

INTERMEDIATE EXAMINATION

GROUP I

(SYLLABUS 2016)

SUGGESTED ANSWERS TO QUESTIONS

DECEMBER 2018

Paper-7: DIRECT TAXATION

Time Allowed: 3 Hours

Full Marks : 100

The figures in the margin on the right side indicate full marks.

Wherever required, the candidate may make suitable assumption(s) and

State the same clearly in the answer.

Working Notes should form part of the relevant answer.

All sub- division of the same question are to be answered serially and not at different places.

All the questions relate to income –tax assessment year 2018 – 19 and the provisions stated relate to the Income tax Act, 1961, unless otherwise stated in the question.

Answer Question No. 1, which is compulsory and any five from Question Nos. 2 to 8.

1. (a) Choose the most appropriate alternative for the following (Option to be given only in capital letters A, B, C or D; entire answer need NOT be reproduced): 1×10=10
- (i) Short-term capital gain on sale of listed shares (STT paid) in a recognized stock exchange is chargeable to income-tax @ _____ %.
- (A) 10
(B) 15
(C) 20
(D) 30
- (ii) When the total income of an individual exceeds Rs.50 lakhs, the surcharge is payable @ _____ %.
- (A) 5%
(B) 7%
(C) 10%
(D) 12%
- (iii) When the amount is withdrawn from National Pension System Trust, it is chargeable to tax to the extent the withdrawal exceeds _____ % of the contribution of the assessee.
- (A) 10
(B) 25

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- (C) 15
(D) 20
- (iv) Ms. Jothi (aged 23) got married and left India to join her husband in the United Kingdom on 10.06.2017. She had never left India earlier. Her residential status for the assessment year 2018-19 is:
- (A) Resident and ordinarily resident
(B) Resident but not ordinarily resident
(C) Non-resident
(D) None of the above
- (v) While computing TDS on salary paid to employees, the losses given below to the applicable extent would be considered by the employer:
- (A) Loss from business
(B) Loss from house property
(C) Long-term capital loss
(D) Short-term capital loss
- (vi) When tax is not deducted at source on annual rent of Rs.2 lakhs paid to landlord by a company, the amount liable for disallowance under section 40(a) (ia) is
- (A) Nil
(B) Rs.2,00,000
(C) Rs.20,000
(D) Rs.60,000
- (vii) When the assessee has loss from house property, the maximum amount of such loss eligible for set off against other permissible incomes would be
- (A) Rs.30,000
(B) Rs.1,50,000
(C) Rs.2,00,000
(D) No Limit
- (viii) When a capital asset was acquired on 01.04.1980 and sold in June, 2017, the cost of acquisition or the fair market value of the asset as on -----, at the option of the assessee is to be adopted for indexation purpose:
- (A) 01.04.2011
(B) 01.04.2001
(C) 01.04.1991
(D) 01.04.1981
- (ix) When a motor car is sold for Rs.12 lakhs by a dealer to a buyer holding PAN, the amount of tax collectible at source shall be _____ .
- (A) Rs.12,000 (1%)
(B) Rs. 24,000 (2%)
(C) Rs. 1,20,000(10%)
(D) NIL

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(x) Cash donation given to a charitable trust (approved under section 80G) is eligible for deduction under that section, when the amount of donation does not exceed Rs.-----

- (A) 2,000
- (B) 5,000
- (C) 7,000
- (D) 10,000

(b) Match the following (Sufficient to give the corresponding item in column 3 for column 1; reproducing columns 2 and 4 are not required): 1×5=5

1	2	3	4
(i)	Depreciation on patents	(A)	40%
(ii)	Amount received by an individual as a loan in a reverse mortgage	(B)	Valuation of inventories
(iii)	Interest partner on capital	(C)	25%
(iv)	Depreciation on solar power generating system	(D)	Exempted, since there is no transfer
(v)	ICDS II	(E)	Allowed up to 12% p.a.

(c) State whether the following statements are True or False: 1×5=5

- (i) Cost of self-generated goodwill of business is deemed to be Nil.
- (ii) Reimbursement of ordinary medical expenses by the employer is fully exempted.
- (iii) Where capital gain arises to an individual from the transfer of a capital asset, being immovable property under a joint development agreement, the capital gain is chargeable to tax in the previous year in which the certificate of completion for whole or part of the project is issued by the competent authority.
- (iv) In order to avail carry forward of unabsorbed depreciation, the assessee must furnish the return of income within the due date specified in section 139(1).
- (v) In order to claim exemption under section 54B, the agricultural land, which is transferred, must have been used by the assessee or his parents for at least 3 years prior to the date of transfer

(d) Fill in the blanks: 1×5=5

- (i) The total income computed will have to be rounded off to the nearest multiple of Rs. _____.
- (ii) Domestic company means a/an _____ company.
- (iii) Additional depreciation on factory building for Rs.30 lakhs, acquired by a manufacturer on 1st Dec, 2017 is _____.
- (iv) Unabsorbed depreciation can be carried forward for _____ years.
- (v) An assessee, who receives leave encashment during continuation of his service, can also claim _____.

Answer: 1 (a)

- (i) (B) 15
- (ii) (C) 10%
- (iii) (B) 25
- (iv) (A) Resident and ordinarily resident

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- (v) (B) Loss from house property
- (vi) (D) Rs. 60,000
- (vii) (C) 2,00,000
- (viii) (B) 01.04.2001
- (ix) (A) Rs. 12,000 (1%)
- (x) (A) Rs. 2,000

Answer: 1 (b)

1	2	3	4
(i)	Depreciation on patents	(C)	25%
(ii)	Amount received by an individual as a loan in a reverse mortgage	(D)	Exempted, since there is no transfer
(iii)	Interest partner on capital	(E)	Allowed up to 12% p.a.
(iv)	Depreciation on solar power generating system	(A)	40%
(v)	ICDS II	(B)	Valuation of inventories

Answer: 1 (c)

- (i) True
- (ii) False
- (iii) True
- (iv) False
- (v) False

Answer: 1 (d)

- (i) 10
- (ii) Indian
- (iii) Nil
- (iv) Any number of
- (v) Relief under section 89

2. (a) Mr. Barun furnishes you the following information for the year ended 31st March, 2018:

Sl. No	Particulars	Rs.
(i)	Pension received in India from a former employer in United Kingdom (UK)	1,80,000
(ii)	Income from business in Singapore (Controlled from India)	1,00,000
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000
(iv)	Profit from business in Kolkata controlled from UK	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000
(vi)	Income from property in Singapore but received in Malaysia	2,50,000

Compute the total income of Mr. Barun, where he is (i) an ordinarily resident in India; (ii) a resident but not ordinarily resident in India, and (iii) a non-resident. 9

(b) Mr. Chaturvedi, Delhi has 3 house properties in various parts of India. The details are given below:

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Location of property	Delhi	Chandigarh	Kolkata
Usage	Self occupied	Let out	Let out
	Amount Rs.	Amount Rs.	Amount Rs.
Rent received	NIL	3,60,000	1,80,000
Fair rent	2,40,000	3,00,000 [^]	1,50,000
Municipal value	2,10,000	2,40,000	1,20,000
Standard rent	1,80,000	2,10,000	90,000
Municipal tax-Due	20,000	40,000	30,000
Municipal tax- paid by the assessee	NIL	NIL	20,000
Interest on moneys borrowed	2,80,000	1,40,000	1,50,000

Note : All the properties were acquired/ constructed after 01.04.2010.

You are required to compute the income of Mr. Chaturvedi chargeable under the head "Income from house property" for the assessment year 2018-19. 6

Answer: 2 (a)

Computation of total income of Mr. Barun for the Asst. Year 2018 – 19

S. No	Particulars	ROR	RNOR	NR
(i)	Pension received in India from a former employer in UK	1,80,000	1,80,000	1,80,000
(ii)	Income from business in Singapore (controlled from India)	1,00,000	1,00,000	Nil
(iii)	Interest on company deposit in Singapore (credited in bank account held there)	80,000	Nil	Nil
(iv)	Profit from business in Kolkata controlled from UK	2,00,000	2,00,000	2,00,000
(v)	Income from tea cultivation in Sri Lanka	3,00,000	Nil	Nil
(vi)	Income from property in Singapore but received in Malaysia	2,50,000	Nil	Nil
	Total Income	11,10,000	4,80,000	3,80,000

Answer: 2 (b)

Computation of Income from House Property of Mr. Chaturvedi for the Asst. Year 2018 - 19

Location of property	Delhi	Chandigarh	Kolkata
Usage	Self occupied	Let out	Let out
Annual value	Nil	3,60,000	1,80,000
Less: Municipal tax paid	Nil	Nil	20,000
NAV	Nil	3,60,000	1,60,000
Less: Deductions u/s.24			
Standard deduction @ 30%	Nil	(1,08,000)	(48,000)
Interest on moneys borrowed		(1,40,000)	(1,50,000)
Interest on moneys borrowed limited to	(2,00,000)		
Income from House Property	(2,00,000)	1,12,000	(38,000)
Chargeable Income from House Property (1,26,000)			

3. (a) Mr. Subramani is Senior Manager (Finance) of VKS Steel Ltd. The particulars of his emoluments for the year ended 31.03.2018 are given below:

Basic Salary Rs. 60,000 per month
Dearness Allowance Rs. 40,000 per month (30% is for retirement benefit)
Annual performance Incentive Rs. 1,80,000

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House Rent Allowance Rs. 10,000 per month

Mr. Subramani pays rent of Rs.20,000 per month for a flat occupied from 1st November, 2017 at Erode, Tamil Nadu.

He received gift voucher of Rs.6,000 from the employer on the occasion of his marriage anniversary.

The employer provided him a motor car (cubic capacity of the engine exceeds 1.6 liters) without chauffeur with effect from 1st December, 2017. Running and maintenance expenses of Rs. 30,000 were fully borne by the employer. The car is used by Mr. Subramani both for official and private purposes.

The employer paid the following premiums for Mr. Subramani:

(i) Medical insurance premium Rs.12,000

(ii) Life insurance premium Rs. 15,000

(iii) Accident insurance premium Rs.10,000

Tax on employment paid to Erode Municipal Corporation by Mr. Subramani Rs. 5,000.

Compute the income chargeable to tax under the head "Salaries" in the hands of Mr. Subramani for Assessment Year 2018-19. 9

(b) Mr. Manish, a resident in India, has the following incomes for the year ended 31st March, 2018:

	Rs.
Income from sale of tea grown and manufactured in India	4,00,000
Income from growing and manufacturing rubber in India	5,00,000
Income from agricultural operations in Sri Lanka (cultivated paddy)	1,00,000
Income derived from sale of coffee grown, cured, roasted and grinded in India	2,00,000

Determine the quantum of income which is regarded as agricultural income and non-agricultural income in the hands of Mr. Manish for the assessment year 2018-19. 6

Answer: 3 (a)

Computation of income chargeable under the head "Salaries" in the hands of

Mr. Subramani for the Assessment year 2018 – 2019

Particulars		Rs.	Rs.
Basic salary (Rs. 60,000 × 12)			7,20,000
Dearness Allowance (Rs. 40,000 × 12)			4,80,000
Annual Performance Incentive			1,80,000
House Rent Allowance (Rs10,000 × 12)		1,20,000	
Less: Exemption under section 10(13A), being lower of the following three amounts:			
(i) Actual allowance received (Rs.10,000 × 5)	50,000		
(ii) Rent paid in excess of 10% salary (Rs. 20,000 × 5) -10% [(Rs. 60,000 × 5) + (Rs. 12,000 × 5)]	64,000		
(iii) 40% of salary (40 % of [(Rs. 60,000 × 5) + (12,000 × 5)]	1,44,000		
Salary includes basic salary and DA forming part of retirement benefit		50,000	70,000
Taxable portion of HRA			
Gift voucher from the employer			6,000

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Perquisite value of motor car provided (Rs. 2,400 × 4)			9,600
Medical insurance premium paid by the employer is not taxable under section 17(2)			Nil
Life insurance premium paid by the employer is taxable perquisite under section 17(1)			15,000
Accident insurance premium paid by the employer is not taxable, as no immediate benefit would become payable and benefit will accrue at a subsequent date depending upon occurrence of certain event. Moreover, the employer has taken the policy in its own business interest so as to indemnify itself from payment of compensation.			Nil
			14,80,600
Less: Deduction under section 16 for professional tax paid			5,000
Taxable salary			14,75,600

Alternative view in respect of gift voucher :

It is possible to take a view only the sum excess of Rs.5,000 is taxable in view of the

Lagngtage of CBDT circular4 no 15/2001 dated 12.12.2001† such gifts up to R.s,000 in aggregate per annum exempt is exempt , beyond which it to which it is to be taxed

Answer: 3 (b)

Computation of Agricultural and Non- Agricultural Income of Mr. Manish

Type of operations/income	Rule no	Agri income	Business income
Income from sale of tea grown and manufactured in India.	8	2,40,000 (60%)	1,60,000 (40%)
Income from growing and manufacturing rubber in India.	7A	3,25,000 (65%)	1,75,000 (35%)
Income from cultivation in Sri Lanka (paddy) Not regarded as agricultural income, since the lands are outside India.		Nil	1,00,000
Income derived from sale of coffee grown, cured, roasted and grounded in India.	7B(1A)	1,20,000 (60%)	80,000 (40%)
Aggregate Income		6,85,000	5,15,000

4. (a) The summarised financial position of Purva India (P) Ltd. of Cs on 31/12/2017 is as under:

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity share capital of Rs.10 each	8,00,000	Land	6,00,000

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Preference share capital	1,00,000	Building (WDV as per Income tax Act)	3,00,000
Reserves	2,00,000	Machinery (WDV as per Income tax Act)	4,00,000
Loan Creditors	6,00,000	Current Assets	10,40,715
Creditors	6,00,000		
Provision of Dividend Distribution Tax	40,715		
	23,40,715		23,40,715

Additional Information: The Company went into liquidation on the balance sheet date; all current assets and building realized at book value. The realized money was applied towards payment of outside liabilities including Dividend Distribution Tax, and there after the preference shareholders.

Mr. Utkarsh is a holder of 10% equity shares and 20% preference shares of the company. Equity shares were originally acquired by him 16.08.2002 at face value. However, he had subscribed to preference shares on 01.04.2017, which were issued at par. He received a part of land (MV Rs.5,00,000) and cash (for preference share) Rs. 20,000.

Compute the capital gain in hands of the company and Mr. Utkarsh.

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(b) Ms. Pinky submits the following particulars for the year ended 31st March, 2018:

Sl. No.	Particulars	Rs.
(i)	Loss from let out residential building—computed	3,00,000
(ii)	Arrear rent from a commercial building received during the year (commercial property had been sold in June, 2015)	40,000
(iii)	Textile business discontinued from 31st October 2016— Brought forward business loss of Asst. Year 2014-15	60,000
(iv)	Profit from chemical business of current year (computed)	5,50,000
(v)	Bad debt written off in the Assessment Year 2013-14 relating to textile business recovered during the year consequent to Court decree	1,00,000
(vi)	Long-term capital gain on sale of shares (STT paid) in recognized stock exchange on 23.05.2017	90,000
(vii)	Speculation business in oil seeds— profit	3,00,000
(viii)	Winning from lottery (Gross)	11,00,000
(ix)	Loss from the activity of owning and maintaining race horses	2,10,000

You are required to compute the total income of Ms. Pinky and also ascertain the amount of losses that can be carried forward.

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Answer: 4 (a)

Computation of capital gain for the A. Y. 2016- 17 in the hands of Purva India (P) Ltd.

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Particulars
As per Sec.46(I), at the time of liquidation of company, any transfer by way of distribution of assets to its shareholders is not treated as transfer for the purpose of capital gain.
However, if any asset is sold in the market the same shall be liable to capital gain
In the given case, only one capital asset is sold i.e. building and the same being sold at book value; hence no capital gain arises in the hands of the company.

Computation of capital gain for the A. Y 2018 – 19 in the hands of Utkarsh			
Particulars	Working	Details	Amount (Rs.)
In case of equity share			
Sale consideration	See Note below		4,80,000
Less: Expenses on transfer			Nil
Net sale consideration			4,80,000
Less: (i) Indexed cost of acquisition	(10% of Rs.8,00,000) 272/105	2,07,238	
(ii) Indexed cost of improvement		Nil	2,07,238
Long-term Capital Gain			2,72,762
In case of Preference share			
Sale consideration			20,000
Less: Expenses on transfer			Nil
Net sale consideration			20,000
Less: (i) Cost of acquisition	20% of Rs.1,00,000	20,000	
(ii) Cost of improvement		Nil	20,000
Short Term Capital Gain			Nil
Market value of land received			Rs.5,00,000
Less: Dividend u/s 2(22) (c) being 10% of accumulated profit			Rs.20,000
Sale consideration			Rs.4,80,000

Answer: 4 (b)

Computation of total income of Ms. Pinky for the Assessment year 2018 – 2019

Particulars	Rs.	Rs.
Income from house property		
Loss from let out property	3,00,000	
Arrear rent received	40,000	
Less : Deduction U/s.24 @ 30%	12,000	
	28,000	
Loss from house property	2,72,000	
Amount of loss eligible for set off: Ceiling	(2,00,000)	
Amount eligible for carry forward	Rs.72,000	
Income from business:		
Bad debt of discontinued business recovered	1,00,000	
Less: Loss brought forward relating to discontinued business	60,000	
Income from discontinued business	40,000	

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Profit from chemical business of current year	5,50,000	
Income from Business	5,90,000	
Profit from speculation business	3,00,000	
Income from Business	8,90,000	
Less: Loss under the head 'house property' set off	2,00,000	
Income from business after set off		6,90,000
Capital gain:		
Long term capital gain (STT paid) - exempt U/s.10(38)		Nil
Income from other sources		
Winning from lottery-taxable @ 30% under section 115BB		11,00,000
<ul style="list-style-type: none"> • Loss from the activity of owning and maintaining horse races not eligible for set off against any other income, and • to be carried forward and set off only against the same source. 		Nil
Total Income		17,90,000

5. (a) Mr. Bhushan, engaged in manufacture of chemicals, furnishes his Manufacturing, Trading and Profit & Loss Account for the year ended 31st March, 2018 as under:

Particulars	Rs.	Particulars	Rs.
To Opening stock	3,40,000	By Sales	1,14,00,000
To Purchases	1,00,20,000	By Closing stock	19,00,000
To Manufacturing Expenses	10,40,000		
To Gross Profit	19,00,000		
	1,33,00,000		1,33,00,000
To Salary	4,30,000	By Gross Profit	19,00,000
To Bonus	80,000	By Discount	25,000
To Bank term loan interest	90,000	By Agricultural Income	1,50,000
To Factory rent	1,20,000	By Dividend from Indian Companies	75,000
To Office rent	2,10,000		
To Administration Expenses	3,30,000		
To Net Profit	8,90,000		
	21,50,000		21,50,000

Additional Information:

- (i) The total turnover of Mr. Bhushan for the Financial Year 2016-17 was Rs.132 lakhs.
- (ii) Salary includes Rs.1,80,000 paid to his daughter. The excess payment considering her qualification and experience is ascertained as Rs.40,000.
- (iii) Factory rent was paid to his brother. Similar portions are let out to others by him for a rent of Rs.96,000 per annum.
- (iv) No tax was deducted at source from the office rent paid during the year.
- (v) Purchases include Rs.70,000 paid by cash to an agriculturist for purchase of grains (being raw material).
- (vi) Depreciation allowable under section 32 of the Income-tax Act, 1961 amounts to Rs.45,000 for assets held as on 01.04.2017. During the year, a machinery costing Rs.5,00,000 was acquired on 01.07.2017 and was put to use from 15.10.2017.

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(vii) Administration expenses include commission paid to a purchase agent of Rs.12,000 for which no tax was deducted at source.

(viii) The following expenses debited above were not paid till 31.03.2018 and up to the 'due date' for filling the return specified in section 139(1):

(I) Term loan interest of Rs.35,000;

(II) Demurrages to Indian Railways for using their clearing yard beyond stipulated hours (disputed by the assessee), forming part of manufacturing expenses Rs.30,000.

Compute the income of Mr. Bhushan chargeable under the head "Profits and gains of business or profession" for the Assessment Year 2018-19. 10

(b) Mr. Raghavan, aged 57, is a person with disability. He furnishes you the following information for the year ended 31.03.2018.

(i) Income from business (computed) Rs.7,00,000

(ii) Dividend from an Indian company Rs.10,50,000

(iii) Interest on Savings bank account with a nationalized bank Rs.17,000

(iv) Medical insurance premium paid by account payee cheque

For self Rs. 20,000

For brother, wholly dependent on him Rs.15,000

Compute his total income for the Assessment Year 2018-19. 5

Answer: 5 (a)

Computation of income from business of Mr. Bhushan for the Assessment year 2018 – 19

	Rs.	Rs.
Net profit as per Profit & Loss Account		8,90,000
Add:		
Salary paid in excess to daughter -disallowed		40,000
Factory rent paid excessively to brother-disallowed		24,000
Office rent paid exceeding Rs.1,80,000 without deduction of tax at source. 30% is disallowed. 30% of Rs.2,10,000		63,000
Assessee is required to deduct tax at source. Provisions of section 40(a)(ia) will apply as the total turnover of Bharat exceeded Rs.100 lacs during the immediately preceding financial year i.e.2016-17.		
Purchase of grains from agriculturist by paying cash is one of the exceptions given in rule 6DD.		
Commission paid to agent Rs. 12,000 without tax deduction at source. As the commission payment is less than Rs.15,000 the tax deduction under section 194H is not attracted. Hence the disallowance under section 40(a)(ia) is also not attracted,		
Demurrages to Railways paid beyond the due date specified in section 139(1) is not allowable under section 43B.		30,000
Term loan interest paid beyond the due date specified in section 139(1) is not allowable under section 43B.		35,000
		10,82,000
Less:		
Depreciation allowable under section 32	45,000	
On new machinery Rs.5 lakhs × 15% × ½ thereon (as it was put to use for less than 180 days)	37,500	

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Additional depreciation on new machinery: Rs.5 lakhs × 20% × ½ thereon (as it was put to use for less than 180 days)	50,000	
Agricultural income credited to I & E Account	1,50,000	
Dividend from Indian companies credited to I & E Account	75,000	
		3,57,500
Income chargeable under the head "Profits and gains of business or profession"		7,24,500

Answer: 5 (b)

Particulars	Rs.	Rs.
Income from Business (computed)		7,00,000
Income from other sources:		
Dividend from Indian companies, when it exceeds Rs.10 lakhs, is exempt only up to Rs. 10 lakhs u/s 10(34) read with s. 115BBDA, balance is taxable		50,000
Savings bank interest		17,000
Gross Total Income		7,67,000
Less: Deduction under Chapter VI-A		
Under section 80D		
In respect of medical insurance for self	20,000	
Paid for his brother, is not eligible	Nil	
Under section 80TTA in respect of SB interest	10,000	
Under section 80U in respect of disability	75,000	
Total deduction under Chapter VI-A		1,05,000
Total Income		6,62,000

6. (a) **CMA Anup Banerjee is in practice as Cost Accountant. He follows mercantile basis of accounting. His income & expenditure account for the year ended 31st March, 2018 is given below:**

Expenditure	Rs.	Receipts	Rs.
Salary and stipends	10,50,000	Professional fees	45,00,000
Bonus to staff	1,00,000	Share of profit from a partnership firm	2,00,000
Meeting, Conference and Seminars	2,50,000	Interest on fixed deposit in a bank (Net of TDS)	27,000
Fees to consultants	1,50,000	Honorarium for valuation of answer papers of various institutes (Net of TDS)	54,000
Travelling and conveyance	4,60,000		
Rent for office premises	6,00,000		
Provision for bad debts	40,000		
Depreciation	1,45,000		
Provision for income tax	7,02,000		
Excess of income over expenditure	12,84,000		
	47,79,000		47,79,000

Other information:

- (i) **Depreciation as per the Income-tax Act Rs.2,00,000.**

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(ii) Salary and stipends include Rs.40,000 paid to one trainee for passing CMA final examination with rank.

(iii) Bonus to staff was paid in November, 2018.

(iv) In the financial year 2016-17, a sum of Rs.15,000 was due to a consultant, which was allowed. The said amount was paid on 14th May, 2017 in cash.

Compute the total income of CMA Anup Banerjee for the Assessment Year 2018-19. He has not opted for presumptive taxation scheme under section 44ADA. The due date for furnishing the return of income under section 139(1) may be taken as 31st Oct, 2018. 15

Answer: 6 (a)

Particulars	Rs.	Rs.
Profits & gains of business or profession Net surplus as per Income & Expenditure A/c		12,84,000
Add: Payment to a trainee for passing CMA Final examination with rank is in the nature of incentive to boost the morale of the staff. The expenditure is wholly and exclusively for the purpose of profession of the assessee and allowable u/s 37(1). As the amount has already been debited to income & expenditure account, no adjustment is necessary		
Bonus to staff not paid before the due date of filing return of income disallowed u/s 43B	1,00,000	
Under section 36(1)(vii), bad debt does not include provision for bad debts. Hence, provision for bad debts is disallowed	40,000	
Depreciation debited to profit & loss account	1,45,000	
Provision for income-tax disallowed u/s 40(a)	7,02,000	
Amount of consultancy fee due in the financial year 2016-17 paid in cash for sum exceeding Rs. 10,000 added back u/s 40A(3)	15,000	
		10,02,000
		22,86,000
Less: Share of profit from a firm exempted under section 10(1A).	2,00,000	
Interest on bank FD account considered under the head "income from other sources"	27,000	
Honorarium for valuation of answer papers considered under the head "income from other sources"	54,000	
Depreciation as per Income-tax Act	2,00,000	
		4,81,000
Taxable income from profession (A)		18,05,000
Income from other sources Interest on bank FD (Gross) $27,000 \times 100/90$	30,000	
Honorarium for valuation of answer papers (Gross) $\text{Rs. } 54,000 \times 100/90$ Tax is deducted under section 194J @ 10%	60,000	
Taxable income from other sources		90,000

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Gross total income (A) + (B)		18,95,000
Deduction under Chapter VIA		Nil
Total income		18,95,000

7. (a) Explain with reasons, the taxability of the following transactions under the head "Income from other sources":

(i) **Veena received interest of Rs.5,00,000 on additional compensation on account of compulsory acquisition of land acquired few years back. Year-wise break up of interest received:**

Rs. 1,20,000 for the Financial Year 2015-16, Rs. 2,40,000 for the Financial Year 2016-17 and Rs. 1,40,000 for the Financial Year 2017-18.

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(ii) **Gopal has shareholding (with voting rights) of 12% in Krishna Pvt. Ltd., a closely held company. He received loan of Rs. 2,50,000 from the company on 1st May, 2017, for which he furnished adequate security to the company. The accumulated profit of the company at that time was Rs. 1,75,000. Gopal repaid the loan on 30th Sept., 2017.**

3

(iii) **Family pension of Rs.60,000 received by Sreelekha, widow of Late Vikram.**

1

(iv) **Vasant, whose salary income is Rs.4,00,000 has received a cash gift of Rs.60,000 from a charitable trust registered under section 12AA for meeting his medical expenses.**

1

(b) State the due dates for payments of advance tax, along with the quantum of amount payable in each installment. Present your answer in the form of a table.

7

Answer: 7 (a)

(i) As per section 145A(b), interest received by an assessee on compensation or on enhanced compensation shall be deemed to be the income of the year in which it is received. Therefore, entire interest received i.e. Rs. 5,00,000 shall be taxed in the assessment year 2018-19.

Under section 56(2)(viii), interest received on compensation or additional compensation is to be taxed under the head "income from other sources".

As per section 57(iv), 50% of such interest received shall be allowed as deduction.

Therefore, amount taxable in Assessment Year 2018-19 = Rs. 5,00,000 - 50% of Rs. 5,00,000 = Rs. 2,50,000

(ii) As per section 2(22)(e), where a person holding 10% or more shareholding in a closely held company obtains loan or advance from the company, the amount of such loan or advance to the extent of accumulated profits of the company shall be deemed to be dividend in the hands of such shareholder. It is immaterial whether the shareholder repays the loan in the same previous year.

Therefore, out of loan of Rs. 2,50,000, the sum of Rs. 1,75,000 shall be treated as dividend in the hands of Gopal.

Exemption under section 10(34) is not available in respect of such deemed dividend.

It is immaterial that adequate security was provided or that the loan was repaid during the same year.

(iii) As per section 56, family pension is assessable as income from other sources.

Deduction is allowed under section 57 @ 33 1/3 % of such pension or Rs. 15,000, whichever is less. So, taxable family pension = Rs. 60,000 - 15,000 = Rs.45,000.

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- (iv) As per section 56(2)(vii), any sum of money or property received without consideration is income under the head "income from other sources".
 However, this provision is not applicable if money or property is received from a charitable trust registered under section 12AA.
 Therefore, cash gift of Rs. 60,000 received by Vasant from the charitable trust is not taxable.

Answer: 7 (b)

Due date for payment of advance tax [Sec. 211]		
Assessee	Due date of installment (of previous year)	Minimum amount payable
An eligible assessee in respect of an eligible business referred to in Sec. 44AD or 44ADA.	On or before March 15	100% of advance tax liability
Other assesses	On or before June 15	Upto 15% of advance tax liability
	On or before September 15	Upto 45% of advance tax liability less amount paid in earlier installment
	On or before December 15	Upto 75% of advance tax liability less amount paid in earlier installment(s)
	On or before March 15	Upto 100% of advance tax liability less amount paid in earlier installment(s)

Notes:

- Any amount paid u/s 211 on or before 31st March of the previous year, shall be treated as advance tax paid during the financial year.
- Where an assessee is a senior citizen (or super senior citizen) and does not have any income chargeable under the head "Profits and gains of business or profession", provision of advance tax is not applicable. In other words, senior citizen not having business income is not liable to pay advance tax.

8. Write short notes on any three of the following:

5×3=15

- Verification of return of income in the case of an individual, HUF and political party**
- Any five transactions where quoting PAN is mandatory**
- ICDS-I on "Accounting Policies"**
- Best judgment assessment under section 144**

Answer: 8 (a)

Verification of return of income

The return under Section 139 shall be verified:

In the case of an individual –

- By the individual himself; or
- Where he is absent from India, by the individual himself or by some person duly authorized by him on his behalf; or
- Where he is mentally incapacitated from attending to his affairs, by his guardian or any other person competent to act on his behalf and

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(iv) Where, for any other reason it is not possible for the individual to verify the return, by any person duly authorized by him this behalf.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

In case of (ii) and (iv) above, the person verifying the return should hold a valid power of attorney from the individual to do so, which shall be attached to the return.

in the case of a Hindu Undivided Family — only by the Karta.

However, in the following two cases it can be verified by **any other adult member of the family**:

Where the karta is absent from India; or where the Karta is mentally incapacitated from attending to his affairs.

in the case of a political party — by the **chief executive officer** of such party (whether such Chief Executive Officer is known as Secretary or by any other designation).

Answer: 8 (b)

Every person shall quote its PAN in all documents pertaining to following transactions entered into by him:

- (i) Transactions related to sale or purchase of motor vehicles (other than two wheeled vehicles), which requires registration.
- (ii) Opening an account (other than a time deposit and a basic savings bank deposit account) with a banking company or a co-operative bank.
- (iii) Making application for issue of credit card or debit card.
- (iv) Opening of a demat account.
- (v) Payment in cash exceeding Rs.50,000 to a hotel or restaurant against a bill or bills at any one time.
- (vi) Payment in cash exceeding Rs.50,000 in connection with travel to any foreign country or payment for purchase of any foreign currency at any one time.
- (vii) Payment exceeding Rs.50,000 to any mutual fund or purchase of its units.
- (viii) Payment exceeding Rs.50,000 to a company or an institution for acquiring debentures or bonds issued by it.
- (ix) Payment exceeding Rs.50,000 to RBI for acquiring bonds issued by it.
- (x) Deposit in cash exceeding Rs.50,000 during any one day with a banking company or a cooperative bank.

Answer: 8 (c)

- ❖ Accounting policies adopted by a person shall be such so as to represent a true and fair view of the state of affairs and income of the business, profession or vocation.
- ❖ The treatment and presentation of transactions and events shall be governed by their substance and not merely by the legal form.
- ❖ Marked to market loss or an expected loss shall not be recognised unless the recognition of such loss is in accordance with the provisions of any other Income Computation and Disclosure Standard.

Fundamental Accounting Assumptions

The fundamental accounting assumptions i.e., Going Concern, Consistency and Accrual are assumed as followed. No specific disclosure is required, if these assumptions are

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followed. However, if such assumption are not followed, the fact shall be disclosed.

Change in Accounting Policies

An accounting policy shall not be changed without reasonable cause.

Disclosure of Accounting Policies

- ❖ All significant accounting policies adopted by a person shall be disclosed.
- ❖ Any change in an accounting policy which has a material effect shall be disclosed (with quantum of the effect, if ascertainable). Where such amount is not ascertainable, the fact shall be indicated.
- ❖ Disclosure of accounting policies or of changes therein cannot remedy a wrong or inappropriate treatment of the item.

Answer: 8 (d)

- (i) When the assessment is made by the Assessing Officer to the best of his judgment after considering all relevant materials it is called best judgment assessment.
- (ii) Assessing officer cannot reduce the tax liability of the assessee by assessment under this section. A refund cannot be granted under section 144.

In the following situations assessment shall be made under section 144:

- (iii) If the person fails to file the return under section 139(1), 139(4) or 139(5); or
- (iv) If the person fails to comply with the terms of notice under section 142(1); or
- (v) If the person fails to comply with the directions under section 142(2A) requiring him to get his accounts audited ; or
- (vi) If the person fails to comply with the terms of notice under section 13(2), requiring his presence or production of evidence and documents.

In any of the given situation, the Assessing Officer is empowered to make an assessment under section 144, to the best of his judgment.