



# 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; May/June - 2018

## 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. Mention the five heads of Gross total income. Income tax is charge on the income of the 'previous year'. Do you fully agree with this statement? If not, what are the exceptions? 10
- b. From the following income which incomes are assessable in India under the head ordinarily resident? 10
- Income from business in Kolkata, managed in USA ` 25,000/-
  - Income from Pension for service in India ` 10,000/-
  - Income from asset in Burma, received in India ` 15,000/-
  - Profit from business in Sri Lanks, deposited in a bank there ` 15,000/-
  - Income from Profession in Kenya received there. The profession was set up in India ` 15,000/- 10
  - Interest on UK Government Bond, half of which rd. in India ` 5,000/-
  - Interest on England Development Bond (1/5 received in India) ` 50,000/-
  - Income from Agriculture in America, received there but later on remitted to India ` 81,000/-
  - Income from property in Canada, received outside India ` 8,000/-
  - Profit on sale of building in India received in Sri Lanka ` 18,000/-

### OR

- 2 a. How is residence of assessee determined for income tax purposes? 10
- b. The following particulars relate to the income of Sri Rajeev Mehta for the previous year 2015-16: He is employed in a cotton textile mill at Bangalore on a monthly salary of ` 25,000. He is also entitled to a commission @ 1% of sales effected by him. The sale effected by him during the previous year amounted to ` 40,00,000. He received the following allowances and perquisites during the previous year 10
- Dearness pay @ ` 6000 per month
  - Bonus @ two months basic salary
  - Entertainment allowance @ ` 2000 per month
  - House Rent Allowance @ ` 5000 per month
  - The employer paid ` 10,000 towards the income-tax liability of Sri Rajeev Mehta 10
  - The employer provided him L.T.C of ` 35000 for going to Simla
  - He has also been provided with gas, electricity and water facility and employer spent ` 15,000 on these
  - The employer gave him cotton worth ` 1000 free of cost
  - He and his employer both contributed 15% of his salary to his recognized provident fund and interest audited to this fund @ 9% amounted to ` 30,000 during the previous year
  - He spent ` 6,000 per month as rent of the house occupied by him in Bengaluru
- Compute his taxable income under the head 'salaries' for the assessment year 2016-17

- 3 a. What is meant by perquisites? Give five examples of tax-free and full taxable perquisites. 10
- b. From the following information compute tax payable by Mr. X for the assessment year 2016-17.

I	i) Equity shares purchased on 10.6.2014	18,520	
	ii) Sold these shares in recognized stock exchange on 15.12.2015	25,400	
	iii) Paid brokerage ` 300 and securities transaction tax ` 50		
II	i) Equity shares purchased on 8.5.2015	100000	
	ii) Sold these shares in recognized stock exchange on 6.2.2016	1,50,000	10
	iii) Paid brokerage ` 1500 and securities transaction tax ` 300		
III	i) Listed equity shares purchased on 9.5.1984	40000	
	ii) Company purchased its own shares during previous year from shareholders and paid to Mr. X for his holdings	378240	
IV	Other income	250000	

Cost inflation index 1984–85, 2014–15 and 2015–16 was 125, 1024 and 1081 respectively.

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**OR**

4 a. What expenses are disallowed to a business in computing income from business? 10

b. Compute net tax liability of Prof 'X', a disabled person who is 67 years on 1-4-2016, for the assessment year 2016–17 from particulars given below:

i)	Professional gain	6,20,000	
ii)	Income from house property (computed)	41,000	
iii)	Short-term capital gain	6,000	10
iv)	Long-term capital gain	20,000	
v)	Punjab state lottery prize	50,000	
vi)	Agricultural income (Net)	20,000	
vii)	Amount invested in NSC VIII issue	30,000	
viii)	Unexplained cash credit	1,00,000	

5 a. State the incomes chargeable under the head income from other sources. 10

b. A, B and C are partners in a firm (which fulfills the conditions of section 184) sharing profits and losses in the proportion of 3:2:1 respectively. The firm's profit and loss account for the year ended 31<sup>st</sup> March 2016 showed net profit of `244000, after debiting, inter alia the following amounts:

- i) Salary of `4000 p.m. paid to C
- ii) Rent of `19,000 paid to A for the proportion of the building owned by A in which the firm's office was situated. Fair rental value of the building is `10,000
- iii) Interest on capital of `1000, `2000 and `3000 to A, B and C respectively
- iv) Commission paid to B `40,000 10
- v) Expenses on current repairs of the business premises belonging to partner A, `10000
- vi) Donations to approved body `5000 by cheque
- vii) Salary to B's son `72,000. B's son is qualified management graduate and was serving another concern on `5800 p.m

The net profit of `2,44,000 included `12,000 from interest on government securities.

Compute total income of the firm for the Assessment year 2016-17 assuming that it is professional firm.

**OR**

6 a. Define company. Discuss types of companies. 10

b. Sri Ram Prasad is a registered medical practitioner. He has prepared the following income and expenditure account for the year ending 31<sup>st</sup> March 2016. You are required to compute his income from profession.

**Income and expenditure account**

Household expenses	120000	Consultation fees	110000
Car purchased	130000	Visiting fees	120000
Travelling Expenses (personal)	4000	Gains on Race (Gross)	10000
Charity and Donations	1000	Share in sale proceeds of an ancestral house	34000
Income tax	2000	Capital gains	6000
Salaries	8000	Dividend from domestic company	5000
Gifts to Daughter	7000	Interest from P.O saving bank	600
Establishment Expns.	1000	Gifts from Father-in-Law	2000
Surgical equipments	4000	Bad debts recovered (not allowed in earlier years)	2000
Books (Annual Publications)	1200	Int. on F.D's (Gross)	
Life Insurance premium	2000		1300
Interest on capital surplus	8700		
	290900		290900

Rate of depreciation allowance on car and surgical equipments is 15%.

7 a. Explain the provisions governing set off carry forward. 10

- b. Sri. Nehru is the proprietor of a business this profit and loss account for the year ended March 31, 2016 is as follows.

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Establishment	4800	Gross profit	350840
Rent, Rates and taxes.	2900	Int. on government securities.	5400
General charges	750	Rent from house property	5400
Household expenses	51730		
Commission	1500		
Discount & Allowances	450		
Provision for bad debts	1200		
Postage & telegrams	270		
Law charges	450		
Advertising	1550		
Fire insurance premium (for goods)	360		
Value added tax paid	1450		
Repairs & renewals (not for business premises)	630		
Loss on sale of motor car (use for private purposes)	1800		
Life insurance premium	1790		
Interest on capital	1090		
Audit fee	300		
Interest on bank loan	1380		
Provision for depreciation	2500		
Provision for income tax	3900		
Net profit transferred to capital A/C	280840		
	361640		361640

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Following further information are given:

- i) Actual bad debts written-off during the year amount to `550
  - ii) Amount of income tax actually paid during the year `4200
  - iii) Depreciation allowable is `1700 as per income tax rules
  - iv) Advertising expenses include `550 spent on special advertising campaign to open a new shop in the market
  - v) Law charges are in connection with protection of a trademark
  - vi) Sri Nehru carries on his business from a rental premise, half of which is used as his residence. Rent, Rates and Taxes include `2400 paid as rent of the premises during the year.
  - vii) Bank loan is taken for business purposes
- Compute the business income of Sri Nehru and his total income for the assessment year 2016-17.

**OR**

- 8 a. Define House Rent Allowance. Explain the provision related to HRA.
- b. The following is the receipts and payments account of Mr. Nagaraja Rao, a practicing chartered accountant for the year ended 31.3.2016.

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<b>Receipts</b>	
Audit fees	19,210
Consultation	10,000
Appellate tribunal appearance	15,000
Miscellaneous	20,000
Interest on Government services	10,000
Rent received	10,000
Presents from Clients	10,000
<b>Payments</b>	
Office expenses	10,000
Office rent	5,000
Salaries and Wages	12,050
Printing and Stationary	1,000
Subscription to C.A institute	3,000
Purchases of books for professional purposes (annual publications)	1,300

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Travelling expenses	5,800
Interest on bank loan	3,000
Donation to National Defense Fund	5,000

Contd...4

Loan from bank was taken for the construction of the house in which he lives. Municipal value of this house is `8000 and the local taxes `800 p.a. 1/4<sup>th</sup> of travelling expenses are not allowable.

Compute his income from profession and house property for the previous year 2015-16.

**PART - B (Compulsory)**

9. Shri. Anil Bhushan Gupta, working in Western India Limited, Mumbai, has furnished the following details of his income for the year ended March 31, 2016:

- i) Salary `12,000 per month
- ii) Bonus equal to six month's salary
- iii) Transport allowance (for coming to office and going back to his residence) at `650 per month
- iv) Entertainment allowance at `500 per month
- v) Received house rent allowance of `3000 per month from the employer but he paid a rent of `4000 p.m
- vi) Personal Medical bills of `10,000 were reimbursed by the employer. His treatment has been done in a private nursing home not belonging to the employer.
- vii) His contribution to the companies recognized provident fund is `18,000 and the employer contributes an equal amount. The interest credited to the provident fund account 9.5% p.a `12,000
- viii) Interest on govt. securities `3,000
- ix) Income from units of mutual funds `5500 (gross)
- x) Interest on post office savings bank `6500
- xi) Donation paid to Prime minister's drought relief fund `2500
- xii) Donation paid to government for the promotion of family planning `2000
- xiii) Life insurance premium paid during the year `4200

Compute the total income of the Sri. Anil Bhushan Gupta for the assessment year 2016-17 and also state the amount entitled to deductions under section 80.C.

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