



**BOARD OF STUDIES**  
**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA**  
**PROFESSIONAL COMPETENCE COURSE**  
**GROUP – II**

**Model Test Paper – BOS/PCC/ Taxation –1/2007**

*Time : 3 hours*

*Maximum Marks : 100*

**PAPER – 5 : TAXATION**

*Answer all questions*

**PART – I : INCOME-TAX (75 MARKS)**

1. State with reasons, whether the following statements are true or false [A.Y.2007-08]  
(Answer any five)
  - (i) Advance tax is payable in four installments in the case of corporate assesses.
  - (ii) Fixed deposits with companies qualify for deduction under section 80C.
  - (iii) Under the proviso to section 139(1), a person fulfilling any of the six expenditure/asset criteria listed therein, is required to furnish his return of income even if his total income is below the basic exemption limit.
  - (iv) As per section 139(1), filing of loss returns is compulsory only for companies and not for firms.
  - (v) Speculation loss can be carried forward for a maximum period of four assessment years.
  - (vi) Long-term capital loss can be set-off against short-term capital gains arising in that year. *(5 x 2 = 10 Marks)*
2. The following are the particulars of income of Mr. Ganesh, a resident individual, who is working as a general manager with ABC Pvt. Ltd at Mumbai. You are required to compute his total income and tax liability for the A.Y.2007-08.

Basic Salary	Rs.25,000 p.m.
Dearness allowance	Rs.12,000 p.m.
Bonus	Rs.50,000 p.a.
Entertainment allowance	Rs.5,000 p.m.
House rent allowance	Rs.10,000 p.m.
Children education and hostel allowance	Rs.2,500 p.m.
Leave travel allowance	Rs.25,000 p.a.

Neither Ganesh nor his family have undertaken any journey during the year. Ganesh has three children, all of them school-going, studying at an International School in Thane. They commute by school bus to school every day.

Both Ganesh and his employer contribute 10% of salary to recognized provident fund. Ganesh has invested Rs.60,000 in Public Provident Fund and Rs.50,000 in infrastructure bonds of ICICI. He paid mediclaim premium of Rs.7,000 by cheque and Rs.2,000 by cash to New India Assurance Co. Ltd.

Ganesh owns a house property in Chennai, his native place, which he is unable to occupy because of his employment in Mumbai. His grand parents live in that house. The municipal value of house property is Rs.2,05,000 p.a. The standard rent as per Rent Control Act is Rs.1,80,000 p.a. He pays municipal tax @5% on municipal value. Further, he has spent Rs.20,000 on repairs of the house property. He has paid during the year 2006-07, interest of Rs.60,000 on loan borrowed for purchase of the house property. The loan was taken on 31/3/2003.

Ganesh lives in a rented apartment in a society in Mumbai for which he pays a rent of Rs.12,000 per month. He also pays a monthly maintenance allowance of Rs.1,500 per month to the society.

Ganesh has incurred long term capital loss of Rs.4,000 on sale of units of equity oriented fund during the year. However, he has earned short term capital gain in respect of equity shares to the tune of Rs.15,000 (he has paid securities transaction tax in respect of these transactions). Further, he has earned Rs.7,500 on account of long-term capital gains on sale of jewellery. (20 Marks)

3. (a) Sahasra has two houses, both of which are self-occupied. The particulars of the houses for the P.Y.2006-07 are as under:

Particulars	House I	House II
Municipal valuation p.a.	2,00,000	3,00,000
Fair rent p.a.	1,50,000	3,50,000
Standard rent p.a.	1,80,000	3,20,000
Date of completion	31.3.2000	31.3.2000
Municipal taxes paid during the year	10%	6%

Interest on money borrowed for repair of property during the current year - 40,000

Compute Sahasra's income from house property for A.Y. 2007-08 and suggest which house should be opted by Sahasra to be assessed as self-occupied so that her tax liability is minimum. (8 Marks)

(b) Following is the Profit and Loss account of Mr. Sridhar for the year ended 31.3.2007:

	Rs.		Rs.
To Repairs to building	72,000	By Gross profit	3,42,000
To Administration expenses	37,000	By Income-tax refund	6,000
To Amount paid to scientific research association approved u/s 35	60,000	By Interest from bank deposits	8,000
To Interest	65,000	By Dividends	5,000
To Conveyance and travelling	45,000		
To Banking cash transaction tax	600		
To Net Profit	81,400		
	<b>3,61,000</b>		<b>3,61,000</b>

Following additional information is furnished:

- (1) Repairs to building includes Rs.32,000 being cost of raising a compound wall for the own business premises.
- (2) Interest payments include interest of Rs.7,000 payable outside India to a resident Indian on which tax has not been deducted and penalty of Rs.8,000 for contravention of Excise laws.

Compute the income chargeable under the head 'Profits and gains of business or profession' of Mr. Sridhar for the year ended 31.3.2007. Depreciation may be ignored. (7 Marks)

4. (a) Compute the gross total income of Mr. Rajesh for the A.Y.2007-08 from the information given below –

<i>Particulars</i>	<i>Rs.</i>
Net income from house property	75,000
Income from textile business (before providing for depreciation)	2,10,000
Short term capital gains on sale of shares	70,000
Long term capital loss from sale of property (brought forward from A.Y.2006-07)	(1,00,000)
Income from tea business	1,60,000

Dividends from Indian companies carrying on agricultural operations	60,000
Current year depreciation	15,000
Brought forward textile business loss of A.Y.2004-05	(30,000)
	(7 Marks)

(b) During the previous year 2006-07, Manas had the following income:

	Rs.
(i) Salary income received in India for services rendered in Sri Lanka	25,000
(ii) Income from profession in Bangalore, but received in Sri Lanka.	30,000
(iii) Property income in Nepal (out of which Rs. 10,000 was remitted to India).	40,000
(iv) Profits earned from business in Mysore	22,000
(v) Profits from a business carried on in Sri Lanka but controlled from India.	50,000
(vi) Past untaxed profits remitted to India during the previous year.	35,000
(vii) Agricultural income from land in Karnataka	15,000

Compute his total income for assessment year 2007-08 if he is (i) resident and ordinarily resident, (ii) Not ordinarily resident, and (iii) Non-resident in India.  
(7 Marks)

5. Write short notes on any **four** of the following -

- (a) Tax return preparers
- (b) Meaning of "Infrastructure capital company"
- (c) Schools of Hindu Law
- (d) Persons responsible for paying taxes deducted at source
- (e) Aggregation of agricultural income (4 x 4 = 16 Marks)

#### PART – II : SERVICE TAX AND VAT (25 Marks)

6. (a) Answer the following questions:

- (i) What are the three different methods of computation of VAT?
- (ii) Before the introduction of State-Level VAT in respect of sales-tax in India, in which form was VAT present in India? (2 x 2 = 4 Marks)

(b) Answer any **three** of the following with reference to the Finance Act, 1994 as amended relating to applicability of service tax:

- (i) Drilling done in sea beyond 12 nautical miles from Indian lands mass in relation

to exploration of oil.

- (ii) An advance of Rs.5000 received by a company towards provision of a taxable service.
- (iii) Construction of a residential housing complex consisting of 10 bungalows.
- (iv) Air transport services provided by an aircraft operator to a passenger embarking in India for going to London in economy class. (2 x 3 = 6 Marks)

7. M/s. X & Y is a chartered accountancy firm. Following services are rendered by it during the month of December 2006:

S. No	Particulars	Amount (Rs.)
(a)	Preparation and filing of Form 'A' with BIFR	10,000
(b)	Preparation and filing of Income tax returns	4,000
(c)	Concurrent Audit	2,500
(d)	Certification under the provisions of Income tax Act, 1961	4,500
(e)	Services rendered to a Nationalised bank to recover non performing assets (NPA)	5,500
(f)	Advice on amalgamations and mergers	15,000
(g)	Representing the client before Income-tax Appellate Tribunal	10,000

The consideration for the services mentioned in clause (b) and (e) has not been received during December but in January. The value of taxable services received by Ms. X & Y during the months of September, October, November and January is Rs.45,000, Rs.55,000, Rs.60,000 and Rs.25,000 respectively.

M/s. X & Y is not a small service provider for the purpose of *Notification No.6/2005 ST dated 01.03.2005*.

You are required to:

- (a) compute the service tax liability of M/s. X & Y for the month of December 2006.
- (b) determine the service tax payable by M/s. X & Y by January 5<sup>th</sup>. (3 + 3 = 6 Marks)

8. Answer any **three** of the following:

- (a) Write a brief note on provisional payment of service tax.
- (b) Briefly discuss the provisions of the Finance Act, 1994 as amended relating to service tax with respect to packaging services.
- (c) List the documents to be submitted along with the service tax return.
- (d) Explain the gross product variant of VAT. (3 x 3 = 9 Marks)