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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; Aug. / Sep. - 2020

Tax Management

Nandh. Venkatesh
Max. Marks: 100

Time: 3 hrs

Note: i) Answer any **ONE** full question among Q.1 and Q.2 in PART - A.

ii) Answer any **THREE** full questions among Q.3 to Q.8 in PART - A.

iii) Q.9 in PART - B (Case Study) is compulsory.

PART - A

- 1 a. Compile the condition related to residential status as per the Indian Income tax act. 10
- b. The following are the income of Shri Ram Prasad for the previous year 2019 - 20 :
- Profit from business in Iran received in India ₹ 5,000
 - Income from house property in Iran received in India ₹ 500
 - Income from house property in Pakistan deposited in a bank there ₹ 1000
 - Profits of business established in Pakistan deposited in a bank there ₹ 20000 (out of ₹ 20000 a sum of ₹ 10000 is brought into India)- this business is controlled from India
 - Accrued in India but received in England ₹ 2000 10
 - Profit earned from business in Kanpur ₹ 6000
 - Income from agriculture in England-it is all spent on the education of children in London ₹ 5000
 - Past untaxed foreign income brought into India during the previous year ₹ 10000
- From the above particulars ascertain the taxable income of Shri Ram Prasad for the previous year 2019 - 20, if Shri Ram Prasad is
- I) A resident II) Not ordinarily resident III) Non-resident

OR

- 2 a. Explain the rules related to Rent free accommodation provided to the employee under the Indian Income Tax Act. 10
- b. X (33 years) is the head of HR department of A Ltd., he furnishes the following information of his income/investments pertaining to the previous year 2018 - 19.
- He gets ₹ 55000 per month as salary, ₹ 12500 per month as dearness allowance (10 percent of salary for computing entitlement of taking loan from company), domestic servant allowance: ₹ 4000 per month, hard duty allowance: ₹ 1000 per month, overtime allowance: ₹ 2500 per month and education allowance for grand children: ₹ 6000 per month. Over time allowance has been withdrawn with effect from December 15, 2018. 10
- On November 1, 2018 A Ltd. has given an option to X to get 2000 equity shares in A Ltd. at a pre-determined price of ₹ 70 per share. This option, he can exercise at any time during December 1, 2018 and December 1, 2019. He exercises the option of purchasing 1700 equity shares in A Ltd on February 25, 2019.
- Taking into considering the information, find out income from salary for the assessment year 2019 - 20.

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Contd...2

- i) X contributes 15 per cent of his salary towards unrecognized provident fund. A matching contribution is made by his employer
- ii) Provident fund interest is credited at the rate of 11 percent which comes to ₹ 11,150
- iii) Market value of shares in A Ltd. as on February 25, 2019 is ₹ 725
- 3 a. Explain the classification of capital assets as per the income tax act. 10
- b. The following information is given by X (34 years) :
- i) Cost of acquisition of 500 equity shares in A Ltd. on March 20, 2011 (security transaction tax is paid) ₹ 56,000
- ii) Fair market value on January 31, 2018 (highest quotation in Bombay stock exchange and National stock exchange on January 31, 2018: ₹ 210) (210x500) ₹ 1,05,000 10
- iii) Date of transfer of 500 equity shares in A Ltd. June 10, 2018
- iv) Full value of consideration [*(₹ 470 x 500), (security transaction tax is paid)] ₹ 23,5000*
- v) Income from other than capital gains ₹ 11,00,000
- Find out the net income of X for the assessment year 2019 - 20.
- 4 a. Discuss the essential conditions to be satisfied by a firm to be assessed as firm and to be eligible for deduction of interest, salary, etc. to the partners with respect to Section 184. 10
- b. A, B and C are the owners of a firm. They share profits or losses in the ratio of 5:3:2. The Following particulars of the firm for year ended 31-3-2014 are furnished :
- i) The net profits as per P and L A/c was ₹ 44,000
- ii) Salaries of ₹ 12,000 paid to B and commission on sales of ₹ 6,000 paid to C were debited to the accounts
- iii) Interest on Capital ₹ 5,000, ₹ 4,000 and ₹ 3,000 paid to A, B and C respectively and interest of ₹ 8,000 paid to A and on his loan were charged to the accounts. The rate of interest on both cases is 20%
- iv) Depreciation debited to the accounts amounted to ₹ 10,000 but the admissible amount as per rules was ₹ 14,000 10
- v) A long-term loan of ₹ 10,000 was taken during the year and expenses incurred for obtaining the loan amounted to ₹ 1,000. This sum was debited to the accounts. Interest on loan ₹ 800 is outstanding and not considered in the books
- vi) The closing stock and opening stock of ₹ 8,00,000 and ₹ 9,00,000 respectively had both been valued at 10% under cost, though the market price in each case was higher than the actual cost
- Compute the taxable income of the firm for the assessment year 2014 - 15. The firm fulfils the conditions of section 184.
- 5 a. List out any five income taxable under the head Income from Other source under section 56(2). 10
- b. The following is the profit and loss account of Mr. X for the year ended 31st March, 2019. Compute his taxable income from business for that year:

Particulars	Amount (₹)	Particulars	Amount (₹)
Opening Stock	15,000	Sales	1,80,000
Purchases	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	2,30,000	Total	2,30,000

Following further information is given:

- i) Mr. X carries on his business from a rented premise, half 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 car. The car was sold during the year for ₹ 17,000. The use of the car was 3/4th for business and 1/4th 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 driver for 10 months

6 a. State the reasons whether the following items are admissible under the India Income Tax Act, 1961:

- i) Commission of ₹ 500 paid in order to secure order for the business
- ii) The assessee was carrying on money-lending business and in the course of this business he acquired certain property in lieu of debts owing from a debtor which he kept as stock-in-trade. The property so acquired was destroyed in war, the assessee claimed this loss as deduction in computing his taxable income under the head 'Business'
- iii) Loss of ₹ 1,000 which snatched away from the Khazanchee's possession while going to bank to deposit the amount
- iv) Loss due to embezzlement by an employee
- v) Brokerage paid for raising loan for the business,
- vi) ₹1,000 spent in connection with installation of a new telephone connection
- vii) Fees paid to lawyer on 1-6-2011 for drafting the Deed of Agreement with an outsider relating to the setting-up of business

b. Write a note on provisions regarding set-off and carry-forward of losses.

7 a. What is meant by Provident fund? Explain any two types of provident fund.

b. Mr. Dewan and Company are Chartered Accountant in Delhi. From the following information, compute the income from profession:

Particulars	Amount (₹)	Particulars	Amount (₹)
Expenses		Incomes	
Drawing	8,000	Audit Fees	2,24,000
Office rent	42,000	Financial consultancy service	98,000
Telephone charges	15,000	Dividend from UTI	10,000
Electricity Bill	4,200	Accountancy works	14,000
Salary of staff	66,000		
Car expenses	21,000		
Subscription for Journals	2,500		
Institute fee	1,200		
Stipends given to trainees	12,000		
Net profit/Income	1,74,100		
Total	3,46,000	Total	3,46,000

- i) Depreciation of car during the year amounts to ₹ 5,000
- ii) 30% of the car is used for personal purpose

Dewan & Co.

- 8 a. Explain any four permissible deductions in computing total income under section 80C to 80U. 10
- b. Discuss the meaning of Goods and Services under the Goods and Services Tax System. 10

PART - B (Case study - Compulsory)

9. From the following Profit and Loss Account of a manufacturer, calculate the income under the head "Profit and Gains of Business or Profession" for the year ending on 31st March.

Particulars	Amount (₹)	Particulars	Amount (₹)
Salaries to employees	95,000	Gross Profit	3,80,000
Advertisement expenses (in cash)	24,000	Interest on securities	14,000
General Expenses	16,000	Income from house property	25,000
Entertainment expenses	22,000	Bad debts recovered (Allowed earlier)	12,000
Bad debts	1,500		
Drawings by the proprietor	24,000		
Sales tax (due and paid for the year)	6,000		
Interest on Proprietor's capital	7,000		
Repairs	2,500		
Rent	21,000		
Legal expenses	5,000		
Depreciation	15,000		
Bonus (due)	6,000		
Bonus to the proprietor	4,000		
Car purchased	72,000		
Expenses on car during the year	12,000		
Donations	2,000		
Provision for bad debts	6,000		
Net Profit	90,000		
Total	4,31,000	Total	4,31,000

From the examination of books of accounts, the following other information are available:

Questions:

- a. Advertisement expenses were spent on insertions (not related to business) in newspapers.
- b. ₹ 3,000 were spent on purchase of land and are included in legal expenses.
- c. Half of the repair expenses were on let-out building.
- d. Bonus was paid to employees one day before the filing of returns.
- e. Depreciation allowable on all assets including car is ₹ 14400.

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