

Gurukripa's Guideline Answers to Nov 2016 Exam Questions CA Inter (IPC) – Taxation

Question No.1 is compulsory (4 × 5 = 20 Marks).

Answer **any five** questions from the **remaining six** questions (16 × 5 = 80 Marks). [Internal Choice in Q.No.7(a)]

Working Notes should form part of the answer.

Wherever necessary, suitable assumptions should be made and stated clearly by way of a Note.

Note: Page Reference Numbers are given from **Padhuka's Students Handbook on Taxation**.
All questions pertaining to Income Tax have been solved based on the Law applicable for **Assessment Year 2017–2018**.
Modifications have been made to Questions, to reflect the rates and law applicable for **Financial Year 2016–2017**.

Question 1(a): Income Tax – Taxation of Individuals – Computation of Total Income 10 Marks

Mr. Raghuveer, a Resident Individual aged 35 years, furnished the following information from his Profit and Loss Account for the year ended 31st March 2017:

- (i) The Net Profit was ₹ 6,50,000.
- (ii) The following Incomes were credited in the Profit & Loss Account:
 - (a) Interest on Government Securities ₹ 25,000.
 - (b) Dividend from a Foreign Company ₹ 18,000.
 - (c) Gold Coins worth ₹ 55,000 received as Gift from his father.
- (iii) Depreciation debited in the books of a/c was ₹ 85,000. Depreciation allowed as per Income Tax Act, 1961 was ₹ 96,000.
- (iv) Interest on Loan amounting to ₹ 68,000 was paid in respect of Capital borrowed for the purchase of the New Asset which has not been put to use till 31st March 2017.
- (v) General Expenses included:
 - (a) An expenditure of ₹ 20,500 which was paid by a Bearer Cheque.
 - (b) Compensation of ₹ 4,500 paid to an Employee while terminating his services in Business Unit.
- (vi) He contributed the following amounts by Cheque:
 - (a) ₹ 45,000 in Sukanya Samridhi Scheme in the name of his minor daughter Alpa.
 - (b) ₹ 20,000 to the Swachh Bharat Kosh set up by the Central Government.
 - (c) ₹ 28,000 towards Premium for Health Insurance & ₹ 2,500 on account of Preventive Health Check up for Self and his wife.
 - (d) ₹ 35,000 on account of Medical Expenses of his father aged 82 years (no Insurance Scheme had been availed on the health of his father).

You are required to compute the Total Income of Mr. Raghuveer.

Solution:

Refer Page 14.10, Illustration 8

Assessee: Mr. Raghuveer

Previous Year: 2016–2017

Assessment Year: 2017–2018

Computation of Taxable Income and Tax Liability

Particulars	Deduction from Profit	Addition to Profit	₹
1. Profits and Gains of Business or Profession			
Net Profit as per Profit & Loss A/c		6,50,000	
Interest on Government Securities (considered u/h "Income from Other Sources")	25,000		
Dividend from Foreign Company (considered u/h "Income from Other Sources")	18,000		
Gold Coins from Father (considered u/h "Income from Other Sources")	55,000		
Depreciation as per Books		85,000	
Depreciation as per IT Act	96,000		
Interest on Loan [Disallowed u/s 36(1)(iii)] [See Note 1]		68,000	
General Expenses [Disallowed u/s 40A(3)] [See Note 2]		20,500	
Compensation to Employees for Termination [For the business – allowed u/s 37]	–	–	
Sub-Total	(1,94,000)	8,23,500	6,29,500

Particulars		₹
2. Income from Other Sources		
Interest on Government Securities	25,000	
Dividend from Foreign Company [See Note 3]	18,000	
Gold Coin from Father (not taxable since, it is received from Relative) [Note 4]	–	43,000
GROSS TOTAL INCOME		6,72,500
Less: Deduction under Chapter VI–A –		
(a) Sukanya Samridhi Scheme [u/s 80C]	45,000	
(b) For Assessee and Spouse (Assuming Premium Payment by A/c Payee Cheque) [Preventive Checkup is also included within the overall limit of ₹ 25,000] – 80D	25,000	
(c) Medical Expenses of Father (82 Yrs) (Assuming Payment by A/c Payee Cheque) –80D (max.)	30,000	
(d) Contribution to Swachh Bharat Kosh [100% allowed without restriction] – 80G	20,000	(1,20,000)
TOTAL INCOME		5,52,500

Notes:

- As per Sec.36(1)(iii), Interest on Capital borrowed for the purchase of asset, paid from the date on which the capital was borrowed **upto the date such asset was first put to use**, shall **not** be allowed as a deduction.
- As per Sec.40A(3), Expenditure in respect of which **aggregate payments made to a person in a day**, in excess of ₹ 20,000, made otherwise than by way of Account Payee Cheque / Demand Draft is **disallowed** in full.
- Dividend from Indian / Domestic Companies exempt from tax u/s 10(34). But Dividend from Foreign Company is Taxable under the Head "Income from Other Sources".
- As per Sec.56, Gift received from a Relative (Father) is exempt from tax.

Question 1(b): Service Tax – Banking Services**6 Marks**

ET Bank Ltd furnishes the following information relating to the Services provided and the Gross Amount received. Compute the value of taxable Services and Service Tax liability.

Particulars	₹ Lakhs
(i) Sale and Purchase of Forward Contract	25
(ii) Commission charged on Debt Collection Services	18
(iii) Margin earned on Reverse Repo transactions	5
(iv) Administrative Charges collected for extending Home Loans	12

Assume:

- ET Bank Ltd is not eligible for Small Service Provider exemption.
- Service Tax is not included in the above amounts and is to be charged separately.

Solution:**See Page 23.28 Para 23.5.14****Computation of Taxable Value of Service and Service Tax Liability thereon**

Nature of Activity	₹ Lakhs	Remarks
1. Sale and Purchase of Forward Contract	Nil	Forward Contract is an agreement entered now, to purchase / sell the currencies / commodities at a later date at pre-determined price. It amounts to mere transaction of sale of goods / money and not a service.
2. Commission Charged on Debt Collection Services	18.00	"Interest" excludes Service Fees and Other Charges for borrowings. Hence, Taxable.
3. Margin earned on Reverse Repo transactions	Nil	Reverse Repo rates represent Interest. It is included in Negative List, and not taxable.
4. Administrative Charges Collected for extending Home Loans	12.00	"Interest" excludes Service Fees and Other Charges for borrowings. Hence, Taxable.
Taxable Value of Services	30.00	
Service Tax at 14%	4.20	30.00 × 14%
Swachh Bharath Cess @ 0.5%	0.15	30.00 × 0.5%
Krishi Kalyan Cess @ 0.5%	0.15	30.00 × 0.5%
Total ST and Cess Payable	4.50	

Question 1(c): VAT – Computation of ITC & VAT Payable

4 Marks

Nagarjuna Ltd of Tamil Nadu provides the following information for the month of December:

1. Purchase of Raw Materials from the Local Market (excluding VAT @ 4%) ₹ 45,00,000
2. Half of the goods manufactured from the above Raw Materials were exported at a Sale Price of ₹ 25,00,000. Remaining goods were given on lease to Mr. X of Karnataka at a Deemed Sale price of ₹ 35,00,000 (excluding VAT @ 12.50%).

You may assume that exports are subject to Zero Rate of Tax, and Input Tax Credit of tax paid on Raw Material used in the manufacture of leased goods is available immediately. Compute the amount of Net VAT Payable / Refund and Input Tax Credit for the month of December.

Solution:

See Page 27.35 Para 27B.4.1

Dealer: Nagarjuna Ltd		Computation of VAT Liability	Month: December
Particulars			₹
	VAT on Output Sales (Deemed Sale Price of Leased Goods ₹ 35,00,000 × 12.50%)		4,37,500
Less:	Input Tax Credit available on Raw Materials (₹ 45,00,000 × 4%)		(1,80,000)
VAT Liability / Payable			2,57,500

Notes:

1. It is assumed that Raw Material Purchases are made from Registered Dealers. Hence Input Tax Credit is available at 4% on Purchase Value.
2. In case of Export Sale, VAT is not payable as the Rate of Tax is Zero. But Input Tax Credit is eligible on the Raw Materials Purchased.

Question 2(a): Income Tax – Capital Gains – Conversion into Stock 54F Exemption, etc.

8 Marks

Mr. Anand Prakash, a Resident Individual, aged 55 years, purchased 10 Plots in the financial year 1993–1994 for ₹12 Lakh. On 1st April 2004, he started a business of Property dealing and converted all 10 plots as Stock in Trade of his business, and recorded the cost at ₹ 40 Lakh in his books being the Fair Market Value on 1st April 2004.

On 31st March 2011, he sold all 10 Plots for ₹ 55 Lakh and purchased a Residential House Property for ₹ 50 Lakh. He has constructed 2 rooms in this Residential House in June 2011 and has spent ₹ 8 Lakh.

He sold the above Residential House on 5th Feb 2017, for ₹ 73 Lakh. The valuation adopted by Stamp Valuation Authority for the payment of Stamp Duty was ₹ 95 Lakh. On the request of Mr. Anand Prakash, A.O. made a reference to the Valuation Officer. The Valuation Officer determined the value at ₹ 98 Lakh. Mr. Anand Prakash paid brokerage 1% of Sale Consideration.

Compute the Total Income and total Tax Liability of Mr. Anand Prakash for the Assessment Year 2017–2018. (Cost Inflation Index: 1993–94: 244, 2004–05:480, 2010–11:711, 2011–12:785, 2016–2017–1125.)

Solution:

Similar to Page 7.35 Illustration

Assessee: Mr. Anand Prakash

Previous Year: 2010–2011

Assessment Year: 2011–2012

1. **Transfer:** Conversion of a Capital Asset into Stock-in-Trade is a transfer, liable for Capital Gains.
2. **Year of Taxation:** Capital Gains shall be taxable as Income of previous year in which the converted stock is sold.
3. **Year for Indexation:** Indexation shall apply only on the basis of **Year of Conversion**.
4. **Cost:** Indexed Cost of Acquisition shall be ₹ 12,00,000 (being Cost of Purchase of Plots).

Particulars	₹
Profits and Gains of Business or Profession:	
Business Income on Sale of Stock = Sale Value Less FMV on conversion = 55,00,000 – 40,00,000 A	15,00,000
Capital Gains:	
Consideration for transfer = Fair Market Value on date of conversion =	40,00,000
Less: Indexed Cost of Acquisition	
[Cost of Acquisition × $\frac{\text{CII of Year of Conversion}}{\text{CII of Year of Acquisition}}$] (₹ 12,00,000 × $\frac{480}{244}$)	(23,60,656)
Long Term Capital Gain	16,39,344

Nov 2016.3

Particulars	₹
Less: Exemption u/s 54F Entire Long Term Capital Gain is Exempt since the value of Investment in House Property is more than the Net Consideration. Investment is made within 2 years from date of the transfer, hence, eligible u/s 54F.	(16,39,344)
Taxable Long Term Capital Gain	B
Gross Total Income (A + B) (Rounded off)	15,00,000

Note: Tax Liability of this AY is not computed.

Particulars	₹
Sale Consideration (Note)	95,00,000
Less: Expenses (Brokerage at 1% on 73,00,000)	(73,000)
Net Consideration	94,27,000
Less: Indexed Cost	
(a) Cost of Acquisition: $\text{Cost of Acquisition} \times \frac{\text{CII of Year of Transfer}}{\text{CII of Year of Acquisition}} = 50,00,000 \times \frac{1125}{711}$	(79,11,392)
(b) Cost of Improvement: $\text{Cost of Improvement} \times \frac{\text{CII of Year of Transfer}}{\text{CII of Year of Improvement}} = 8,00,000 \times \frac{1125}{785}$	(11,46,497)
Long Term Capital Gain	3,69,110
Tax on Long Term Capital Gain @ 20%, after Basic Exemption Limit [3,69,110 – 2,50,000] × 20% (R/Off)	23,820

Notes:

- U/s 50C, where the value declared by Assessee is less than Stamp Duty Authority Value, value adopted by Stamp Duty Authority shall be treated as Sale Consideration for the purpose of Capital Gains.
- Where the value determined by the Valuation Officer exceeds the value adopted by the Stamp Valuation Authority, the Capital Gain shall be computed based on the value adopted by Stamp Duty Authority only.
- Tax Liability of Mr. Anand Prakash for AY 2017–2018 is computed, assuming no other Income reported by the Assessee.

Question 2(b): Service Tax – Mode of Collection **5 Marks**

Purve Sainik Security Service Ltd providing the security services, entered into a contract with Women Welfare Mandal, for exhibition of Jewellery held between 22nd August 2016 to 26th August 2016. Contract was signed on 5th August 2016 and the Company received an advance of ₹ 5,00,000 by an Account Payee Cheque on signing date. On 22nd Aug 2016, the Company received ₹ 6,00,000 by Credit Card and on 26th August 2016, ₹ 4,00,000 by Pay Order.

Determine the value of Taxable Service and the Service Tax liability payable by Purve Sainik Security Service Ltd. Assuming the above Company is not eligible for SSP exemption and Service tax has been charged separately at the applicable rate.

Solution:

Similar to Page. 24.5 Illustration [M 13]

Computation of Taxable Value of Service and Service Tax Payable

Particulars	₹	Reasons
(a) Advance Received	5,00,000	Advance received is taxable, since Service Tax is leviable on services agreed to be provided also.
(b) Amount received by Credit Card	6,00,000	Money includes Pay Order also.
(c) Amount received by Pay Order	4,00,000	Money includes Credit Card also.
Taxable Value of Services	15,00,000	
Service Tax @ 14%	2,10,000	
SBC at 0.5%	7,500	
KKC at 0.5%	7,500	
Service Tax and Cess Payable	2,25,000	

Question 2(c):CST – Meaning of Sale**3 Marks**

Compute the Taxable Turnover and Tax Liability of M.R. Saket under CST Act, assuming that VAT Rate within the State is 4%.

Total Inter–State Sales during the Financial Year 2016–2017 were ₹ 25,00,000 inclusive of CST. The Sales do not include the following –

- Goods worth ₹ 50,000 provided as Free Samples to Mr. C of Ludhiana.
- Sale of goods amounting to ₹ 1,50,000 to Mr. Sam, a Foreign Tourist.
- Despatch of goods worth ₹ 2,00,000 to Mr. Saket's branch located in another State.
- Hypothecation of the goods worth ₹ 12,00,000 for a Working Capital Loan from SBI amounting to ₹ 10,00,000.

Solution:**See Page. 27.6 Point H****Computation of Taxable Turnover and the Tax Liability under CST****Assessee: M.R.Saket****Financial Year: 2016–2017**

Particulars	₹
Gross Turnover (inclusive of CST)	25,00,000
Less: CST at 4% = $25,00,000 \times \frac{4}{104}$ (assumed that Sales not covered by C Form, applicable rate is VAT Rate)	(96,154)
Taxable Turnover	24,03,846

Notes:

- Goods provided as Free Samples are not considered as Sales as they are not "sold" by the Dealer.
- Sale of Goods to Foreign Tourist, is considered as within the State. So, State VAT will be applicable on that Sales, and not CST.
- In case of despatch of Goods to Branch Located in another State, the Dealer who sent the goods (i.e. Principal) is required to obtain a declaration from the Agent / Branch in **Form F**, to avail exemption. It is assumed that this exemption is availed.
- Hypothecation of Goods is **not** considered as Sale. Sale **excludes** hypothecation / mortgage, etc.

Question 3(a)(i): Income Tax – Non–Resident – Scope of Income**4 Marks**

Mr. Rajnesh, a Citizen of India, was serving in the Ministry of Finance in India and transferred to High Commission of Australia on 15th March 2016. He did not come to India during the Financial Year 2016–2017. His Income during the Financial Year 2016–2017 is given here under:

Particulars	₹
Salary from Govt. of India	7,20,000
Foreign Allowances from Govt. of India	6,00,000
Rent from a House situated at London, received in London	3,60,000
Interest accrued on National Saving Certificate during the year 2016–2017	45,000

Compute the Gross Total Income of Mr. Rajnesh for the Assessment Year 2017–2018.

Solution:**Similar to Page. 4.4 Illustration [N 11]****Assessee: Mr. Rajnesh****Previous Year: 2016–2017****Assessment Year: 2017–2018**

Particulars	Amount	Amount
Income from Salary		
Salary from Government of India (Note 2)	7,20,000	
Foreign Allowance	6,00,000	
Less: Exemption u/s 10(7) (Note 2)	(6,00,000)	Nil
Income from House Property (Note 3)		NIL
Income from Other Sources:		
Interest accrued on National Saving Certificate (Note 4)	45,000	45,000
Gross Total Income		7,65,000

Note:

- Individual, being Indian Citizen, leaving India for employment outside India during the Previous Year and who did not stay for a period of 182 days or more during the previous year is a Non-Resident. In this case, Mr. Rajnesh is outside India for the entire Previous Year 2016–2017, therefore he is a **Non-Resident**.
- Salary paid by the Indian Government is deemed to accrue or arise in India. Hence, it is taxable in India. Foreign Allowance received is exempt u/s 10(7).
- For **Non-Resident** Assessee, the Income accruing or arising **outside India and also received outside India, is not taxable**. So, Rent from a House situated at London received in London is not taxable in India.
- Interest accrued on National Saving Certificate is deemed to accrue or arise in India, and taxable in India.

Question 3(a)(ii): Income Tax – Deemed Dividend**4 Marks**

Mr. Rakesh has 15% Shareholding in RSL (P) Ltd and has also 50% Share in Rakesh & Sons, a Partnership Firm.

The Accumulated Profit of RSL(P) Ltd is ₹ 20 Lakh. Rakesh & Sons had taken a Loan of ₹ 25 Lakh, from RSL (P) Ltd. Explain, whether the above loan is treated as Dividend, as per the provisions of Income Tax Act, 1961.

Solution:**Refer Provisions in Page 8.11 & [M 11] Illustration in Page 8.13.**

- Principle u/s 2(22)(e):** Loan / Advance paid by a Company in which the Public are **not** substantially interested, is taxable as Deemed Dividend, to the extent the Company possesses Accumulated Profits, if such payment is made to –
 - A Shareholder, who is the Beneficial Owner of Shares carrying not less than 10% voting power.
 - Any concern in which such Shareholder is a Member or Partner, having beneficial entitlement not less than 20% of such Concern's Income.
- Analysis:**
 - RSL(P) Ltd is a Company in which Public are **not** substantially Interested.
 - This Company has Accumulated Profit of ₹ 20 Lakh.
 - Rakesh's Shareholding in RSL(P) Ltd > 10%.
 - Rakesh's Share in the Partnership Firm > 20%.
 - Hence, all conditions given in the principles above are attracted.
- Conclusion:** Of the Loan of ₹ 25 Lakh, ₹ 20 Lakh shall be treated as Deemed Dividend u/s 2(22)(e).

Question 3(b): Service Tax – Renting of Immovable Property**5 Marks**

Mr. Dhingra rendered the following services by renting his properties located in Gujarat for various uses:

(i) Land Let out to Jumbo Circus	₹ 1,50,000
(ii) A building let out to Singhanian Classes for providing coaching to CA Students	₹ 5,00,000
(iii) A Vacant land used for Horticulture	₹ 3,00,000
(iv) A building let out to EXIM Ltd for use, as a corporate office	₹ 8,00,000

Determine the value of Taxable Services and Service Tax Liability. Assume Mr. Dhingra is not eligible for Small Service Provider exemption, and the above mentioned amounts are exclusive of Service Tax.

Solution:**Refer Provisions in Page.23.20 Para 23.5.9**

Particulars	Taxable	₹	Reasons
(i) Land let out to Jumbo Circus	Yes	1,50,000	Not covered under Negative List, Hence, taxable.
(ii) A building let out to Singhanian Classes for providing coaching to CA Students	Yes	5,00,000	Letting out of Immovable property for Commercial Purposes, Taxable.
(iii) A vacant land used for Horticulture	No	NIL	Not taxable, as it is covered under Negative List.
(iv) A Building let out to EXIM Ltd for use, as a Corporate Office	Yes	8,00,000	Letting out of Immovable property for Commercial Purposes, Taxable.
Taxable Value of Services		14,50,000	
Service Tax @ 14%		2,03,000	
SBC at 0.5%		7,250	
KKC at 0.5%		7,250	
Service Tax and Cess Payable		2,17,500	

Question 3(c): CST – Meaning of Turnover / Sale Price.**3 Marks**

The Inter State Sales of Mr. Raghav are ₹ 60,00,000 (inclusive of CST for the F.Y. 2016–2017) and the Inter State Sales include –

- (i) Excise Duty ₹ 6,00,000.
- (ii) Deposits for Returnable Containers & Packages ₹ 10,00,000.
- (iii) Freight (not shown separately in Invoice) ₹ 2,00,000.

Compute the Taxable Turnover and CST payable, assuming Rate of CST is 2% and all the transactions / sales were covered by valid 'C' Form.

Solution:**Similar to Page. 27.17 Illustration**

Particulars	₹
Sales Turnover	60,00,000
Less: Excise Duty (₹ 6,00,000) forming part of Sale Price not to be deducted	Nil
Deposit for Returnable Containers & Packages (Note 1)	(10,00,000)
Freight (not shown separately in Invoice) (Note 2)	Nil
Sales Turnover including CST	50,00,000
Less: CST thereon = $\frac{\text{Rate of Tax} \times \text{Aggregat of sale price}}{100 + \text{Rate of Tax}} = 50,00,000 \times \frac{2}{102} = \text{CST Payable}$	98,040
Taxable Turnover under CST	49,01,960

Note:

1. Amount collected as deposit against return of Empty Bottles – held as “not a sale”. [**United Breweries Ltd vs State of Andhra Pradesh (1997) 105 STC 177(SC)**].
2. Freight cannot be excluded from Taxable Turnover, if it is not separately shown in the Invoice.

Question 4(a): Income Tax – Taxability of Various Receipts**4×2=8 Marks**

State with reasons whether the following receipts are Taxable or not under the provisions of Income–Tax Act, 1961

Issue	Reference
(1) Mr. Suri received a sum of ₹ 5,00,000 as compensation, from 'Yatra Foundation', towards the loss of property on account of Flood Disaster.	See Page 3.7 Refer Sec. 10(10BC)
(2) Mr. Suman received an advance of ₹ 3 Lakhs on 06–06–2016 to transfer his Residential House Property. Since the transfer was not effected during the previous year due to failure in negotiations, he deducted the advance money forfeited from the Cost of Acquisition of the Property.	See Page. 8.2 Para 8.1.1
(3) Mr. Federer, a Non–Resident residing in Sweden, has received rent from Mr. Nadal, also a Non–Resident residing in France in respect of a property taken on lease at Mumbai. Since this income is received outside India from a Non–Resident, Federer claims that his income is not chargeable to tax in India.	See Page. 2.12 Refer Sec.9(1)(i)
(4) TDS is not applicable in respect of payment of ₹ 1,00,000 to Mr. Pandey, a Resident, being Interest on Recurring Deposit with SBI.	Similar to Page 18.8 Illustration 3

Solution:

Answers / Reasoning
(1) Disaster Compensation received / receivable from Central or State Govt or Local Authority is exempt u/s 10(10BC). In this case, since Yatra Foundation is not covered in the above, the receipt is taxable in Suri's hands.
(2) As per Sec. 51, Advance Forfeited on failed negotiation for transfer of Capital Asset is chargeable to tax as “Income from Other Sources”. It should not be reduced from the Cost of Acquisition.
(3) As per Sec. 9(1)(i), if the Source of Income, directly or indirectly, through or from a Property, Asset in India, it shall be deemed to accrue or arise in India. Hence, the Rent is taxable in India, in this case.
(4) TDS is required to be deducted u/s 194A, if aggregate amount of interest credited or paid on Time Deposits > ₹10,000. Time Deposits shall include Recurring Deposits also. Since the payment made exceeds the specified limit, TDS is applicable. The Income is also taxable in the Receivers' Hands under “Income from Other Sources”.

Question 4(b): CENVAT – Eligible Credit

5 Marks

Compute the CENVAT Credit available to M/s. Shine Enterprises Ltd, in respect of the following Services availed by it, in the October, duly mentioning why CENVAT Credit is available.

	Nature of Service availed	Service Tax Paid (₹)
(a)	Market Research Services	2,00,000
(b)	Service of General Insurance taken for Motor Vehicles which are not Capital Goods	52,000
(c)	Credit Rating Services	1,09,000
(d)	Health & Fitness Centre Service for the personal use of the Managing Director of the Company	72,000
(e)	Repairs & Renovation Services for Office Premises	1,40,000

Solution:

See Page. 26.5 Para 26.1.6

Particulars	Eligible	₹	Reasons
(a) Market Research Services	Yes	2,00,000	It is included as "Input Services".
(b) Service of General Insurance taken for Motor Vehicles which are not Capital Goods	No	Nil	Specifically excluded from Input Services, except for certain persons.
(c) Credit Rating Services	Yes	1,09,000	It is included as "Input Services".
(d) Health & Fitness Centre Service for the personal use of the Managing Director of the Company	No	Nil	Specifically excluded from Input Services.
(e) Repairs & Renovation Services for Office Premises	Yes	1,40,000	Premises of Output Service Provider
Total CENVAT Credit Available		4,49,000	

Question 4(c): Excise – Scope of Levy

3 Marks

Examine the validity of the following Statements under Central Excise Act, 1994 and under Central Excise Rules, 2002–

- Goods subjected to NIL Rate duty are not excisable goods.
- XYZ Ltd, Manufacturer of Khandasari Molasses, claims that it is not liable to pay Excise Duty on the Molasses produced.

Solution:

See (i) Page. 19.9 Para 19.5.2 Pt 4, (ii) Page.19.5 Para 19.4.2

- Goods mentioned as Nil Rate Duty:** Once an item is mentioned in the Tariff, it will be 'Excisable Goods', even if duty Rate is Nil, since Nil Rate is also a rate of duty. Hence the given Statement is **Not Valid**.
- Person liable to pay duty:** Person who **procures** molasses for use in the manufacture of any commodity, whether or not excisable, is liable to pay duty. In the given case, XYZ Ltd, produces Molasses (**not procures**) and is hence not liable for duty. The given Statement is **Valid**.

Question 5(a)(i): Income Tax – Agri & Business Income

4 Marks

Mr. Kamal grows Paddy and uses the same for the purpose of manufacturing of Rice in his own Rice Mill. The Cost of Cultivation of 40% of Paddy Produce is ₹ 7,00,000 which is sold for ₹ 15,00,000, and the Cost of Cultivation of balance 60% of Paddy is ₹ 12,00,000 and the Market Value of such Paddy is ₹ 24,00,000. To manufacture the Rice, he incurred ₹ 2,00,000 in the manufacturing process on the balance (60%) Paddy. The rice was sold for ₹ 30,00,000.

Compute the Business Income and Agriculture Income of Mr. Kamal.

Solution:

See Page. 13.4 Para 13.3.1

Assessee: Mr. Kamal

Previous Year: 2016–2017

Assessment Year: 2017–2018

Particulars	₹	₹
1. Agricultural Income:[40%]		
Sale Value of Paddy	15,00,000	
Less: Cost of Cultivation	(7,00,000)	
Balance Agricultural Income [Exempt u/s 10(1)]		8,00,000
Agricultural Income – 40%		6,00,000
2. Business Income 60%:		
Sale Value of Rice		30,00,000
Less: Cost of Paddy [Market Valued Paddy is taken for computing Business Income as u/r 7		(24,00,000)
Less: Further Processing Cost [Note: These are processing Costs, not Agri. Operations]		(2,00,000)
Business Income		4,00,000

Question 5(a)(ii): Income Tax – LTC Exemption – Twins**4 Marks**

Compute the amount of LTC Exemption in the following cases with reference to the provisions under Income Tax Act, 1961:

- (a) Mr. Suresh went on a holiday on 09/09/2016 to Mysore with his wife and 3 children – one daughter born on 02/02/2010 and twin sons born on 05/05/2012. The Total Cost of Travel was ₹ 80,000. The ticket cost for Mr. Suresh and his wife was ₹ 50,000 and for all three children was ₹ 30,000. The Employer reimbursed total ticket cost ₹ 80,000.
- (b) In the above case (a), if among his 3 children the twin sons born on 02/02/2010 and the daughter was born on 05/05/2012, what shall be the exemption?

Solution:**Similar to Page. 4.27 Illustration [M 13]****Computation of Leave Travel Assistance exempt u/s 10(5)****Assessee: Mr. Suresh****Previous Year: 2016–2017****Assessment Year: 2017–2018****Case 1:**

Particulars	₹
Maximum Exemption is Cost of Travel on the shortest route	
(a) For Spouse and Assessee	50,000
(b) For Children – when first child is there, and second children are twins, then the Twin Children are considered as one child , and hence exemption is available for all 3 Children in this case.	30,000
Total Amount exempt	80,000

Case 2:

Particulars	₹
Maximum Exemption is Cost of Travel on the shortest route	
(a) For Spouse and Assessee	50,000
(b) For Children – if the First Child is Twin sons, and Second Child is a Daughter, the exemption is not available to Daughter, as the twin sons are considered as two children. So, the exempted amount is $(\frac{30,000}{3} \times 2)$	20,000
Total Amount exempt	70,000

Note: LTA Exemption can be claimed as the Assessee has gone to a place in India.**Question 5(b): Customs – Duty Payable & CENVAT Eligible****5 Marks**

Shanti Ltd imported an equipment in the month of May whose Assessable Value was US \$ 18,000.

- (i) From the following additional information, compute the duty payable–
- (a) Date of Entry Inward was 9th May. Basic Customs Duty on that date was 20% and Exchange Rate notified by CBEC was US \$ 1 = ₹60.
- (b) Date of Bill of Entry was 13th May. Basic Customs Duty on that date was 10% and Exchange Rate notified by CBEC was US \$ 1 = ₹65.
- (c) Additional Duty payable u/s 3(1) of the Customs Tariff Act, 1975 was 12.5%.
- (d) Additional Duty Payable u/s 3(5) of the Customs Tariff Act, 1975 was 4%.
- (e) Education Cess was 2% and Secondary & Higher Education Cess was 1%.
- (ii) How much CENVAT Credit can Shanti Ltd avail?

Solution:**Similar to Page. 21.12 Illustration**

Particulars	Computation	₹
Assessable Value in Indian Rupee (based on Date of B/E)	₹ 65 × \$18000	11,70,000
Add: Loading /Handling Charges @1%	1% on 11,70,000	11,700
1. Assessable Value for Customs [AV]		11,81,700
2. Basic Customs Duty [See Note] [BCD]	10% of 11,81,700	1,18,170
3. Additional Customs Duty Under Sec. 3(1) [ACD u/s 3(1)]	12.5% of (AV + BCD)	1,62,484
4. Total Customs Duty = BCD +ACD U/s 3(1)	(2+3)	2,80,654
5. Customs Education Cess @ 2%	2% on 2,80,654	5,613
6. Customs SHEC @ 1%	1% on 2,80,654	2,807
7. Total Duty before ACD u/s 3(5)	(4+5+6)	2,89,074

Particulars	Computation	₹
8. Special Additional Customs Duty @ 4 %, i.e. ACD u/s 3(5) = 4% of [AV + BCD + ACD u/s 3(1) + EC + SHEC]	4% of (1+7)	58,831
9. Total Duty Payable		3,74,905
10. CENVAT Credit can be availed = ACD u/s 3(1) + ACD u/s 3(5)	(1,62,484+ 58,831)	2,21,315

Note: Rate of Duty on the date of filing B/E or Date of Entry Inward, whichever is **later**, should be considered.

Question 5(c): Excise – Valuation**3 Marks**

Maruti Ltd, a manufacturer of Cars, sold a car to S.K. Enterprise Ltd at a price of ₹ 4,50,000 excluding Taxes and Duties. It also charged the following additional amounts for providing extra benefits:

Description	₹
(i) Assembly of Music System	15,000
(ii) Design and Engineering Charges	25,000
(iii) Outward Freight and Handling Charges from Factory to Depot	2,500
(iv) Special Accessories to beautify the Car	18,000

Determine the total amount of Central Excise Duty payable as per Central Excise Act, 1944, with explanation and reason.

Solution:**See Principles in Page 20.14 See Para 20.5.3, Illustration.**

Particulars	₹	Reason
Total Invoice Price	4,50,000	Price excluding Taxes and Duties.
Assembly of Music System	Nil	They are optional, and do not provide any value addition.
Design and Engineering Charges	25,000	Essential for the purpose of Manufacture, i.e. in connection with manufacture.
Outward Freight and Handling Charges from Factory to Depot	2,500	Costs incurred from the Factory Gate to the Place of Removal are includible in Transaction Value.
Special Accessories to beautify the car	Nil	They are optional, and do not provide any value addition.
Assessable Value	4,77,500	
Excise Duty at 12.50%	59,688	

Question 6: Income Tax – Theory Questions – Various Topics**4 Marks**

Issue	Reference
6(a) Discuss the provision under Income Tax Act for Payment of Advance Tax in case of Capital Gain.	See Page 12.9 Para 12B.1.1, Page 12.13, Para 12B.2.3 Hint: Advance Tax is to be paid for Capital Gains also. But, Interest u/s 234C is not leviable, if shortfall of Payment of Advance tax is due to Capital Gains, and payment is made before 31 st March.
6(b)(i) Specify the persons who are authorized to verify u/s 140, the Return of Income filed u/s 139 of the Income Tax Act, 1961 in case of a Company.	See Page. 17.9 Para 17.2.1 <ul style="list-style-type: none"> • General: Managing Director. • MD not able to Sign or there is no MD: Any other Director. • Company not Resident in India: Holder of a valid Power of Attorney. • Company is in Liquidation or Receiver is appointed: The Liquidator. • Management taken over by Government: The Principal Officer

Question 6(b)(ii): Income Tax – Sec. 80JJAA Deduction**4 Marks**

Mr. Satya is a manufacturer of goods in a Factory located in Navi Mumbai. On 1st April 2016, there were 120 workmen engaged in his factory. Due to increase in demand of his products, he employed 140 New Workmen during the Previous Year 2016–2017 which included –

- (a) 15 Casual Workmen
- (b) 25 Contract Labourers
- (c) 40 Workmen employed on 20th April 2016

- (d) 35 Workmen employed on 1st May 2016
 (e) 25 Workmen employed on 5th August 2016

Compute the deduction under Sec.80JJAA, if available to Mr. Satya, for Assessment Year 2017–2018, if Wages are paid to each Worker @ ₹ 3,000 per month. His profit from the manufacture of goods for Assessment Year 2017–2018 is ₹ 5.50 Lakhs.

Solution:

Similar to Page.11.40 Illustration

Assessee: Mr. Satya

Previous Year: 2016–2017

Assessment Year: 2017–2018

Computation of Deduction u/s 80JJAA

Particulars	Result	Reason
Casual Workmen	Nil	Not Eligible – Since they do not participate in RPF
Workmen employed through Contract Labour	Nil	Not Eligible – Since they do not participate in RPF
Regular Workmen employed on		
– 20.04.2016	40	All conditions for New Employee u/s 80JJAA satisfied.
– 01.05.2016	35	All conditions for New Employee u/s 80JJAA satisfied.
– 05.08.2016	Nil	Additional Employee does not include Employee employed for a period less than 240 days during PY.
Additional Employees	75	
Additional Employee Cost	₹ 27,00,000	₹ 3,000 × 75 Employees × 12 months
Deduction u/s 80JJAA	₹ 8,10,000	₹ 27,00,000 × 30%

Students' Note: Latest Amendment in Sec.80JJAA: If the Assessee is engaged in the Business of Manufacturing of **Apparel**, Employee employed for a period of **less than 150** days during the Previous Year, shall **not** be considered as Additional Employee. [**Note:** For other types of Business, time period limit is **240 days.**]

Question 6(c): Service Tax – Return

5 Marks

Mr. Abhishek, a Taxable Service Provider, filed his Service Tax Return for the half year ended 30th September 2016 on 01–12–2016. He seeks your advice on the following issues:

- (i) Is he liable for any Late Fees for the delayed filing of Half Yearly Return? If yes, how much?
 (ii) Can he Revise such Belatedly filed return? If yes, what will be the last date of filing the same?

Solution:

Similar to Page. 25.31 Illustration

Principle: Due date for filing ST Returns for the half–yearly period ending 30th September 2016 is **25th October 2016.**

	Answer
(i)	Yes. Mr. Abhishek is liable for late fee, for belated filing of Service Tax Returns. Period of Delay = 35 Days [25 th Oct 2016 to 01 st Dec 2016] i.e.37 days, hence he is liable to pay ₹ 1,700 . (For delay beyond 30 days, Late Fee = ₹ 1,000 + ₹ 100 for every day from 31 st day).
(ii)	Yes, He can revise such belatedly filed Return. He can file his Revised Return within 90 days from the date of filing the Original Return, to rectify mistakes or omissions if any. [i.e 01 st March 2017, in this case.]

Question 6(d): Customs Act – Levy

3 Marks

Examine the validity of the following statements under the provisions of Customs Act, 1962–

- (i) Customs Duty is not attracted on goods jettisoned from the vessel to save the vessel from Sinking.
 (ii) Customs Duty is not attracted for any imported goods pilfered before unloading.

Solution:

See Page. 21.4 Para 21.3.1 & Para 21.3.2

Question	Answer
Jettisoned Goods	If it is proven to the satisfaction of the officer that such goods are entitled to be admitted duty free, then no duty is leviable thereon. Otherwise, Jettisoned Goods shall be dealt with, as if they were imported into India. [Sec.21]

Question	Answer
Pilfered Goods	The Statement is valid. Customs Duty is not attracted on goods pilfered before unloading. [Since there is no "Import" at all.]

Question 7(a)(i): Income Tax – TDS on PF withdrawal**4 Marks**

Discuss the provisions, relating to the premature withdrawal from Employees Provident Fund, u/s 192A, for AY 2017–2018.

See Page 18.3 Para 18.1.2**Question 7(a)(ii): Income Tax – Return of Income****4 Marks**

Issue	Reference
(1) Mr. Kamal filed his Return of Income for the Assessment Year 2015–2016 on 30–03–2017. Can he revise such Return of Income? If so Why?	See Page 17.5 Para 17.1.5 Hint: Belated Return can be revised. The condition for Revised Return is that the Original Return should have been filed within the due date u/s 139(1), or 139(4). So, even Belated Return can be revised, to rectify an omission or wrong statement in the Original Return filed.
(2) Mr. Atal, a Super Senior Citizen, has reported a Gross Total Income ₹ 5,60,000 and the deductions eligible under Chapter VI–A amounting to ₹ 70,000 for the Previous Year 2016–2017. Is he liable to file his Return of Income u/s 139(1) for the Assessment Year 2017–2018? If so why?	See Page 17.1 Para 17.1.1 Hint: Individuals have to file their Return, if the Total Income before giving exemption u/s 10(38)/10A/10B/10BA or Deductions under Chapter VI–A exceeds the maximum amount not chargeable to tax. Hence, Mr. Atal has to file his Return of Income for the AY 2017–18, as his Gross Total Income exceeds the maximum amount not chargeable to tax of ₹ 5,00,000.

Question 7(a)(iii): Income Tax – Advance Tax**4 Marks**

Mr. Barun provides you the following information and requests you to determine the Advance Tax Liability with due dates for the Financial Year 2016–2017.

Estimated Tax Liability for the Financial Year 2016–2017	₹ 65,000
Tax Deducted at Source for this year	₹ 5,000

Solution:**See Page. 12.9 Para 12B.1.1**

Advance Tax Payable = (65,000 – 5,000)	₹ 60,000
1 st Installment: 15 th June 2016 = 15% of ₹ 60,000	₹ 9,000
2 nd Installment: 15 th September 2016 = 45% of ₹ 60,000	₹ 27,000 (Cumulative) (18,000 Incremental)
3 rd Installment: 15 th December 2016 = 75% of ₹ 60,000	₹ 45,000 (Cumulative) (18,000 Incremental)
4 th Installment: 15 th March 2017 = 100% of ₹ 60,000	₹ 60,000 (Cumulative) (15,000 Incremental)

Question 7(b): Service Tax – Aggregator**4 Marks**

Explain the manner in which Service Tax is payable by an aggregator.

Aggregator: A Person, who owns and manages a Web Based Software Application, and by means of the Application and a Communication Device, enables a Potential Customer to connect with Persons providing Service of a particular kind under the Brand Name or Trade Name of the Aggregator. **[Rule 2(1)(aa) of STR]**

Nature of Services	Person liable to pay ST
Services involving Aggregator in any manner & such Aggregator –	
• is located in India	Aggregator
• does not have physical presence in the Taxable Territory, but has a Representative.	Person representing the Aggregator
• has no physical presence or any Representative in the Taxable Territory	Person appointed by him for paying ST

Question 7(c): CENVAT – Place of Removal**4 Marks**

Decide with reasons whether the following places can be treated as “Place of Removal” in terms of Rule 2(qa) of CENVAT Credit Rules, 2004.

Solution:**See Page. 20.11 Para 20.4.2**

Issue	Answer	Reasons
(i) Warehouse of XYZ Ltd wherein the Excisable goods have been permitted to be deposited without payment of duty	Yes	Covered under Rule 2(qa) CENVAT Credit Rules, 2004 & Sec.4(3)(c) of Central Excise Act 1944.
(ii) Customs Port from where goods are directly exported by the Manufacturer Exporter to his Foreign Buyer.	Yes	Port / ICD / CFS, where Shipping Bill is filed by the Manufacturer Exporter and Goods are handed over to the Shipping Line is considered as Place of Removal. [C.No.999/6/2015–CX dt.28.02.2015]

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