



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; July / Aug. - 2022

Tax Management

Time: 3 hrs

Max. Marks: 100

Course Outcomes

The Students will be able to:

CO1 – Exhibit an understanding of the Income Tax Law in India.

CO2 – Identify the nature of Incomes and their tax incidence.

CO3 – Demonstrate how to determine the income from salary, business and profession, capital gain.

CO4 – Demonstrate the determination of tax liability of Partnership firm and Joint Stock companies.

CO5 – Exhibit a clear understanding of various provisions of GST system.

CO6 – Demonstrate the ability to draw meaningful conclusions about tax compliance of individuals, business firms and companies

Note: I) Answer all FOUR full questions from PART - A and PART - B (Case Study) is compulsory.

II) Scientific calculator is allowed.

Q. No.	Questions PART - A	Marks	BLs	COs	POs
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- 1 a. i) List out at least 10 items that are exempted under the term “income” under sec.2(10).
ii) Explain the differences between Gross Total Income and Total Income.
- b. Mr. Ramesh own two houses which are let-out for residential purpose throughout the previous year:

Particulars	House A	House B
Municipal value p.a	60000	80000
Rent received p.m	6000	8000
Fair rent p.a	80000	90000
Standard rent	70000	85000

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Municipal taxes paid at 10% of municipal value. Compute the Net Asset Value (NAV) for the Assessment Year 2021-22.

OR

- 2 a. Mr. Ritesh a citizen of U.K came to India for the first time on 01.05.2014. He stayed here without any break for 3 years and left for Bangladesh on 01.05.2017. He returned to India on 01.04.2018 and went back to U.K on 01.12.2018. He was posted back to India 20.01.2021. Determine the residential status in India for the Assessment Year 2021-22.

Based on the residential status estimate the taxable income

Particulars	Rs.
1. Income from salary accrued and received in India (Computed)	20000
2. Profit of a hotel business at Melbourne	30000
3. Dividend declared in Perth but received in India	4000
4. Income from transfer of a long-term capital asset in India	20000
5. Interest on debentures of a company at Manchester, which was received in India.	6000
6. Interest received from Shri.Philip, a non-resident, on the loan provided to him for a business carried on in India	5000
7. Royalty received in Germany from Shri.Kailash a resident in India for technical services provided for a business carried on in Germany.	20000
8. Fees from an Indian Company carrying on business at London for Technical services rendered at London having been directly deposited by the company in his bank account in India.	30000

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- b. Mr. X is an employee in X.Y.Z Bengaluru. He gives the following information for the previous year 2020-21.
- a) Basic Salary Rs. 10,000 p.m;
 - b) D.A Rs. 6000 p.m
 - c) Family Allowance Rs. 600 p.m;
 - d) City Compensatory Allowance Rs. 800 p.m
 - e) Education Allowance for two children Rs. 350 p.m per child.
 - f) Entertainment Allowance Rs. 750 p.m
 - g) House Rent Allowance Rs. 1600 p.m. But he pays Rs. 3000 p.m as actual rent
 - h) Company has provided a telephone of his residence by meeting all the expenses amounting to Rs. 6000 for the year
 - i) Company has paid his income tax of Rs. 6420 during the previous year in his taxable income.
 - j) Conveyance allowance of Rs. 8000 for visiting the branches (fully spent)
 - k) He and company contribute 14% of salary towards R.P.F
 - l) Interest on R.P.F was Rs. 15000 at 15% P.A compute income from salary for the A.Y 2021-22.
- 3 a. What is basis of charge under the head capital gain? Discuss the inclusions and exclusions under capital assets.
- b. Mr. Ganesh sold some of his properties during the year 2020-21.
- a) Jewelry costing RS. 100000 acquired in June 2017 was sold for Rs. 120000 in May 2020.
 - b) Household furniture costing Rs. 15000 in 2004 was sold in March 2021 for Rs. 20000
 - c) House at Kolkata let out for Residential Purpose. It was inherited by him in 1985 and the Fair Market Value as on 1.04.2001 was Rs. 450000. Cost of improvement during 2003 was Rs. 60000 and selling expenses Rs. 20000. Property was sold on 31.10.2020 for Rs. 2200000.
 - d) Machinery was sold on 01.12.2020 for Rs. 50000 which was purchased on January 2010 for Rs. 80000 and its WDV on 01.04.2020 was Rs. 40000
 - e) Self-cultivated land was sold for Rs. 700000 and its cost is 2008-09 was Rs. 300000. He purchased a new piece of land for his own cultivation for Rs. 120000 in June 2021.
- Compute his taxable gains for the Assessment Year 2021-22. CII for 2000-01=100, 2003-04=109, 2008-09=137, 2020-21=301.

OR

- 4 a. Discuss the conditions under which capital gains are exempted from tax on transfer of property used for residence and transfer of agricultural land.
- b. Mr. Rudramurthy bought 1000 Equity shares of Sonata Software Ltd., in May 2003 at Rs. 40 per share (brokerage 1%). He received bonus shares in the ratio of 1:1 in June 2008. Again he was allotted right shares in the ratio of 1:1 in April 2013 at Rs. 75 per share. He sold all the shares in Dec 2020 at Rs. 150 per share (brokerage 0.5%). Compute the taxable capital gains for the assessment year 2021-22
- 5 a. Discuss the incomes chargeable to income tax and also the items included under the head profits and gains from Business or profession.
- b. Mr. Y is a cloth merchant. From the following P & L A/c for the year ended 31st March, 2021. Compute his income from business and his gross total income for the Assessment Year 2021-22.

	Rs.		Rs.
To Salaries and Wages	15000	By Gross Profit	270000
To Rent and Taxes	4000	By dividend from UTI	4000
To Domestic Expense.	2000	By rent from let out house	10000
To TDS on interest	500		
To Income Tax	1200		
To postal charges	1500		
To Donation	2500		
To Life Insurance premium	2000		
To Audit fees	1500		
To Bad debts Reserve	1800		
To Bad debts	2500		
To Depreciation	5000		
To Net profit	244500		
	284000		284000

Other information:

- a) Rent and Taxes include Rs. 2000 paid as Municipal Tax on house let out
- b) Value of life insurance policy Rs. 18000
- c) Donation was given to an approval institution Rs. 4000
- d) Permissible depreciation was Rs. 4000

OR

- 6 a. Briefly discuss any 10 deductions expressly allowed under the sections 30 to 37 while computing profits of business or profession. 10 L2 3 1,2,4,5
- b. Mr. Bhagawan is a registered medical practitioner. He keeps his books on a cash basis and his summarized cash account for the year ended 31st March 2021 under:

Particulars	Rs.	Particulars	Rs.
To balance b/d	122000	By cost of medicines	10000
To loan from Bank	3000	By surgical equipment	8000
To sales of Medicines	25250	By motor car	120000
To consultation fees	155000	By car expenses	6000
To visiting fees	24000	By salaries	4600
To interest on Govt., securities	4500	By rent of dispensary	1600
To rent from the property (not subject to local taxes)	3600	By general expenses	300
		By personal expenses	111800
		By Life Insurance premium	3000
		By Interest on loan from Bank	300
		By Insurance of Property	200
		By balance c/d	71550
	337350		337350

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Compute his income from profession for the Assessment Year 2021-22 taking into account the following information:

- a) One-third of motor car are in respect of his personal use
 - b) Depreciation allowable on the motor car and surgical equipment is 15%.
- 7 a. Explain in detail about composition levy scheme in GST, its benefits and the persons who are not eligible for the scheme. 10 L2 5 1,2,4
- b. X, Y and Z are the three equal partners in a firm of which Z is sleeping partners. The firms P & L A/c for the year ended 31st March 2020 is given below:

	Particulars	Rs.		Particulars	Rs.
Rent	20000		Gross Profit	405000	
Office Expenses	25000		Discount	10000	
Salaries	100000		Bad debts recovered	2000	
Advertisement	15000		Bank Interest	3000	
Sales Tax	30000				
Charity & Donation	5000				
Bad debts Reserve	10000				
Sundry Expenses	20000				
Bad debts	15000				
Depreciation allowed by department	25000				
Interest on capital	X 50000				
	Y 25000				
	Z 25000				
Commission	X 15000				
	Y 10000				
	Z 5000				
Net profit	25000				
	<u>420000</u>			<u>420000</u>	

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- i) Salaries include partners salaries Y Rs. 15000 and Z Rs. 10000
 - ii) Bad debts admissible by the department Rs. 12500
 - iii) Furniture purchased by X for personal use Rs. 10000 has been debited to Sundry expenses
 - iv) Donations includes donation to a local school Rs. 3500 to a club Rs. 1000 and to trade association Rs.500
 - v) Capital account of the partners at the beginning of the previous year as on 1-4-2019 as follows X Rs. 200000, Y Rs.100000 and Z Rs. 100000
 - vi) Office expenses include bonus partners X Rs. 1000, Y Rs.2500 and Z Rs. 1500
- Compute the profit from business and total income of the firm per relevant assessment year and also calculate the share of each partner in the firm. The firm does not fulfill the conditions of section 184.

OR

- 8 a. Explain the provisions related to setoff and carry forward as per the Indian Income Tax Act 1961. 10 L2 5 1,2,4
- b. Following is the information of Swamy and Co. Ltd., as on 2020-21

Particulars	Rs.	Particulars	Rs.
To cost of goods sold	1000000	By Sales	1400000
To tax relating to LTCG	3000	By LTCG (Exempt u/s 10(38)	150000
To depreciation	85000	By interest on Govt. Securities	15000
To proposal	130000		
To Income Tax	60000		
To Net Profit	287000		
	1565000		1565000

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Additional information

- i) depreciation allowable for the year as per income tax act is Rs. 50000
 - ii) brought forwarded business loss as per books of accounts is Rs. 125000
 - iii) brought forwarded an observed depreciation is Rs. 55000
- Calculate book profit U/s 115- JB and tax liability under MAT

PART - B Case Study is compulsory

9. The following particulars are provided by ABC Co., Ltd., Trading and Profit and Loss A/c. of ABC Co., Ltd., as on 31-03-2021

Particulars	Rs.	Particulars	Rs.
To purchase	162500	By sales	1818000
To provision for loss of subsidiary Co.,	22500	By amount withdrawn from General Reserve	150000
To travelling expenses	35000	By LTCG	60000
To depreciation	275000	By transfer fees	2500
To Income Tax	190000	By Profit on sale of motor car	12500
To Provision for unascertained liabilities	30000	By interest on Tax free Govt. Securities	10000
To outstanding GST	15000		
To proposed dividend	90000		
To Tax consultation fees	10000		
To entertainment expenses	17500		
To salaries	100000		
To sundry expenses	82500		
To Net Profit	1023000		
	2053000		2053000

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Additional information:

- 1) Value of plant and machinery as on 1-4-2020 was Rs. 30,00,000 and Buildings Rs. 5,00,000.
 - 2) Excise duty of 2019-20 paid during the year Rs. 32,500 was not charged to P/L A/C.
 - 3) Sundry expenses include an item of Rs. 26,000 paid in cash.
 - 4) Out of the outstanding amount of sales tax Rs. 12,500 was paid before due date of filling the returns.
 - 5) Unabsorbed business loss brought forward is Rs. 3,00,000 for income tax purposes and Rs. 2,25,000 for accounting purposes.
 - 6) Unabsorbed depreciation brought forwarded Rs. 1,50,000 for Accounting purposes.
- Compute; i) Book Profit under 115JB ii) Tax under Minimum Alternative Tax.