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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Fourth Semester, Master of Business Administration (MBA)

Semester End Examination; June - 2017

Tax Management

Time: 3 hrs

Max. Marks: 100

Note: Answer all **FOUR** full questions from **PART-A** and **PART-B** (Case study) is Compulsory.

PART - A

- 1 a. Define person as per Income tax act. 10
- b. Mr. X a foreign national furnishes the following particulars of his Income relevant for Previous year 2015-16; 10
- i) Profit on sale of Plant at London (one-half is received in India). ` 1,46,000/-
 - ii) Profit on sale of plant at Delhi (one-half is received in London) ` 1,02,000/-
 - iii) Salary from an Indian company received in London (one-half is paid for rendering services in India) ` 60,000/-
 - iv) Interest on U.K. Development Bonds (entire amount is received in London) ` 40,000
 - v) Income from property in London received there ` 30,000/-
 - vi) Profit from Business from Delhi managed from India ` 49,000/-
 - vii) Income from agriculture there, half of which is used for meeting hostel expenses of Mr. X's son in England and remaining amount is later on remitted to India. ` 25,000/- 10
 - viii) Dividend received in London from a company registered in India. But mainly operating in UK ` 17,000/-
 - ix) Income from property in Nepal deposited by the tenant in a foreign branch of an Indian bank operating there ` 12,000/-
 - x) Gift from a relative in foreign currency (one-third of which is used in India and remaining amount is used for meeting education expenses of Mr. X's son in USA) ` 3,70,000/-
- Determine the gross total Income of Shankar for the Assessment year 2016-17 if he is not ordinary Resident.

OR

- 2 a. Write a note on: i) House Rent Allowance ii) Entertainment allowance. 10
- b. Mr. H submits the following information relevant for the Assessment year 2016-17. Income from units of Mutual Fund ` 20,000/-, Profits of business ` 12,000/-, Short term capital gains ` 25,000/-, Long term capital gains in respect of Land and Building ` 7,500/-, Income from owning and maintaining race horses ` 25,000/-, Income from cross word puzzles ` 28,000/-.
- The following items have been brought forward: Brought forward business loss (from the A.Y. 2014-15) Unabsorbed depreciation (from the A.Y. 2014-15). 10
- Long term capital loss in respect of the assessment year 2012-13.
- Brought forward loss from the activity of willing and maintaining race horses of the A.Y. 2013-14.
- Find out the gross total income of Mr. H. for the A.H. 2016-17.
- 3 a. State any five expenses expressly disallowed under section 40. 10
- b. The following is the profit and loss Account of Mr. X for the year ended on 31st March, 2016. Compute his taxable income from business for that year. 10

Opening Stock	15,000	Sales	2,80,000
Purchases	1,40,000	Closing stock	20,000
Wages	20,000	Gift from Father	10,000
Rent	46,000	Sale of Car	17,000
Repairs of Car	3,000	Income tax refund	3,000
Medical Expenses	3,000		
General expenses	10,000		
Depreciation of Car	4,000		
Profit for the year	89,000		
Total	3,30,000	Total	3,30,000

Following further information is given:

- i) Mr. X carries on his business from a rented premises of which is used as his residence
- ii) Mr. X bought a car during the year for ` 20,000/- He charged 20% depreciation on the value of the car. The car was sold during the year for ` 17,000/- The use of the car was $\frac{3}{4}$ for the business and $\frac{1}{4}$ th for personal use
- iii) Medical expenses were incurred during the sickness of Mr. X for his treatment
- iv) Wages include ` 250 per month on account of Mr. X's diver for 10 months.

OR

- 4 a. Explain the provisions regarding set-off and carry forward losses under the head "Income from other sources" 10
- b. Shri Ram Prasad is a registered medical practitioner. He has prepared the following Income and expenditure Account for the year 31st March 2016. You are required to compute his income from profession. 10

Income and expenditure Account

Household exps.	1,20,000	Consultation fees	1,10,000
Car purchased	1,30,000	Visiting Fees.	1,20,000
Travelling Exp. (Personal)	4,000	Gains from Race (Gr0ss)	10,000
Charity and Donation	1,000	Share in sale of ancestral property	34,000
Income Tax	2,000	Capital gains	6,000
Salaries	8,000	Dividend from Domestic Co.	5,000
Gifts to daughter	7,000	Interest from P.O. Savings Bank.	600
Establishment Exps.	1,000	Gift from Father in law.	2,000
Books(Annual publications)	1,200	Bad debts recovered (not allowed earlier years)	2,000
Life Insurance Premium	2,000	Interest of F.D.	1,300
Interest on capital	2,000		
Surplus	8,700		
Total	2,90,900	Total	2,90,900

Rate of Depreciation allowable on car and surgical equipments is @ 15%.

- 5 a. Under Section 40(b) what items are disallowed as deduction while computing firm's Income from Business or profession? Explain. 10
- b. The following is the profit and loss account of ABC (a professional firm which fulfills the conditions of sec.184) with two equal partners A and B for the year ended 31st March 2016 10

Profit and loss Account (For the year ended 31st March 2016).

	₹		₹
Salary	35,000	Gross profit	2,00,000
General charges	3,000	Net Loss	19,000
Entertainment Expenses.	15,000		
Rent and taxes	7,000		
Electricity charges	3,000		
Telephone expenses	8,000		
Income Tax Penalty	1,000		
Income Tax	12,000		
Interest on Loan paid to Wife of a partner	4,000		
Bad debts reserve	1,000		
Depreciation on car 15%	20,000		
Interest on capital of ₹ 80,000 each (Rate of Int. 15%) A - 12,000 B - 12,000	24,000		
Salary and Bonus : A - 46,000 B - 40,000	86,000		
Total	2,19,000	Total	2,19,000

Addition information:

- i) B paid ₹ 2000/- as interest on money borrowed for investment as capital in the firm
- ii) Car was purchased on 6th October – 2015. Compute the firm’s Book profit and total income.

OR

- 6 a. Explain capital assets and its classification of capital assets as per income tax Act. 10
- b. Mrs. Padmini owned two motor cars which were mainly used for business purposes. The written-down value of 1-4-15 of the block of assets comprising of only these two cars, both of which were purchased in May, 2008 was ₹ 181000. These two cars were sold in June, 2015 for 2150000/-.
In June. 2015, she sold jewelry for ₹ 10,00,000/- she had purchased the same during March 1995 for ₹ 2590000/-. A house plot purchased by her in March, 1992 for ₹ 300000/- was sold by her for ₹ 1800000/- on 18-1-16. 10
Compute the amount of net capital gains chargeable to tax in respect of the above transactions. For the assessment year 2016-17.
Cost inflation index for 1991-92-199,1994-95-259,2015-16-1081
- 7 a. Write a note on Minimum Alternative Tax (MAT) and Income from Other Sources. 10
- b. From the following information compute depreciation allowances allowable to XYZ Co., a chartered Accountants concerns for the assessment year 2016-17:

Assets	WDV on 1-4-15
1. Computers	140000
2. Typewriters	30000
3. Furniture & Fittings	100000
4. Office building	500000
5. Shaft quarters – area not exceeding 80 sq meters.	1500000
6. Purchased a new computer during the p.y. ₹ 60000/-	
7. Sold old office building for ₹ 15,00,000 and purchased a new office building for ₹ 4000000 in Dec. 2015.	

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8. Purchased books (annual publications) for professional purposes ` 40,000/-	
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OR

8 a. Write short notes on the following:

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- i) Tax Evasion
- ii) Any four permissible deduction from section 80C to 80D
- iii) Central Excise Act, 1944
- iv) Value Added Tax.

PART – B (Compulsory)

9. **Case Study:**

Dr. Surendra is a renowned medical practitioner who maintains books of account on cash basis, furnishes his receipts and payments account for the financial year 2015 – 16.

	Rs.		Rs.
Balanced b/d	14000	Rent of clinic	
Consultant Fees:		2014-15	600
2014-15	3000	2015-16	4800
2015-16	15000	2016-17	600
2016-17	2000	Electricity and water bills	2000
Visiting fees	30000	Purchases of Professional Books	4000
Loan from bank for professional purposes	25000	Household exps.	7800
Sales of Medicines	60000	Collection charges on Dividend income	100
Gifts and presents	5000	Motor car purchases	30000
Remuneration from articles published in professional journals	6000	Surgical Equipments	4800
Divided	10000	Income tax	10000
Interest on post office savings bank account in joint names	7000	Salary to staff	15000
		Life Insurance Premium	15000
		Gift to wife	5000
		Interest on loan	2000
		Car expenses	15000
		Purchase of medicines	40000
		Balance c/d	20300
Total	177000	Total	177000

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Compute his taxable professional income for the assessment year 2016-17, after taking into account the following additional information:

- i) 1/3 of the use of motor-car relates to his personal use.
- ii) Depreciation on Motor-car allowable is 15%, on books it is @ 100% and on surgical equipments it is @ 15%.
- iii) Gifts and presents includes ` 3000/- from patients in appreciation of his medical services of ` 2000/- received as Birthday Gifts from relatives.
- iv) Closing stock of medicines amounted to ` 5500/-

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