

PAPER-7
APPLIED DIRECT TAXATION

TEST PAPER – I/7/ADT/2008/T-1

Time Allowed: 3 Hours

Full Marks: 100

Q1) (A) Fill up the blanks:

1*6=6

- (i) For a person suffering from severe physical disability, deduction available u/s 80U is Rs _____.
- (ii) The tax rebate available under section 88E to a Hindu Undivided Family resident in India is Rs _____.
- (iii) The additional or accelerated depreciation, for an eligible assessee, for machinery installed and used after 31.03.2005 is _____% of _____ of the machinery.
- (iv) While Fringe benefit Tax _____ (is/is not) a permissible business expenditure, banking Cash Transaction Tax _____ (is/is not).
- (v) Death –cum –retirement gratuity received by an employee of Central Government is _____ (wholly exempt/exempt upto Rs. 3,50,000/exempt upto Rs. 5 lakhs.)
- (vi) If loan granted by employer to employee does not exceed Rs _____ (10,000/20,000/50,000/1,00,000), it is not treated as perquisite for purpose of income tax.

(B) State with reasons whether the following statements are true or false (Answers without reasons will not receive any credit) **2*7=14**

- (i) Business loss can be set off against any income;
- (ii) Long-term capital gains arising from units of debt-oriented equity funds for which securities transactions tax has been paid is exempt.
- (iii) Rental income from residential property owned by a company carrying on business of property rentals is taxable under the heads "Income from House Properties"
- (iv) Business expenses are allowed to be deducted from business income even if they are in the nature of personal expenditure of assessee, as long as they are reasonable.
- (v) Under section 12A of the Income tax Act, 1961, application for registration of charitable trust can be made within one year from the date of creation of the trust.
- (vi) Where business is carried on, on behalf of the assessee's minor child (whose income is clubbed in assessee's hand), by the assessee which is besides assessee's own business, the gross receipts of both should be reckoned for judging applicability of section 44AB of the Income tax Act, 1961.

(vii) Section 43B.

Q2) Write short notes on the following: **4*4=16**

- a. De-merger
- b. Legal Representative
- c. Amortisation of preliminary Expenses
- d. Inquiry before assessment

Q3) From the following particulars furnished by Mr.X for the year ended 31.03.2008, you are requested to compute his Total Income and Tax payable for the A.Y.2008-09:

- a. Mr. X retired on 31/12/2007 at the age of 58, after putting in 25 years & 9 months of service from a Private Company at Mumbai.
- b. He paid a salary of Rs.25,000 p.m. He paid rent of Rs.6,500 p.m. during his tenure of service.
- c. On retirement, he was paid a Gratuity of Rs.3,50,000. He was not covered by the Payment of Gratuity Act. His average salary in regard may be taken as Rs.24,500. Mr.X had not received any other gratuity at any point of time earlier, other than this gratuity.
- d. He had accumulated leave of 15 days p.a. during the period of his service; this was encashed by Mr. X at the time of his retirement. A sum of Rs.3,15,000 was received by him in this regard. His average salary may be taken as Rs.24,500.
- e. After retirement, he ventured into textile business and incurred a loss of Rs.80,000 for the period upto 31/3/08.
- f. Mr. X has invested Rs.22,500 in Recognized Provident Fund, of Rs.40,000 in Public Provident Fund & Rs.37,500 in National Savings Certificates.

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Q4) X, a retail trader of Cochin, gives the following trading & Profit and loss Account for the year ending 31.03.2008:

Particulars	(in Rs.)	Particulars	(in Rs.)
Opening stock	90,000	Sales	12,11,500
Purchases	10,04,000	Income from UTI	2,400
Gross Profit	3,06,000	Other Business Receipts	6,100
		Closing stock	<u>1,80,000</u>
			<u>14,00,000</u>
Salary	60,000	Gross Profit b/d	3,06,000
Rent & rates	36,000		
Interest	15,000		

Depreciation	1,05,000	
Printing & Stationery	23,200	
Postage & Telegram	1,640	
Loss on sale of shares (short term)	8,100	
Other General Expenses	7,060	
Net Profit	<u>50,000</u>	
	<u>3,06,000</u>	<u>3,06,000</u>

Additional Information:

- It was found, some stocks were omitted to be included in both opening and closing stock, values of which were: Opening stock –Rs.9,000; & Closing stock – Rs.18,000
 - Salary includes Rs. 10,000 paid to his brother, which is unreasonable to the extent of Rs.2,000.
 - The whole amount of printing stationery was paid in cash.
 - The depreciation provided in the P&L Account Rs. 1,05,000 was based on the same the following information:
The WDV of plant & machinery is Rs.4,20,000. A new plant falling under the same Block of 15% was bought on 01.07.2007 for Rs. 70,000. Two old plants were sold on 01.10.2007 for Rs.50,000
 - Rent & rate includes Sales Tax Liability of Rs.3,400 paid on 07.04.2008.
 - Other business receipts includes Rs.2,200 received as refund of Sales Tax relating to A.Y.2007-08 .
 - Other general expenses include Rs. 2,000 paid as donation to a public charitable trust.
- You are required to advise X whether he can offer his business income u/s 44AF, i.e. presumptive taxation. **16**

Q5) Mr. Harshad had been working with X Ltd. In Mumbai since 1.10.1989. He was entitled to the following emoluments.

- Basic salary w.e.f. 1.1.2002 Rs. 6000p.m
 - Dearness allowance 40% of basic salary (50% of which forms part of salary for the retirement benefit).
 - Medical allowance Rs. 500p.m. (entire amount is spent on his own medical treatment)
 - Entertainment allowance Rs. 500p.m.
 - Children education allowance Rs. 40p.m. per child for 3 children.
 - Hostel expenditure allowance Rs. 100p.m. per child for 3 children.
 - Uniform allowance Rs. 250p.m. (he spends Rs. 1500 for the purchase and Maintenance of uniform)
 - House rent allowance Rs.750p.m. He pays Rs.7000p.m as rent.
- He contributes Rs.900p.m. to a recognized provident fund to which his employer contributes an equal amount.

He retired from his job on 1.1.2003 and shifted to Delhi. He was entitled to the following benefits at the time of his retirement.

- Gratuity Rs. 115000
- Pension from 1.1.2002 Rs.2000
- Payment from recognized provident fund Rs.300000.
- Encashment of earned leave for 150 days Rs.36000.

He was entitled to 40 days leave for every completed year of service. He got 50% of his pension commuted in lump sum w.e.f. 1.3.2003 and received Rs.120000 as commuted pension.

He joined S Ltd. At Delhi w.e.f. 1.2.2003 and was entitled to the following emoluments.

Basic salary Rs.5000p.m.

Dearness allowance (forming part of salary) 20% of basic salary.

Rent free unfurnished accommodation in Delhi which is owned by the employer and whose fair rental value is Rs.48000p.a.

He was also given the following facilities by the employer.

Motor car (1.4 litre engine capacity) with driver, which he uses partly for official and partly for personal purpose.

The monthly expenses incurred by 'A' on gas and electricity gas Rs.500 reimbursement by the employer.

Reimbursement of educational expenses of his two children which amounted to Rs.500p.m.

On 4.3.2002 his wife fell ill and the employer reimbursed the expenditure of the medical treatment amounting to Rs.17500.

A watch-man, a sweeper, a cook and a gardner have been provided to whom the company pays the salary of Rs.400p.m each.

Loan of Rs 100000 @ 8% p.a. for construction of his house was given by the company.

He made the following payments during the previous year.

Professional tax Rs.500

LIP on his life policy Rs.100000, Rs. 15000.

Deposit in PPF account Rs. 50000.

Compute his total income for the A.Y. 2008-09.

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Q6) a. X submits the following information relevant for the previous year ending on March 31, 2007

Particulars	Rs.
Profits of business A carried on in India	90000
Loss of business B carried on in India	(30000)
Profits of business C carried on in Canada (income is earned and received in Canada and business is controlled from Canada)	52000
Loss of business D carried on in Canada (though profits are not received in India, business is controlled from Delhi)	(46000)
Unabsorbed depreciation of business D	63000
Income from property situated in India	22000
Income from property situated in Canada (received in Canada)	192000

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6b. X owned 5 acres of agricultural land within the city limits of Madras which he had purchased on October 1, 1982 for Rs. 5,00,000. On October 1, 2006, he sold the agricultural land for Rs. 50,00,000. On January 1, 2007, he purchased a coffee estate for Rs. 20,00,000. The coffee estate was in a remote village and the nearest town was about 20 kilometres away from the estate.

On February 28, 2008, he sold the coffee estate for Rs. 35,00,000.

You are required to compute the income chargeable under the head "Capital gains" for the assessment years 2007-08 and 2008-09.

What would be your answer if the coffee estate was situated within the city limits of Ooty?

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