



PG – 880

II Semester M.F.A. Degree Examination, June 2015
(Semester Scheme)

FINANCE AND ACCOUNTING
Paper – 2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer **any 10** questions from the following. **Each** question carries **2** marks.

(10x2=20)

- a) Define net wealth.
- b) Differentiate TDS from advance tax.
- c) State the need for introduction of MAT.
- d) Define 'Amalgamation' as per Income Tax Act 1961.
- e) What are the principles of direct taxation ?
- f) Why tax planning is necessary ?
- g) What is PAN ? What are its uses ?
- h) What is belated return ?
- i) State the provisions of section 80GGA.
- j) Name the assessees not liable to Wealth Tax under Wealth Tax Act, 1957.
- k) What do you mean by prior tax ruling ?
- l) State the criteria to claim additional depreciation.

SECTION – B

Answer **any three** questions from the following.

(3x5=15)

2. Explain the provisions regarding set-off and carry forward of losses under the head income from other sources.
3. State the factors that influence the managerial decision making relating to owning or leasing fixed assets.
4. Discuss the deduction in respect of certain undertaking in North-Eastern states U/S 80IE.

P.T.O.



5. Calculate the taxable income of the company from the following information for the Assessment Year 2013-14.
- a) Book profit Rs. 30 lakhs for the year 2012-13.
 - b) Subsidiary company loss for the year 2012-13 Rs. 6.25 lakhs.
 - c) Brought forward loss Rs. 4.25 lakhs.
 - d) Speculation business loss for the same year Rs. 6.25 lakhs.
 - e) Capital loss Rs. 1.5 lakhs.
6. From the following information determine the depreciation allowances for A.Y. 2012-13.
- a) W.D.V. of plant and machinery on 1-04-2012 Rs. 14,00,000.
 - b) P/M purchased on 15-05-2012 for production department Rs. 12,00,000.
 - c) In June, 2012 the assessee purchased the following assets :
 - i) Office appliances 2,00,000
 - ii) Air-conditioners for guest house 80,000
 - iii) Car 5,00,000
 - d) P/M purchased on 10-11-2012 for production department Rs. 5,00,000. Due to new plant and machinery the installed capacity of production increased by 30% as compared to installed capacity of production as on 31-3-2011.

SECTION - C

Answer **any two** questions. Each question carries **15** marks. (2×15=30)

7. Explain the tax benefits of De-merger and Amalgamation of companies. Briefly highlight the conditions to be fulfilled to avail those benefits.
8. What do you mean by zero tax planning ? Discuss the scope of tax planning.
9. XYZ Ltd. submits the following particular of its assets and liabilities on 31-3-2013.
- i) Residential house purchased at Madras in 1995 for 60,00,000. It is let out @ Rs. 16,000 P.M. for the residential purposes. However it remains vacant for two months during the year. Municipal taxes payable amount to Rs. 16,000. Market value of the house Rs. 90,00,000.
 - ii) Gold and silver Rs. 66,00,000.
 - iii) Motor car for the use of the directors Rs. 15,00,000.



- iv) Deposits under natural deposit scheme Rs. 1,80,00,000.
- v) Cash in hand Rs. 2,50,000
- vi) Cash at bank Rs. 15,00,000.
- vii) Land at Amritsar, permitted to construct only to the extent of 40% of the land 20,00,000.
- viii) Loan taken for purchase of land Rs. 6,00,000.
- ix) Purchase of land for factory in 2011 March Rs. 18,00,000.
- x) Units of UTI and mutual fund Rs. 2,00,000.
- xi) Aircraft for the Co. use Rs. 3,00,00,000

Compute the Net Wealth and Wealth Tax Liabilities for the A.Y. 2012-13.

10. The following particulars are provided by Best India Co. Ltd. Trading, Profit and Loss A/c for the year ending on 31-3-2013.

Particulars	Amount	Particulars	Amount
To Purchase	1,83,500	By Sales	20,20,000
To Entertainment expenses	19,500	By Amount withdraw	
To Travelling expenses	40,000	from General Reserve	2,00,000
To Depreciation	2,70,000	By L.T.C.G.	50,000
To Income tax	1,95,000	By Transfer fees	2,000
To Wealth tax	8,300	By Profit on sale of	
To Outstanding sales tax	18,000	Motor car	14,400
To Provision for unascertained liabilities	40,000	By Interest on tax free	
To Proposed dividend	90,000	Government Securities	10,000
To Tax consultation fee	12,000		
To Provision for Loss of Subsidiary Co.	23,500		
To Salaries	1,30,000		
To Sundry Expense	83,000		
To Net profit	11,83,600		
	22,96,400		22,96,400

**Additional Information :**

- 1) Value of plant and machinery as on 1-04-2012 was Rs. 35,00,000 and buildings Rs. 6,00,000.
- 2) Excise duty of 2010-11 paid during the year Rs. 42,500 was not charged to P/L A/c.
- 3) Sundry expenses include an item of Rs. 36,000 paid in cash.
- 4) Out of the outstanding amount of sales tax Rs. 14,500 was paid before due date of filing the returns.
- 5) Unabsorbed depreciation B/F is Rs. 1,60,000 for accounting purposes.
- 6) Motor car was sold during the year for Rs. 80,000. Its WDV on 1-04-2012 was Rs. 50,000. It was purchased for Rs. 1,10,000 in the past.

Compute :

- i) Total income of the company
- ii) Book Profit under 115JB
- iii) Tax liability of the Company
- iv) Tax credit.

SECTION - D**15**

11. From the following information determine whether the assessee (MVR Ltd.) should purchase the Machine by Installment or Hire.

- 1) Cost of five annual installments of Rs. 6,00,000 each payable in the beginning of each year.
- 2) Hire charges Rs. 4,50,000 P.A. for eight years payable in the beginning of each year.
- 3) Residential value of Rs. 1,50,000 after eight years.
- 4) Rate of depreciation 15%.
- 5) Cost of capital 10%.
- 6) Tax rate 30% with usual cesses.
- 7) Present value @ 10%.

	1	2	3	4	5	6	7	8
	.909	.826	.751	.683	.621	.564	.531	.467

- 8) Loss on sale of machine set off against short term gains.



II Semester M.F.A. Degree Examination, June 2015

(CBCS)

Finance and Accounting

Paper – 2.3 : CORPORATE TAX PLANNING

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all Sections.

SECTION – A

1. Answer **any seven** questions out of ten questions. **Each** question carries **two** marks. **(7x2= 14)**
- a) Define Block of assets.
 - b) Write the principles of direct taxation.
 - c) Differentiate between 'Tax evasion' and 'Tax avoidance'.
 - d) What are the exceptions to the general rule of previous year ?
 - e) Define net wealth u/s 2 (m) of Wealth Tax Act, 1957.
 - f) How do you treat short term and long term capital gain liable for securities transaction tax (STT) u/s 111A ?
 - g) State the applicability and non-applicability of Wealth Tax Act.
 - h) Define assessment year and previous year.
 - i) State the specific managerial decisions relating to retain of replace.
 - j) Give the tax rates applicable for company assessee.

P.T.O.



SECTION - B

Answer **any four** questions out of six questions. **Each** question carries **five** marks.

(4x5 = 20)

2. Discuss the tax provisions under Section 35 of Income Tax Act, 1961.
3. Explain the deemed assets u/s of Wealth Tax Act, 1957.
4. Discuss the tax incentives available under Section 80ID.
5. An industrial undertaking which commences the manufacturing activity w.e.f. 01/08/2014 has acquired the following assets during the previous year 2014-15.

Assets	Date of acquisition	Date when put into use	Cost of acquisition (in Rs.'s)
Furniture	12-4-2014	1-8-2014	50,00,000
Plant and Machinery			
i. Equipment used in solid waste management	2-5-2014	1-8-2014	4,00,000
ii. Machinery A	13-5-2014	1-8-2014	17,00,000
iii. Machinery B	1-9-2014	31-10-2014	7,00,000
iv. Machinery C (second hand)	1-1-2015	13-1-2015	2,00,000
v. Motor car	1-2-2015	6-2-2015	5,00,000
vi. Air conditioner (installed in office)	1-2-2015	15-3-2015	1,00,000

Compute the allowable depreciation u/s 32 for the A. Y. 2015-16 and WDV as on 01-04-2015.



6. ACC Company Limited has let out a premise with effect from 1st October 2014 on monthly rent of Rs. 1,50,000. The lease is valid for 10 years and tenant has undertaken to pay a deposit equivalent to 3 months rent. The tenant has undertaken to pay the Municipal taxes of the premises amounting to Rs. 3,00,000.

What will be the value of the property under Schedule III of the Wealth Tax Act for the assessment to Wealth Tax ?

What are the circumstances under which the Assessing Officer is not required to follow the procedure laid down for evaluation of the house property in Rule 3 of Schedule III of the Wealth Tax Act, 1957 ?

7. Compute Tax payable by Roman Limited for various assessment years from the following details assuming that the rates of tax for the past and future years shall be same as that for the current assessment year.

Assessment Year	Total income as per	
	Income Tax Act	Book Profits u/s 115 JB
2014 - 15	2,10,000	7,50,000
2015 - 16	2,70,000	10,00,000
2016 - 17	9,00,000	12,50,000
2017 - 18	1,65,000	6,25,000
2018 - 19	7,50,000	7,50,000

What is Tax Credit ? State its tax provision u/s 115JAA.



SECTION - C

Answer **any three** questions out of five questions. **Each** question carries **twelve** marks. **(3x12=36)**

8. Discuss the following :
- Types of assessment.
 - Assets u/s 2 (ea) of Wealth Tax Act, 1957.
9. Explain the tax provisions regarding set-off and carry forward of losses under the Income Tax Act, 1961.
10. Mr. Mohit Sharma is the owner of a house property which is constructed on leasehold land. He has let out this house property to a tenant for Rs. 15,750 per month. The other terms are as under.
- The tenant will pay half the Municipal taxes and bear the cost of repairs.
 - He will pay Rs. 1,50,000 as advance on which no interest will be paid to him and this amount will be refunded at the time of vacating the house.
 - He will pay Rs. 90,000 as premium for leasing the property for five years.
 - The annual value assessed by the local authority is Rs. 2,70,000 and taxes levied and paid is Rs. 36,000.
 - The tenant spent Rs. 60,000 on the repairs of the house.
 - The different between un built area and specified area is 10 % of the aggregate area.
 - He paid Rs. 1,80,000 for the acquisition of the land now the Lessor's value of the land is Rs. 9,00,000. The lessor charges 40 % of the unearned increase on the transfer of the house property. The unexpired period of lease is 60 years.
- Find out the value of the house for wealth tax purpose, if the cost of the building (including land) in 1981 was Rs. 18,00,000.



11. From the following information determine whether assessee should "Purchase the asset or take on lease".

- a) Cost of asset Rs. 10,00,000.
- b) Rate of depreciation 15 %.
- c) Rate of interest 10 %.
- d) Repayment of loan by the assessee Rs. 1,60,000 p.a.
- e) Rate of tax 30.9 %.
- f) Residual value of Rs. 1,60,000 after 5 years.
- g) Profit of the assessee Rs. 10,00,000 before depreciation, interest and tax or before lease rent and tax.
- h) Lease rent Rs. 2,40,000 p.a.
- i) Present value factor @ 10 % is :

Year	1	2	3	4	5
P.V. Factor	0.909	0.826	0.751	0.683	0.621

12. The following particulars are furnished by CNR Company Limited.

Trading and Profit and Loss Account for the year ending 31-03-2015

Particulars	Amount (in Rs.)	Particulars	Amount (in Rs.)
To Opening stock	7,69,000	By Sale of goods	
To Purchases	25,95,000	manufactured	35,00,000
To Advertisement expenses	2,65,000	By Interest received on	
To Travelling expenses	1,35,000	fixed deposits	75,000



To Depreciation	8,25,000	By sale of traded goods	12,75,000
To contribution to National Laboratory for Scientific Research	1,75,000	By other business incomes	27,500
To Income Tax	4,75,000	By Long term capital gain liable for Securities	
To Wealth Tax	1,25,500	Transaction Tax (STT)	1,80,000
To Entertainment expenses	52,500	By bad debts recovered disallowed earlier	45,000
To O/s Sales Tax	65,000	By long term capital gain on sale of building	2,50,000
To provision for unascertained liability	1,90,000	By amount withdrawn from contingency reserves	9,50,000
To salaries and wages	9,20,000	By Closing stock	9,54,000
To Auditor's fees	1,30,000	By income from unit in SEZ	3,15,000
To provision for loss of subsidiary company	97,500		
To proposed dividend	3,45,000		
To Sundry expenses	1,50,000		
To Net profit	2,57,000		
	75,71,500		75,71,500

Additional Information :

- i) Sundry expenses include an item of Rs. 35,000 paid in cash.
- ii) Customs duty of 2012 – 13 paid during the year Rs. 1,05,000 was not considered in the above account.
- iii) Advertisement expenses include an item of Rs. 45,000 given to a political party.
- iv) Out of the O/s amount of sales tax Rs. 20,000 was paid before due date of filing of return of income.



- ii Semester M.F.A. Degree Examination, June 2015
Financial Accounting
- v) Brought forward business loss Rs. 8,00,000 for income tax purpose and Rs. 6,50,000 for accounting purposes.
 - vi) Brought forward unabsorbed depreciation is Rs. 5,00,000 for accounting purposes.
 - vii) Value of Plant and Machinery as on 01-04-2014 was Rs. 90,00,000 and Building Rs. 16,00,000 and Furniture Rs. 6,00,000. Rate of depreciation : 15 % on plant and machinery and 10 % of Building and Furniture.
 - viii) Opening stock was overvalued by Rs. 95,000 and closing stock was overvalued by Rs. 1,12,500.

Compute :

- a) Total income.
- b) Book profit u/s 115JB.
- c) Total tax liability for the A.Y. 2015 – 16.

(7x2=14)



II Semester M.F.A. Degree Examination, June/July 2014

(Semester Scheme)

FINANCE & ACCOUNTING

Paper – 2.3 : Direct Taxes and Planning

Time : 3 Hours

Max. Marks : 80

Instruction : Answer to **all** Sections.

SECTION – A

1. Answer **any 10** questions from the following **each** question carries **2** marks. **(10×2=20)**

- a) Distinguish between 'Tax avoidance' and 'Tax Evasion'.
- b) State the tax provisions of Section 35CCB of the Income Tax Act 1961.
- c) Define 'Net Wealth'.
- d) What is the need for introducing MAT U/s 115 JB ?
- e) What is PAN ? What are its uses ?
- f) What is reassessment ?
- g) Define Person U/s 2(31).
- h) What are the exceptions to the general rule of previous year ?
- i) State the specific managerial decisions relating to 'Own' or 'Lease'.
- j) State the tax provisions of Section 35ABB.
- k) Mention the time frame for advance payment of tax for company assessee.
- l) What is 'Tax base' ?

SECTION – B

Answer **any three** questions from the following. **(3×5=15)**

2. Explain the scope of Tax planning with respect to

- a) Make or Buy
- b) Retain or replace.

P.T.O.



3. What are the exempted assets from Wealth tax u/s 5 of Wealth Tax Act ?
4. Write a note on Double taxation treaties in India.
5. Discuss the deduction in respect of industrial undertaking or enterprise engaged in infrastructure development u/s 80IA.
6. 'X' Ltd. is engaged in the business of manufacture of computer hardware since 1995. During the previous year 2012-13, the following assets are acquired and put to use.

Particulars	(Rs. in thousands)		
	Block – I	Block – II	Block – III
Rate of depreciation	15%	30%	60%
Number of assets in the block	11	12	17
Depreciable value of the block on April 1, 2012	1,800	2,500	500
Additions of Plant (new) during the previous year 2012-13			
Plant A	5,700	—	—
Plant B	—	400	—
Plant C	—	—	1,700
Sale of old plants (one plant in each block)	8	2,870	4,200

Plant A, B and C are acquired during May 2012 and put to use during September 2012. However, Plant B is put to use in the last week of March 2013.

Find out the amount of Depreciation, Additional Depreciation and Capital gains if any.

SECTION – C

Answer **any two** questions. **Each** question carries **fifteen** marks. Answer to theory questions should **not** exceed **three** pages. (2×15=30)

7. Discuss the provisions regarding set-off carry forward of losses under the Income Tax Act, 1961.



8. State the steps in the valuation of house for wealth tax purpose as stipulated under Section 7 of Wealth Tax Act read with Schedule III to the Act.

9. ABC Ltd. submits the following particulars of its assets and liabilities as on 31-03-2013.

Residential house purchased at Madras in 1990 for 25,00,000. It is let out at Rs. 7,500 pm for the residential purposes. However it remains vacant for two months during the year. Municipal taxes payable amount to Rs. 7,500.

a) Market value of the house	35,00,000
b) Gold and Silver	28,00,000
c) Motor car for the use of Directors	5,00,000
d) Deposits under National deposit scheme	75,00,000
e) Cash in hand	50,000
f) Cash at Bank	2,50,000
g) Land at Amritsar (but permitted to construct only to the extent of 40% of the land)	5,00,000
h) Loan taken for purchase of land	2,00,000
i) Purchase of land for factory in 2003 March	5,00,000
j) Units of U.T.I and Mutual fund	50,000
k) Aircraft for the company use	1,00,00,000

Compute its Net wealth and wealth Tax liabilities for the AY 2013-14.

10. 'X' Ltd. manufactures electric pumping sets. The company has the option to either make or buy from the market. Component 'Y' used in manufacture of pumping sets. The following details are available.

The component will be manufactured on new machine costing Rs. 1,00,000 with a life of 10 years. Materials required cost Rs. 2 per kg and wages Rs. 0.30 per hour. The salary of the foreman employed is Rs. 1,500 per month and other variable overheads include Rs. 20,000 for manufacturing 25,000 components per year. Materials requirement is 25,000 kgs and require 50,000 labor hours.

The component is available in the market at Rs. 4.30 per piece.

Will it be profitable to make or buy the component 'Y' ?

Does it make any difference if the component can be manufactured on an existing machine.



SECTION – D

Compulsory.

(1×15=15)

11. From the following particulars of ABC Ltd. Compute Tax liability for the AY 2013-14.

Trading and Profit and Loss account for the year ending 31-03-2013

Particulars	Amount	Particulars	Amount
To Purchases	4,35,000	By Sale of processed goods	25,75,000
To Entertainment expenses	25,000	By Sale of other goods	12,15,000
To Travelling expenses	71,000	By amount withdrawn	
To Depreciation	6,75,000	from general reserve	2,00,000
To Income tax	4,01,000		
To Wealth tax	12,000		
To Customs duty due	21,000		
To Provisions for unascertained liabilities	80,000		
To Proposed dividend	75,000		
To Audit fees	25,000		
To Provision for loss from subsidiary company	37,000		
To Salary of M.D.	1,95,000		
To Net profit	19,38,000		
	39,90,000		39,90,000

Additional Information :

- 1) Value of plant and machinery owned by company is Rs. 65,00,000.
- 2) Excise duty of 2009-10 paid during the year is Rs. 95,600.
- 3) Depreciation U/s 32 is Rs. 7,35,000.
- 4) Unabsorbed business loss is Rs. 12,20,000 for income tax purposes and for accounting purposes Rs. 10,10,000, loss is brought forward from assessment year 2006-07.
- 5) Unabsorbed depreciation for accounting purpose is Rs. 3,45,000.
- 6) For income tax purpose, unabsorbed depreciation is Rs. 18,00,000.
- 7) Out of customs duty due of Rs. 21,000 Rs. 10,000 remained unpaid till 30-09-2013 (due date of filing of returns)
- 8) The purchases includes one item where in Rs. 25,000 was paid in cash under one payment (purchase of chemical).



PG – 829

II Semester M.F.A. Degree Examination, July 2012
(Semester Scheme)

FINANCE AND ACCOUNTING
2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer **any 10** questions from the following. **Each** question carries **two** marks.

(10x2=20)

- a) What are exceptions to the general rule of P.Y. ?
- b) Give the meaning of company in which the public are substantially interested.
- c) What do you mean by progressive rates taxation ?
- d) Differentiate between 'Tax Planning' and 'Tax avoidance'.
- e) Define 'Amalgamation' as per Income Tax Act 1961.
- f) State the need for introduction of MAT.
- g) State the provision of Sec. 139 (1).
- h) How are going to treat L.T.C.G. for Tax purpose ?
- i) State the Tax provisions of Sec. 80JJAA.
- j) State the specific managerial decisions relating to 'Make' or 'buy'.
- k) State the dates for filing of returns by various assessees.
- l) Define Net Wealth.

SECTION – B

Answer **any three** questions from the following.

(3x5=15)

2. What are the exempted assets from wealth tax U/S 5 Wealth Tax Act. ?
3. Discuss the deductions available U/S 35.
4. Explain the provisions regarding set-off and carry forward of losses under the head income from other sources.
5. Ram Industries Ltd. is engaged in the business of manufacturing chemical since

P.T.O.



April 2010. The following assets are purchased by the company:

Assets	Cost	Date of purchase	Rate of depn.	Date of put to use
Buildings	5,00,000	6-4-2010	10%	10-4-2010
Computer for office	18,000	16-5-10	60%	18-5-10
Car	4,00,000	10-6-10	15%	10-6-10
Plant 'X' (New)	15,00,000	20-4-10	15%	30-4-10
Plant 'Y' (New)	10,00,000	10-9-10	15%	10-10-10
Air condition for Factory (New)	30,000	25-6-10	15%	26-6-10
Air condition for Office	30,000	30-6-10	15%	30-6-10
Plant 'Z'	15,000	20-7-10	100%	6-9-10

Office air conditioner is sold on 31-3-11 for 20,000 and a new air-conditioner is purchased on 1-1-11 for Rs. 32,000.

Find out the amount of normal depreciation and additional depreciation for the A.Y. 2012-13.

6. What do you understand by advance payment of Tax ? Explain clearly the provisions of the Income Tax Act in this respect.

SECTION – C

Answer **any two** questions. **Each** question carries **15** marks. **(2×15=30)**

7. What is Tax holiday ? Critically evaluate the deductions available U/S 80-IA.
8. Explain the tax benefits of de-merger and amalgamation of companies. Briefly highlight the conditions to be fulfilled to avail those benefits.
9. XYZ Ltd. submits the following particulars of its assets and liabilities on 31-3-2012
 - I) Residential house purchased at Madras in 1995 for 50,00,000. It is let out @ Rs. 15,000 pm for the residential purposes. However it remains vacant for two months during the year. Municipal taxes payable amount to Rs. 15,000.
Market value of the house 70,00,000
 - II) Gold and silver—56,00,000
 - III) Motor car for the use of directors—10,00,000
 - IV) Deposits under Natural Deposit Scheme—1,50,00,000
 - V) Cash in hand – 1,00,000



PG – 657

II Semester M.F.A. Degree Examination, July/August 2011
(Semester Scheme)

FINANCE AND ACCOUNTS

Paper – 2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer **any 10** questions from the following. **Each** question carries **two** marks. **(10×2=20)**
- Define a widely held company.
 - Differentiate between first category of assess and second category of assess u/s 2(7).
 - Why tax planning is necessary ?
 - State the criteria to claim additional depreciation.
 - Under what circumstances the A.O. is not required to follow the valuation norms under Section 7 Schedule III of W.T. Act ?
 - Name the expenditures which are eligible for weighted deductions u/s 35.
 - Give the meaning of 'Tax Credit' and its provisions.
 - Name the assessees not liable to wealth tax under Wealth Tax Act, 1957.
 - Mention the factors to be considered in make or buy decision.
 - What is PAN ? What are its uses ?
 - State how to treat preliminary expenses for tax purpose.
 - Mention the time frame for advance payment of tax for company assessee.

SECTION – B

- Answer **any 3** questions. **Each** question carries **5** marks. **(3×5=15)**
- Explain the doctrine of form and substance in the context of Tax planning.
 - How in the incidence of wealth tax affected by nationality and residential status of an assessee ? Explain with suitable examples.
 - Discuss the deduction in respect of certain undertakings in North-Eastern states u/s 801E.

P.T.O.



5. MRF Ltd. is engaged in the business of manufacture of tyres. It acquired and sold the following plant and machinery during the P.Y 2010-11.

	Factory Building	P&M	P&M	Motor Car	Furniture
Rate of Depn.	10%	50%	100%	15%	10%
WDV on 1-4-10	Rs. 15,20,000	Rs. 25,40,000	Nil	Rs. 8,60,000	Rs. 4,60,000
Additions Made :					
November 2010	Rs. 6,00,000	—	—	Rs. 4,00,000	Rs. 1,20,000
July 2010	—	Rs. 10,00,000	Rs. 8,00,000	—	—
Assets (Included in opening WDV)					
Sold in Jan. 2011	—	Rs. 5,40,000	—	Rs. 1,60,000	Rs. 80,000

Compute : (i) Normal depreciation (ii) additional depreciation for the A.Y. 2011-12.

6. Explain leasing Vs buying of a business asset as a tool of tax planning.

SECTION – C

Answer any two questions. Each question carries fifteen marks. Answer to theory question should not exceed three pages. (2×15=30)

7. What do you mean by Zero Tax planning ? Also discuss the scope of tax planning.
8. Discuss the tax holiday and tax incentives available for companies engaged in infrastructure development.
9. The following is the summarized Balance Sheet of XYZ Ltd. as on 31-3-2011.

Capital & Liabilities	Rs.	Assets	Rs.	(Schedule III Value) Rs.
Paid up capital	1,80,00,000	Plant & Machinery	24,00,000	(20,00,000)
Reserves	40,00,000	Motor car	4,00,000	(3,00,000)
Sundry Creditors	40,20,000	Helicopters for business purposes	1,36,00,000	(1,00,00,000)
Secured & unsecured loans	32,00,000	Factory plot (purchased on 2-1-2008)	28,00,000	(40,00,000)



House Property	
Used for director 1 st residence	24,00,000 (12,00,000)
Used for director 2 nd residence	36,00,000 (56,00,000)
Jewellery	16,00,000 (28,00,000)
Shares in other companies	20,00,000 (30,00,000)
Cash in hand	1,20,000 (1,20,000)
Cash at Bank	3,00,000 (3,00,000)
Total	2,92,20,000 Total 2,92,20,000

Additional Information :

- 1) Gross annual salary of directors 1&2 are Rs. 4,80,000 and Rs. 6,50,000 respectively.
- 2) Loans of Rs. 32,00,000 represents Rs. 4 lakh for machinery, Rs. 8 lakh for factory plot and Rs. 20,00,000 for helicopters.
- 3) The factory Plot is within municipal limits.

Compute the Net Wealth of the Company as on 31-3-2011 and the wealth tax payable.

10. X Ltd., an Indian Co., discloses a profit of Rs. 20,00,000 for the P.Y. 2010-2011 and the following further particulars are also made available :

- 1) The closing stock of the finished goods has uniformly been valued at 10% under cost every year. The opening and closing stocks for the year were shown in the books at Rs. 28,00,000 and Rs. 41,50,000 respectively.
- 2) The book depreciation amounts to Rs. 7,50,000. For tax purposes depreciated value of block of assets on 1-4-2010 is Rs. 37,50,000.
- 3) The undernoted debits appear in the Profit and Loss Account :
Loss on sale of fixed asset Rs. 62,500. Transfer to investment allowance reserve account Rs. 1,50,000, new machine was acquired during the year (i.e. during April) at a cost of Rs. 8,00,000 and brought in to use within a week.



- 4) The salaries include gratuity of Rs. 40,000 paid to a retired employee in accordance with the rules and payment of Rs. 67,500 to the M.D by way of salary and commission as permitted by the company law board. The M.D was provided with a house owned by the company for which depreciation of Rs. 12,500 and repairs expenses of Rs. 10,000 were claimed. The repair expenses are included in the Profit and Loss Account under the head "repairs to building". The M.D was also reimbursed the salary of Rs. 1,200 paid for a gardener and of Rs. 1,800 paid to a domestic servant. The expenses are charged to "miscellaneous expenses".
- 5) During the year plant and machinery, WDV of Rs. 1,00,000 was sold for Rs. 37,500. The WDV for income tax was Rs. 60,000.
- 6) There is a credit of 2,50,000 to the P/L A/c as being sale proceeds of import entitlements which the company claims as a capital receipt not chargeable to Income Tax.
- 7) "Interest Account" includes a sum of Rs. 17,500 charged by P.F. Commissioner for delay in depositing the members as well as the companies contribution.

Compute the total income of the company on the basis of above information giving your reasons wherever necessary.

SECTION - D

Compulsory.

15

11. X Ltd. an Indian Co., engaged in the business of manufacture of electric machines, negotiates for the purchase or taking on hire a machine from a concern in Germany. If it acquires the machine, then the total cost will be Rs. 30,00,000 payable in 5 annual (Interest Free) installments of Rs. 6,00,000 each, the payments to be made on July 1 each year beginning with the year 2010. If takes the machine on hire, it has to pay an annual rent of Rs. 4,00,000 also payable on July 1 each year starting from the same year 2010. The company proposes to use the machine for 10 years from 2010.

The following information is given :

- 1) The Company is a widely held company and tax rate is 33.99%.
- 2) Depn. rate is 15% and it is eligible for additional depreciation.
- 3) Cost of capital is at 10% for 10 years is 0.909, 0.826, 0.751, 0.683, 0.621, 0.563, 0.513, 0.467, 0.424, 0.386 respectively.

Decide which one is better alternative, hire or buy in the above situation.



II Semester M.F.A. Degree Examination, June/July 2010
(Semester Scheme)
Finance and Accounting
Paper - 2.3 : DIRECT TAXES PLANNING

Time : 3 Hours

Max. Marks : 80

SECTION - A

Answer any 10 of the following in 3-4 lines each. Each sub-question carries

2 marks.

(10×2=20)

1. a) What are the Principles of Direct Taxation ?
- b) Define Net Wealth.
- c) What is Minimum Alternative Tax u/s 115 JB ?
- d) What do you mean by Speculative transaction ?
- ~~x~~ e) What is Best Judgement Assessment ?
- ~~x~~ f) Define Block of Assets. Why this concept is important ?
- ~~x~~ g) Differentiate between Tax Planning, Tax Avoidance and Tax Evasion.
- ~~x~~ h) Define the term "Company" under Income Tax Act.
- ~~x~~ i) State the provisions of 'section 80GGA'.
- ~~x~~ j) When a company is said to be a resident ?
- ~~x~~ k) When belated return is filed ?
- ~~x~~ l) State the need for introducing VAT.

P.T.O.



SECTION - B

Answer **any three** questions from the following :**(3×5=15)**

2. Explain the income liable for Advance Payment of Tax.
3. Explain the scope of Tax Planning with respect to
 - a) Make or Buy
 - b) Own or Lease.
4. What are 'Deemed Assets u/s 4 of Wealth Tax Act ?
5. X company holds a block of assets (rate of depreciation is 15%) worth Rs. 15 lakhs (WDV) in the opening balance of year 2006-07, purchase the assets for Rs. 20 lakhs during the year 2007-08 and sold the assets worth Rs. 15 lakhs in the year 2008-09. Calculate the depreciation and value of the assets at the end of the year 2008-09.
6. Calculate the Taxable Income of the Company from the following information for the assessment year 2009-10.
 - a) Book profit Rs. 25 lakhs for the year 2008-09.
 - b) Subsidiary company loss for the year 2008-09 Rs. 5.5 lakhs
 - c) Brought forward loss Rs. 3.75 lakhs.
 - d) Speculative business loss for the same year Rs. 5.5 lakhs.
 - e) Capital loss Rs. 2 lakhs.

SECTION - C

Answer **any two** questions. **Each** question carries **15** marks.**(2×15=30)**

7. Discuss the Provisions of Set-Off and Carry Forward of Losses under the Income Tax Act.
8. State the steps in the valuation of house for wealth Tax purpose as stipulated under Sec. 7 of W.T. Act read with Schedule III to the Act.
9. XYZ submits the following particulars of its assets and liabilities on 31-03-09 :
 - a) Residential house purchased at Madras in 1990 for 50,00,000. It is let out @ Rs. 15,000 p.m. for the residential purposes. However it remains vacant for two months during the year. Municipal taxes payable amount to Rs. 15,000.

Market value of the house	70,00,000
---------------------------	-----------
 - b) Gold and Silver

56,00,000



c) Motor car for the use of directors	10,00,000
d) Deposits under National Deposit Scheme	1,50,00,000
e) Cash in hand	1,00,000
f) Cash at Bank	5,00,000
g) Land at Amritsar (But permitted to construct only to the extent of 40% of the land)	10,00,000
h) Loan taken for purchase of land	4,00,000
i) Purchase of land for factory in 2003 March	10,00,000
j) Units of U.T.I. and Mutual Fund	1,00,000
k) Aircraft for the Co. use	2,00,00,000

Compute its net wealth and wealth tax liabilities for the A. Y. 2009-10.

10. XYZ is a domestic company (in which public are substantially interested) manufacturing textiles. For the year ending 31-3-2009, P & L A/c showed Net profit of Rs. 10 Lakhs on a turnover of Rs. 1 crore. This included the following debits to P/L account.

- 1) Dividend amounting to Rs. 2 lakh paid to the shareholders for the accounting year 2008-09.
- 2) Interest amounting to Rs. 10,000 paid on the loan taken for the payment of the company's Income Tax liability.
- 3) Interest amounting to Rs. 15,000 paid on the loan taken to make donation to an approved charity.
- 4) a) Rs. 20,000 spent by the Managing Director on his visit to :
 - i) Canada to buy machinery; and the finalize a collaboration agreement for a new Independent undertaking proposed to be set up (cement factory) Rs. 10,000.
 - ii) USA to study export market for textiles Rs. 10,000.
- b) Managing Director's wife accompanied her husband Rs. 10,000 was contributed by the company towards her foreign trip expenses and the Canadian collaborator paid Rs. 15,000 to her towards expenses.
- 5) Company incurred Rs. 25,000 as entertainment expenditure.
- 6) Company incurred expenditure Rs. 1,00,000 as follows :
 - a) Advertisement in newspaper Rs. 50,000
 - b) Advertisement in souvenir of a political party Rs. 25,000
 - c) Guesthouse at factory Rs. 25,000.



- 7) Rs. 10,000 paid to legal adviser in respect of proceedings before Income-Tax authorities.
- 8) Penalty for Rs. 24,000 for importing yam in contravention of Import regulation.
- 9) The company earned long-term capital gains on the sale of investments (duly indexed) an amount of Rs. 2,00,000 and Rs. 1,00,000 as short term capital gains. The company was maintaining a racehorse and earned a net income of Rs. 2,00,000 from that activity.

Compute the Taxable Income of the company and calculate tax payable.

SECTION - D

Compulsory :

(1×15=15)

11. Decide which one is a better alternative - lease or buy-in the following situation :

Tax rate 30% (plus surcharge and education cess)

Cost of Capital : 14%

Depreciation rate (Income-tax) : 25%

Lease cost : Rs. 34,000 per annum for 5 years (per Rs. 1 lakh)

Present value of Re. 1 discounted @ 14% is as follows :

Year 1 = .877; Year 2 = .769 ; Year 3 = .675 ; Year 4 = .592 ; Year 5 = .519.

Assumptions :

1. The cost of the asset (say machine) is Rs. 1,00,000 with a salvage value of Rs. 1,000 at the end of five-year period.
2. There is no income-tax liability on account of capital gains.

Make any other suitable assumption, if necessary.

II Semester M.F.A. Degree Examination, June 2009
(Semester Scheme)

FINANCE AND ACCOUNTING
Paper 2.3 – Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer any 10 questions from the following. Each question carries two marks. (10×2=20)

- State the applicability and non-applicability of Wealth Tax Act.
- Give the meaning of company in which the public are substantially interested.
- When belated return is filed ?
- What is tax base ?
- Differentiate 'Advance tax' from 'Tax Deducted at Source'.
- State the tax provision U/S 33 ABA.
- What are the benefits from double taxation avoidance treaties ?
- State the need for introducing VAT.
- What is tax holiday ?
- What do you mean by colourable devices ?
- What do you mean by progressive rates of taxes ?
- Distinguish between 'tax avoidance' and 'Tax evasion'.

SECTION – B

Answer any 3 questions. Each question carries 5 marks. (3×5=15)

- Discuss any five instances when an assessee has a statutory obligation to deduct tax at source and consequences of non-compliance.
- Define tax planning. What are the benefits and limitations of tax planning ?
- What are the deductions under sections 80JJA and 80JJAA ?
- MRF Ltd. furnishes the following particulars of its income for the P.Y. 2008-09 :

	Rs.
i) Business loss before depreciation	(-) 16,00,000
ii) Depreciation unabsorbed	(-) 10,00,000
iii) Income from property	4,00,000
iv) L.T. C.G.	8,00,000
v) Income from other sources	12,00,000

P.T.O.



- v) Business expenses include bonus amounting to Rs. 3,00,000. A sum of Rs. 2,00,000 was paid on 31-8-09 and the balance was paid on 1-11-09.
- vi) Business loss and depreciation carried forwards :

	As per Accounts		As per Income Tax Law	
	Business loss	Depreciation	B.Loss	Depreciation
2005-06	Nil	(-) 1,50,000	(-) 6,00,000	(-) 3,00,000
2007-08	(-) 1,00,000	-Nil-	(-) 9,00,000	4,50,000

Compute total income and tax liability for A.Y. 09-10.

SECTION - D

(Compulsory)

15

X Ltd. Manufactures turbine sets. The company has the option of either make or buy form the market component 'g' used in manufacturing of the sets.

The following details are available :

The component will be manufactured on new machine costing Rs. 1 lakh with a life of 10 years. Material required cost Rs. 2 per Kg. and wages Re. 0.30 per hour. The salary of the foreman employed is Rs. 1,500 P.M. and other variable overheads include Rs. 20,000 for manufacturing 25,000 components per year. Material requirement in 25,000 Kgs and requires 50,000 labour hours.

The component available in the market at Rs. 4.30 per piece. Will it be profitable to make or buy the component ? Does it make any difference if the component can be manufactured on an existing machine ?

Atlantic Publishers & Distributors
B-2 Vistal Enclave



Additional information :

- i) Gross annual salaries of directors 1 and 2 are Rs. 4,80,000 and 6,00,000 respectively.
- ii) Loans of Rs. 8,00,000 represent Rs. 1,00,000 for machinery Rs. 2,00,000 for factory plot and Rs. 5,00,000 for helicopters.
- iii) The factory plot is with in municipal limits.

Compute the net wealth of the company as on 31-3-2009 and wealth tax payable.

10/KLM Ltd. is engaged in the business of computer software

P/L A/c for the P.Y 2008-09

Particular	Amount	Particulars	Amount
Business Expenses	11,50,000	Domestic sales	15,00,000
Salaries	15,00,000	Sales	40,00,000
Provision for encashment of earned leave	1,00,000	Stock	2,00,000
General reserve	1,50,000	Refund of income tax penalty	2,00,000
Income tax paid	4,00,000		
Dividends paid 25-3-09	5,00,000		
Provision for losses of T Ltd. a subsidiary company	1,00,000		
Depreciation as per accounts	5,00,000		
N. Profits	15,00,000		
	59,00,000		59,00,000

You are further informed that :

- i) Business expenses charged to P/L A/c but not deductible = 1,50,000
- ii) Depreciation as per income tax = 3,50,000
- iii) 50% depreciation in accounts is on account of revaluation of assets
- iv) Employers contribution for the year 2008-09 to employees fund (recognised) is Rs. 3,00,000 ; paid Rs. 2,00,000 on 30-09-09 and Rs. 1,00,000 on 1-12-09, but not charged to P/L A/c.

Salaries include a sum of Rs. 1,00,000, paid to non-resident employees in India without deducting.

Tax at sources as employee have filed affidavits to pay tax, direct to the govt.



6. Property company Ltd. has let out a premises w.e.F. 1-10-2008 on monthly rent of Rs. 1 Lakh. The lease is valid for 10 years and Tanant has made a deposit of equivalent to 3 months rent. The Tanant has undertaken to pay the municipal taxes of the premises amounting to Rs. 1 Lakh. What will be the value of the property under schedule III of the Wealth Tax Act for the assessment to Wealth Tax ?
 What are the circumstances under which the A.O. is not required to follow the procedure laid down for evaluation of house property in rule 3 of schedule III of Wealth Tax Act.

SECTION - ~~C~~

Answer any two questions. Each questions carries 15 marks. Answer to these question should not exceed three pages : (2x15=30)

- 7. Explain the term tax-holiday. What are the conditions under which such benefit is available to the assessee U/S/ 80-IA ?
- 8. Discuss the scope of tax planning.
- 9. The following is the summarised balance sheet of VDI Ltd. as on 31-3-2009

Capital and liability	Rs.	Asset	Rs.	(Schedule III Value)
Paid up capital	45,00,000	Plant and machinery	6,00,000	(5,00,000)
Reserves	10,00,000	Motor car	1,00,000	(75,000)
Sundry creditors	10,05,000	Helicopters for commercial use	34,00,000	(25,00,000)
Secured and unsecured loans	8,00,000	Factory plot (purchased on Jan 2nd 2007)	7,00,000	(10,00,000)
		House property - used for		
		Director 1s residences	6,00,000	(3,00,000)
		Director 2's residences	9,00,000	(14,00,000)
		Jewellery	4,00,000	(7,00,000)
		Shares in other company	5,00,000	(7,50,000)
		Cash in hand	30,000	(30,000)
		Cash at bank	75,000	(75,000)
	73,05,000		73,05,000	

8

8



JP - 73

II Semester M.F.A. Degree Examination, June 2008
(Semester Scheme)
FINANCE AND ACCOUNTING
2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 100

SECTION - A

Answer any 10 of the following in 3-4 lines each. Each sub-question carries 2 marks.
(10×2=20)

- a) Define speculative transaction.
- b) Define block of assets.
- c) What is sub-letting ?
- d) What are deemed incomes ?
- e) Who are eligible for deduction under Section 80 GGA ?
- f) What is Tax holiday ?
- g) State the present rates of income tax for different Assesses.
- h) What is advance tax rating ?
- i) What is "Belated return" ?
- j) What is capital asset ?
- k) When person is liable to pay advance tax ?
- l) What is Minimum Alternative Tax ?

SECTION - B

Answer any three questions. Each question carries 5 marks.
(3×5=15)

2. What items of wealth U/S 5 are exempt from wealth tax ?
3. Enumerate the factors that affect the decision to make or buy a product. Also state tax consideration in this regard.
4. Discuss the Income Tax Provisions for the following :
 - a) Amortization of Preliminary Expenses. Pg No- 311
 - b) Expenditure of Scientific Research. Pg. No -

P.T.O.

1989

JP - 734

(Loss) 1,00,000
 Less: Current Dep 36,000
 = Loss from Business 64,000

Income from other sources 40,000

5. X Ltd. submits the following particulars
 Net Loss from Business 64,000

	Previous Years	
	2006-07	2007-08
Business profits (before depreciation)	(Rs.)	(Rs.)
Current depreciation	(-) 1,00,000	90,000
Income from other sources	36,000	20,000
	40,000	1,40,000

Determine the net income of X Ltd. for the Assessment Years 2007-08 and 2008-09.

6. From the following information determine the depreciation allowances for A.Y. 2008-09 :

- | | |
|--|-----------|
| a) W.D.V. of plant and machinery on 1-4-08 | Rs. |
| b) P/M purchased on 15-05-2008 for production department | 12,00,000 |
| c) In June, 2008 the assessee purchased the following assets : | 10,00,000 |
| i) Office appliances | 1,00,000 |
| ii) Air-conditioners for guest house | 60,000 |
| iii) Car | 4,00,000 |
| d) P/M purchased on 10-11-2008 for production department | 3,00,000 |
- Due to new plant and machinery the installed capacity of production increased by 30% as compared to installed capacity of production as on 31-03-2007.

SECTION - C

Answer any two questions. Each question carries 15 marks. (2x15=30)

7. Explain the "Set-Off and Carry forward of losses" provisions under Income Tax Act.

8. X Ltd. is a company carrying on business in the construction and sale of residential flats. It furnishes the following data and requests you to determine the tax payable for the A.Y. 2008-09.

- | | |
|--|--------------|
| 1) Land in rural area N/A | Market value |
| 2) Land in urban area (construction not permitted as per municipal laws) K | (in Rs.) |
| | 15,00,000 |
| | 20,00,000 |

3) Land in urban area (held as stock in trade since 2004, construction will be commenced during June 2006)	N/A	49,50,000
4) Motor cars (not being held as stock in trade)	A	11,30,000
5) Jewellery (not being held as stock in trade)	A	18,00,000
6) Aircraft	N/A	1,58,00,000
7) Bank Balance	N/A	3,10,000
8) Cash in hand as per cash books	N/A	1,70,000
9) Guest house and land appurtenant	A	8,00,000
10) Residential flats of identical size provided to 6 employees for their use (Salary of one of them exceeds Rs. 2,00,000)	N/A	15,00,000
11) Residence provided to M.D (salary exceeds Rs. 2,00,000)	N/A	10,00,000
12) Flats constructed and remaining unsold (Not being held as stock-in-trade)	A	30,00,000
13) Residence provided to whole time director (salary Rs. 7,20,000 the director owns 25% equity shares)	A	17,00,000

Yours
31,000 x 1/10 = 3,10,000

14) The company has taken a loan of Rs. 6,00,000; Rs. 7,00,000 and Rs. 50,000 for acquiring property numbers (1), (3) and (12) respectively. Find out the wealth tax liability of the company for the A.Y. 2008-09.

9. Prajwal Ltd. is a domestic company in which the public are substantially interested. It showed a net profit of Rs. 50 Lakhs for the year 2007-08 after providing for taxation of Rs. 10 Lakhs but before providing for depreciation. The following are the other particulars :

	Rs.
1) Depreciation on Plant and Machinery	7,50,000
2) Brought forward business losses	5,00,000
3) Net Profit included the following :	
a) Dividend from X Ltd. Calcutta	25,000
b) Dividend from Z Ltd. Bombay	50,000
c) Dividend from Y Ltd. Chennai	50,000
d) Short term capital gain on sale of shares	25,000
e) Long term capital gain on sale of building (indexed)	60,000
f) Various items debited to the profit and loss	



JP - 734

Account included the following :

i) Expenses on maintenance of house	10,000
ii) Penalty levied for infraction of excise laws	5,000
iii) Donation to PM National Relief Fund	10,000
iv) Donation to approved family planning institution to be utilized for promoting family planning	10,000
v) Remuneration to the managing director	1,14,000
vi) The managing director is also provided rent-free Accommodation, the company paid rent of Rs. 36,000 for the flat occupied by the managing director	36,000
vii) Ex-gratia payment to staff	5,000

The company distributed dividends on 10-10-07 Re 2,00,000

Compute the total income of the Co. for the assessment year-2008-09.

10. Discuss the deduction u/s 80-IA.

SECTION - D

(Compulsory)

11. From the following information determine whether the assessee should purchase an assets or take on lease :

- 1) Cost of Asset Rs. 1,00,000.
- 2) Rate of depreciation 15%.
- 3) Rate of interest 10%.
- 4) Repayment of loan by the assessee Rs. 20,000 p.a.
- 5) Rate of tax 30%.
- 6) Residual value Rs. 20,000 after five years.
- 7) Profit of the assessee Rs. 1,00,000 before depreciation, interest and tax/before lease rent and tax.
- 8) Lease rent Rs. 30,000 p.a.
- 9) Surcharge and educational cess as applicable.

Make suitable assumption of your own wherever necessary.

PS - 576

II Semester M.F.A. Examination, May/June 2007

(Semester Scheme)

COMMERCE

2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION - A

10×2=20

1. Answer any 10 questions from the following. Each question carries two marks :

- a) Give the meaning of company in which the public are substantially interested.
- b) Give the meaning of MAT U/S 115 JB.
- c) State the applicability and non-applicability of Wealth Tax Act.
- d) What is tax base ?
- e) When belated return is filed ?
- f) What is meant by best judgement assessment ?
- g) Differentiate 'Advance Tax' from 'Tax Deducted at Source'.
- h) What do you mean by prior tax ruling ?
- i) What do you mean by 'Colourable devises' ?
- j) State the meaning and how to compute tax credit U/S 115 JAA.
- k) What are the uses of PAN ?
- l) Name the different methods of tax collection.

SECTION - B

3×5=15

Answer any 3 questions. Each question carries 5 marks :

2. State the factors that influence the managerial decision - making relating to owning or leasing fixed assets.
3. Explain in brief the provisions relating to payment of advance tax.
4. Explain the "set-off and carryforward of losses" provisions under Income Tax Act.

P.T.O.

PS - 576

5. Discuss the Income Tax provisions / deductions u/s 35.

6/ X Ltd., owns two plants (A & B) depreciation rate 15%. The WDV of the block on 1-4-06 is Rs. 12,24,000. On 20-9-06, plant 'B' is transferred to 'Y' Ltd., for Rs. 7,00,000 (FMV is Rs. 1,80,000).

On 1-4-06, Y Ltd., owns two plants (M and N depn. rate 15%). W.D.V. of the block on 1-4-06 is Rs. 2,30,000. Plant 'B' is put to use by 'Y' Ltd., on 6-11-06. Plant 'M' is sold by 'Y' Ltd., for Rs. 4,90,000 on 22-03-07.

Find out the amount of depreciation for the AY 2007-08 in the hands of X Ltd., and Y Ltd. Under the following situations :

- 1) The A.O. does not want to take action under explanation 3 to Section 43(1).
- 2) After taking prior approval of the Joint Commissioner, the A.O. wants to estimate actual cost of plant 'B' at Rs. 1,80,000. The main purpose of transfer as recorded by the A.O. is to reduce the tax liability of 'Y' Ltd., by claiming higher depreciation allowance on Inflated Cost.

SECTION - C

2x15=3

Answer any two questions. Each question carries 15 marks. Answer to these question should not exceed 3 pages :

7. Discuss the deduction-U/S 80-1C.

8. State the main ingredients which make tax planning a legitimate exercise.

9/ The accounts of Zub Ltd., a domestic company, prepared in accordance with the provisions of part II and III of Schedule VI to the Companies Act, show the following position :

Profit before depreciation	Rs. 100.00 lakhs
(-) Depn of the current year	Rs. 10.00 lakhs
Net profit	Rs. 90.00 lakhs

The previous year of the company financial year ending 31-3-07. The profit of Rs. 100.00 lakhs includes profits amounting to Rs. 10.00 lakhs qualifying for deduction U/S 80-1A.

The profit computed in accordance with the provisions of the I.T. Act is as under :

Profit before depreciation	-	Rs. 70.00 lakhs
(-) Depreciation as per I.T. rules	-	Rs. 60.00 lakhs
Balance	-	Rs. 10.00 lakhs

The company is eligible to carry forward the following amounts from A.Y. 2006-07

Business loss	Rs. 10.00 lakhs
Unabsorbed depreciation	Rs. 40.00 lakhs

- Examine - a) The applicability of sec 115 JB and
 b) The eligibility for tax credit in the subsequent year.

10) Discuss the following :

10

- 1) X Ltd., a widely held company, owns the following assets as on 31.03.07 :
- a) Land at Bangalore, purchased in 2003 on which a residential complex consisting of 24 flats, to be sold on ownership basis, is under construction for last 18 months. → N/A
 - b) Two office flats at Calcutta purchased for resale in the year 2004. → N/T
 - c) Share of group companies, break up value of which is Rs. 6,40,000. → T
 - d) Cash at construction site Rs. 3,20,000 and → N/T
 - e) Residential flat in occupation of company's whole time director drawing a salary of Rs. 1,80,000 per annum. → N/T

Which of the above assets will be liable for Wealth Tax. Give reasons in brief.

5

- 2) Y Ltd., has let out a premises w.e.f 1-10-06 on monthly rent of Rs. 1.00 lakh. The lease is valid for 10 years and the tenant has made a deposit equivalent to 3 months rent. The tenant has undertaken to pay the municipal taxes of the premises amounting to Rs. 1.00 lakh. What will be the value of the property under Schedule III of the Wealth Tax Act for the assessment to Wealth Tax ?

PS - 576

SECTION - D
Compulsory

15

11. XYZ Ltd., needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component.

1) If the company decides to make the product itself then it would need to buy a machine for Rs. 8 lakh which would be used for 5 years. Manufacturing costs in each of the five years would be Rs. 12 lakh, Rs. 14 lakh, Rs. 16 lakh, Rs. 20 lakh, and Rs. 25 lakh respectively. The relevant depreciation rate is 15%. The machine will be sold for Rs. 1 lakh at the end of the 5th year.

2) If the company decides to buy the component from a supplier the component would cost Rs. 18 lakh, 20 lakh, Rs. 22 lakh, Rs. 28 lakh and Rs. 34 lakh respectively in each of the five year.

The relevant discounting rate and tax rate are 14% and 33.66% respectively. Should XYZ make the component or buy from outside ?

PS - 598

II Semester M.F.A. Examination, June 2006

(Semester Scheme)

COMMERCE

Paper - 2.3 : Direct Taxes Planning

Time : 3 Hours

Max. Marks : 80

SECTION - A

1. Answer any ten questions from the following. Each question carries two marks.

(10×2=20)

- a) Give the meaning of Domestic Company.
- b) What are the principles of direct Taxation ?
- c) When the advance payment of Tax arises ?
- d) State the significance of valuation date under Wealth Tax Act.
- e) How dividends are Taxed in India ?
- f) State the circumstances where T.D.S. can be made.
- g) Who has to obtain PAN ?
- h) State the re-assessment provisions.
- i) State the need for introducing MAT.
- j) Give the meaning of colourable devices.
- k) State Tax provisions US 80 JJA.
- l) Under what circumstances additional depreciation can be claimed ?

P.T.O.

PS - 598

SECTION B

Answer any three questions. Each question carries five marks.

(3×5=15)

2. How is the incidence of Wealth Tax affected by nationality and residential status of an assessee? Explain with suitable examples.
3. Explain Leasing Vs-Buying of a business asset as a Tool of Tax planning.
4. Explain in brief the provisions relating to payment of advance Tax.
5. NRN Ltd. files its return of loss for the AY 2005-06 on 1-12-2005. The following data is taken from return submitted by the company.

Income / Loss of the P.Y. 04-05

	Rs.
Business loss for the PY 04-05 (Before depreciation and capital expenditure on scientific research)	13,60,000
Depreciation	2,40,000
Capital expenditure for scientific research	1,60,000
Short Term Capital loss	3,60,000
Long Term Capital gain	80,000
Income from other sources	1,84,000

Brought forward loss of the earlier years which has been determined in pursuance of return filed within the time limit of Sec. 139(1):

	Rs.
Unabsorbed depreciation pertaining to the AYs : 1997-98 and 1998-99	4,56,000
Business loss of the PY 2001-02	1,44,000
Capital loss of PY 2003-04	2,80,000

Compute the loss to be carried forward:

6. How do you compute book profits for MAT purpose?

SECTION - C

Answer any two questions. Each question carries fifteen marks. Answer to theory question should not exceed three pages.

(2x15=30)

- 7. Discuss the following:
 - a) Foreign Collaboration agreements.
 - b) Deduction U/S 80 JJAA.

8. Texmaco Co. Ltd. Furnishes the following information in respect of its business for the period 1-4-2005 to 31-3-2006 and seeks your help in computing its total income for the A.Y. 2006-07. Your answer should give detailed workings and reasons:

Profit and Loss Appropriation Account

Dr.	(Rs.)	Cr.	(Rs.)
To General reserve	8,00,000	By Net profit brought down from P/L a/c	2,00,000
		By cash assistance received from Govt. against exports	3,00,000
		By Duty draw back against exports	3,00,000
	8,00,000		8,00,000





Land Account

Balance brought forward (Being cost of land purchased in 89-90)	10,00,000	Sale	18,50,000
Excess carried to capital reserve	8,50,000		
	18,50,000		18,50,000

Plant and Machinery Account

Balance brought forward	12,00,000	Depreciation	4,00,000
Excess carried to capital reserve	12,00,000	Sales	20,00,000
	24,00,000		24,00,000

Acquisition of know-how Account

Amount paid to laboratory owned by Govt.	3,00,000	Balance carried forward	3,00,000
	3,00,000		3,00,000

Investment Deposit Account

Amount paid to IDBI	3,00,000	Balance carried forward	3,00,000
	3,00,000		3,00,000

Further details are as under which are revealed on your enquiry:

- (1) Salaries and Wages account include (a) a sum of Rs. 1,00,000 paid towards the hospitalisation and surgery charges of the M.D. (b) Employer's contribution to the R.P.F. paid for period ended 31-3-06 on 31-12-06 - Rs.1,00,000.

- (2) Loss from business brought forward from AY 2005-06 Rs. 8,00,000
- (3) Assets are in two blocks only and the balance brought forward represents the WDV of the block.
- (4) Cost inflation index for 89-90 - 172 and for 05-06 - 497.
9. Explain the Term 'Tax holiday'. What are the conditions under which such benefit is available to the assessee U/S 80 - 1A ?
10. For the P.Y ended on 31.3.06, M/s Ennen Co. Ltd., furnishes following particulars in respect of its assets and liabilities:

Assets	Book value or WDV as on 31.3.2006	Market value as on 31.3.06
	Rs.	Rs.
1) Office complex/Store room	25,00,000	75,00,000 ×
2) Commercial complex (let out)	5,00,000	17,50,000 ×
3) Residential bungalow allotted to director drawing a salary of Rs. 60,000 P.A.	2,50,000	12,50,000 ×
4) Jewellery/Gold held as investment and not for business purpose	5,00,000	15,00,000 ✓
5) Station Wagon	5,00,000	8,00,000 ✓
6) Indian/Foreign cars used for business	10,00,000	25,00,000
7) Imported car allotted to M.D. of the Co.	6,50,000	7,00,000
8) Investment in shares	2,50,000	4,00,000
9) Plant and Machinery	15,75,000	16,00,000
10) Furniture and Fixtures (Gold studded)	2,00,000	4,00,000
11) Stock-in-Trade	25,000	40,000
12) Debtors /B.R's	7,50,000	7,50,000
13) Cash in hand as per book	2,50,000	2,50,000
	89,50,000	

PS - 598

Liabilities	Rs.	Rs.
a) Preference shares	27,50,000	-
b) Equity capital	37,50,000	-
c) Bonus shares	4,00,000	-
d) General reserve	2,00,000	-
e) P/L A/c	1,50,000	-
f) Loan against imported car	5,00,000	-
g) Creditors & B.P	12,00,000	-
	89,50,000	

You are required to compute the Net Wealth and Wealth Tax payable for the AY 2006-07.

SECTION - D (Compulsory)

15

11. An asset costing Rs. 10,00,000 is to be acquired. There are two alternatives available to the entrepreneur. First one is buying the asset by taking a loan of 10,00,000 repayable in 5 equal instalments of Rs. 2,00 lakh each along with interest @ 14% p.a. assuming that lease rentals, processing fees, interest as well as the principal amounts are payable at the year end. The second one is leasing the asset for which annual lease rental is Rs. 3,00,000 upto 5 years. The lessor charges 1% as processing fees in the first year. Assume the internal rate of return to be 10% and the present value factor @ 10% is:

Years	1	2	3	4	5
PV Factor	.909	.826	.751	.683	.621

Suggest which alternative is better in the above case. Assume the Tax rate to be 33.66%.

Shanmugam Pd.

12

KIRYA.T.D

PS - 763

II Sem. M.F.A. Examination, May/June 2005
(Semester Scheme)
COMMERCE 2.3
Direct Taxes Planning

Time: 3 Hours

Max. Marks: 80

SECTION -A

1. Answer any 10 questions from the following. Each question carries two marks. (10×2=20)

- a) Differentiate between 'Tax avoidance' and 'Tax evasion'.
- b) State the Tax Provision U/S 33 ABA.
- c) Define assessment U/S 2 (8).
- d) Differentiate between Indian Co and domestic Co.
- e) What do you understand by 'prior tax ruling' ?
- f) Define Net Wealth.
- g) Under what circumstances 'Belated return' is filed ?
- h) Name the different methods of tax collection.
- i) What is meant by best judgement assessment ?
- j) What is tax holiday ?
- k) What are the principles of direct taxation ?
- l) How to treat the expenditures of amalgamation/demerger ?

SECTION -B

Answer any 3 questions. Each question carries 5 marks. (3×5=15)

- 2. State the tax planning provisions with reference to shut down or continue of business.
- 3. Discuss the liability to advance tax by different assesseees.
- 4. What do you meant by MAT ? How is it computed ?
- 5. Explain the provisions of 'set off and carry forward of losses' under Income Tax Act.

P.T.O.

PS - 763

-2-

6. K Ltd. is engaged in the business of manufacture of air-conditioners since 1990. On March, 31-2002 and March 31, 2003, installed capacity is 2 lakh units (per annum). During the P.Y. 2004-05, the following assets are acquired to substantially expand the installed capacity (installed capacity on 31-3-05 is 2.25 lakh units per annum).

	Block - I	Block - II	Block - III
Rate of depreciation	25%	40%	60%
Number of assets in each block	5	7	9
WDV of the blocks on 1-4-04	9,00,000	17,10,000	6,00,000
Additions of plants (new) during the P.Y. 2004-05			
Plant A	64,00,000	-	-
Plant B	-	6,00,000	-
Plant C	-	-	8,00,000
Sale of old plants (one plant in each block)	10,000	21,98,000	15,00,000

Plants 'A', 'B' and 'C' are acquired during June 2004 and put to use during July 2004. However plant 'C' is put to use during the last week of November 2004.

Find the following:

- Additional and normal depreciation for the A.Y. 05-06.
- Capital gain on sale of old plants and
- Depreciated value of the blocks on 1-4-05.

SECTION - C

Answer any 2 questions. Each question carries 15 marks. Answer to theory question should not exceed 3 pages. (2×15=30)

7. Explain the tax benefits of de-merger and amalgamation of companies. Briefly highlight the conditions to be fulfilled to avail those benefits.

8. Discuss the deductions U/S 80-1B.

9. XMB Ltd. is an Indian company engaged in the business of manufacture discloses a profit of Rs. 40,00,000 for the year 2004-05 and the following further particulars are also made available:

- The closing stock of the finished goods has uniformly been valued at 10% under cost every year. The opening and closing stocks for the year were shown in the books at Rs. 56,00,000 and 83,00,000 respectively.

- 2) The book depreciation amounts to Rs. 15,00,000. For tax purposes depreciated value of block of assets on 1-4-04 is Rs. 75,00,000. (Depreciation rate: 25%)
- 3) The undernoted debits appear in the P/L A/c:
 - Loss on sale of fixed assets Rs. 1,25,000.
 - Transfer to investment allowance reserve account Rs. 3,00,000, new machine was acquired during the year at a cost of Rs. 16,00,000 and brought into use during the year (Rate of depreciation 25%).
- 4) The salaries include gratuity of Rs. 80,000 paid to a retired employee in accordance with the rules and payment of Rs. 1,35,000 to the managing director by way of salary and commission as permitted by the company law board. The M.D. was provided with a house owned by the company for which depreciation of Rs. 25,000 and repair expenses of Rs. 20,000 were claimed. The repair expenses are included in the P/L account under the head 'Repairs to building'. The M.D. was also reimbursed the salary of Rs. 2,400 paid for a gardener and Rs. 3,600 paid for a domestic servant. The expenses are charged to "Miscellaneous expenses".
- 5) During the year plant and machinery of book WDV of Rs. 2,00,000 was sold for Rs. 75,000. The WDV for income tax was Rs. 1,20,000.
- 6) There is a credit of Rs. 5,00,000 to the profit and loss account as being sale proceeds of import entitlements which the company claims as a capital receipt not chargeable to income tax.
- 7) 'Interest account' includes a sum of Rs. 35,000 charged by the P.F. commissioner for delay in depositing the members as well as the company's contribution.
- Compute the total income of the company for the A. Y. 05-06 as on the basis of the above noted information giving your reasons wherever necessary.

10) Discuss the following:

- 1) State whether the following are assets under the Wealth Tax Act 1957.
- Gold furniture held by a company *Not exempt*
 - Units of a mutual fund *NA exempt*
 - Goodwill in the books of the company *Not exempt*
 - Urban land on which construction is not permitted *Exempt*
- 2) X Ltd. is the owner of a house in Madras which is constructed on leasehold land acquired from housing development authority (HDA). It has let out this house to Y for Rs. 12,000 P.M. The other terms are as under:
- Y will pay 60% of the municipal taxes to bear the cost of repairs.
 - Y will give interest-free advance of Rs. 1,00,000.
- This amount will be refunded at the time of vacating the house.

*It is assumed that the asset is let out more than 300 days
 so it is exempt from tax.*

PS - 763

- iii) Y will also pay Rs. 50,000 as premium for leasing the property for five years.

The annual value assessed by the local authority is Rs. 1,00,000 and taxes levied are Rs. 15,000. Y spent Rs. 15,000 on the repairs of the house.

The difference between the unbuilt area and specified area is 14% of the aggregate area. Find out the value of the house for the wealth tax purposes, if the cost of the building (including land) in 1984 was Rs. 10,00,000.

X Ltd. had paid Rs. 80,000 for the acquisition of the land but now HDA'S value of the land is Rs. 4,00,000. HDA charges 50% of the unearned increase on the transfer of a house. The unexpired period of lease is 85 years. Compute the value of the house property for the purpose of wealth tax.

SECTION - D (Compulsory)

15

11. ABR Co. Ltd. needs a component. It is contemplating the proposal to either make or buy the aforesaid component.

1. If the company decides to make the product itself then it would need to buy a machine for Rs. 24 lakh which would be used for 5 years. Manufacturing costs in each of the five years would be Rs. 36 lakh, 42 lakh, Rs. 48 lakh, Rs. 60 lakh, and 75 lakh respectively.

The relevant depreciation rate is 25%. The machine will be sold for Rs. 3 lakh at the end of the fifth year.

2. If the company decides to buy the component from a supplier the component would cost Rs. 54 lakh, Rs. 60 lakhs, Rs. 66 lakhs, Rs. 84 lakhs and Rs. 102 lakhs respectively in each of the five year.

The relevant discounting rate and tax rate are 10 percent and 35% respectively. Should ABR Co. Ltd. make the component or buy from outside? (Discount rate @ 10% for 5 years respectively 0.909, 0.826, 0.751, 0.683, 0.621)