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

(An Autonomous Institution under VTU, Belgaum)

**Fourth Semester –Master of Business Administration (MBA)**

**Semester End Examination; June - 2016**

### Tax Management

Time: 3 hrs

Max. Marks: 100

*Note: Answer all Four full questions in PART – A and PART – B is compulsory.*

#### PART - A

- 1 a. Define the term Gross total income. 3
- b. When a person is said to be Resident and ordinarily resident? Explain? 7
- c. In December 2006, Mr. A inherited a house from his father who had purchased it for Rs.14,50,000 on 15<sup>th</sup> May, 2000. Mr.A sold this house to Mr.Z on 15<sup>th</sup> March 2013 for Rs.45,00,000. In addition, Mr.Z paid 2% brokerage.  
Mr.A purchased a house on 28<sup>th</sup> January, 2013 for Rs. 25,00,000 and paid brokerage/stamp duty amounting to Rs. 40,000, 10  
Compute the Capital Gains, if any, of Mr.A for the AY 2013 - 14 and advise him as to how he can minimize his tax liability.

**Index for 2000 - 01 = 406, 2006 - 07 = 519, 2012 - 13 = 852, 2013 - 14 = 939**

#### OR

- 2 a. Discuss the rules pertaining to HRA. 3
- b. What do you mean by "cost of improvement" and "cost of acquisition" as per income tax act of 1961? 7
- c. Mr. Jeevan (31 years), an employee of Zinc Private Ltd., receives the following salary and perquisites from his employer during the previous year 2012 - 13. You are required to compute the taxable income from salary of Mr. Jeevan for the AY 2013 - 14: 10
- Basic Pay Rs.8,20,000
  - Dearness Allowance (included for terminal benefits) Rs.44,000
  - Bonus Rs.34,500
  - Commission on Sales at 1% of turnover (Turnover for the year ended 2013 achieved by Jeevan Rs. 36,00,000)
  - Conveyance Allowance Rs.4,000 p.m. which is fully utilized for official purposes
  - Rent Free Furnished house in Ahmadabad (Lease rent of unfurnished house paid by employer Rs.82,500, rent of furniture Rs.32,000)
  - Free services of a gardener (salary Rs. 1,000 p.m)
  - Free services of a personal attendant (salary Rs.3,000 p.m)
  - Free services of watchman (salary Rs.3800 p.m)
  - Advance salary of April, May and June 2013 Rs. 1,80,000
- 3 a. An assessee commences his business on 3
- i) 04.09.2011    (ii) 05.11.2009    (iii) 01.12.2013
- What will be the assessment year and previous year in each case?
- b. Explain the different tax free perquisites (for all employees) under Income tax Act. 7

- c. Mr. Sanjay who is a Doctor in Hyderabad. He deposits all receipts in his bank account and pays all his expenses through cheque. Following is the analysis of his only one bank account for the year ending 31.03.2013.

<b>Receipts</b>	<b>Rs.</b>	<b>Payments</b>	<b>Rs.</b>
Consultation charges	2,40,000	Salaries	20,000
Dividend from UTI	8,000	Rent of Clinic	4,500
Horse race income	5,000	Telephone charges	2,000
Sale of Medicines	15,000	Purchase of medicines	15,000
Loan from wife for purchase of car	1,95,000	Purchase of car on 31.03.2013	2,00,000
Maturity of LIC Policy	2,00,000	Miscellaneous Expenses	1,00,000
		Balance c/d	3,21,500
	<b>6,63,000</b>		<b>6,63,000</b>

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Compute the Income from Profession of Mr. Sanjay after taking into account the following:

- I.  $\frac{1}{4}$ th of the motor car expenses relates to the personal expenses.
- II. There is no opening and closing stock of medicine.  
Miscellaneous expenses includes Rs. 50,000 paid to nurse towards the termination of her employment.

**OR**

- 4 a. Define the term "assesse". 3
- b. Mention any 7 deductions which are allowed under the section 80C. 7
- c. The Profit and Loss Account of ABC and Co, a partnership firm for the previous year 2012 -13 is given below:

<b>Particulars</b>	<b>Rs.</b>	<b>Particulars</b>	<b>Rs.</b>
To Purchase less returns	1,10,00,000	By Sales	2,75,00,000
“ Direct and indirect expenses	16,00,000	“ Gross dividend from Indian Companies	1,00,000
“Interest to partners	8,00,000		
Remuneration to partners	17,00,000		
“Net Profit	1,25,00,000		
	<b>2,76,00,000</b>		<b>2,76,00,000</b>

You are informed:

- i) Direct and Indirect Expenses include expenses not deductible under Sec 30 to 36 and 37(1) amounting to Rs. 5,60,000. 10
- ii) Expenses deductible under section 37(1) but not debited to profit and loss account Rs. 14,50,000.
- iii) There are three partners, Arvind, Binny and Chandan sharing profit and losses in the ratio of 4:3:3.
- iv. Interest to the partners has been paid @ 16% per annum which is authorized by the partnership deed.
- v. Remuneration is paid to the managing partners and it is authorized by the deed of partnership firm.

Compute the total remuneration allowable to the partners, total income to the firm and tax liability for the AY 2013 - 14.

- 5 a. What is the meaning of Annual Value of House Property? How do you determine the annual value of house property where  $\frac{1}{4}$  of which is let out &  $\frac{3}{4}$  of portion is self occupied by the owner? 3
- b. Write short notes on Presumptive income under section 44 AD and 44 AF. 7
- c. Write short notes on: 10
- i) Taxation of companies with respect to MAT                      ii) Goods and Service Tax

**OR**

- 6 a. Define goods and Excisable goods as per central excise act 1944. 3
- b. During the FY 2012 - 13 Mr. Singh paid Rs. 3,500 towards his medical health insurance by cash and he was issued a valid policy bond by the insurance company. Is he eligible for the deduction under the income tax act? 7
- c. R owned a land within the city limits of Mumbai, which he had purchased on 01.10.2005 for Rs. 15,00,000. On 01.10.2011 he gifted this land to his son Mr. Z on his birthday. The market value as on 01.10.2011 is Rs. 35,00,000. Brokerage is 2%. 10
- i) Is there Capital gains in the hands of Mr. Z.
- ii) If Mr. Z transfers this property for Rs. 50,00,000 determine capital gain if any.  
CII, 497, 1024.
- 7 a. What do you understand by 'Income from other sources'? State the main incomes which are included under this head. 3
- b. Mention any seven situations which are not regarded as transfer for the purpose of computation of capital gain. 7
- c. Mr. Srinivas furnishes the following particulars of his income earned during the previous year relevant to the A.Y. 2013 - 14:

Particulars	Rs.
Interest on German Development Bonds ( $\frac{2}{5}$ <sup>th</sup> is received in India)	80,000
Income from Agriculture in Sri Lanka, received there but later on Rs.50,000 is remitted to India (Agricultural activity is controlled from Sri Lanka)	1,84,500
Gift in foreign currency from a friend received in India on 24.01.13	95,000
Income earned from business in USA which is controlled from Delhi (Rs. 15,000 is received in India)	75,000
Dividend paid by a foreign company, but received in India on April 10. 2012	35,500
Pension from former employer in India, received in Sri Lanka	46,000
Profits from business in Chennai and managed from outside India.	77,000

Determine the taxable Income of Mr. Srinivas for the P.Y 2012-13 if he is:

- (i) Resident and Ordinarily Resident,                      (ii) Resident but not ordinarily Resident  
(iii) Non-Resident.

**OR**

- 8 a. X a service provider, providing the service of courier agency service having a turnover of Rs.9,20,000 and he claims that he's not liable to collect service tax and is also he's not liable for the registration under service tax. Is it Justified? 3
- b. What is VAT? How does the new system of VAT eliminate cascading effect? Explain? 7

- c. How do you treat the following items for income tax purposes, Give reasons?
- Raw materials worth Rs.35,000 were purchased from a dealer in Delhi and the payment was made in cash on the same day.
  - Bad debts allowed during earlier year is Rs. 30,000, provision Rs. for Bad debt made during the previous year 2012 - 13 Rs. 35,000.
  - Legal expenses incurred in relation to acquisition of capital asset.
  - Foreign travel expenses incurred to purchase machinery for factory.
  - Provident fund and ESI contribution of Rs.150,000 of P.Y 2012 - 13 pending as on the date of filing the return of Income.

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### Part – B

#### Case Study (Compulsory)

9. Mr. Akshay furnishes the following particulars of his income for the assessment year 13-14. Trading & profit & loss account for the year ending 31.03.2013.

Particulars	Rs.	Particulars	Rs.
Purchases	58,29,000	Sales	62,89,000
Salaries	2,56,000	Closing stock	2,52,000
Rent	61,000	Interest on Jay Company Ltd debentures	2,000
Bonus	3,000	Dividend from UTI	2,000
Printing & Stationery	4,000	Discount Received	12,000
Miscellaneous expenses	4,000	Race winning (gross)	12,000
Advertisement	22,000		
Drawings	12,000		
LIC Premium	5,000		
Car driver salary	6,000		
Petrol and repairs	12,000		
Property Tax	4,000		
Cost of NSC	6,000		
Net profit	3,45,000		
	<b>65,69,000</b>		<b>65,69,000</b>

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#### Additional Information:

- Mr. Akshay started his business on 01-08-2013, before that he was working in GS Company. He earned a total salary of Rs. 1,00,000 for the period he worked.
- Advertisement expenses included cost of 20 gift packs of Rs.1,100 each presented to leading esteemed customers on occasion of dewali.
- The car was used both for business and personal purposes. 2/3<sup>rd</sup> is for business purpose.
- The property tax of Rs.4,000 was in respect of his self occupied house, whose rental value is Rs. 18,000.
- There was a Long Term Capital Gain of Rs. 1,25,600 from the sale of the residential property and he invested the same in purchase of a new residential house in the name of his major son to claim the deduction.

Compute the gross total income and total income for the assessment year 13 - 14.