

Date _____

CA-Final-DT

Time allowed: 3 Hours (100 Marks)

Question No. 1 is Compulsory

Attempt **any five** from the **remaining six** questions

Wherever required, suitable assumptions may be made by the candidate and stated clearly in the answer.

Working notes should form part of the answer

Question No. 1(a) (10 Marks)

Lights and Power Ltd. engaged in the business of generation of power, furnishes the following particulars pertaining to P.Y. 2017-18. Compute the depreciation allowable under section 32 for A.Y. 2018-19, while computing his income under the head "Profits and gains of business or profession". The company has opted for the depreciation allowance on the basis of written down value.

	Particulars	(Rs.)
1.	Opening Written down value of Plant and Machinery (15% block) as on 01.04.2017 (Purchase value Rs. 8,00,000)	5,78,000
2.	Purchase of second hand machinery (15% block) on 29.12.2017 for business purpose	2,00,000
3.	Machinery Y (15% block) purchased and installed on 12.07.2017 for the purpose of power generation	8,00,000
4.	Acquired and installed for use a new air pollution control equipment on 31.07.2017	2,50,000
5.	New air conditioner purchased and installed in office premises on 08.09.2017	3,00,000
6.	New machinery Z (15% block) acquired and installed on 23.11.2017 for the purpose of generation of power	3,25,000
7.	Sale value of an old machinery X, sold during the year (Purchase value Rs. 4,80,000, WDV as on 01.04.2017 Rs. 3,46,800)	3,10,000

Question No. 1(b) (5 Marks)

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2018 is Rs. 35,25,890 after debiting the following items:

S.No.	Particulars	Rs.
1.	Purchase price of raw material used for the purpose of in-house research and development	11,80,000
2.	Purchase price of asset used for in-house research and development wrongly debited to profit and loss account:	
	(a) Land	5,00,000
	(b) Building	3,00,000
3.	Expenditure incurred on notified agricultural extension project	25,50,000
4.	Expenditure on notified skill development project:	
	(a) Purchase of land	40,00,000
	(b) Expenditure on training for skill development	32,50,000
5.	Expenditure incurred on advertisement in the souvenir published by a political party	75,000

Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2018-19 of Isac Ltd.

Question No. 1(c) (5 Marks)

During the financial year 2017-18, the following payments/expenditure were made/incurred by Mr. Yuvan Raja, a resident individual (whose turnover during the year ended 31.03.2017 was Rs. 99 lacs)

- (i) Interest of Rs. 12,000 was paid to Rehman & Co., a resident partnership firm, without deduction of tax at source;
- (ii) Rs. 3,00,000 was paid as salary to a resident individual without deduction of tax at source;
- (iii) Commission of Rs.16,000 was paid to Mr. Vidyasagar on 02.07.2017 without deduction of tax at source.

Briefly discuss whether any disallowance arises under the provisions of section 40(a)(ia) of the Income-tax Act, 1961.

Question No. 2(a) (8 Marks)

Examine critically the following cases in the context of provisions contained in the Income-tax Act, 1961 relevant for Assessment Year 2018-19. Support the answers with relevant case laws and workings.

- (a) Mr. Janak is proprietor of M/s. Yash Texnit which is engaged in garment manufacturing business. The entire block of Plant & Machinery chargeable to depreciation @ 15%, has 20 different machinery items as at 31-03-2018. One of the machineries used for packing had become obsolete and was discarded by Mr. Janak in July' 17.

Assessee filed its return for A.Y. 2018-19 claiming total depreciation of Rs. 40 lacs which includes Rs. 4 lacs being the depreciation claimed on the machinery item discarded by Mr. Janak. The A.O. disallowed the claim of depreciation of Rs. 4 lacs during the course of scrutiny assessment.

Comment on the validity of action taken by A.O.

- (b) X. Ltd. issued debentures in the previous year 2017-18, which were to be matured at the end of 5 years. The debenture holder was given an option of one time upfront payment of Rs. 60 per debenture on account of interest which was to be immediately paid by the company. As per the option exercised by the debenture holders, company paid interest upfront to them in the first year itself and the same was claimed as deduction in the return of the company. But in the accounts, the interest expenditure was shown as deferred expenditure to be written off over a period of 5 years. During the course of assessment, the Assessing Officer spread the upfront interest paid over a period of five year term of debentures and allowed only one-fifth of the amount in the previous year 2017-18. Examine the correctness of the action of Assessing Officer.

Question No. 2(b) (4 Marks)

Mr. Kay purchases a house property on April 10, 1992 for Rs. 65,000. The fair market value of the house property on April 1, 2001 was Rs.2,70,000. On August 31, 2003, Mr. Kay enters into an agreement with Mr. Jay for sale of such property for Rs. 3,70,000 and received an amount of Rs. 60,000 as advance. However, as Mr. Jay did not pay the balance amount, Mr. Kay forfeited the advance. In May 2008, Mr. Kay constructed the first floor by incurring a cost of Rs. 2,35,000. Subsequently, in January 2009, Mr. Kay gifted the house to his friend Mr. Dee. On February 10, 2018, Mr. Dee sold the house for Rs.12,00,000.

CII for F.Y. 2003-04: 109; 2008-09: 137; 2017-18: 272.

Question No. 2(c) 4 Marks

The proprietary firm of "Mr. Amolak" a practicing Chartered Accountant, was converted into partnership on 01.09.2017 when his son joined him in the firm for 50% share. All the assets and liabilities of the erstwhile proprietary firm were transferred into the newly constituted partnership firm. "Mr. Amolak" was credited and paid an amount of Rs. 5 lacs in his account from the firm. Explain as to chargeability of this amount of Rs. 5 lacs in the hands of "Mr. Amolak" when it stands paid for:

- (i) Transfer of business into partnership;
- (ii) Goodwill by the incoming partner.

Question No. 3 (16 Marks)

XYZ Ltd. is engaged in the manufacture of textile since 01-04-2009. Its Statement of Profit & Loss shows a profit of Rs. 700 lakhs after debit/credit of the following items:

- (1) Depreciation calculated on the basis of useful life of assets as per provisions of the Companies Act, 2013 is Rs. 50 lakhs.
- (2) Employer's contribution to EPF of Rs. 2 lakhs and Employees' contribution of Rs. 2 lakhs for the month of March, 2018 were remitted on 8th May 2018.

- (3) The company appended a note to its Income Statement that industrial power tariff concession of Rs. 2.5 lakhs was received from the State Government and credited the same to P & L Account.
- (4) The company had provided an amount of Rs. 25 lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and reasonable certainty of revision once in 3 years.
- (5) The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31-03-2018 was Rs. 200 lakhs.
- (6) A debtor who owed the company an amount of Rs. 40 lakhs was declared insolvent and hence, was written off by debit to Profit and loss account.
- (7) Sundry creditors include an amount of Rs. 50 lakhs payable to A & Co, towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31-03-2018, to settle the amount at a discount of 75% of the outstanding. The amount waived is credited to Profit and Loss account.
- (8) The opening and closing stock for the year were Rs. 200 lakhs and Rs. 255 lakhs, respectively. They were overvalued by 10%.
- (9) Provision for gratuity based on actuarial valuation was Rs. 500 lakhs. Actual gratuity paid debited to gratuity provision account was Rs. 300 lakhs.
- (10) Commission of Rs. 1 lakhs paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per Chapter XVIIIB of the Act.
- (11) The company has purchased 500 tons of industrial paper as packing material at a price of Rs. 30,000/ton from PQR, a firm in which majority of the directors are partners. PQR's normal selling price in the market for the same material is Rs. 28,000/ton.

Additional Information:

- (a) There was an addition to Plant & Machinery amounting to Rs. 50 lakhs on 10-06-2017, which was used for more than 180 days during the year. Additional depreciation has not been adjusted in the books.
- (b) Normal depreciation calculated as per income-tax rules is Rs. 80 lakhs.
- (c) The company had credited a sub-contractor an amount of Rs. 10 lakhs on 31-03-2017 towards repairing a machinery component. The tax so deducted was remitted on 31-12-2017.
- (d) The company has collected Rs. 7 lakhs as sales tax from its customers and paid the same on the due dates. However, on an appeal made, the High Court directed the Sales Tax Department to refund Rs. 3 lakhs to the company. The company in turn refunded Rs. 2 lakhs to the customers from whom the amount was collected and the balance of Rs. 1 lakh is still lying under the head "Current Liabilities".

Compute total income and tax payable for A.Y. 2018-19. Ignore MAT provisions.

Note - The turnover of XYZ Ltd. for the P.Y. 2015-16 was Rs. 55 crore.

Question No. 4(a) (4 Marks)

Mr. Vallish, a non-resident, made an application to the Authority for Advance Rulings on 9.9.2017 in relation to a transaction proposed to be undertaken by him. On 1.11.2017, he decides to withdraw the said application. Can he withdraw the application on 1.11.2017? Examine.

Question No. 4(b) (4 Marks)

The following are the particulars of income earned by Miss Anuradha, a resident Indian aged 25, for the A.Y. 2018-19:

Particulars	(Rs. In lacs)
Income from playing hockey matches in country A	15.00
Tax paid in country A	3.00
Income from playing hockey matches in India	23.00
Deposit in PPF	1.50

Medical Insurance Premium paid for her mother aged 75 years (paid through credit card), who is not dependent on her.	0.40
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Compute her total income and tax liability for the A.Y.2018-19. There is no Double Taxation Avoidance Agreement between India and country A.

Question No. 4(c) (4 Marks)

The details given hereunder for the A.Y.2018-19 relate to two foreign nationals (who are non-residents in India) - Mr. William Jones, an English cricket player and his brother, Mr. Frederick Jones, a singer:

	Particulars	Mr. William Jones	Mr. Frederick Jones
(1)	Participation in cricket tournaments in India	Rs. 45 lakhs	
(2)	Winnings from lotteries (net)	Rs. 69,100	
(3)	Contribution of an article relating to the sport of cricket in a sports magazine in India	Rs. 10,000	
(4)	Performance in a music show in India		Rs. 3 lakhs

With reference to the provisions of the Income-tax Act, 1961, you are required to

- (i) Compute their tax liability for the A.Y.2018-19.
- (ii) Examine whether the above income are subject to deduction of tax at source.
- (iii) Decide whether it is necessary for them to file their return of income for A.Y.2018-19.

Question No. 4(d) (4 Marks)

An Assessing Officer entered a hotel run by a person, in respect of whom he exercises jurisdiction, at 8.30 p.m. for the purpose of collecting information, which may be useful for the purposes of the Act. The hotel is kept open for business every day between 8 a.m. and 10 p.m. The hotelier claims that the

Assessing Officer could not enter the hotel after sunset. The Assessing Officer wants to take away with him the books of account kept at the hotel.

Examine the validity of the claim made by the hotelier and the proposed action of the Assessing Officer with reference to the provisions of section 133B of the Income-tax Act, 1961.

Question No. 5(a) (8 Marks)

- (i) A corporation was set up by the State Government transferring all the buses owned by it for a consideration of Rs. 75 lacs, which was discharged by the Corporation by issue of equity shares. The Corporation in its assessment claimed depreciation. Can the depreciation be denied in the Corporation's hands on the ground that there was no registration of the buses in favour of the Corporation?
- (ii) Ravi succeeded to his father's business in the year 2015. In the previous year ended 31.03.2018, Ravi has written off the balance in the name of 'Y' which relates to supply made by his father, when he carried on business. Ravi desires to know whether the write off could be eligible for deduction.

Question No. 5(b) (8 Marks)

- (a) A Ltd. paid IDBI (a public financial institution) a lump sum pre-payment premium of Rs. 1.2 lacs on 07.04.2017 for restructuring its debts and reducing its rate of interest. It claimed the entire sum as business expenditure for the P.Y. 2017-18. The Assessing Officer, however, held that the pre-payment premium should be amortized over a period of 10 years (being the tenure of the restructured loan), and thus, allowed only 10% of the pre-payment premium in the P.Y.2017-18. Discuss, with reasons, whether the contention of A Ltd. is correct or that of the Assessing Officer.
- (b) Explain the tax treatment of emergency spares (of plant and machinery) acquired during the year which, even though kept ready for use, have not actually been used during the relevant previous year.

Question No. 6(a) (8 Marks)

The assessment of Vindhya Ltd. was completed under section 143(3) with an addition of Rs. 21 lakhs to the returned income. Vindhya Ltd. preferred appeal before the Commissioner (Appeals) which is pending now.

In this backdrop, examine the following issues:

- (i) Based on fresh information that there was escapement of income for the same assessment year; can the Assessing Officer initiate reassessment proceedings when the appeal is pending before Commissioner (Appeals)?
- (ii) Can the Assessing Officer pass an order under section 154 for rectification of mistake in respect of issues not being subject matter of appeal?
- (iii) Can the assessee-company seek revision under section 264 in respect of matters other than those preferred in appeal?
- (iv) Can the Commissioner make a revision under section 263 both in respect of matters covered in appeal and other matters?

Question No. 6(b) (4 Marks)

ABC Ltd. is a company having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil.

Unit A commenced operations on 01.04.2016 and it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y. 2017-18.

However, in February, 2018, Unit A transferred one of its buildings to Unit B.

Examine the tax implications of such transfer in the hands of ABC Ltd.

Question No. 6(c) (4 Marks)

Examine the taxability and/or allowability of the following receipts or expenditures under the provisions of the Income-tax Act, 1961, for the assessment year 2018-19:

- (i) S Ltd. receives a sum of Rs. 10 lakhs from K Ltd. on 3rd January, 2018 for agreeing not to carry on any business relating to computer software in India for the next three years.
- (ii) Secret commission was paid during the previous year 2017-18.
- (iii) P Ltd. paid dollars equivalent to Rs. 50 lakhs as sales commission for the year ended 31.03.2018, without deducting tax at source, to Mr. Rodriguez, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.

Question No. 7(a) (6 Marks)

Mr. Shakti purchased a residential house in March, 2002 for Rs. 22 lakhs. He sold the house on 1st December, 2017 for Rs.100 lakhs. He paid brokerage at 2% on sale price. He invested Rs. 80 lakhs in April, 2018 in equity shares of Shakti Manufacturing Private Limited, an eligible start-up company.

Mr. Shakti subscribed to 80% of share capital of the company. The company utilized the sum of Rs.80 lakhs in the following manner:

- (i) Purchase of new machinery during April, 2018 Rs.70 lakhs (including Rs.10 lakhs for purchase of computers).
- (ii) Deposit in specified bank on 25th September, 2018 Rs.10 lakhs.

The due date for filing return of income for Mr. Shakti for Assessment Year 2018-19 is 30th September, 2018. Assume that he files the return on 28th September, 2018. Compute the taxable capital gain arising from the above transaction for Assessment Year 2018- 19. (Cost Inflation Index: FY 2001-02: 100; FY 2017-18: 272)

Question No. 7(b) (6 Marks)

PQR LLP, a limited liability partnership set up a unit in Special Economic Zone (SEZ) in the financial year 2013-14 for production of washing machines. The unit fulfills all the conditions of section 10AA of the Income-tax Act, 1961. During the financial year 2016-17, it has also set up a warehousing facility in a district of Tamil Nadu for storage of agricultural produce. It fulfills all the conditions of section 35AD. Capital expenditure in respect of warehouse amounted to Rs. 75 lakhs (including cost of land Rs. 10 lakhs). The warehouse became operational with effect from 1st April, 2017 and the expenditure of Rs. 75 lakhs was capitalized in the books on that date.

Relevant details for the financial year 2017-18 are as follows:

Particulars	Rs.
Profit of unit located in SEZ	40,00,000
Export sales of above unit	80,00,000
Domestic sales of above unit	20,00,000
Profit from operation of warehousing facility (before considering deduction under Section 35AD).	1,05,00,000

Compute income tax (including AMT under Section 115JC) payable by PQR LLP for Assessment Year 2018-19.

Question No. 7(c) (4 Marks)

Mr. Rajiv is a retail trader and his total income for the last few years ranged between Rs. 8 lakh to Rs. 10 lakh. He celebrated his 25th wedding anniversary on a large scale on 2nd December, 2017 by hosting a cruise party in the luxury cruise liner "Ocean Princess", for which he had spent Rs. 30 lakh. The Assessing Officer, in the course of scrutiny assessment of Mr. Rajiv, asked him to explain the source of such expenditure. The explanation offered by Mr. Rajiv that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, since a couple of years ago, he had spent to tune of Rs. 60 lakh on the grand wedding celebrations of his daughter at Vijayaseshmahal in Chennai. You are required to examine the tax consequences.

COST INFLATION INDEX TABLE

Financial Year	CII	Financial Year	CII
2001-02	100	2010-11	167
2002-03	105	2011-12	184
2003-04	109	2012-13	200
2004-05	113	2013-14	220
2005-06	117	2014-15	240
2006-07	122	2015-16	254
2007-08	129	2016-17	264
2008-09	137	2017-18	272
2009-10	148		

CA VIJAY GAURAV



CA FINAL REGULAR COURSE NOV 2018 EXAM BY

CA VIJAY GAURAV

DIRECT TAX LAWS AND INTERNATIONAL TAXATION

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FACE TO FACE	21.5.18	28.7.18	120	7.00 am to 11.00 am M / W / F	11,000/-

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MODE	START	END	HOURS	TIMING	FEE
FACE TO FACE	22.5.18	29.7.18	120	7.00 am to 11.00 am T / T / S	11,000/-

INTERNATIONAL TAXATION (ELECTIVE PAPER - 6C)

MODE	START	END	HOURS	TIMING	FEE
FACE TO FACE	01.8.18	18.8.18	60	7.00 am to 11.00 am Mon-Sat	8,000/-

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