

TAXATION

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.

Answer **all** questions.

Working notes should form part of the answer.

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

Marks 20

1. (a) Rajat is a Chartered Accountant in practice, he maintains his accounts on cash basis. He is a Resident and ordinarily resident in India. His profit and loss account for the year ended March 31, 2008 reads as follows:

Expenditure	Rs.	Income	Rs.
Salary to staff	5,25,000	Fees earned:	
Stipend to articled assistants	18,000	Audit	6,65,800
Incentive articled assistants	5,000	Taxation services	4,68,600
Office rent	24,000	Consultancy	3,82,000
Printing and stationery	6,600	Dividend on shares of Indian companies (gross)	9,635
Meeting, seminar and conference	38,600	Income from Unit Trust of India	6,600
Repairs, maintenance and petrol of car	22,400	Profit on sale of shares	15,620
Subscription and periodicals	15,000	Honorarium received from various institutions for valuation of answers papers	16,350
Postage, telegram and fax	32,500	Rent received from residential flat let out	84,000
Depreciation	29,500		
Travelling expenses	55,000		
Municipal tax paid in respect of house property	1,000		
Net profit	8,76,005		
	16,48,605		16,48,605

Other Information:

- (i) The total traveling expenses incurred on foreign tour was Rs.20,000 which was within the RBI norms
- (ii) Incentive to articled assistants represent amount paid to two articled assistants for passing PE-II Examination at first attempt.
- (iii) Repairs and maintenance of car includes Rs. 1, 600 for the period from 1.10.2007 to 30.9.2008.
- (iv) Salary include Rs. 30,000 to a computer specialist in cash for assisting Mr.Rajat in one professional assignment.
- (v) Rs. 1,500 interest on loan paid to LIC on the security of his Life Insurance Policy and utilized for repair of computer, has been debited to the drawing account of Mr.Rajat.
- (vi) Birthday gifts received by his minor son include cash Rs. 30,000, which was deposited with a nationalized bank. Interest accrued upto 31.3.2008 amounted to Rs. 1,500.
- (vii) Medical Insurance Premium on the health of:

	Amount	Mode of Payment
Self	10,000	By Cheque

Dependent brother	5,000	By Cheque
Major son dependent on him	3,000	By Cash
Minor married daughter	2,000	By Cheque
Wife dependent on assessee	6,000	By Cheque

(viii) Shares sold were held for 10 months before sale.

(ix) Rajat paid life membership subscription of Rs. 1,000 to Chartered Accountants Benevolent Fund, the amount was debited to his drawings account. The Chartered Accountants Benevolent Fund is an approved fund under Section 80G of Income-tax Act, 1961.

Compute the total income and tax payable of Rajat of the Assessment Year 2008-09.

(b) Aarav converts his plot of land purchased in July, 2001 for Rs. 80,000 into stock-in-trade on 31st March, 2007. The fair market value as on 31.3.2007 was Rs. 1,90,000. The stock-in-trade was sold for Rs. 2,25,000 in the month of January, 2008. 5

Find out the taxable income if any, and if so under which 'head of income' and for which Assessment year?

Cost Inflation Index:

F.Y. 2001-2002---426

F.Y. 2006-2007---519

F.Y. 2007-2008---551

(c) Vinod, is a person carrying on profession as film artist, his gross receipt from profession are as under: 5

Financial year	2005-06	1,15,000
Financial year	2006-07	1,80,000
Financial year	2007-08	2,10,000

What is his obligation regarding maintenance of books of accounts for each Assessment Year under Section 44AA of Income-tax Act, 1961?

EITHER

6X2=12

2. (a) Explain the orders appealable to Tribunal under Section 253 of the Income-tax Act.
(b) Explain the computation of capital gain in case of Depreciable Asset under Section 50.

OR

6X2=12

2. (a) What do you understand by the reference to Valuation officer under Section 55A of Income-tax Act, 1961?
(b) Discuss the cross transfers in the context of Income-tax.

10X1=10

3. (a) Choose the correct answer with reference to the provisions of the Income-tax Act, 1961?

(i) In respect of a resident assessee, who is of the age of 65 years or more at any time during the previous year relevant to the Assessment Year 2008-09.

- (a) Rebate of tax payable subject to a maximum of Rs. 20,000.
(b) Higher basic exemption of Rs. 1,50,000
(c) Higher basic exemption of Rs. 1,95,000
(d) Higher basic exemption of Rs. 1,35,000

(ii) Income accruing in Japan and received there is taxable in India in the case of

- (a) Resident and ordinarily resident only
(b) Both resident and ordinarily resident and resident but not ordinarily resident
(c) Both resident and non-resident

- (d) Non-resident.
- (iii) For an employee in receipt of hostel expenditure allowance for his three children, the maximum annual allowance exempt under Section 10(14) is
- (a) Rs. 10,800
 - (b) Rs. 7,200
 - (c) Rs. 3,600
 - (d) Rs. 9,600
- (iv) The due date for filing of return for an individual assessee who is not required to get his books of accounts audited under Section 44AB for Assessment Year 2008-09 is
- (a) 31st July, 2008
 - (b) 30th September, 2008
 - (c) 31st October, 2008
 - (d) 30th November, 2008.
- (v) Under Section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month and the maximum number specified under the Section are
- (a) Rs. 3,500 for a heavy goods carriage and Rs. 3,150 for other goods carriages for an assessee owing not more than 10 goods carriages at any time during the year.
 - (b) Rs. 3,500 per carriages for an assessee owing not more than 10 goods carriages at the end of the previous year.
 - (c) Rs. 3,500 for a heavy goods carriage and Rs. 3,150 for other goods carriages for an assessee owing not more than 12 goods carriages at the end of the previous year.
 - (d) Rs. 2,150 per carriage for an assessee for an assessee owing not more than 10 goods carriages at the end of the previous year.
- (vi) Rakesh received Rs. 70,000 from his friend on the occasion of his birthday
- (a) The entire amount of Rs. 70,000 is taxable
 - (b) Rs. 25,000 is taxable
 - (c) The entire amount is exempt
 - (d) None of the above.
- (vii) Income arising to a minor married daughter is
- (a) To be assessed in the hands of the minor married daughter
 - (b) To be clubbed with the income of that parent whose total income, before including minor's income, is higher
 - (c) Completely exempt from tax
 - (d) To be clubbed with the income of her husband.
- (viii) Mr. B incurred short-term capital loss of Rs.10,000 on sale of shares through the National Stock Exchange. Such loss can be set-off
- (a) Only against short-term capital gains
 - (b) Against both short-term capital gains and long-term capital gains
 - (c) Against any head of income
 - (d) None of the above.

(ix) Rs. 1 lakh is the maximum qualifying limit for deduction under

- (a) Section 80C alone
- (b) Section 80C and 80CCC
- (c) Section 80C, 80CCC and 80CCD
- (d) Section 88.

(x) A charitable or religious institution is required to file an application for registration from its creation

- (a) Within 1 year from its creation
- (b) Within 30 days from its creation
- (c) Within the financial year of its creation
- (d) None of the above.

5X1=5

(b) State whether True/False with proper reasons of the following statements with regard to provisions of Income-tax Act, 1961:

- (i) Pension received by recipient of gallantry awards are exempt from Income-tax.
- (ii) Surcharge of 10% on Income-tax is payable by an individual where the total Income exceeds Rs. 7,50,000.
- (iii) Zero Coupon Bond means a bond on which no payment and benefits are received or receivable before maturity or redemption.
- (iv) Mr. A, member of HUF, received Rs. 10,000 as share from the income of HUF, is to be included in his chargeable income.
- (v) Subscription to notified bonds of NABARD would qualify for deduction under Section 80C.

4. Write short notes on any three of the following with reference to the provisions of Income-tax Act, 1961: 3X6=18

- (a) Explain defective return under Section 139(9).
- (b) What do you understand by "Composite Rent"? What is the tax treatment of Composite Rent under the Income-tax Act, 1961?
- (c) Explain the term "Business Connection" under Section 9(1).
- (d) Deduction from Gross Total Income under section 80RRB.

5. (a) State with brief reasons whether the following statements are true or false as per the provisions of Central Sales-tax Act, 1956: 5X2=10

- (i) Sales includes mortgage or hypothecation of or charge or pledge on goods.
- (ii) Prosecution on the same facts shall lie under Section 10 if a penalty is imposed under Section 10A.
- (iii) Form J is obtained by the selling dealer from his customers in SEZ.
- (iv) Payment of Sales-tax under both laws is a condition precedent for application of refund of Local Sales-tax.
- (v) Unmanufactured tobacco and tobacco refuse, cigars and cheroots of tobacco, cigarettes and cigarillos of tobacco and other manufactured tobacco are covered under Section 14 as declared goods and can avail concessional tax treatment.

(b) Fill in the blanks in the light of the provisions of Central Sales-tax Act, 1956:

- (i) Aviation Turbine fuel sold to aircraft with a maximum take off mass of less than 40,000 kg. operated by scheduled airlines is(Declared goods/Undeclared goods)

- (ii) As per Section 6(2), no CST exemption in respect of subsequent sale to (Government/Registered Dealers).
- (iii) Ram of Indore sells goods after he received the payment from Shyam of Mumbai, Shyam of Mumbai gets a Cash discount, whether cash discount shall be..... (Deducted/ not deducted) from the sale price.
- (iv) Indian Airlines Purchases Aviation Turbine fuel for the purpose of its London flight, such purchase..... (shall/shall not) be the sale in the course of export of goods.
- (v) Whether erection and commissioning (are/are not) works contract.

6. Mr. Sharvil reported undermentioned data for the financial year 2007-08: 10

	Amount Rs.
(i) Total interstate sales during the F.Y. 2007-08 [Inclusive of C.S.T]	1,01,55,800
(ii) Above sales includes excise duty	13,60,000
(iii) Incentive on sales received from manufacturer	2,30,000
(iv) Deposit for returnable containers and packages	8,00,000
(v) Goods worth Rs. 87,550 (inclusive of tax) made vide Invoice No. 101/ACA dated 29.9.2007 were returned on 31.3.2008.	

Discuss the turnover and CST payable assuming the rate of tax at 3%.

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