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**TEST SERIES**  
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**SUGGESTED SOLUTION**

**I.P.C.C MAY 2014 EXAM**

**TAXATION**

**Prelims (Test Code - I M J 4 0 7 7)**

**(Date: 13 April, 2014)**

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Ans. 1

(a) Computation of total income & tax payable for A.Y. 2014-15 of Ravan

Particulars		₹	₹
Income from Salary			1,47,000
Income from House Property			30,000
Income from Business			
(a) Profit from Poultry Farming		80,000	
(b) Profit from SSI Unit		1,00,000	1,80,000
Income from Capital Gain			
Long-term Capital Gain		60,000	
Short-term Capital Loss		(-15,000)	45,000
Income from Other Sources:			
Interest on securities		11,000	
Interest on Bank Deposits		5,000	16,000
Gross Taxable Income			4,18,000
Less: Deduction u/s 80C to 80U			
(1) 80C (Note-1)		47,000	
(2) 80D Insurance on wife	9,000		
Insurance on dependant son	7,000		
	16,000		
but limited to ₹15,000	15,000		
Insurance on father ₹22,000 but limited to ₹20,000	20,000		
Insurance on dependant brother	Not allowed	35,000	
(3) U/s.80DD (Note 2)		50,000	
(4) U/s 80E (Note 3)		20,000	
(5) U/s. 80 - IB - 25% profit of SSI units		25,000	
(6) U/s. 80G			
NCF 6,000 allowed 50%	3,000		
PM's Relief Fund 7,000 (100%)	7,000		
Approved Charitable Fund (25,000) and family Planning (15,000) Total ₹40,000			
But Limited to 10% of Adjusted Net Gross Total Income i.e. ₹1,96,000			
Gross Total Income – LTCG – All the deductions under the chapter except 80G			
(4,18,000 – 45,000 – 1,77,000 = 1,96,000)			
Therefore 15,000 - 100%	15,000		
Balance 4,600 - 50%	2,300	17,300	1,94,300
Total Income			2,23,700
Tax on ₹2,23,700 shall be as under:			
On LTCG of ₹23,700 (Note-4)		4,740	
Other income ₹1,78,700 + 21,300 shifted from LTCG		Nil	
		4,740	
Less: Rebate u/s 87A		2,000	
		2,740	
Add: Education cess & SHEC @ 3%		82.2	
		2,822.2	
Tax rounded off		2,820	

**Working note**

**1. Deduction u/s 80C:**

LIP on his own wife	22,000
PPF	25,000
	47,000

**2. Deduction u/s 80DD:**

As person is depended & handicapped so he would receive deduction u/s 80DD flat Rs. 50,000

**3. Deduction u/s 80E:**

Loan taken from any charitable institution or such for higher education purpose, interest paid is allowed as deduction.

**4. Just due to long term capital .the income increase limit of 2,00,000. So the long term amount above & over 2,00,000 will only be charged @ 20%**

$$2,23,700 - 2,00,000 \times 20\% = 4,740$$

**(b) Period of delay in payment of service 6.10.2013 to 12.12.2014**

No. of days delay = 433

Interest payable for delay

$$21,012 \times 15/100 \times 433/365 = ₹3,739$$

Penalty payable

No. of delay 433 days  $433 \times 100$

₹43,300

or  $21,012 \times 12/100 \times 433/365$

₹ 2,991

Whichever is higher i.e.

₹43,300

However, the penalty cannot exceed 50% of service tax payable i.e. 50% of ₹21,012 i.e.

₹10,506

**(c)**

Particulars	Purchase value (exclusive of VAT)	Input VAT	Turnover	Rate of VAT	Output VAT
Opening balance of input VAT credit		3,400			
Exempt goods X	3,00,000	Nil	3,60,000	Nil	Nil
Goods Y (₹5,62,500 × 12.5/112.5)	5,00,000	62,500	5,75,000	12.5%	71,875
Goods Z	2,00,000	10,000	2,80,000	5%	14,000
		<b>75,900</b>	<b>12,15,000</b>		<b>85,875</b>

Net VAT payable ₹85,875 – 75,900 = ₹9,975.

**Ans. 2**

**(a)**

Profit as per Profit & Loss Account			25,00,000
Add:	Cultivation Expenses	16,00,000	
	Expenses on installation of machinery Capital expenditure	30,000	
	Pension disallowed as tax not deducted at sources	80,000	
	Depreciation	6,00,000	
	Bad Debts recovered	<u>81,000</u>	23,91,000
Less:	Market Price of Sugar canes used for Manufacturing sugar	24,00,000	
	Depreciation allowable (W.N.-1)	<u>5,32,500</u>	(29,32,500)
	<b>Total Income</b>		<b>19,58,500</b>

**Note.-** Depreciation allowable has been worked out as under:

Building	@ 10%	on ₹11,00,000	1,10,000
Machinery	@ 15%	on ₹25,00,000	3,75,000
	7.5%	on (₹3,70,000 + 30,000)	30,000
Furniture	@ 10%	on ₹70,000	7,000
	5%	on ₹30,000	1,500
Motor Car	15%	on ₹60,000	9,000
			<u><b>5,32,500</b></u>

**(b) The return include inter alia, month – wise details for each of the taxable service rendered by the assessee –**

- Value of taxable service charged / billed;
- Value of services which are exempted - with reference to the notification,
- Value of services which are exported;
- Abatement Claimed - with reference to the notification;
- Value of taxable service received or receivable for services already rendered;
- Value of taxable service received for services yet to be rendered;

- Amount of service tax paid / payable;
- Amount of education cess paid / payable;
- Details of CENVAT Credit.

(c) The input tax credit is available only when the taxable goods are purchased from the same State for the following purposes –

1. For sale / resale within the State;
2. For sale in the course of inter State trade or commerce; i.e. Goods are sold to any other State or Union Territory of India;
3. To be used as –
  - (i) Containers or packing materials;
  - (ii) Raw materials; or
  - (iii) Consumable stores,
 and the goods so manufactured by the use of the above raw-materials, packing materials are sold within the State or in the course of inter State trade commerce;
4. For being used in the execution of a works contract;
5. To be used as capital goods required for the purpose of manufacture of taxable goods;
6. To be used as –
  - (i) Raw materials;
  - (ii) Capital goods;
  - (iii) Consumable stores; and
  - (iv) Packing materials / containers
 and goods so manufactured by the use of above items are sold in the course of export out of the territory of India.

Ans. 3

(a)

(i) Salary, for the purpose of determining value of the perquisite in respect of rent-free house is as under:

Particulars		₹
Basic pay (₹10,000 × 12)		1,20,000
Dearness allowance (30% of ₹1,20,000)		36,000
Bonus (20% of ₹1,20,000)		24,000
Commission (₹1,000 × 12)		12,000
Transport allowance	14,400	
Less: Exempt tax ₹800 p.m.	<u>9,600</u>	4,800
Tribal area allowance	8,400	
Less: Exempt u/s 10(14) (200 × 12)	<u>2,400</u>	6,000
Income-tax (being a perquisite is not taken into consideration)		Nil
Advance salary (salary of any other period is not considered as salary is to be taken on due basis)		Nil
<b>Total</b>		<b>2,02,800</b>

Lease rent of the house is ₹1,08,000 (i.e. ₹9,000 × 12)

Amount chargeable to tax is ₹30,420 (i.e. 15% of salary or lease rent, whichever is lower)

(ii)

**Income from salary for the assessment year 2014-15 of Mrs. Jhon**

Basic Pay (12,200 × 12)	1,46,400
Dearness allowance (300 × 12)	3,600
Entertainment allowance (100 × 12)	1,200
Perquisites	
Facility of free use of water and light	1,300
Life Insurance Premium paid by employer	1,000
Car facility (900 + 900) × 12	21,600
Salary of cook (100 × 12)	1,200
Rent free accommodation (15%* of salary of ₹1,47,600)	22,140
Gross salary	1,98,440
Less: Deduction u/s 16	Nil
<b>Income from salary</b>	<b>1,98,440</b>

**Note:-** Salary for rent free accommodation (1,46,400 + 1,200) = 1,47,600

(b) EASIEST stands for Electronic Accounting System in Excise and Service Tax. This scheme makes tax payment easy and is available with 28 banks.

The benefits of EASIEST scheme to an assessee under the service tax provisions are as follows

1. Only one copy of the challan is to be filled instead of four copies as required earlier,
2. EASIEST facilitates online verification of the status of tax payment using Challan Identification Number.

(c) The following dealers are not allowed to opt for composition scheme:

1. A manufacturer or any other dealer who makes an inter State purchases.
2. A manufacturer or any other dealer who makes an inter State sale.
3. A manufacturer or any other dealer who exports or import the goods to a country outside India.
4. A dealer who wants to transfer goods outside the State otherwise than by way of sales.
5. A dealer who wants to issue VAT Invoice.

Ans. 4

(a)

Particulars		₹	₹
1.	Income from house property		30,000
2.	Income from business:		
	(i) Profit from paints business	64,000	
	(ii) Profit from firm: Exempt u/s 10(2A)	-	
		64,000	
	<b>Less:</b> Unabsorbed depreciation to be written off	11,000	
	Loss from Hardware business	15,000	
		26,000	38,000
	Profit from speculation business	15,000	
	Less: Brought forward loss from speculation	27,000	
	Loss to be carried forward	(-) 12,000	
3.	Income from capital gains:		
	Long-term capital gains (30,000 – Brought forward 30,000)	Nil	
	Short-term capital gains (18,000 – Brought forward 18,000)	Nil	
		Nil	
	Capital loss to be carried forward		
	Short-term capital loss	3,000	
	Long-term capital loss	1,000	
4.	Incomes from other sources:		
	Interest on securities		14,000
	<b>Gross total income</b>		<b>82,000</b>

(b)

1. False
2. False
3. True
4. False

(c)

**Taxable capital gain**

Sales consideration		20,70,000
Less: Indexed cost of acquisition ₹1,60,000 × $\frac{939}{100}$	15,02,400	
Indexed cost of improvement ₹26,700 × $\frac{939}{133}$	1,88,506	
Expenses on transfer	12,000	17,02,906
<b>Long-term capital gain</b>		<b>3,67,094</b>

Ans. 5

(a)

Particulars		₹	₹
Income from salary			
Salary		3,72,000	
Employers Contribution to RPF exceeding 12%		7,440	
Interest on RPF in excess of 9.5%		2,500	
Entertainment allowance		8,000	
Value of Rent Free Furnished Accommodation			
15% of salary (₹3,80,000) or actual rent whichever is less	57,000		
+ 10% for furniture	20,000	77,000	
Gross Salary		4,66,940	
Less: Deduction		Nil	
Net Salary			4,66,940
Income from other sources			
Interest from UTI		Exempt	
Winning from horse race		8,000	
Winning from lottery		1,00,000	
Dividend from Telco		Exempt	
Dividend from co-op. society		500	1,08,500
Gross Total Income			5,75,440
Less: Deduction u/s 80C (RPF - ₹52,080)		52,080	
Deduction u/s 80D - own health 10,000			
father's health 16,000		26,000	78,080
<b>Total taxable</b>			<b>4,97,360</b>

(b) During the financial year 2011-12, the value of taxable service provided by Ravi is more than 10,00,000 so, no exemption of 10,00,000 is available in current F.Y. year, assuming it has taken service tax registration no.

Particulars	₹
Value of taxable service provided during the financial year 2013-14	12,40,000
Service tax payable 12.36%	1,53,264

**Note.**- No service tax is payable on the value of non-taxable services.

(c) Particulars	Amount of input credit available
1. No input credit will be available on goods purchased from other States	-
2. Purchases from dealer 'Amit' in Delhi	45,000
3. Purchase from unregistered dealer	Nil
4. Purchases from dealer under composition scheme	Nil
5. Purchase from dealer 'Zoya'	14,000
6. Purchasers from dealer Bhargav. VAT not separately charged	Nil
7. Purchases of capital goods (W.N.)	1,12,500
8. Purchases of goods used for manufacturing exempted goods	Nil
9. Goods imported from Germany	Nil
<b>Total VAT credit</b>	<b>1,71,500</b>

**Working note:** VAT credit on capital goods shall be allowed in 36 equal monthly instalments. Thus ₹1,12,500/36 = ₹3,125 VAT credit on capital goods shall be allowed every month.

Ans. 6

(a)

Computation of total income of Karan for assessment year 2014-15	
Particulars	₹
Income from other sources (See note below)	26,08,500
Gross total income	26,08,500
Less: Deductions Under section 80C (Contribution to PPF account of mother not eligible)	-
<b>Total income</b>	<b>26,08,500</b>

<b>Note.</b> - Treatment of gifts received shall be as under:		₹
<b>1. Immovable property received without consideration</b>		
(i) Gift of house A from friend (Stamp duty value)	6,00,000	
(ii) Gift of house B (Stamp duty value ₹40,000, being less than ₹50,000) (Value of each property should be taken separately)	Not taxable	6,00,000
<b>2. Immovable property acquired for inadequate consideration</b>		
Purchase of commercial property for inadequate consideration (₹90,00,000 – 72,00,000)		18,00,000
<b>3. Movable property received without consideration</b>		
Gift of preference shares (market value ₹4,500) (Aggregate value of gift of movable property does not exceed ₹50,000)		Not taxable
<b>4. Movable property acquired for inadequate consideration</b> (Taxable if aggregate value exceeds ₹50,000)		
(i) Purchase of car (not a property within the meaning of section 56(2)(vi))	Not taxable	
(ii) Purchase of work of art (₹5,30,000 FMV - 5,00,000 purchase price)	30,000	
(iii) Purchase of jewellery (₹7,25,000 – 7,00,000)	25,000	
(iv) Purchase of painting (not taxable as brother of wife is a relative)	-	55,000
(v) Gift of sum of money		
1. Gift from friend	1,00,000	
2. Gift received by minor son (₹55,000 less exempt ₹1,500)	53,500	1,53,500
<b>Income from other sources</b>		<b>26,08,500</b>

(b)

<b>Income from House Property</b>	₹
Gross annual value ₹12,000 – 1,000 (on account of vacancy)	11,000
Less: Municipal taxes	1,000
Net annual value	10,000
Less: Deduction u/s 24	
Standard deduction @ 30%	3,000
<b>Income from House Property</b>	<b>7,000</b>

(c) VAT has three variants namely –

1. gross product variant,
2. income variant, and
3. consumption variant.

Thus, VAT is payable under the above 3 variants as under:

**Gross product variant**

VAT payable on sales - VAT credit allowed on inputs goods only.

**Income variant**

VAT payable on sales - VAT credit allowed on input goods and proportionate VAT credit allowed to the extent of depreciation on capital goods.

**Consumption variant.**

VAT payable on sales - VAT credit allowed both on input goods and capital goods.

Ans. 7

(a)

1. To the extent such income is derived from any source in the State of Sikkim . and income by way of dividend or interest on securities.
2. exempt if certain conditions as mentioned in section 10(48) are satisfied
3. fully exempt
4. fully exempt

(b)

	₹	₹
1. Interest on Government securities		53,500
2. Income from business		2,45,000
3. Long-term capital gain	19,000	
Less: Short-term loss	<u>6,000</u>	<u>13,000</u>
		3,01,500
4. Less: Deduction under section 80C		<u>7,800</u>
		<u>3,03,700</u>
Tax on long-term capital gain ₹13,000 @ 20%		2,600
Tax on balance total income ₹2,90,700		<u>9,070</u>
		11,670
Add: Education cess & SHEC @ 3%		<u>350</u>
		<u>12,020</u>

(c) The return has to be submitted by the 25th of the month following the particular half year  
Even a NIL return has to be filed if the assessee has not rendered any taxable service during a particular half year.

Return of Service tax has to be Filed within prescribed period. If not filed, penalty is leviable under section 77(2). Alternatively according to rule 7C, a late fee has to be paid along with the filing of the return of service tax if the same is filed late (in which case there will be no penalty levied under section 77)

Where the gross amount of service tax payable is nil, the Central Excise Officer, may, on being satisfied that there is sufficient reason for not filing the return reduce or waive the penalty.

(d) **Advantages of VAT:**

1. Easy to Administer & Transparent
2. Less Litigation
3. Tax Credit on purchase of Capital Goods
4. Abolition of Statutory Forms
5. Self-Assessment
6. Deterrent against Tax Avoidance
7. No Cascading Effect
8. Effective Audit & Enforcement Strategies
9. Minimum Exemptions
10. Removal of Anomaly of First Point Taxation
11. Competitiveness of Exports
12. Instrument to tax consignment of goods

**Limitations of VAT:**

1. Detailed Records
2. Causes Inflation
3. Delay in refund of Tax
4. Increase in investment
5. No Credit for Tax paid on Inter-State Purchases
6. Break in chain in composition scheme
7. Audit under VAT



## MARKS ALLOCATION SHEET

<b>Que. No.</b>	<b>Sub point No.(if any)</b>	<b>Name of Chapter</b>	<b>Description of Concept</b>	<b>Mark Allocation</b>	<b>Total Marks</b>
1(a)	-	Computing total income	Calculation income from salary	2	
1(a)	-	Computing total income	Income from capital gain	1	
1(a)	-	Computing total income	Income from other sources	1	
1(a)	-	Computing total income	Deduction u/s 80C	0.5	
1(a)	-	Computing total income	Deduction u/s 80D	1	
1(a)	-	Computing total income	Deduction u/s 80DD	0.5	
1(a)	-	Computing total income	Deduction u/s 80E	0.5	
1(a)	-	Computing total income	Deduction u/s 80-IB	0.5	
1(a)	-	Computing total income	Deduction u/s 80G	2	
1(a)	-	Computing total income	Calculation of Tax	1	10
1(b)	-	Service Tax	Calculation of period of delay in payment	2	
1(b)	-	Service Tax	Calculation of penalty payable	3	5
1(c)	-	VAT	Calculation of input VAT	1	
1(c)	-	VAT	Calculation of turnover	1	
1(c)	-	VAT	Calculation of output VAT	2	
1(c)	-	VAT	Calculation of net VAT payable	1	5
2(a)	-	Assessment of companies	Calculation of Depreciation allowable	4	
2(a)	-	Assessment of companies	Calculation of total income	4	8
2(b)	-	Service Tax	Any 8 contents (per point 0.5 mark)	4	4
2(c)	-	VAT	Within the state	1	
2(c)	-	VAT	Inter state trade	1	
2(c)	-	VAT	Execution of works contract	1	
2(c)	-	VAT	Manufacture of taxable goods	1	4
3(a)	(i)	Income under the head "salaries"	Calculation of Dearness allowance	0.5	
3(a)	(i)	Income under the head "salaries"	Calculation of Bonus	0.5	
3(a)	(i)	Income under the head "salaries"	Calculation of Commission	0.5	
3(a)	(i)	Income under the head "salaries"	Calculation of transport allowance	0.5	
3(a)	(i)	Income under the head "salaries"	Calculation of area allowance	0.5	
3(a)	(i)	Income under the head "salaries"	Calculation of value of perquisite	1	
3(a)	(i)	Income under the head "salaries"	Calculation of amount chargeable to tax	0.5	4

3(a)	(ii)	Income under the head "salaries"	Dearness allowance	0.5	
3(a)	(ii)	Income under the head "salaries"	Entertainment allowance	0.5	
3(a)	(ii)	Income under the head "salaries"	Rent free accommodation	1	
3(a)	(ii)	Income under the head "salaries"	Gross salary	1	
3(a)	(ii)	Income under the head "salaries"	Deduction u/s 16	0.5	
3(a)	(ii)	Income under the head "salaries"	Income from salary	0.5	4
3(b)	-	Service Tax	Meaning	2	
3(b)	-	Service Tax	Benefit	2	4
3(c)	-	VAT	Any 4 point (each has 1 mark)	4	4
4(a)	-	Set off / carry forward of losses	Income from house property	1	
4(a)	-	Set off / carry forward of losses	Income from business	2	
4(a)	-	Set off / carry forward of losses	Income from capital gain	2	
4(a)	-	Set off / carry forward of losses	Income from other sources	2	
4(a)	-	Set off / carry forward of losses	Gross total income	1	8
4(b)	1	Advance payment of tax	True / False	1	
4(b)	2	Advance payment of tax	True / False	1	
4(b)	3	Advance payment of tax	True / False	1	
4(b)	4	Advance payment of tax	True / False	1	4
4(c)	-	Income under the head "capital gain"	Indexed cost of acquisition	1	
4(c)	-	Income under the head "capital gain"	Indexed cost of improvement	1	
4(c)	-	Income under the head "capital gain"	Calculation of long term capital gain	2	4
5(a)	-	Assessment of Individuals	Calculation of Income from salary	2.5	
5(a)	-	Assessment of Individuals	Calculation of Income from sources	2.5	
5(a)	-	Assessment of Individuals	Deduction u/s 80 C	1	
5(a)	-	Assessment of Individuals	Deduction u/s 80 D	1	
5(a)	-	Assessment of Individuals	Total taxable income	1	8
5(b)	-	Service Tax	Calculation of value of taxable service	1	
5(b)	-	Service Tax	Calculation of service tax	2	
5(b)	-	Service Tax	Note	1	4
5(c)	-	VAT	Calculation of total VAT credit	3.5	
5(c)	-	VAT	Note	0.5	4
6(a)	-	Income from other	Calculation of total income	2	

		sources			
6(a)	-	Income from other sources	Calculation of immovable property received	2	
6(a)	-	Income from other sources	Calculation of immovable property acquired	1	
6(a)	-	Income from other sources	Calculation of movable property	1	
6(a)	-	Income from other sources	Calculation of movable property acquired	2	
6(a)	-	Income from other sources	Calculation of gift of sum of money	1	
6(a)	-	Income from other sources	Calculation of income from other sources	1	10
6(b)	-	Income from house property	Calculation of net annual value	2	
6(b)	-	Income from house property	Calculation of income from house property	2	4
6(c)	-	VAT	Variant of VAT	1	
6(c)	-	VAT	Gross product variant	1	
6(c)	-	VAT	Income variant	1	
6(c)	-	VAT	Consumption variant	1	4
7(a)	1	Non-taxable income	Correct answer	1	
7(a)	2	Non-taxable income	Correct answer	1	
7(a)	3	Non-taxable income	Correct answer	1	
7(a)	4	Non-taxable income	Correct answer	1	4
7(b)	-	HUF	Calculation of income from business	2	
7(b)	-	HUF	Deduction u/s 80 C	1	
7(b)	-	HUF	Calculation of taxable income	1	4
7(c)	-	Service Tax	Provision of due date of filling of return	4	4
7(d)	-	VAT	Advantages	2	
7(d)	-	VAT	Disadvantages	2	4