

C.A. IPCC

First Study

Subject: Income tax, Service Tax & VAT

Instructions :

- (i) *All questions are compulsory.*
- (ii) *Date of Examination : 07.03.2010*
- (iii) *Total Number of Questions : 6*
- (iv) *Total marks : 100*
- (v) *Total duration : 3 Hours*
- (vi) *Use of two colour pens (black & blue or Black or Pink etc) is NOT allowed. Use only single colour pen.*
- (vii) *Begin answer of the next question in new page.*
- (viii) *Working note should form part of your answer.*

Question 1

State with reasons whether the following statements are true or false having regard to the provisions of the Income-tax Act, 1961 for the Assessment Year 2010-11:

- a) A charitable or religious trust or institution is required to file an application for registration under section 12A within one year from the date of creation of the trust or establishment of Institution.
- b) TDS provisions under section 194C are not attracted in respect of payments made by an Individual or a HUF to a contractor.
- c) The ceiling limit of deduction under section 24(b) in respect of interest on loan taken on 01.04.08 for repairs of a deemed to be let out property is Rs. 30,000 p.a.
- d) Deduction u/s 80 E is available to a parent who has repaid the interest on educational loan of his son.
- e) Amount received from Government towards disaster relief is taxable u/s 56(2)(vi).

(5X2=10 Marks)

Question 2.

Dr. M is running a Nursing Home in partnership with his wife Dr. (Mrs.) 'M'. On the basis of the following particulars, compute the total income of Dr. 'M' and Dr. (Mrs.) 'M' for the Assessment Year 2010-11.

(A) Particulars of income of the Nursing Home	Rs.
Income as per Income and Expenditure Account	1,20,000
Firm's tax not provided in the account	48,000
Donation to Public Charitable Trust exempt u/s 80G debited in the accounts	15,000

(B) Particulars of Income of Dr. 'M':

- (a) 40% of profit from Nursing Home as per books Rs. 48,000
- (b) Dr. 'M' had purchased 500 shares of 'S' (P) Ltd. at Rs. 100 each in April 1986. On 14-5-2009 Dr. 'M' sold 400 shares at Rs. 300 per share. He invested Rs. 40,000 out of the net sale proceeds in Bonds of RECL in June, 2009. The balance of 200 shares were sold in December, 2009 at Rs. 380 per share.
- (c) Dr. 'M' is a Director in 'S' (P) Ltd. from which he received director's fees amounting to Rs. 1,000.
- (d) Dr. 'M' has obtained a loan of Rs. 50,000 from the said company for renovating the Nursing Home. The balance sheet of S (P) Ltd. for the Accounting year, inter alia, disclosed the following particulars.

(i) General Reserve	40,000
(ii) Profit & Loss Account Cr. Balance	20,000
	60,000

- (e) Share of income from property belonging to HUF of which Dr. 'M' is the Karta amounts to Rs. 30,000.

(C) Particulars of income of Dr. (Mrs.) 'M':

(a) 60% share of profit from Nursing Home as per books	72,000
(b) Income from dividend form UTI	18,000
(c) Income from house property (as computed under Income-tax Act)	48,000

(D) Particulars of income of Master 'K':

'K' minor son of Dr. 'M' and Dr. (Mrs.) 'M' has been admitted to the benefits of partnership in 'J' & Co., which is carrying on business as Chemists & Druggists. The said firm has two other partner 'C' (brother of Dr. 'M') and D (brother of Dr. (Mrs.) 'M'). K's share of profits is determined at Rs. 10,000.

(15 Marks)

Question 3

(a) Mr. M desires to transfer his painting collections held as personal assets, during the financial year 2009 - 10. He has the following alternatives to do the same. Advise the tax implications in respect of the various alternatives:

- (i) Sell the paintings to Mr. Amar, friend;
- (ii) Gift the painting to Mrs. Vijay's mother-in-law;
- (iii) Sell the painting to Liberty Art Gallery, Anand;
- (iv) Gift the painting to (Approach an NGO), Ahmedabad.

(9 Marks)

(b) Ram owns two houses. Relevant details are given below –

	House I	House II
Let out	April 1, 2009 to June 30,2009 (rent being Rs.8,000 p.m.)	Jul 1, 2009 to March 31,2010 (rent being Rs.15,000 p.m.)
Self-occupied	Jul 1, 2009 to March 31,2010	April 1, 2009 to Jun 30,2009
Municipal valuation p.a. (a)	90,000	1,50,000
Fair Rent per annum (b)	85,000	1,20,000
Standard rent per annum (c)	80,000	1,25,000
Rent of let out period (d)	25,000	1,35,000
Interest on borrowed capital	5,000	45,000
Municipal tax paid	15,000	25,000

Assuming that income of Ram from business is Rs.6,00,000 (he does not have any other income) and he deposits Rs.70,000 in public provident fund. Find out his total income and tax liability for the assessment year 2010-11.

(6 Marks)

Question 4 Answer the following question :

(a) Illustrate the modes of Investment specified under section 11(5)

(b) Discuss the incomes which are exempt in the case of a political party. Are there any conditions for claiming such exemptions?

(5X2=10 Marks)

Question 5. Answer the following:

(a) Briefly explain the three variants of VAT. Which of these methods is most widely used and why?

(b) What are the categories of commodities according tax rates under VAT?

(c) Write short note on Tax Payer's Identification Number (TIN)

(d) Calculate the total VAT liability under the State VAT law for the month of October 2009 from the following particulars:

Particulars	Rs.
Inputs purchased within the state	2,70,000
Capital goods used in the manufacture of the taxable goods	60,000
Finished goods sold within the state	3,50,000

Applicable tax rates are as follows:-

VAT rate on capital goods 12.50%

Input tax rate within the state	12.50%
Output tax rate within the state	4.00%

(e) How can an auditor play role to ensure that the tax payers discharge their tax liability properly under the VAT system?

(5X5 =25Marks)

Question 6. Answer the following:

(a) Does the term “club or association” includes Housing societies for the purposes of Service Tax?

(b) Discuss the provisions relating to Export of service without the payment of service tax.

(c) A Beauty Parlour charges Rs. 1,50,000 from a client for providing beauty treatment service, the breakup of the bill is as follows :

Labour charges	Rs. 90,000
Value of creams used in providing the service	Rs. 45,000
Value of cosmetics creams sold to the client	Rs.15,000

Compute the amount of service tax to be charged from the client.

(d) How is the value of taxable services is determined when the consideration against taxable services is received in other than monetary terms?

(e) What are the due dates of filing Service tax return?

(5X5 =25 Marks)