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Q1. (a) Computation of Total Income of Mrs. Rani for the Assessment Year 2013-14

Particulars	Amount
Income From Salary	-
Income From House Property	-
Income From Business and Profession (W.n. 1)	321000
Income From Capital Gain	-
Income From Other sources (W.n. 2)	91860
Gross Total Income	412860
Less: Deductions under Chapter VI-A (W.n 3)	30000
Taxable Income (Round off)	382860

Computation of Tax Payable of Mrs. Rani for the Assessment Year 2013-14

Particulars	Amount
Tax at Normal Rates	17286
Tax at Special Rates (for lottery income u/s 115 BB) 10,000 @ 30%	3000
Total Tax	20286
Add: Educations Cess @ 2%	405
Add: Educations Cess @ 1%	203
Gross Tax liability	20894
Less: Tax deduct at source on Lottery Income u/s 194 BB	3000
Net Tax liability	17894
Net Tax (Round off) u/s 288 B	17890

WORKING NOTE :

1. Computation of Income from Profits & Gains from Business and Profession Income of Mrs. Rani

Particulars	Amount	Amount
Net profit as per Profit and Loss account		3,01,250
Add: Disallowed Expenditure		
Medicines & needles (Personal use)	22,000	
Excess Depreciation u/s 32 (81,000 – 60,000)	21000	
Donation to Prime Minister Relief fund	20000	63,000
Less: Income not part of Business & Profession		
Receipt from valuation of Answer Book (Taxable separately)	24000	
Dividend (Taxable separately)	10500	
Lotteries (Taxable separately)	7000	
Income Tax refund	1750	43,250
Income from Profits & Gains from Business & Profession		321,000

2. Computation of Income from Other sources for Mrs. Rani

Particulars	Amount
Receipt from valuation of Answer Book	24,000
Dividend from Indian Company [Exempt u/s 10(34)]	-
Winning from Lotteries (Gross amount 7000+3000)	10,000
LIC maturity Amount	57,860
Income from other sources	91,860

3. Computation of Deductions under chapter VI-A

Particulars	Amount	Amount
Section 80C		
LIC Premium Paid	12000	
Maximum Deduction 50,000 @ 20% (Assumed as policy taken before 01.04.2012)	10000	10,000
Section 80G		
Prime Minister National Relief Fund 100% deduction		20,000
Total deduction under Chapter VI-A		30,000

4. (a) No deduction of expenses on Casual Income is allowed .
 (b) Income tax refund is not taxable under any head however interest on income tax refund is taxable under the head income from other sources .
 (c) If we consider policy taken after 01.04.2012 then maximum deduction 5,000 .(@ 10% of sum assured)
 (d) it is assumed the donation is made by any mode other than cash .
 (e) 57,860 is received on maturity amount of LIC policy it is taxable under the head income from other sources .

1(b)

Computation of Amount of Service Tax payable of Q Ltd. for September, 2012

Particulars	Amount (₹)
1. Supply of Farm labour for Agriculture Purpose (WN1)	-
2. Service to People free of cost (WN2)	-
3. Advance received In sep. 2012 from clients for which no service has been Rendered till date (WN3)	85,000
4. Amount received for the Service rendered In June 2012 (Bill issued on 25 th June 2012) (WN4)	-
5. Bill Raised for the service rendered In the month of September 2012 Against Which no amount is Received so far	75,000
Total Taxable Value	1,60,000
Service Tax @ 12% on ₹1,60,000	19,200
Add: Education less @ 2% on ₹ 19,200	384
Add: SHEC @ 1@ on ₹ 19200	192
Total Service Tax	19,776

- As Per Sec 66D (d) of Finance Act 1994, Supply of farm labour for Agriculture Purpose service is Included In Negative list, Hence Not taxable.
- Services Provided without consideration (free) are not chargeable to service tax.
- If any advance is received by the service provider towards the provision of taxable service, the point of taxation shall be the date of Receipt of each such Advance.
- As per Rule 3 of POT Rule 2011, The POT for Above service is June 2012 [Date of Invoice or Date of payment which ever is earlier], Hence no service tax will be payable In Month of Sep. 2012 because already have been paid in June 2012.
- As per Rule 3 of POT Rule 2011, If Invoice is issued within 30 days from date of completion of service then POT will be date of invoice or date of payment which ever is earlier.
- It is given in the question that all amounts are exclusive of service tax, hence advanced received is assumed exclusive of service tax.

1(c)

**(A) Computation of Taxable Turnover & Vat Payable
or Mr. Bansilal for FY 2012 - 13**

Particulars		Amount (₹)
1.	Purchase from local Registered dealer (eligible for ITC)	1,15,000
2.	Purchase from Dealer having opted composition scheme (not eligible for ITC)	2,20,000
3.	Depreciation on Machinery ₹ 5,00,000 × 15% × 6/12	37,500
4.	Other direct & Indirect exp.(30% of Total Purchase i.e. 30% of (1,15,000 + 2,20,000)	1,00,500
5.	Total Cost	4,73,000
	Total cost of goods sold (90% of Total Cost i.e. ₹ 4,73,000 × 90%)	4,25,700
	Add: Profit margin 20% of 4,25,700	85,140
	Taxable turnover / Sale Price	5,10,840
	VAT Payable @ 12.5% of ₹ 5,10,840	63,855
	Invoice Price	5,74,695

(B) Computation of Input Tax Credit

Particulars		Amount (₹)
1.	Unutilized balance of vat input credit on 1-4-12	7,500
2.	On Purchase from local Registered Dealer (₹ 1,15,000 × 4%)	4,600
3.	On Purchase from a dealer having of opted composition scheme (W.N. - 1)	-
4.	On Capital goods (₹ 5,00,000 × 4%) (WN - 2)	20,000
	Total input tax credit	32,100

(C) Computation of Net VAT payable

Output VAT (As calculated in 'A' above)	₹ 63,855
Total input tax credit (As calculated 'B' above)	₹ 32,100
Net VAT payable in cash	₹ 31,755

W.N. - 1 Any purchase from a dealer having opted for composition scheme is not eligible for Input tax credit.

W.N. - 2 We have assumed that Assessee is following consumption variant of VAT, hence 100% VAT credit is available on capital goods.

Q2.

- (a) ☞ Devesh is a Non-Resident due to non-compliance of basic condition of residential status.
☞ Whereas Siddhant is a Ordinarily Resident due to compliance of basic & additional condition of residential status u/s 6(1) & 6(6) .

Computation of Total Income of Devesh & Siddhant for the Assessment Year 2013-14

S.no.	Particulars	Devesh Non Resident	Siddhant Ordinarily Resident
1	Interest on American Development Bond (50% Indian Income & 50% Foreign Income)	23,000	18,000
2	Dividend from Japanese Company received in America (Foreign income taxable for Ordinarily Resident)	-	15,000
3	Profit on sales of share of an Indian company received in India	45,000	75,000
4	Profit from business in Mumbai but directly managed from America	10,000	-
5	Income from business in Mumbai	32,000	28,000
6	Fees for technical services rendered in America & received in America but were utilised in India (Indian Income) u/s 9	1,50,000	-
7	Interest on Saving Bank A/c SBI Mumbai	4,500	12,000
8	Rent Received from property in Mumbai (W.n 1)	67,200	38,500
	Gross Total Income	3,31,700	1,86,500
	Less: Deductions under Chapter VI-A		
	Section 80 C LIC Premium Paid	-	25,000
	Section 80 TTA Interest on Saving Bank A/c	4,500	10,000
	Total Income	3,27,200	1,51,500

WORKING NOTE:

1.

Particulars	Devesh Non Resident	Siddhant Ordinarily Resident
Rent Received (GAV & NAV)	96,000	55,000
Less: u/s 24(a) Standard Deduction @ 30% of NAV	28,800	16,500
Income from house property	67,200	38,500

2. Interest from saving bank a/c is allowable as deduction u/s 80TTA maximum upto 10,000

2b. Negative list of services [Section 66 D]

The charging section-section 66B of the Finance Act, 1994, inter alia, provides service tax shall be levied on all services, except the service specified in the negative list. Accordingly, section 66D of the Act has specified the list of services consisting of 17 heads of services which is termed as 'Negative List'. In a comprehensive tax regime, this 'Negative List' is of paramount importance because every activity not covered under this list is chargeable to service tax or it is said that service cover under negative list is not taxable.

The following Services by Government or a local authority are not included in negative list of service tax

- (i) services by the Department of Posts by way of speed post, express parcel post, life insurance and agency services provided to a person other than Government;
- (ii) services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;
- (iii) transport of goods or passengers; or
- (iv) support services, other than services covered under clauses (i) to (iii) above, provided to business entities.

2c. Merits of VAT

Neutrality : The greatest advantage of the system is that it does not interfere in the choice of decision for purchases. This is because the system has anti - cascading effect. How much value is added and at what stage it is regard to choice of production technique, as well as business organization. All is neutral with regard to choice of production technique. as well as business decision about the source of purchase. VAT facilities precise identification and rebate of the tax on purchases and thus ensures that there is no cascading effect of tax. In short, the allocation of resources is left to be decided by the free by the free play of market and competition.

Q3. (a) (i) Calculation of Exemption in respect of LTC previous year 2012 – 13.

Case I : Calculation of exemption u/s 10(5) **Only for Economy class fare**

- (i) 43,000 for adults
- (ii) 15,000 for children (Twin children treat as single)

Actual Expenses incurred by employer for fare ₹ 58,000
 Less : Exemption u/s 10(5) ₹ 58,000
 Taxable amount Nil

Case II : Calculation of exemption u/s 10(5) – **Only for Economy class fare**

- (i) 43,000 for adults
- (ii) 10,000 for children (15,000 / 3 × 2) first twin not as single

Actual Expenses incurred by employer ₹ 58,000
 Less : Exemption u/s 10(5) ₹ 53,000
 Taxable amount 5,000

(ii) Retrenchment Compensation Received

Particulars	Amount
Retrenchment Compensation Received	10,00,000
Less: Exempt under section 10(10B) w.n 1	375000
Taxable Retrenchment Compensation	625000

Calculation of Exemption	Amount
Least amount is exempt u/s 10 (10B) – Retrenchment Compensation Received	10,00,000
Maximum Limit	5,00,000
Calculation as per industrial Dispute Act, 1947 (15x25000x30/30)	3,75,000

- 3b. EASIEST stands for Electronic Accounting System in Excise and Service Tax. It makes tax payment easy. This facility is available with 28 banks.
For e-payment, assessee should open a net banking account with one of the authorized banks (currently there are 28 banks). For effecting payment, assessee can access the ACES website and click on the e-payment link that will take them to the EASIEST portal or they can directly visit the EASIEST portal.
The benefits of EASIEST to the taxpayer are as follows:-
(a) Only one copy of the challan is to be filled instead of four copies as required earlier.
(b) EASIEST facilitates online verification of the status of tax payment using 'challan Identification Number.'
- 3c. A dealer wishes to opt for the composition scheme, he should not have any stock of goods which were brought from outside the State on the day he exercises the option to pay tax by way of composition scheme. Hence, it is not possible for Seth Traders to opt for the composition scheme as it has a stock of goods costing ₹ 60,000 purchased from outside the state on the day it wishes to opt for the composition scheme.

Q4. (a)

Computation of Gross Total Income of Mr. Mohit for A.Y. 2013 – 14

Particulars	Amount	Amount
Income from Salary		
Income from House Property		
Income from House – I	80,000	
Less: Loss from House – II	38,000	42,000
Income from Profits & Gains from Business and Profession		
Profit from Leather business	1,00,000	
Less: Current Year Loss (Textile Business)	40,000	
Add: Recovery of bad debts u/s 41(4)	35,000	
Less: Brought forward losses of textile business for A.Y. 09-10	95,000	Nil
Income from Capital gain		
Short term Capital gain		60,000
Gross Total Income		102,000
Less: LIC Premium		10,000
Taxable Income		92,000

Working note :

- (a) Share of Profit from firm 16,550 is exempt u/s 10(2A) in the hands of partners
(b) LTCL cannot be set off against STCG or any other head of income as per u/s 70 & 71. Therefore it has to be carried forward to the next year to be set off against LTCG of that year.
(c) Brought forward losses under the head business & profession carry forward to next years u/s 72.
- 4b. (1) **Incorrect** ⇒ Because as per rule 2 A of POT rule 2011:
(i) If there, is a change in effective rate of tax during the period between such entry in books of accounts and its credit in the bank account and
(ii) The bank account is credited after four working days from the date when there is change in effective rate . The date of payment shall be the date of credit in the bank account instead of the date of recording of payment in the books of accounts.
Hence, the POT will be 15th April 2012 in the above question and rate of service tax will be 12%.
- (2) **Incorrect** ⇒ Because as per section 66D (a) the following services provided by Department of Posts are not liable to service tax:-

Basic mail services known as postal services such as post card, inland letter, book post, **REGISTERED POST** provided exclusively by the Department of Posts to meet the universal postal obligations.

(3) Incorrect ⇒ Service tax will not be payable if services are provided in Jammu & Kashmir. However, if a person from Jammu & Kashmir provides the service outside Jammu & Kashmir in any other part of India, the service will be liable to service tax, as the location where service is consumed is relevant.

(4) Correct ⇒ A service provided by one branch of a company to another branch or head office or vice-versa are not service provided by one person to another hence not liable to service tax.

4c. Inter-State stock transfers do not involve sale and, therefore they are not subjected to sales tax. The same position is continued under VAT.

However, the tax paid on:

(i) inputs used in the manufacture of finished goods which are stock transferred; or

(ii) purchase of goods which are stock transferred

is available as input tax credit retention of 2% of such tax by the State Governments.

Q5. (a) Computation of Gross Total Income of Mr. A

Particulars	Amount	Amount
Income from Salary		
Salary from Larsen Ltd.	3,00,000	
Salary of Mrs. A Clubbed (A held substantial interest in Company) u/s 64 (1) (ii)	1,20,000	4,20,000
Income from other sources		
Interest of Security		30,000
Add: Income of Minor child (W.N 1) Sec 64 (1A)		Nil
Gross Total Income		4,50,000

Computation of Gross Total Income of Mrs. A

Particulars	Amount	Amount
Income from House Property		
Gross Annual value (12,000x12)	1,44,000	
Less: Municipality Tax	Nil	
Net Annual Value	1,44,000	
Less: U/s 24(a) Standard deduction @ 30% of NAV	43,200	1,00,800
Gross Total Income		1,00,800

WORKING NOTE :

1. Computation of Income of Minor

Particulars	Amount	Amount
Income of Twins	2,000	
Less: (1500x2) u/s 10(32) ₹ 1,500 per minor child	2,000	Nil
Income of Minor son (1,200x1)	1,200	
Less: (1,200x1) u/s 10(32)	1,200	Nil
Income of Minor		NIL

Assumption:- Total income of twins minor child = ₹ 2,000 p.a.

5b. Computation of value of taxable services and service tax payable by ABC & Co.:-

Particulars	Amount of taxable services (₹)	Amount of service tax (₹)
Amounts collected from companies for pre-recruitment screening	3,00,000	37,080
Amounts collected from companies for recruitment of permanent staff	1,80,000	22,248
Amounts collected from companies for recruitment of temporary staff	4,50,000	55,620
Advances received from prospective employers for conducting campus interview in colleges (W.N. - 1)	71,200	8,800
Total	10,01,200	1,23,748

Notes :

- Amounts received as advance are also liable to service tax. Service tax on advance has been calculated on the presumption that the same is inclusive of service tax i.e. $\left[\frac{80,000 \times 12.36}{112.36} \right] = ₹ 8,800$
- Since the value of taxable services rendered in the preceding year is more than ₹10 lakh (i.e. ₹ 30 lakh), the assessee is not a small service provider, Hence, it is not eligible for the exemption available to the small service provider.
- The amount of service tax is calculated @ 12.36% i.e.

Basic rate	=	12%
Education cess (2% of 12%)	=	0.24%
Secondary and higher education cess (1% of 12%)	=	0.12%
Effective rate of service tax	=	12.36%

5.c

**Computation of Net VAT liability Of Mr. B**

Particulars	Amount (₹)
Output VAT Payable For Mr. B ₹ 1250 × 12.5%	156.25
Less: Input Tax Credit (WN - 1)	-
Net VAT	156.25

WN - 1 : Mr. B Purchased good under Inter state trade and Paid C.S.T which is not eligible for ITC.

Computation of Net VAT liability Of Mr. C

Particulars	Amount (₹)
Output VAT Payable ₹ 1500 × 12.5%	187.50
less: Input VAT Credit ₹ 1250 × 12.5%	156.26
Net VAT	31.25

Note: It is assumed that vat is not included in sale price of goods.

Q6. (a) (a)

Computation of Capital gain in the hands if Mrs. Neelima
Assessment year – 2013-14

Particulars	Amount	Amount	Amount
	Original Shares	Bonus-1	Bonus-2
Sales consideration	1,20,000	12,000	1,32,000
Period of holding – Long term			
Less: Cost of Transfer (@ 2% of Sales Consideration)	2400	240	2640
Net Sales consideration	1,17,600	11,760	1,29,360
Less: Index Cost of Acquisition (W.n1)	2,13,000	21,300	Nil
Long Term Capital Gain	- 95400	-9540	129360

$$\begin{aligned} \text{Net Long Term Capital Gain} &= (95,400) + (9,540) + 1,29,360 \\ &= 24,420 \end{aligned}$$

Working Note : Calculation of index cost of acquisition :-

(i) For Original Shares

$$500 \times 50 = 25,000 \times \frac{852}{100} = 2,13,000$$

(ii) For Bonus Shares - I

$$50 \times 50 = 2,500 \times \frac{852}{100} = 21,300$$

(Bonus shares allotted before 01.04.1981 = FMV as on 01.04.1981)

(iii) For Bonus Shares - II

$550 \times \text{zero} = 0$ (Bonus shares allotted on or after 01.04.1981 = Nil)

6. **(a) (b)** In Such case Long Term Capital Gain will be exempt u/s 10 (38) and losses can't be set off and carry forward.

6b. Computation of taxable service of Ms. Rajesh for financial year 2012-13

Particulars	₹
Advance received while signing a contract	1,25,000
Amount received while providing service by pay order	6,00,000
Amount received on completion of service by credit card	5,25,000
Total Value of taxable service	12,50,000

Computation of service tax liability

Particulars	₹
Service tax @ 12% on ₹ 12,50,000	1,50,000
Add: (i) Education cess @ 2% on service tax i.e. ₹ 1,50,000 × 2%	3,000
Add: (ii) Secondary and higher education cess @ 1% on service tax i.e. ₹ 1,50,000 × 1%	1,500
Total service tax payable	1,54,500

Notes:

1. Money means legal tender, cheque, promissory note, bill of exchange, letter of credit, draft, pay order, traveller cheque, money order, postal or electronic remittance or any such similar instrument but shall not include any currency that is held for its numismatic value
2. Gross amount charged includes payment by cheque, credit card, deduction from account and any form of payment by issue of credit notes or debit notes and book adjustment.
3. The gross amount charged for the taxable service shall include any amount received toward the taxable service either before, during or after the provision of such service.

6c.

Gross product variant	Consumption variant
VAT is levied on sales and deduction for tax paid on input is allowed excluding capital inputs. Credit of tax on Capital goods is not allowed which discourage investments in capital goods. Due to this capital goods carry a heavier tax burden as they are taxed twice. Therefore modernisation and upgradation of capital goods is delayed due to this double taxation.	VAT is levied on sales with deduction for tax paid on all business inputs including capital goods. This is easy to operate and does not discriminate between labour intensive industries and capital intensive industries. Hence this method is the most popular method all over the world.

- 7.(a) (i) Advance Tax is payable by an assessee on his Total Income, which includes Capital Gains & Casual Income like Lotteries Income, Crossword Puzzles etc.,
- it is not possible for the assessee to estimate his Capital Gain, or Income from lotteries etc. well in advance, it has been provided that if any such income arises (i.e. not on estimate but on actual basis) after the due date for any installment, then, the entire amount of tax payable (after considering tax deducted at source) on such Capital Gain & Casual Income should be paid in the remaining Installments of advance tax, which are due after such date of arising of Income by way of Capital Gain or Casual Income.
- Where no such installment is due (i.e. Capital Gain or Casual Income arising after 15th March), the the entire tax should be paid by 31st March of the relevant Financial Year.

If all the above procedure is followed then **no** interest liability on late payment would arise if the entire tax liability is so paid.

- (ii) It has been clarified by the Finance Act, 2009 that the LLP shall have the same status as that of partnership firms formed under the Indian Partnership Act, 1932. The definition of firms, partner and partnership has been amended to include the LLPs within its purview.
- The Income of the Limited Liability Partnership (LLP) shall be taxable at the flat rate of 30.90 %. LTCEG and STCEG shall be taxable as per section 112 and 111 A.
 - The remuneration and interest paid by LLP to its partner shall be allowed as per section 40 (b).
 - The share of profit received by the partner of LLP shall be exempt under section 10(2A).
 - The remuneration and interest received by partner of LLP shall be taxable as per section 28.
 - There will be no implication under the income Tax Act, where a partnership firm is converted into a LLP as clarified in the Memorandum Explaining Finance Bill, 2009.
 - The ROI shall be signed by designated partner or where designated partner is not able to sign due to unavoidable reasons, any partner shall sign ROI.
 - The liability of the partner of LLP shall be joint and several for the payment of such tax unless he proves that the non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the limited liability partnership.
 - Section 44AD is not applicable to a LLP.

(iii)

- (A) Head of Income : **Income Assessed under the head of Profits & Gains from Business or Profession**
Section 22 basis of charge of House Property says that property can be used for any purpose other than the business of the Assessee. When assessee carries on business in his own property it becomes property of business & section 32 on depreciation is also on Nature of use. Hence depreciation is applicable at appropriate rate.
- (B) Income from sub-letting is taxable under the head "Income from other sources". However, if the subletting constitutes a business activity, the same shall be taxable under the head 'Profit and gains of business and profession'.
- (C) A person who owns the building need not necessarily be the owner of the land on which the building is constructed. The rent is derived from the building. In the present case the rent is derived from the house on a leasehold land. Therefore the income so received is taxable under the head "Income from house property" and Mr. C is entitled to statutory deduction of 30% of such rent so received under section 24 (a).

7b. The provisions of section 67 states clearly that if the consideration for a taxable service is not ascertained, the value of such service shall be the amount as may be determined in the manner prescribed under the Service Tax (Determination of Value) Rules, 2006

Manner of determination of value when such value is not ascertained [Rule 3]

The value of taxable service, where such value is not ascertaining, shall be determined by the service provider in the manner describe below.

Subject to the provisions of section 67, the value of taxable service, where such value is not ascertained, shall be determined by the service provider in the following manner:-

(a) Value of similar services

The value of taxable service shall be equivalent to the gross amount charged by the service provider to provider to provide similar service to any other person subject to fulfillment of the conditions below:

- Such service is in the ordinary course of trade.
- The gross amount charged is the sole consideration.

(b) When value of similar service cannot be ascertained

Where the value cannot be determined in accordance with clause (a), the service provider shall determine the equivalent money value of such consideration. However, such value shall, in no case be less than the cost of provision of such taxable service.

- 7c. Procedural requirements for claim of set off :** Barring the items covered by the negative list and subject to retention rules, the dealers are entitled to set off on capital goods like any other purchases, Thus the dealer will have to bifurcate their purchase into capital goods eligible for set off and capital goods not so eligible

In respect of eligible capital goods the dealer will be required to follow the procedural requirements for claiming set off successfully. For example, dealers will be required to support purchase of capital goods with tax invoice. In the absence of such tax invoice set off will be disallowed.

Once a dealer is entitled to set off he has to further comply with the relevant provision in respect of allowability. if it is subject to certain installments, the dealer will be required to calming set off accordingly in his return. If the set off is subject to prior permission, the dealer will be able to adjust this set off against his other VAT liability.