. S, acquired a residential house in January, 2000 for Rs. 10,00,000 and made some improvements by way of additional construction to the house , incurring expenditure of Rs. 2,00,000 in October , 2004. He sold the house property in October , 2011 for Rs. 75,00,000 . The value of property was adopted as Rs. 80,00,000 by the stamp valuation authority for registration purpose. He acquired a residential house in January , 2011 for Rs. 25,00,000. He deposited Rs. 20,00,000 in capital gains bonds issued by National Highways Authority of India (NHAI) in June , 2012.

Compute the capital gain chargeable to tax for the Assessment year 2012-13. What would be the tax consequence and in which Assessment year it would be taxable, if the house property acquired in January, 2011 is sold for Rs. 40,00,000 in march , 2013 ?

Cost Inflation index : F.Y 1999-2000 = 389

F.Y. 2004-05 = 480

F.Y. 2010-11= 711

F.Y. 2011-12=785

(8 Marks)

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(b) X Ltd. provides business exhibition services in South India. From the information given below find out service tax liability of X Ltd. for the month of April 2011 –

	Rs.
Amount received during April 2011 for services rendered during January 2011	6,59,594*
Amount received during April 2011 for services rendered during February 2011	4,84,100*
Amount received during April 2011 for services rendered during March 2011	19,19,220*
Service completed on April 6, 2011 and invoice issued on April 16,2011	10,72,000**
[payment not received up to April 30, 2011; however, Rs. 5,00,000 (inclusive of service tax) was received in advance on March 1, 2011]	
Service completed on April 18,2011 and invoice issued on April 30, 2011 (payment not received up to April 30, 2011)	5,15,000**
Advance received on April 20, 2011 (no service rendered up to April 30, 2011)	1,00,000*

Additional information –

- Point of Taxation Scheme is applicable in the case of X Ltd. with effect from April 1, 2011, as it has not given any option to opt for it from July 1, 2011.
- X Ltd. always issues invoice within 14 days from the date of completion of service. **(4 Marks)**

(c) How can an auditor play a role to ensure that the tax payers discharge their tax liability properly under the VAT system? **(4 Marks)**

4. (a) (1) Explain with brief reason whether the return of income can be revised under section 139(5) of the income tax act, 1961 in following cases:

- Defective or incomplete return filed under section 139(9)
- Belated return filed under section 139(4)
- Return already revised once under section 139(5).
- Return of loss under section 139(3) **(4 Marks)**

(2) Enlist the installments of advance tax and due dates thereon in case of companies. **(4 Marks)**

(b) Explain composition or alternative method under service tax for Purchase or sale of foreign currency including money changer. **(4 Marks)**

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(c) Answer the following :

(2× 2 = 4 Marks)

- (i) can we say that levy of VAT will have effect on retail price of goods ?
- (ii) Under what circumstances registration can be cancelled under VAT ?

5.(a) Mr. C (aged 37) owned 6 heavy goods vehicles as on 01-04-2011. He acquired 2 more heavy goods vehicles on 1-7-2011 . He is solely engaged in the business of plying goods vehicles on hire since F.Y 2006-07.

He did not opt for presumptive provision contained in section 44 AE for the F.Y. 2010-11 . His books were audited under Section 44 AB and the return of income was filed on 5-8-2011. He has unabsorbed depreciation of Rs. 70,000 and business loss of Rs. 1,00,000 for the FY 2010-11.

Following further information is provided to you :

- i) Deposited Rs. 20,000 in Tax saver Deposit with SBI bank in the name of married son.
- ii) Paid medical insurance premium of Rs. 23,000 for his parents (Both aged above 70) by means of bank demand draft.
- iii) Paid premium on life insurance policy of his married daughter Rs. 25,000.
- iv) Repaid principal of Rs. 40,000 and interest of Rs. 15,000 to Dena bank towards education loan of his daughter, who completed B.E. two years ago. She is employed after completion of her studies.

Assuming that Mr. C has opted for presumptive provision contained in section 44 AE of the Income tax Act, 1961, compute the total income of Mr. C for the AY 2012-13.

(8 Marks)

(b) Who is liable to pay service tax in relation to services provided by a goods transport agency?

(4 Marks)

(c) Amar, purchased raw material "A" for Rs. 30,00,000 plus VAT @ 4%. Out of such raw material 60% was used for manufacture of taxable goods and the remaining for manufacture of goods which are exempt from VAT.

Another Raw material "B" was purchased for Rs. 15,00,000 on which VAT was paid at 1% . Entire raw material "B" was used for manufacture of taxable goods only.

The entire taxable goods were sold for Rs. 50,00,000 plus VAT @ 12.5 %

Compute VAT liability of Ashok on the assumption that there was no opening or closing inventory.

Note : Amar is not a dealer who opted for composition scheme.

(4 Marks)

6. (a) (i) Mr. Raja , citizen of India, Who resides in Jaipur, went to Canada for employment purposes on 15-12-2011 and came back to India on 10-11-2012. He has never been out of India in the past.

(1) Determine residential Status of Mr. Raja for the Assesement year 2012-13.

(2) Will your answer be different if he had gone on a leisure trip ?

(4 Marks)

(ii). Mr. Banerjee furnishes you the following details for the year ended 31.3.2012

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Income (loss) from house property	Rs.
House-1	36,000
House-2 Self occupied	(20,000)
House-3	60,000
Profits and gains from Business of Profession	
Textile Business	2,00,000
Automobile Business	(3,00,000)
Speculation Business	2,00,000
Capital Gains	
Long-term capital gain from sale of shares (STT paid)	1,50,000
Long-term Capital gain from sale of vacant site	2,00,000
Short-term capital loss from sale of building	1,00,000

(Note : Assume that the figures given above are computed and arrived at after considering eligible deductions).

Other sources :

Gift from a Friend (non-relative) on 5.6.2011	60,000
Gift from Grandfather's Younger Brother on 10.2.2012	1,00,000
Compute the total income of Mr. Banerjee for the Assessment Year 2012-13.	[4 marks]

(b) Write short note on BUSINESS EXHIBITION SERVICES. **[4 marks]**

(c) Who are not eligible for composition scheme ? **[4 marks]**

7. (a) Answer any **two** of the following **three** sub-divisions :

(i) Alpha Ltd. commenced operations of the business of laying and operating a cross- country natural gas pipeline network of distribution on 1st April, 2011. The Company incurred capital expenditure of Rs. 40 lakh during the period January to March, 2011 exclusively for the above business, and capitalized the same in its books of account as on 1st April, 2011. Further, during the financial year 2011-12 it incurred capital expenditure of Rs. 150 lakh (out of which Rs. 50 lakh was for acquisition of land) exclusively for the above business.

Compute the deduction under section 35AD for the Assessment year 2012-13 available to Alpha Ltd. **(4 Marks)**

(ii) Examine the obligation of the person responsible for paying the income to deduct tax at source and indicate the due date for payment of such tax wherever applicable respect of the following item:

M/s. Nidhi Textiles Ltd. credited Rs. 19,000 towards fees for professional services and Rs. 15,000 towards fees for technical services to the account of Mr. Suresh in its books of account on 6.10.2011. The total sum of Rs. 34,000 was paid by cheque to Mr. Suresh on 18.12.2011. **(4 Marks)**

(iii) What are the conditions to be fulfilled by a Charitable Trust under section 12A for applicability of exemption provisions contained in sections 11 and 12? **(4 Marks)**

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(b) X Ltd. provides cargo handling services in Mumbai. Point of Taxation Scheme is applicable in the case of X Ltd. with effect from July 1, 2011, as it has given an option to opt for it from July 1, 2011. In other words, prior to July 1, 2011, it deposited service tax on receipt basis and with effect from July 1, 2011, it will deposit tax on accrual basis. From the information given below find out the service tax liability of X Ltd. for the month of August 2011 (X Ltd. generally issues invoices within 2 days from completion of service) –

	Rs.
Amount received during August 2011 for service rendered during March 2011	3,86,050*
Amount received during August 2011 for services rendered during April, May and June 2011	17,04,135*
Service completed on August 1, 2011 [payment not received up to August 31, 2011; however, Rs. 3,00,000 (inclusive of service tax) was received in advance on May 1, 2011]	7,50,000**
Service completed on August 16, 2011 and invoice issued on August 18, 2011 (payment not received up to September 10, 2011)	2,00,000**
Advance received on August 20, 2011 (no service rendered up to August 31, 2011)	6,00,000*

(4 Marks)

(c) XYZ co. furnishes you the following information :

Raw material purchased Rs. 5,00,000 plus VAT @ 4 %.

Manufacturing expenses (revenue nature) Rs. 2,00,000.

Sale price Rs. 8,00,000 plus VAT @ 4 %

Plant & machinery acquired Rs. 2,50,000 plus VAT @ 4 % eligible for input Tax credit in the year of acquisition itself.

Compute VAT liability under (i) gross product variant.

(ii) consumption variant .

State which variant is beneficial to the dealer ?

(4 Marks)