



J.K. SHAH[®]
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SUGGESTED SOLUTION

I.P.C.C NOV. 2014 EXAM

TAXATION

Test Code - I N J 4 0 2 2

Vashi (Dt.: 18 May, 2014) (Regular)

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Ans. 1

(a)

Particulars	₹	₹	₹
Net profit as per P & L A/c			63,000
Less: 1. Dividend included in sundry receipts		4,000	
2. Interest on Bank Deposits to be considered separately		15,000	
3. Capital gain to be considered separately		<u>6,000</u>	25,000
			38,000
Add: 1. Holiday expenses of proprietor, disallowed u/s. 38		14,000	
2. Reserve for future losses, being inadmissible		20,000	
3. Reserve for bad debts	12,000		
Less: Debts which actually became bad	<u>10,000</u>		
		2,000	
4. Reserve for payment of advance income tax, being inadmissible		17,000	
5. Depreciation to be considered separately		30,000	
6. Out of sundry expenses the following disallowance are made			
(i) Printing charges paid to a relative of the Proprietor disallowed u/s 40A(2) Being excessive and unreasonable (₹12,000 - 9,000)		3,000	
(ii) 100% of payment ₹22,000 for purchasing miscellaneous items is disallowed u/s 40A(3) as the payment has been made otherwise than by a account payee cheque or account payee bank draft		22,000	
7. The following amounts are added u/s 43B as the payments have not actually been made Sales tax	7,000		
Contribution to P.F.	<u>2,000</u>	<u>9,000</u>	
			1,17,000
			1,55,000
Less: Depreciation as worked out below:			
Machinery WDV 42,000 @ 15%		6,300	
Motor car WDV 18,750 @ 15%		2,813	
Furniture WDV ₹12,000 @ 10%		<u>1,200</u>	10,313
Business Income			1,44,687

(b)

Computation of Agricultural Income of G

Rent of Agricultural land		1,00,000
Less: Expenses;		
Land Revenue	10,000	
Collection Charges	<u>5,000</u>	15,000
Net Agricultural Income (A I.)		85,000

Computation of Non-Agricultural Income

Income from manufacturing business		5,50,000
Interest on arrears of land revenue		<u>12,000</u>
Non-Agricultural Income (NAI)		<u>5,62,000</u>

Computation of tax liability of G for the assessment year 2014-15

1. Add: Agricultural income with non-agricultural income. [85,000 + 5,62,000]	6,47,000	
2. Tax on 6,47,000		54,400
3. Add: Agricultural income with exemption limit [85,000 + 2,50,000]	3,25,000	
4. Tax on 3,35,000		<u>8,500</u>

5. Tax payable on ₹5,62,000		45,900
Add: Education cess & SHEC @ 3%		1,377
Total tax payable		47,277
Tax rounded off		47,280

Ans. 2

Taxable income of Vaibhav for assessment year 2014-15

Particulars	₹
Basic pay	3,60,000
Profit bonus	36,000
Commission on sales (1% of ₹12,00,000)	12,000
Advance salary	90,000
Employer's contribution in excess of 12% of salary (i.e., ₹54,000 - 12% of ₹3,72,000)	9,360
Interest credited to PF account, being the amount in excess of 9.5% p.a. (i.e., ₹36,000 × 2.5%/12)	7,500
Conveyance allowance (Exemption as used for official purposes)	-
Rent-free house (see Note 1)	97,200
Services of gardener	9,000
Services of personnel attendant	12,000
Services of watchman	3,000
Interest free loan (interest on ₹2,00,000 @ 12% p.a. from 1.12.2013 to 31.3.2014)	8,000
Gross salary	6,44,060
Less: Deduction u/s 16	-
Income from salary	6,44,060
Income from house property	2,43,000
Gross total income	8,87,060
Less: Deduction u/s 80C (see Note 2)	84,000
Taxable income (rounded off)	8,03,060
Income-tax on ₹8,03,060	90,612
Add: Education cess & SHEC @ 3%	2,718
Tax payable (rounded off)	93,330

Notes –

- Salary for the computation of taxable value of perquisite in respect of rent-free house works out to ₹4,08,000 (i.e., ₹3,60,000 + ₹36,000 + ₹12,000). Advance salary for a period other than the previous year is not taken into account. Lease rent of unfurnished house is ₹96,000. As lease rent of the house exceeds 15% of salary, 61,200, being 15% of salary, is taxable value of unfurnished house. Value of furnished house will, therefore, be ₹97,200 (i.e., ₹61,200 + rent of furniture: ₹36,000)

- Deduction under section 80C

Contribution towards RPF	₹ 60,000
Fixed deposit in bank	24,000
Total deduction (within the maximum limit of Sec 80C of ₹1,00,000/-)	<u>84,000</u>

Ans. 3

**Computation of taxable income of Abhijit
For the year ended 31.3.2014**

Particulars	₹
Income from salary (16,000 p.m. x 12 months)	1,92,000
Income from House Property at Mumbai	
Gross annual value (4,000 × 12)	48,000
Less: Municipal Taxes	7,000
Net annual value	41,000
Less: Deductions u/s 24 (a)	
Standard deduction @ 30%	12,300
Income from flat at Mumbai	28,700
Income from let out godown at Kolkatta:	
Gross annual value (₹8000 × 12)	96,000

Less: Municipal taxes	11,000
Net annual value	85,000
Less: Deductions u/s 24(a)	
Standard deduction @ 30%	25,500
Income from godown at Kolkatta	59,500
Income from self-occupied property in Delhi	
Net Annual value	Nil
Less: Deduction u/s 24(b)	
1/5 th of Pre-construction period interest	
$3,60,000 \times \frac{12}{100} \times 4 = 1,72,800$	
1/5 th of ₹1,72,800 = 34,560	
Restricted to maximum ₹30,000 (See Note below)	30,000
Income from self-occupied property	(-) 30,000
Computation of taxable income of Abhijit	
Salary	1,92,000
Income from house property	
Flat at Mumbai	28,700
Flat at Delhi	(-) 30,000
Godown at Kolkatta	59,500
Business loss	(-) 600
Total taxable income	2,49,600

Note.- Since the construction of flat in Delhi was completed after 3 years from the end of the financial year in which money was borrowed, deduction of interest shall be limited to ₹30,000

Ans. 4

(a)

Computation of Gross Total Income of R

	Particulars	Resident and Ordinarily resident ₹	Resident but Not-ordinarily resident ₹	Non-resident ₹
1.	Interest on Savings Bank Deposit	12,000	12,000	12,000
2.	Income from Agriculture in Africa	5,000	-	-
3.	Dividends received in USA	12,000	-	-
4.	Salary drawn for working in Indian Embassy in Australia	48,000	48,000	48,000
5.	Income from house property in Iraq	25,000	-	-
6.	Pension received in Belgium for services rendered in India	10,000	10,000	10,000
	Gross Total Income	1,12,000	70,000	70,000

(b)

Particulars	₹
Salary	1,40,000
College fee paid by employer, taxable as facility u/s. 17(2)(iii)	2,400
Watchman's services	3,600
Encashment of leave received during service period, fully taxable	6,000
Rent free accommodation (15%* of salary)	21,900
Gross salary	1,73,900
Less : Deduction under section 16	Nil
Net Salary	1,73,900

Note. - Meaning of salary for rent free accommodation ₹1,40,000 + 6,000 = 1,46,000.

Ans. 5

- (a) In case of buy-back of unlisted shares, the company shall be liable to pay tax on "distributed income" at 20% plus surcharge at 10% and education cess @ 3%. Accordingly the distributed income shall be exempt for the shareholder u/s. 10(34A). For this purpose, distributed income means the difference between the amount received on buy-back and the issue price of the share.

(b) If the amount is received from approved superannuation fund on death of the employee, it is exempt for the legal heirs of the employee u/s. 10(13). If the amount is received on superannuation or disability of the employee, the lumpsum amount received is exempt u/s. 10(13). In any other case, the amount is fully taxable.

(c)

Income from Profession for Mr. Sanjay for A.Y. 2014-2015

Net surplus as per Income & Exp. A/c		9,00,000
Add: <u>Expenses not admissible</u>		
Domestic servant salary [Sec. 38]	10,000	
Personal expenses	1,70,000	
Donation to National Defence Fund, allowed as a deduction u/s. 80G from G.T.I.	5,000	
Income-tax [Sec 40(a)]	<u>1,33,000</u>	<u>3,18,000</u>
		12,18,000
Less: <u>Incomes considered exempt/ taxable under different head</u>		
Gift from father in law, exempt as received from "Relative"	50,500	
Dividend from foreign company, taxable as IFOS	80,000	
Profit on sale of investment, taxable as Capital Gains	64,500	
Less: Depreciation on building u/s. 32 [8,00,000 x 10%]	80,000	
Depreciation on furniture u/s. 32 [2,50,000 x 10%]	<u>25,000</u>	<u>3,00,000</u>
Income from profession		9,18,000

MARKS ALLOCATION SHEET

Que. No.	Sub point No.(if any)	Name of Chapter	Description of Concept	Mark Allocation	Total Marks
1	(a)	Business & Profession	Calculation of dividend, interest & capital gain	3	
1	(a)	Business & Profession	Calculation of reserve for bad debts	1.5	
1	(a)	Business & Profession	Calculation of disallowance expenses	3	
1	(a)	Business & Profession	Calculation of Depreciation	3	
1	(a)	Business & Profession	Calculation of Business income	1.5	12
1	(b)	Agricultural Income	Computation of Agricultural income of G	3	
1	(b)	Agricultural Income	Computation of non-agricultural income	2	
1	(b)	Agricultural Income	Computation of tax liability of G	3	8
2	-	Salary	Calculation of Basic pay	0.5	
2	-	Salary	Calculation of commission on sales	0.5	
2	-	Salary	Calculation of employer's contribution	1	
2	-	Salary	Calculation of interest credited	1	
2	-	Salary	Calculation of conveyance allowance	1	
2	-	Salary	Calculation of Rent free house	1	
2	-	Salary	Calculation of interest free loan	1	
2	-	Salary	Calculation of deduction u/s 16	1.5	
2	-	Salary	Calculation of deduction u/s 80c	1.5	
2	-	Salary	Calculation of tax payable	1	10
3	-	House Property	Calculation of income from salary	1.5	
3	-	House Property	Calculation of HP at Mumbai	1.5	
3	-	House Property	Calculation of HP in Kolkata	1.5	
3	-	House Property	Calculation of HP at Delhi	1.5	
3	-	House Property	Calculation of taxable income of R	2	
3	-	House Property	Calculation of total taxable income	2	10
4	(a)	Residential status	Calculation of Gross total income of ROR	1	
4	(a)	Residential status	Calculation of Gross total income of RNOR	2	
4	(a)	Residential status	Calculation of Gross total income of NRI	2	5
4	(b)	Salary	Calculation of salary	0.5	
4	(b)	Salary	Calculation of leave encashment	1	
4	(b)	Salary	Calculation of rent free accommodation	2	
4	(b)	Salary	Calculation of deduction u/s 16	0.5	
4	(b)	Salary	Calculation of net salary	1	5
5	(a)	Case study	Provision	1	
5	(a)	Case study	Exemption	2	3
5	(b)	Case study	Provision	1	
5	(b)	Case study	Conclusion	1	2
5	(c)	Business & Profession	Calculation of expenses not admissible	1.5	
5	(c)	Business & Profession	Calculation of considered exempt	1.5	
5	(c)	Business & Profession	Calculation of depreciation	1	
5	(c)	Business & Profession	Calculation of income from profession	1	5