

Fundamentals of Taxation and Auditing
BBS 3rd year
Model Question

Full Marks: 100
Pass Marks : 35
Time : 3 hrs

Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.

Part – I : Taxation

Brief answer questions: (5x2 = 10)

Attempt ALL Questions:

1. Define direct tax. State any two merits of direct tax.
2. Enumerate the heads of income as per section - 5 of Income Tax Act.
3. Mr. Thapa is working in a private company at a regular salary of Rs. 85,000 per month. The company has provided him a quarter (flat) facility for his residence and a car for private as well as official purpose.

Required: Total amount to be included in employment income of Mr. Thapa.

4. Miss Parbati, a disabled person having only employment income is working as an office assistant in a firm located at remote area – D.

Required: Various exemptions and rebates available to her under Income Tax Act.

5. A special industry which is in operation from last six years in a highly undeveloped area has shown its taxable income for the year ended Rs. 1,000,000. The industry is providing direct employment to 350 Nepalese citizens throughout the year.

Required: Applicable rate of income tax for the industry.

Short answer questions (4X10 = 40)

Attempt ALL Questions:

6. a) B and Sons a dealer provided the following details regarding its transactions during the month of Bhadra:
 - i) Purchased merchandise for Rs. 75, 000 (no VAT was paid on it.)
 - ii) Purchased merchandise for Rs. 67,800 (including VAT)
 - iii) All the merchandise were sold for Rs. 226,000 (including VAT).
 - iv) The dealer submitted VAT return to the tax office on 5th Kartik.

Required: Added value as well as VAT and fine payable by the dealer to the government.

(2+2+2 = 6)

- b) Mr. X an America citizen came to Nepal on 1st Falgun of previous year and involved in

a business and investment activities. He submitted the following statement for the relevant year:

- i) Income from business Rs. 400,000.
- ii) Income from Investment Rs. 300,000.
- iii) Payment against lease of an aircraft in Nepal Rs. 500,000 (after TDS).

Required: • Residential Status of Mr. X • Taxable income and tax liability (2+1+1 = 4)

7. a) Mr. Baniya, a trader presented his income statement to the tax office showing total net assessable income amounted to Rs. 2,500,000. On scrutiny made by the tax officer the following facts were revealed:

- i) Donation to a public school Rs. 150,000 and pollution control cost Rs. 500,000 were included in total deductions.
- ii) Income from investment amounted to Rs. 2,200,000 was included in total income.
- iii) The unrecovered losses of previous year Rs. 500,000 and Rs. 100,000 from business and investment respectively were not adjusted in the profit.

Required: Statement of total taxable income (5)

- b) State the expenses which are not allowed for deduction while computing taxable income under Income Tax Act. (5)

8. Mr. Amar Raj furnishes the following information regarding his income for the relevant income year:

- i) Receipt as royalty Rs. 90,000 (net)
- ii) Income from natural resources Rs. 350,000
- iii) Agricultural income Rs. 65,000
- iv) Interest income received from a Pvt. Party Rs. 185,000 (net)
- v) Pension @Rs. 18,000 p.m. for 13 months from Nepal Government
- vi) Gift received in respect of investment Rs. 10,000
- vii) Windfall gain Rs. 10,000 (net)
- viii) Rent received by letting an asset Rs. 180,000 (After TDS)
- ix) Dividend from a non-resident company (gross) Rs. 100,000

He claimed following expenses for deduction:

- i) Divided collection charge Rs. 500
- ii) Tax paid to foreign income amounting to Rs. 15,000
- iii) Purchase of urea (chemical fertilizer) Rs. 3,000 for agriculture use
- iv) Commission to a broker 10,000 in respect of royalty
- v) Taxi fare amounting to Rs. 5,000 (total) incurred while going to receive pension and royalty
- vi) Donation to a public hospital Rs. 25,000

Required: • Assessable income • Taxable income • Tax liability (7+1+2=10)

9. Mr. Bir Bahadur Rana a retired army of Indian government a Nepalese citizen joined B&B Hospital as a Chief Security Officer on 1st Baisakh of 2066 B.S. at a pay scale of Rs. 28,000-500-35,000 plus city compensatory allowance Rs. 1,800 p.m. He received Rs. 30,000 as a dearness allowance. He received one month current salary as a Dashain Kharcha and two month basic salary as bonus. His children education expenses Rs. 48,000 reimbursed by the hospital. His telephone bill Rs. 10,000 paid by the office. He is getting meal and tiffin facilities in the hospital canteen as the hospital provided to all the employees in an equal term. Other details furnished by Mr. Rana:

Pension from Indian Government Rs. 11,000 p.m.

Dividend from an Indian company Rs. 90,000 for which he paid Rs. 15,000 income tax to the Indian Government.

Dividend from Nepal Investment Bank Rs. 28,500

Donation to a Public Sports Club Rs. 12,000

- Required:** • Assessable income from employment • Statement of taxable income
 • Tax payable by Mr. Rana (6+2+2 = 10)

Comprehensive Questions (2X15 = 30)

Attempt any Two

10. a) Define "Jeopardy Assessment of Tax". In which circumstances this method is applied? (8)
 b) 'Value Added Tax is one of the major sources of income of Nepal Government'. Justify this statement analyzing its contribution to the national revenue for last three years. (7)
11. a) An individual running special industry furnished the following information regarding its assets under block - D:
- i) Beginning depreciation base Rs. 1,000,000.
 - ii) Purchase during the year:
 - Chaitra 29 - Rs. 600,000
 - Asad 15 - Rs. 300,000
 - iii) Disposal during the year :
 - Book value at the beginning Rs. 100,000 sold for Rs. 150,000
 - iv) Actual repair cost - Rs. 100,000.

- Required:** • Allowable depreciation for the year. • Closing WDV at the end of the year. (6+2= 8)

b) The following are the operating results of a company for the last nine years:

Year	3	4	5	6	7	8	9
P/L Rs.	(20,000)	30,000	50,000	200,000	300,000	200,000	300,000

Balance of unrecovered loss at the beginning of year 3 was Rs. 150,000, out of which Rs. 100,000 was related to year 1 and balance was for the year 2. On the inquiry made by the tax officer it is found that the company had paid Rs. 250,000 for R & D Cost and

Rs. 50,000 donation to a public hospital in the year 7. These amounts were deducted before ascertaining the above result.

Required : Taxable income of the company giving explanation wherever necessary. (7)

12. Mr. Dhungana is a sole industrialist furnishes the following Trading and Profit and Loss accounts for the previous year.

Dr.		Cr.	
Particulars	Amount Rs.	Particulars	Amount Rs.
To opening stock	120,000	By sales	2,400,000
To material consumed	1,000,000	By closing stock	180,000
To labour incurred	400,000		
To manufacturing expenses	260,000		
To gross profit	800,000		
	2,580,000		2,580,000
To salaries	130,000	By gross profit	800,000
To office expenses	100,000	By commission	100,000
To depreciation	160,000	By discount	150,000
To advertisement	20,000	By bad debt recovered	200,000
To insurance on inventories	20,000	By dividend income	100,000
To pollution control cost	200,000	By interest on investment	55,000
To provision for tax	40,000	By custom duty refund	5,000
To donation (60% approved)	60,000		
To net profit	680,000		
Total	1,410,000	Total	1,410,000

Additional information:

- i) Opening and closing stock both are overvalued by 20%.
- ii) Opening WDV of the plant was Rs. 600,000. An asset was purchased on 1st Asadh of the previous year of the same block, but it was not used in the manufacturing process. The purchase cost of plant was Rs. 300,000. The depreciation charged in the above statement is also related to this asset.
- iii) Insurance on inventories include legal expenses Rs. 10,000.
- iv) 50% of legal expenses is related to appeal against IT officer.

- v) He is the member of an approved retirement fund and has contributed Rs. 150,000 to the fund.
- vi) Previous year business loss Rs. 40,000 is not included in the above statement.
- Required: Statement of total taxable income and tax liability (13+2=15)

Part – II : Auditing

Brief answer questions: (5x2 = 10)

Attempt ALL Questions:

13. Briefly explain the objectives of audit note book.
14. Point out any two qualities required in a successful auditor.
15. Differentiate between cash audit and cost audit.
16. Mention any two advantages of internal check.
17. Express whether the following are frauds or errors:
- Showing loss to avoid tax
 - Wrong totaling of a subsidiary book
 - Posting to wrong side of an account
 - Concealing the receipts.

Short answer questions (1X10 = 10)

Attempt any One:

18. a) 'Vouching is the backbone of auditing'. Explain the statement with regard to objectives of Vouching. (5)
- b) Write a note on 'Continuous Audit'. Also state any three reasons that makes continuous audit superior to periodical audit. (5)
19. Giving reasons for the effects of the following transactions on the profitability, suggest rectifying entries for each of the transactions where necessary. (5X2 = 10)
- Wages of Rs. 30,000 paid for installation of a plant was debited to wages account.
 - An amount of Rs. 25,000 received from Kumar has been entered in the books as Rs. 15,000
 - Salary paid to Mohan Rs. 20,000 wrongly debited to his personal account.
 - A sum of Rs. 10,000 drawn by the proprietor for his private travel was debited to the travelling expenses account.
 - Sales Book was overcast by Rs. 50,000.

(Note: The students should not limit themselves to the chapters mentioned in this Model Questions as questions can be asked from any chapter (within the syllabus) in the examination.)

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