

PRIME ACADEMY
36TH SESSION PROGRESS TEST
ADVANCED MANAGEMENT ACCOUNTING

No. of Pages: 7

Total Marks: 75
Time Allowed: 2Hrs

Questions 1-10 carry 1 Mark each

Answer **Q 1 to 4** based on the data below:

A company has been making a machine to order for a customer, but the customer has since gone into liquidation, and there is no prospect that any money will be obtained from the winding up of the company.

Costs incurred to-date in manufacturing the machine are `50,000 and progress payments of ` 15, 000 have been received from the customer prior to the liquidation. The sales department has found another company willing to buy the machine for ` 34, 000 once it has been completed

To complete the work the following costs would be incurred:

- (a) Materials: These have been bought at a cost of ` 6,000 They have no other use, and if the machine is not finished, they would be sold as scrap for ` 2,000.
- (b) Further labour costs would be ` 8,000. Labour is in short supply, and if the machine is not finished, the work force would be switched to another job, which would earn ` 30,000 in revenue, and incur direct costs (not including direct labour, of ` 12,000 and absorbed (fixed) overhead of `6,000).
- (c) Consultancy fees, 4,000. if the work is not completed, the consultant's contract would be cancelled at a cost of ` 1,500.
- (d) General overheads of ` 8,000 would be added to the cost of the additional work

1. The relevant material cost for decision making is:

- a. ` .6,000
- b. ` .2,000
- c. ` .4,000
- d. ` .8,000

2. The relevant labour cost for decision making is

- a. ` 8,000
- b. ` 20,000
- c. ` 18,000
- d. ` 12,000

3. Consultancy fees to be taken is

- a. Ignored
- b. ₹2,500
- c. ₹1,500
- d. ₹4,000

4. Costs incurred to date, ₹50,000, is ignored because:

- a. Already considered in previous accounting period,
- b. Not relating to current customer
- c. Sunk cost
- d. Not ignored, it is a relevant cost to be considered for decision making

5. A variable cost is a cost that

- a. varies per unit at every level of activity
- b. occurs at various times during the year
- c. varies in total in proportion to changes in the level of activity
- d. not be incurred, depending on management's discretion

6. Which of the following costs are variable?

Costs	5,000 Units	15,000 Units
1.	₹100,000	₹300,000
2.	₹40,000	₹240,000
3.	₹90,000	₹90,000
4.	₹50,000	₹150,000

- a. 1, 2, and 4.
- b. Only 2.
- c. 1, and 4.
- d. 1, and 2.

7. A Bus Company is considering a decision to cease the service to a particular route and transfer the two buses and drivers from the existing route to a new route which involves a longer journey, hence more time and miles travelled, but is likely to attract more passengers and a transport subsidy. Which of the following is a sunk cost in relation to this decision?

- a. The additional wages payable for the longer journey, which will involve overtime working
- b. The additional fuel cost of the two buses on the longer journey
- c. The cost of making an application for the transport subsidy
- d. The price paid for the buses three years ago

8. In Q. 7 above, which of the following is an incremental cost in relation to this decision?
- The annual depreciation of each bus
 - The basic salary paid to each driver
 - The price paid for the buses three years ago.
 - The additional wages payable for the longer journey, which will involve overtime working
9. In an equipment replacement decision which of the following is not relevant:
- Future cash operating costs
 - Book value of old machine
 - Current disposal price of old machine
 - Cost of new machine
10. North Division has the following information:
- | | |
|-------------------|----------|
| Sales | £900,000 |
| Variable expenses | £480,000 |
| Fixed expenses | £465,000 |
- If this division is eliminated, the fixed expenses will be allocated to the company's other divisions. What is the incremental effect on net income if the division is dropped?
- £45,000 increase
 - £465,000 decrease
 - £420,000 decrease
 - £435,000 increase
11. Northwest Hospital is a full-service hospital that provides everything from major surgery and emergency room care to outpatient clinics. The hospital's Radiology Department is considering replacing an old inefficient X-ray machine with a state-of-the-art digital X-ray machine. The new machine would provide higher quality X-rays in less time and at a lower cost per X-ray. It would also require less power and would use a color laser printer to produce easily readable X-ray images. Instead of investing the funds in the new X-ray machine, the Laboratory Department is lobbying the hospital's management to buy a new DNA analyzer.

Required:

For each of the items below, indicate whether it should be considered a differential cost, an opportunity cost, common cost or a sunk cost in the decision to replace the old X-ray machine with a new machine.

- Cost of the old X-ray machine
- Cost of the new color laser printer
- Rent on the space occupied by Radiology
- The cost of maintaining the old machine
- Benefits from a new DNA analyzer

(5 Marks)

12. Pick out from each of the following items, costs that can be classified under committed fixed costs or discretionary fixed costs.

- i. Annual increase of salary and wages of administrative staff by 5% as per agreement
- ii. New advertisement for existing products is recommended by the Marketing Department for achieving sales quantities that were budgeted for at the beginning of the year.
- iii. Rents paid for the factory premises for the past 6 months and the rents payable for the next six months. Production is going on in the factory.
- iv. Research costs on a product that has reached 'maturity' phase in its life cycle and the research costs which may be needed on introducing a cheaper substitute into the market for facing competition.
- v. Legal consultancy fees payable for patent rights on a new product Patenting rights have been applied for.

(5 Marks)

13. State whether the following statements are True or false:

- i. A sunk cost is a cost that has already been incurred but that can be avoided, at least in part, depending on the action a manager takes.
- ii. Variable costs are always relevant costs
- iii. A differential cost is a variable cost
- iv. In a decision to drop a segment, the opportunity cost of the space occupied by the segment would be the profit that could be derived from the best alternative use of the space.
- v. Opportunity costs are usually not found in accounting records.

(5 Marks)

PART –B
Answer all Questions

50 Marks

1.

PT Ltd. produces and markets Air Conditioner. It ensures after sales service through PK Ltd. The big appliances are serviced at customer's residence while small appliances are serviced at workshop of PK Ltd. The material supplied to PK Ltd. is charged at cost plus 15%. PK Ltd. charges customers at 20% over the above price. For labour, the company receives 8% of the rate fixed for work done under the after-sales service agreement and 10% of the rate fixed in case of jobs not covered under the agreement from PK Ltd. 65% by value of the total work undertaken by PK Ltd. was for big appliances and rest accounted for small appliances during the previous year. The company decides to carry out all or some of the work itself and has chosen one area in the first instance. During the previous year the company earned a profit of ₹1,08,000 as detailed below from PK Ltd. for the area chosen:

	Materials ₹	Labour ₹
Under after _sales service agreement	30,000	50,000
For jobs not covered under the agreement	10,000	18,000

The company forecasts same value of work in that area for the ensuing period. The following three options are under consideration of the management:

- (1) To set up a local service Centre to provide service for small appliances only. The existing system is to continue for big appliances.
- (2) To set up a local services Centre to provide service for big appliances only. The existing system is to continue for small appliances.
- (3) To set up a local service Centre to provide service to all appliances. The existing system then stands withdrawn.

The relevant costs for carrying out jobs under the above options are:

	Option 1	Option 2	Option 3
	Amount in ₹ 000's		
Heat, Light, Rent etc	55	25	70
Management costs	50	42	80
Service staff costs	110	210	355
Transport costs	18	120	110

You are required to find the most profitable option

(20 Marks)

2.

Ret Ltd., a retail store buys computers from Comp Ltd. and sells them in retail. Comp Ltd. pays Ret Ltd. a commission of 10% on the selling price at which Ret sells to the outside market. This commission is paid at the end of the month in which Ret Ltd. submits a bill for the commission. Ret Ltd. sells the computers to its customers at its store at ₹30,000 per piece. Comp Ltd. has a policy of not taking back computers once dispatched from its factory. Comp Ltd. sells a minimum 100 computers to its customers

Comp Ltd. charges prices to Ret Ltd. as follows:

₹29,000 per unit, for order quantity 100 units to 140 units.

₹26,000 per unit, for the entire order, if the quantity is 141 to 200 units. Ret Ltd. cannot order less than 100 or more than 200 units from Comp Ltd.

Due to the economic recession, Ret Ltd. will be forced to offer as a free gift a digital camera costing it ₹4,500 per piece, which is compatible with the computer. These cameras are sold by another Company Photo Ltd. only in boxes, where each box contains 50 units. Ret Ltd. can order the cameras only in boxes and these cameras cannot be sold without the computer.

In its own store, Ret Ltd. can sell 110 units of the computer. At another far of location, Ret Ltd. can sell upto 80 units of the computer (along with its free camera), provided it is willing to spend ₹5,000 per unit on shipping costs. In this market also, the selling price that each unit will fetch is ₹30,000 per unit. You are required to:

- (i) State what Ret's best strategy along with supporting calculations is.
- (ii) Compute the break-even point in units, considering only the above costs.

(15 Marks)

3.

A machine manufacturing company needs four components A, B, C and D. The components may be procured from outside. The cost, market price for the components and other information are given below :

Number of units required	3,000	3,500	2,000	3,000
	Figs. ₹ per unit.			
	A	B	C	D
Direct Material	120	140	150	120
Direct Wages	60	80	120	80
Direct expenses at ₹40 per machine hour	80	60	80	80
Fixed Cost	40	40	30	50
Total Cost	300	320	380	330
Market Price	300	320	400	270

There are constraints on the machine time in manufacturing all the components. Total machine hours available are only 12,000 hour

It is possible to use the machine time in a second shift which will attract 20 % extra wages and other fixed overheads at ₹ 6,000 for every 1,000 hours or part thereof.

With relevant supporting figures, advise the best course of action to maximize the profits.

(Note: Students need not work out the complete profitability statement).

(15 Marks)

**PRIME ACADEMY
36TH SESSION PROGRESS TEST**

ADVANCED MANAGEMENT ACCOUNTING

SUGGESTED ANSWERS

PART A

1	b
2	c
3	b
4	c
5	c
6	c
7	d
8	d
9	b
10	c

11

i.	sunk
ii.	differential
iii.	common
iv.	differential
v.	opportunity

12

i.	committed
ii.	discretionary
iii.	committed
iv.	discretionary
v.	committed

13

i.	False
ii.	False
iii.	False
iv.	True
v.	True

PART- B

1.

WN-1	Profit received from existing system		108,000
	From Big appliances	65% :	70,200
	From Small appliances	35% :	37,800
WN-2	Materials		
	PT Ltd.	→ PKLtd →	Customer
		Cost +	
		15% (Cost + 15%)+ 20%	
	If cost is `100		
	PT Ltd.	→ PKLtd →	Customer
	Cost		
	100	115	138

Receipts from customers for materials:

	Jobs under after sales agreement	
	Covered	Not covered
Profit received	30,000	10,000
Total receipt from customer profit x 138/15	276,000	92,000
Total receipts		368,000
From Big appliances 65% :		239,200
From Small appliances 35% :		128,800
Cost of materials 3,68,000 x 100/138 (In case of local service centre)		266,667
From Big appliances 65% :		173,333
From Small appliances 35% :		93,333

WN-3	Labour	Jobs under after sales agreement	
		Covered	not covered
	Profit received	50,000	18,000
	Total receipt from customer	625000	
		profit x 100/8	
			180,000
	Total receipts		<u>805,000</u>
WN-4	Total receipts from customers (In case of local service centre)		
	For material (wn-1)		368,000
	For labor		<u>805,000</u>
			<u>1,173,000</u>
	From Big appliances	65% :	762,450
	From Small appliances	35% :	410,550

2.

	Option 1	Option 2	Option 3
A. Income			
From customers : (wn-4)			1,173,000
-Big Appliances	Nil	762,450	
-Small appliances	410,550	Nil	
From PK Ltd:(wn-1)			Nil
-Big Appliances	70,200	0	
-Small appliances	0	37,800	
Total	480,750	800,250	1,173,000
B. Costs			
Material costs (wn-2)	93,333	173,333	266,667
Heat, Light, Rent etc	55,000	25,000	70,000
Management cots	50,000	42,000	80,000
Service staff costs	110,000	210,000	355,000
Transport costs	18,000	120,000	110,000
Total	326,333	570,333	881,667
Profit	154,417	229,917	291,333

Most profitable option is option 3:

To set up a local service Centre to provide service to all appliances

1 Contribution per unit(excl free gift & shipping costs)

	Units ordered	
	100-140	140-200
Selling price	30,000	30,000
Commission@ 10%	3,000	3,000
Total revenue p.u.	33,000	33,000
Less: variable costs:		
Purchase price	29,000	26,000
Contribution per unit	4,000	7,000

Maximum sales possible in own stores 110 units
 Shipping costs for units in another location ₹ 5000 P.u.

Contribution when units ordered is 100-140 is only ₹ 4,000, hence it is not feasible to sell at another location by incurring shipping costs of ₹ 5,000 per unit. However if quantity ordered exceeds 140, there is sufficient contribution to meet the shipping costs.

So we need not consider the range 110-140 units as contribution would be negative.

Similarly cost of free gift p.u is ₹ 4,500 and contribution of 100-110 range is only ₹ 4,000 ,thus this range can be ignored too

Since free gift is available in multiples of 50 the following order quantity have to be considered : 100*units, 141, units, 150 units and 190units.

* 100 units is included just to show how contribution will be negative. In the examination this may be ignored.

Calculation of profit

		Units ordered			
		100	141	150	190
Contribution per unit		4,000	7,000	7,000	7,000
	units *				
Total contribution	Contribution p.u	400,000	987,000	1,050,000	1,330,000
costs:					
shipping costs per unit	5000 *(units-110)	-	155,000	200,000	400,000
cost of free gift:	(wn-a)	450,000	675,000	675,000	900,000
Net profit		(50,000)	157,000	175,000	30,000

Best strategy buy 150 units from Comp. sell 110 at own store and 40 outside

Wn-a : Cost of free gift:

Cost of one box of 50 cameras 4500 *50 225,000 ₹

Order quantity	100	141	150	190
No: of boxes required under each option	2	3	3	4
Total cost of cameras	450,000	675,000	675,000	900,000

Computation of breakeven point

BEP can lie between 141 to 150 or 151-190.

At BEP, Total contribution = total costs

If BEP is X units, contribution under both range is ` 7000 p.u hence total contribution is 7000X

Total costs = Shipping cost + Cost of gift

Shipping cost = $(X-110) \times 5000$

Using the above we can compute BEP

141-150 units

$$7000X = (X-110) \times 5000 + 6,75,000$$

Solving the above we get $X = 62.50$ which is outside the range hence not valid

151-190 units

$$7000X = (X-110) \times 5000 + 9,00,000$$

Solving the above we get $X = 175$ units

Thus BEP is 175 units

3.

Limiting factor in the question is Machine hours

		Contribution per unit of Limiting factor			
		A	B	C	D
Market price	Given	300	320	400	270
Less: Variable costs	(DM+DL+DE)	260	280	350	280
Contribution per unit		40	40	50	(10)
Machine hours required per unit	DE/40	2	2	2	2
Contribution per Machine hour		20	27	25	Not reqd
Ranking		III	I	II	

Since contribution is negative for D, it is better to buy the product.

Allocation of machine hours based on ranking

Product	units	Machine hours	
		Required	Available
			12,000
B	3,500	5,250	6,750
C	2,000	4,000	2,750
A	3,000	6,000	
Actual allocation	1,375	2,750	
units produced	2750/2		
Units of A not covered in 1st shift :			1,625
Hours required (units x 2)			3,250
Increase in labour cost (20% of 60)			` 12 `
Revised contribution			
` 28			
Contribution per machine hour (28/2 mhrs p.u.)			` 14
Fixed cost increase per 1000 hours			` 6000
Minimum hours to be worked	6000/ 14		428.57
in each lot of 1000s to breakeven			i.e 429 hours
so, it is not feasible to work beyond 3000 hours			
Units of A to be purchased is 250/2			125 units
to be produced in 2nd shift 3000/2			1500 units

The best course of action:

Product	Units	Action
A	1,375	produce in 1st shift
	1,500	produce in 1st shift
	125	buy
B	3,500	produce in 1st shift
C	2,000	produce in 1st shift
D	3,000	buy

PRIME ACADEMY

36th SESSION PROGRESS TEST- INFORMATION SYSTEM CONTROL AND AUDIT

No of Pages: 2

Total Marks: 75

Time Allowed:2Hrs

Part -A

- i. _____ & _____ are the two main components of system development process
- ii. Lack of _____ support and involvement could result in failure to achieve system development objectives.
- iii. The system must be _____ thoroughly prior to implementation to ensure that it meets users' needs.
- iv. Formal program _____ are essential to preclude unauthorized changes to computer programs.
- v. _____ refers to a process of evaluating alternative systems through cost/benefit analysis so that the most feasible and desirable system can be selected for development.
- vi. Loss of customer sales and goodwill due to errors made at the time of installation of a new system is an example of _____ costs.
- vii. _____ are used to show the flow of data media as they are processed by the hardware devices and manual activities
- viii. CASE stands for _____
- ix. _____ is the basic output of system design which consists of a description of the task to be performed, complete with layouts and flowcharts.
- x. RFP stands for _____
- xi. _____ is a mental execution of the program by the programming team.
- xii. COBIT stands for _____
- xiii. _____, _____ & _____ are the 3 components of internal control.
- xiv. _____ are logs that can be designed to record activities at the system, application, and user level and thus help achieving security policy objectives of the organization.
- xv. _____ involves the change of data before or as they are entered into the system.
- xvi. Computer worm is a _____ computer program which sends copies of itself to other nodes in the network
- xvii. A _____ involves forging one's source address.
- xviii. A _____ refers to a suite of algorithms needed for data transformations viz. encryption and decryption
- xix. A _____ key is used to create a digital signature
- xx. AES stands for _____
- xxi. A PKI is an arrangement that binds public keys with respective user identities by means of a _____
- xxii. A _____ is a piece of hardware or software program which protects a computer or network from attacks from intruders and hackers.
- xxiii. A _____ is a network that uses a public telecommunication infrastructure, such as the Internet, to provide remote offices or individual users with secure access to their organization's network
- xxiv. _____ is an act of penetrating computer systems to gain knowledge about the system and how it works.

25 X 1 = 25 Marks

Part- B

(50 Marks)

Answer any five Questions

- 1.A) What is a computer virus? Explain the three types of anti-virus software. (6 Marks)
- B) Explain the following terms
- a. Piggybacking
 - b. Back door (2x 2 = 4 Marks)
2. Explain what audit procedures you would adopt while reviewing each of the following activities?
- a. User accounts are appropriately controlled?
 - b. Access to sensitive system resources is restricted and monitored? (2 X 5 = 10 Marks)
3. Write a note on system change management controls. (10 Marks)
4. Explain the various feasibility studies that are to be undertaken while evaluating a project? (10 Marks)
5. A) Explain the following terms
- a. Data dictionary
 - b. Dialogue flow diagrams (2X2 =4 Marks)
- B) Explain in brief, the important factor to be considered while designing the system output (6 Marks)
6. A) Explain the four steps involved in prototyping approach (4 Marks)
- B) Write short note on system maintenance (4 Marks)
- C) List down any 4 conversion strategies for implementing a new system (2 Marks)

PRIME ACADEMY-36th SESSION PROGRESS TEST

INFORMATION SYSTEM CONTROL AND AUDIT

SUGGESTED ANSWERS

PART- A

1) Fill ups:

- i. system analysis & system design
- ii. Senior management
- iii. tested
- iv. change controls
- v. Feasibility study
- vi. Intangible costs
- vii. system flow charts
- viii. Computer-Aided-Software Engineering
- ix. Job specifications manual or system manual.
- x. Request for proposal
- xi. structured walkthrough
- xii. Control Objectives for Information and related Technology
- xiii. Accounting control, operational control & administrative control
- xiv. Audit trails
- xv. Data diddling
- xvi. self-replicating
- xvii. spoofing attack
- xviii. cryptosystem
- xix. private key
- xx. Advanced Encryption Standard
- xxi. certificate authority
- xxii. firewall
- xxiii. virtual private network (VPN)
- xxiv. Hacking

Part- B

1. A)

A computer virus is a computer program that can copy itself and infect a computer. It spreads from one computer to another (in some form of executable code) when its host is taken to the target computer either through the Internet, or carried it on a removable medium such as a floppy disk, CD, DVD, or USB drive. The virus destroys application programs, data files, and operating systems in a number of ways.

Anti-virus Software which identifies and removes virus from the system can be of any of the following types:

- Scanners: The software looks for a sequence of bits called virus signatures that are characteristic of virus codes. They check memory, disk boot sectors, executables and systems fillies to find matching bit patterns. It is necessary to frequently update the scanners with the data on virus code patterns for the scanners to be reasonably effective.
- Active Monitor and Heuristic Scanner: This looks for critical interrupt calls and critical operating systems functions such as OS calls and BIOS calls, which resemble virus action. However this also makes them inefficient since they cannot differentiate between genuine systems calls and virus action. These could be annoying and generally do not serve the purpose.
- Integrity Checkers: These can detect any unauthorized changes to files on the system. They require the software to “take stock” of all files resident on the system and compute a binary check data called the Cyclic Redundancy Check (CRC). When a program is called for execution, the software computes the CRC again and checks with the parameter stored on the disk. However, such checks assume that frequent changes to applications and systems utilities do not occur.

B)

Piggybacking: This is the act of following an authorized person through a secured door or electronically attaching to an authorised telecommunication link that intercepts and alters transmissions. This involves intercepting communication communications between the operating system and the user and modifying them or substituting new messages. A special terminal is tapped into the communication for this purpose.

Back door is a means of access to a computer program that bypasses security mechanisms. A programmer may sometimes install a back door so that the program can be accessed for troubleshooting or other purposes. However, attackers often use back doors that they detect or install themselves, as part of an exploit.

2. a

User accounts are appropriately controlled

- Check for Segregation of duties to ensure that users do not have access to incompatible functions.
- Review policies and procedures which spell out access authorization documentation and user rights and privileges in the information system.
- Determine directory names for sensitive directories, files and their access levels and types of access.
- Review naming conventions and their use effectively.
- Verify logs of redundant accounts.
- Interview Security managers
- Periodic review with appropriate access documentation with comparisons on account expiry, termination, temporary access and timeliness authorization policies.

b. Access to sensitive system resources is restricted and monitored

- Review policies and procedures used for sensitive/privileged accounts.
- Interview management personnel on access restrictions by testing the need and reasons for an access
- Review the accessing system activity logs maintained for
 - Personnel accessing system software, controls acquired to gain access.
 - Attempt to access operating system software, system libraries etc.
- Interview officials along with review related system documentation and coordinate the vulnerability analysis

3)

Change Management Controls: Formal change management control policies and procedure should include the following:

- Periodic review of all systems for changes, submission of user requests in a standardized format, maintaining a log of all requests, categorizing and ranking all changes using established priorities
- Audit trails and specific procedures implemented to handle urgent matter that required deviations from standard procedures and having management review and approve them after the fact
- Communication all changes to management and users on the status of their requested changes.
- Require IT management to review, monitor, and approve all changes to hardware, software, and personnel responsibilities. Ensure assigning specific responsibilities and segregation of duties for those involved in change management.
- Control 'system access rights' to avoid unauthorized systems and data access.
- Make sure all changes go through the appropriate pre-defined steps
- Test all changes in a separate, non production environment before placing it into live production mode.
- Ensure the existence of back-up plans for mission critical application changes
- Implement a quality assurance function to ensure that all standards and procedures are followed and communicate the same to the user department and the top management.
- Update all documentation and procedures when changes are implemented

4.

Feasibility study refers to a process of evaluating alternative systems through cost/benefit analysis so that the most feasible and desirable system can be selected for development.

Technical feasibility:

The analyst ascertains whether the proposed system is feasible with existing or expected computer hardware and software technology. The technical issues usually raised during the feasibility stage of investigation include the following:

- Does the necessary technology exist to do what is suggested (and can it be acquired)?
- Does the proposed equipment have the technical capacity to hold the data required to use the new system?
- Will the proposed system provide adequate responses to inquires, regardless of the number or location of users?
- Can the system be expanded if developed?
Are there technical guarantees of accuracy, reliability, ease of access, and data security?

Economic feasibility:

It includes an evaluation of all the incremental costs and benefits expected if the proposed system is implemented.

The following issues are to be considered:

- The cost of conducting a full systems investigation.
- The cost of hardware and software for the class of applications being considered.
- The benefits in the form of reduced costs or fewer costly errors.
- The cost if nothing changes (i.e., the proposed system is not developed)

Operational feasibility:

It is concerned with ascertaining the views of workers, employees, customers and suppliers about the use of computer facility. Lack of support can cause an otherwise efficient system to miserably fail.

Issues considered include:

- Is there sufficient support for the system from management and users?
- Have the users been involved in planning and development of the project? Early involvement reduces the chances of resistance to the system
- Are current business methods acceptable to users?
- Will the proposed system cause harm? Will it produce poorer results in any respect or area? Will loss of control result in any areas? Will accessibility of information be lost?
- Will individual performance be poorer after implementation than before? Will performance be affected in an undesirable way? Will the system slow performance in any areas?

Schedule Feasibility:

Schedule feasibility involves the design team's estimating how long it will take a new or revised system to become operational and communicating this information to the steering committee.

Legal Feasibility:

Legal feasibility is largely concerned with whether there will be any conflict between a newly proposed system and the organisation's legal and contractual obligations.

5.A)

- a) A data dictionary is a computer file that contains descriptive information about the data items in the files of a business information system. That is it contains data about data. Each computer record of a data dictionary contains information about a single data item used in a business information system. This includes information such as names of the computer files that store the data item, modify the data item, permitted/ not permitted to access the data etc.
- b) Dialogue flow diagrams analyse the flow of dialogue between computers and people. They document the flows among different display screens generated by alternative end user responses to menus and prompts

B

- **Content:** Content refers to the actual pieces of data included among the outputs provided to users. Too much content can cause managers to waste time in isolating the information that they need; it also diminishes the impact of truly important information. Hence, only the required information should be included in various outputs.
- **Form:** Form refers to the way that content is presented to users. Content can be presented in various forms; quantitative, non-quantitative, text, graphics, video and audio. For example, information on distribution channels may be more understandable to the concerned manager if it is presented in the form of a map, the form of the output should be decided keeping in view the requirements for the concerned user.
- **Output volume:** The amount of data output required at any one time is known as output volume. It is better to use high-speed printer or a rapid-retrieval display unit, which are fast. Unusually heavy output volume normally causes concern about paper cost. In such a case, alternative methods of output display such as COM (Computer Output Microfiche) may be considered.
- **Timeliness:** Timeliness refers to when users need outputs. Some outputs are required on a regular, periodic basis. A sales manager, for example, may be requiring a weekly sales report. In decision support systems and management reporting system environments, user-oriented 4GL tools provide both users and programmers with a time-sensitive alternative to the mounting application backlog that troubles many organisations.
- **Media:** Input-output medium refers to the physical device used for input, storage or Output. This includes paper, video display, microfilm, magnetic tape/disk and voice output. The system designer can select a medium, which is best suited to the user requirements.

- **Format:** The manner in which data are physically arranged is referred to as format. Traditionally, when formatting the printed report for managers or users, a design tool called a printer spacing chart is used. Many prototyping fourth generation languages available with application generators today enable the printer spacing chart task to be performed automatically at a display workstation. A prototyping 4GL develops report prototypes quickly.

6.A

Prototyping can be viewed as a series of four steps:

Step 1: Identify Information System Requirements: In traditional approach, the system requirements have to be identified before the development process start. However, under prototype approach, the design team needs only fundamental system requirements to build the initial prototype; the process of determining them can be less formal and time-consuming than when performing traditional systems analysis.

Step 2: Develop the Initial Prototype: In this step, the designers create an initial base model using CASE tools. In this phase, the goals are “rapid development” and “low cost.” Thus, the designers give little or no consideration to internal controls, but instead emphasize such system characteristics as “simplicity,” “flexibility,” and “ease of use.” These characteristics enable users to interact with tentative versions of data entry display screens, menus, input prompts, and source documents. The users also need to be able to respond to system prompts, make inquiries of the information system, judge response times of the system, and issue commands.

Step 3: Test and Revise: After finishing the initial prototype, the designers first demonstrate the model to users and then give it to them to experiment. Users must be told that the prototype is incomplete and requires subsequent modifications based on their feedback. Using this feedback, the design team modifies the prototype as necessary and then resubmits the revised model to system users for re evaluation. Thus iterative process of modification and reevaluation continues until the users are satisfied.

Step 4: Obtain User Signoff of the Approved Prototype: At the end of Step 3, users formally approve the final version of the prototype, which commits them to the current design and establishes a contractual obligation about what the system will, and will not, do or provide. Approximately half of these approved prototypes become fully functional systems. The remaining, throwaway prototypes which signal an impractical system are not developed and provide a rich learning experience to the organisation.

B)

The changing organisational requirements continue to impact most information systems as long as they are in operation. Consequently periodic systems maintenance is required for most of the information systems. Systems maintenance involves adding new data elements, modifying reports, adding new reports, changing calculations, etc.

Maintenance can be categorized in the following two ways:

Scheduled maintenance is anticipated and can be planned for. For example, the implementation of a new inventory coding scheme can be planned in advance.

Rescue maintenance refers to previously undetected malfunctions that were not anticipated but require immediate solution. A system that is properly developed and tested should have few occasions of rescue maintenance.

C)

- Direct changeover
- Parallel conversion
- Gradual conversion
- Modular/prototype conversion
- Distributed conversion

PRIME ACADEMY
36TH SESSION – PROGRESS TEST
DIRECT TAX LAWS

No. of pages : 5

PART -- A

Total Marks : 75

Time Allowed : 2 Hours

Question 1 is Compulsory. Answer any two from the rest.

Working notes should form part of the answer

Wherever necessary suitable assumptions may be made by the Candidates

1.

A. Fill in the blanks:

1. Sec 2(15) prescribes the limit of _____ in respect of permissible receipts from trading activity for an institution with the object of “advancement of any other object of general public utility.
2. _____ Pension refer to pension received on a periodical basis and is fully taxable for both Government and Non Government employees.
3. Dividend received from a British Company in London is _____ in case of Resident and Not Ordinarily Resident.
4. The amount of any contribution to an approved superannuation fund by the employer in respect of the assessee, to the extent it exceeds _____ shall be chargeable to tax as perquisite.
5. Age limit for qualifying as a senior citizen, for availing the higher basic exemption limit under the Income Tax Act is ____ Years from AY 2013-14.

(5 x 1 = 5 Marks)

B. Identify the below as Agricultural Income or Non-Agricultural Income:

1. Income from growing of flowers and creeper
2. Income from Poultry Farming.
3. Income from growing of Tobacco.
4. Income from Fisheries.
5. Income from Dairy Farming.

(5 x 1 = 5 Marks)

C. State whether the statement is Correct or Incorrect :

1. Alternate Minimum Tax is applicable for Individuals and HUF.
2. In case of transfer of assets from Proprietorship firm to a Company, the cost of acquisition of the Company shall be the cost of acquisition of the proprietorship firm u/s 49.
3. Corporate Guarantee” provided by assessee to its Subsidiary company is covered in the definition of International Transaction w.e.f. A.Y.2013-14.
4. In case of VRS Compensation assessee can claim an exemption under Sec.10(10C) and relief under Sec.89 of the Income Tax Act, 1961.
5. Income from sub-letting of house property shall be taxable under the head Income from House Property.

(5 x 1 = 5 Marks)

D. Choose the correct answer from the choices given:

- a. Deduction u/s 35AD for setting up and operating a cold chain facility commencing operations on or after 1.4.2012 shall be:
- a) 75%
 - b) 100%
 - c) 125%
 - d) 150%
- b. Basic Exemption Limit for resident Women individuals is:
- a) ` 1,80,000
 - b) ` 1,90,000
 - c) ` 2,00,000
 - d) `` 2,20,000
- c. Securities Transaction Tax for Purchase/Sale of Equity Share is :
- a) 0.75%
 - b) 0.100%
 - c) 0.125%
 - d) 0.150%
- d. Tax Audit u/s 44AB is applicable if the turnover/gross receipts from business exceed :
- a) ` 50 Lakhs
 - b) ` 60 Lakhs
 - c) ` 75 Lakhs
 - d) ` 1 Crore
- e. Excess share premium received by Unlisted Company for issue of shares to Residents will be taxable as :
- a) Income from other sources
 - b) Income from house property
 - c) Profits & Gains from business or profession
 - d) Capital Gains

(5 x 1 = 5 Marks)

E. Explain the following terms in brief with reference to Income Tax Act, 1961:

1. Unpaid Liability u/s 43B.
2. Exemption U/s 54GB of Income Tax Act.
3. Electoral trust.
4. Unabsorbed Depreciation.
5. Presumptive Taxation u/s 44AD.

(5 x 1 = 5 Marks)

1.

- A. Mr. B grows sugarcane and uses the same for the purpose of manufacturing sugar in his factory. 30% of sugarcane produce is sold for ` 10 lacs, and the cost of cultivation of such sugarcane is ` 5 lacs. The cost of cultivation of the balance sugarcane (70%) is ` 14 lacs and the market value of the same is ` 22 lacs. After incurring ` 1.5 lacs in the manufacturing process on the balance sugarcane, the sugar was sold for ` 25 lacs. Compute B's business income and agricultural income. (7 Marks)
- B. Mr. A commenced operations of the businesses of setting up a warehousing facility for storage of food grains, sugar and edible oil on 1.4.2012. He incurred capital expenditure of ` 80 lakh, ` 60 lakhs and ` 50 lakh, respectively, on purchase of land and building during the period January, 2012 to March, 2012 exclusively for the above businesses, and capitalized the same in its books of account as on 1st April, 2012. The cost of land included in the above figures is ` 50 lakh, ` 40 lakh and ` 30 lakh, respectively. Further, during the P.Y.2012-13, it incurred capital expenditure of ` 20 lakh, ` 15 lakh & ` 10 lakh, respectively, for extension/ reconstruction of the building purchased and used exclusively for the above businesses. Compute the income under the head "Profits and gains of business or profession" for the A.Y.2013-14 and the loss to be carried forward, assuming that Mr. A has fulfilled all the conditions specified for claim of deduction under section 35AD and has not claimed any deduction under Chapter VI-A under the heading "C. – Deductions in respect of certain incomes". The profits from the business of setting up a warehousing facility (before claiming deduction under section 35AD and section 32) for the A.Y. 2013-14 is ` 16 lakhs, ` 14 lakhs and ` 31 lakhs, respectively. (7 Marks)
- C. Mr.Ravi retired on 15.6.2012 after completion of 26 years 8 months of service and received gratuity of ` 6,00,000. At the time of retirement his salary was:
 Basic Salary : ` 5,000 p.m.
 Dearness Allowance : ` 3,000 p.m. (60% of which is for retirement benefits)
 Commission : 1% of turnover (turnover in the last 12 months was ` 12,00,000)
 Bonus : ` 12,000 p.a.
 Compute his taxable gratuity assuming:
 (a) He is non-government employee and covered by the Payment of Gratuity Act 1972.
 (b) He is non-government employee and not covered by Payment of Gratuity Act 1972.
 (c) He is a Government employee. (6 Marks)
- D. Briefly explain the rules for determining taxable income in case of unexplained share capital, share premium etc credited in the books of account of a closely held company u/s 68. (5 Marks)

2.

M/s. ISAC Limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2013 is ₹ 15,25,890 after debiting the following items:

S.No.	Particulars	₹
1.	Purchase price of raw material used for the purpose of in-house research and development	1,80,000
2.	Purchase price of asset used for in-house research and development wrongly debited to profit and loss account:	
	(1) Land	5,00,000
	(2) Building	3,00,000
3.	Expenditure incurred on notified agricultural extension project	1,50,000
4.	Expenditure on notified skill development project:	
	(1) Purchase of land	2,00,000
	(2) Expenditure on training for skill development	2,50,000
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. 2013-14 of ISAC Ltd. (7 Marks)

- A. Neerja was carrying on the textile business under a proprietorship concern, Neerja Textiles. On 21.07.2012 the business of Neerja Textiles was succeeded by New Look Textile Private Limited and all the assets and liabilities of Neerja Textiles on that date became the assets and liabilities of New Look Textile Private Limited. Neerja was given 52% share in the share capital of the company. No other consideration was given to Neerja on account of this succession. The assets and liabilities of Neerja Textiles transferred to the company included an urban land which was acquired by Neerja on 19.7.2009 for ₹ 9,80,000. The company sold the same on 30.03.2013 for ₹ 15,00,000. Discuss the tax implication of the above mentioned transaction and compute the income chargeable to tax in such case(s). (7 Marks)
- B. Mr. Akash sold his residential property on 2nd February, 2013 for ₹ 90 lakh and paid brokerage @1% of sale price. He had purchased the said property in May 2000 for ₹ 24,36,000. In June, 2013, he invested ₹ 75 lakh in equity of A (P) Ltd., a newly incorporated SME manufacturing company, which constituted 63% of share capital of the said company. A (P) Ltd. utilized the said sum for the following purposes –
- (a) Purchase of new plant and machinery during July 2013 – ₹ 65 lakh
- (b) Included in (a) above are ₹ 6 lakh for purchase of computers and ₹ 8 lakh for purchase of ca
- (c) Air-conditioners purchased for ₹ 1 lakh, included in the (a) above, were installed at the residence of Mr. Akash. (d) Amount deposited in specified bank on 28.9.2013 – ₹ 10 lakh
- Compute the chargeable capital gain for the A.Y.2013-14. Assume that Mr. Akash is liable to file his return of income on or before 30th September, 2013 and he files his return on 29.09.2013.

(6 Marks)

- C. Explain the meaning of "specified domestic transaction" u/s 92BA of the Income Tax Act along with the rules for applicability. (5 Marks)

3.

- A. Ex "Mingle Engineering Ltd", a Korean non-resident company had entered into an agreement for designing, fabricating, hook-up and commissioning of a platform in the Bombay High with "Crude Oil India Ltd", an Indian company. The agreement entered into was in two parts, one for the value to be charged for fabrication of structure in Korea for ₹ 20 crores (having element of profit in it of ₹ 2 crores) and other for the installation and commissioning of the structure in Bombay High for ₹ 15 crores (having element of profit in it of ₹ 1.5 crores). The activity of installation and commissioning in India would commence only after the activity of fabrication of structure in Korea. The Korean company will also be setting up an office in India for the activity of installation and commissioning of the platform which is likely to be completed in 9 months. On these facts, you are required to answer/work out:-
- (a) Whether the office of Mingle Engineering Ltd. to be opened in India, be considered as its "Permanent establishment" ?
- (b) The amount of profits, if any, of the non-resident company subject to tax in India.
- (c) The income subject to tax in India, when the arm's length price of the fabrication of Structure is determined at ₹ 19 crores by applying the arithmetical mean of two prices determined by the most appropriate method. Assume that the permissible variation notified by the Central Government is 5%. (9 Marks)
- B. Mr.X purchased Tenancy Rights on 1.2.1981 for ₹ 2 Lakhs. The same was sold by him on 2.2.2013 for ₹ 22 Lakhs. Fair Market value of the Tenancy rights as on 1.4.1981 = ₹ 5 Lakhs. Compute the Capital Gains of Mr.X for the A.Y. 2013-14. Cost inflation index : 1981-82 : 100, 2012-13: 852 (6 Marks)
- C. Briefly explain the concept of Slump Sale and the tax treatment under Sec.50B of the Income Tax Act, 1961. (5 Marks)
- D. Explain the meaning and tax treatment of Composite Rent in view of the provisions of Income Tax Act. (5 Marks)

PRIME ACADEMY

36th SESSION PROGRESS TEST DIRECT TAX LAWS

SUGGESTED ANSWERS

PART A

1

A

1. 25 Lakhs
2. Uncommuted
3. Not Taxable
4. ` 1 Lakh
5. 60

B

1. Agricultural Income
2. Non-Agricultural
3. Agricultural Income
4. Non-Agricultural Income
5. Non-Agricultural Income

C

1. Correct.
2. Correct
3. Correct
4. Incorrect
5. Incorrect.

D

- a. Option (d)
- b. Option (c)
- c. Option (c)
- d. Option (d)
- e. Option (a)

E

1. Under the head Income from business or profession, certain deductions comprising statutory liabilities, Interest on Loan etc are allowed only on the basis of actual payment. Liabilities remaining unpaid till the date of filing the return are disallowed.
2. Sec.54GB newly introduced in Finance Act 2012 for A.Y.2013-14 provides for exemption of long term capital gains on transfer of residential property if the sale consideration is used for subscription in equity of new start up manufacturing SME company to be used for purchase of new plant & machinery.
3. U/s(22AAA) "electoral trust" means a trust so approved by the Board in accordance with the scheme made in this regard by the Central Government. Electoral trusts are the trusts of political parties and it is approved by CBDT. Any voluntary contribution made to electoral trusts is income of the trust and exempted from income tax.
4. An amount of Depreciation not fully adjustable with the profits of business or profession is termed as Unabsorbed Depreciation and can be carried forward for the period of eight yea`
5. Sec.44AD provides for presumptive taxation for small businesses where it is difficult to maintain books of accounts. The tax levied under this section assumes a revenue rate and derives the Income for assessment of tax.

PART B

1.

A. Income from sale of sugarcane gives rise to agricultural income and from sale of sugar gives rise to business income.

Business income = Sales – Market value of 70% of sugarcane produce – Manuf. exps
 = ` 25 lacs – ` 22 lacs - ` 1.5 lacs
 = ` 1.5 lacs.

Agricultural income = Market value of sugarcane produce – Cost of cultivation
 = [Rs10 lacs + ` 22 lacs] – [` 5 lacs + ` 14 lacs]
 = ` 32 lacs – ` 19 lacs
 = ` 13 lacs.

B.

Computation of profits and gains of business or profession for A.Y.2013-14

Particulars	` (in lakhs)
Profit from business of setting up of warehouse for storage of Edible oil (before providing for depreciation under section 32)	31
Less: Depreciation under section 32	3
10% of ` 30 lakh, being (` 50 lakh – ` 30 lakh + ` 10 lakh)	
Income chargeable under “Profits and gains from business or profession”	28

Computation of income/loss from specified business under section 35AD

S.No.	Particulars	Food Grains	Sugar	Total
		` (in lakhs)		
A	Profits from the specified business of setting up a warehousing facility (before providing deduction under section 35AD) Less: Deduction under section 35AD	16	14	30
B	Capital expenditure incurred prior to 1.4.2012 (i.e., prior to commencement of business) and capitalized in the books of account as on 1.4.2012 (excluding the expenditure incurred on acquisition of land) = ` 30 lakhs (` 80 lakhs – ` 50 lakhs) and ` 20 lakhs (` 60 lakhs – ` 40 lakhs)	30	20	50

C	Capital expenditure incurred during the P.Y.2012-13	20	15	35
D	Total capital expenditure (B + C)	50	35	85
E	Deduction under section 35AD 150% of capital expenditure (food grains) 100% of capital expenditure (sugar) Total deduction u/s 35AD for A.Y.2013-14	75 75	 35 35	 110
F	Loss from the specified business of setting up and operating a warehousing facility (after providing for deduction under section 35AD) to be carried forward as per section 73A (A-E)	(59)	(21)	(80)

Notes:

- Weighted deduction@150% of the capital expenditure is available under section 35AD for A.Y.2013-14 in respect of specified business of setting up and operating a warehousing facility for storage of agricultural produce which commences operation on or after 01.04.2012. Food grains constitute agricultural produce and therefore, the capital expenditure incurred for setting up a warehousing facility for storage of food grains is eligible for weighted deduction@150% under section 35AD.
- Deduction of 100% of the capital expenditure is available under section 35AD for A.Y.2013-14 in respect of specified business of setting up and operating a warehousing facility for storage of sugar, where operations are commenced on or after 01.04.2012.
- However, since setting up and operating a warehousing facility for storage of edible oils is not a specified business, Mr. A is not eligible for deduction under section 35AD in respect of capital expenditure incurred in respect of such business.
- However, Mr. A can claim depreciation@10% under section 32 in respect of the capital expenditure incurred on buildings. It is presumed that the buildings were put to use for more than 180 days during the P.Y.2012-13.
- Loss from a specified business can be set-off only against profits from another specified business. Therefore, the loss of ₹ 80 lakhs from the specified businesses of setting up and operating a warehousing facility for storage of food grains and sugar cannot be set-off against the profits of ₹ 28 lakhs from the business of setting and operating a warehousing facility for storage of edible oils, since the same is not a specified business. Such loss can, however, be carried forward indefinitely for set-off against profits of the same or any other specified business.

C.

a. He is covered by the Payment of Gratuity Act 1972.

Gratuity received at the time of retirement	₹ 6,00,000
Less: Exemption under section 10(10)	
Least of the following :	
i. Gratuity received	₹ 6,00,000
ii. Statutory limit	₹ 10,00,000
iii. 15 days salary based on last drawn salary for each Completed year of service or part thereof in excess of 6 months	
15/26*Last drawn salary*years of service	
15/26*(₹ 5000+₹ 3000)*27=	₹ 1,24,615
Taxable Gratuity	₹ 4,75,385

b. He is not covered by the Payment of Gratuity Act 1972.

Gratuity received at the time of retirement	₹ 6,00,000
Less: Exemption under section 10(10) (Note 1)	₹ 1,01,400
Taxable Gratuity	₹ 4,98,600

Note 1: Exemption under section 10(10) is least of the following:

- Gratuity received ₹ 6,00,000
- Statutory limit ₹ 10,00,000
- Half month's salary based on average salary of last 10 months preceding the month of retirement for each completed year of service.

$$\text{i.e. } \frac{1}{2} * \text{Average salary} * \text{years of service} \\ = \frac{\frac{1}{2} * [(5000 * 10) + (3000 * 60\% * 10) + (1\% * 1200000 * 10/12)] * 26}{10} = ₹ 101,400$$

c. He is a government employee

Gratuity received at the time of retirement	₹ 6,00,000
Less : Exemption under section 10(10)	₹ 6,00,000
Taxable gratuity	Nil

D. Unexplained share capital, share premium etc. credited in the books of account of a closely held company to be treated as income of such company [Section 68]

- Section 68 brings to tax any sum found credited in the books of an assessee, in respect of which the assessee does not offer any explanation about the nature and source of money so credited or the explanation offered by the assessee is not found to be satisfactory by the Assessing Officer.

- (ii) In order to prevent the practice of conversion of unaccounted money as investment in the share capital of a closely held company, additional onus is required to be placed on such companies to prove the source of money in the hands of the shareholder or persons making payment towards the issue of shares.
- (iii) Accordingly, a proviso has been inserted in section 68 to provide that any explanation offered by a closely held company in respect of any sum credited as share application money, share capital, share premium or such amount, by whatever name called, in the accounts of such company shall be deemed to be not satisfactory unless the person, being a resident, in whose name such credit is recorded in the books of such company also explains, to the satisfaction of the Assessing Officer, the source of sum so credited as share application money, share capital, etc. in his hands. Otherwise, the explanation offered by the assessee-company shall be deemed as not satisfactory, consequent to which the sum shall be treated as income of the company.
- (iv) However, this proviso would not apply if the person in whose name such sum is recorded in the books of the closely held company is a Venture Capital Fund (VCF) or a Venture Capital Company (VCC) registered with SEBI.

2.

Computation of income under the head “Profits and gains of business or profession” for the A.Y.2013-14

Particulars	₹	₹
Net profit as per profit and loss account		15,25,890
Add: Items debited to profit and loss account, but to be disallowed		
Purchase price of Land used in in-house research and development - being capital expenditure not allowable as deduction under section 35.	5,00,000	
Purchase price of building used in in-house research and development - being capital expenditure, 100% of which is allowable as deduction under section 35(1)(iv) read with section 35(2)	-	
Expenditure incurred on notified agricultural extension project (to be treated separately)	1,50,000	
Expenditure incurred on notified skill development project - Purchase of land - being capital expenditure not qualifying for deduction under section 35CCD	2,00,000	
Expenditure incurred on notified skill development project - Expenditure on training for skill development (to be treated separately)	2,50,000	

Expenditure incurred on advertisement in the souvenir published by a political party not allowed as deduction as per section 37(2B)	<u>75,000</u>	<u>11,75,000</u>
		<u>27,00,890</u>
Less: Purchase price of raw material used for in- house research and development qualifies for 200% deduction under section 35(2AB). Since, it is already debited to profit and loss account balance 100% is allowed.	1,80,000	
Less: Expenditure incurred on notified agricultural extension project qualifies for 150% deduction under section 35CCC.	2,25,000	
Less: Expenditure incurred on training for skill development in a notified skill development project qualifies for 150% deduction under section 35CCD.	<u>3,75,000</u>	<u>7,80,000</u>
Profit and gains from business		<u>19,20,890</u>

Note:

The expenditure incurred on advertisement in the souvenir published by a political party is disallowed as per section 37(2B) while computing income under the head “Profit and Gains of Business or Profession” but the same would be allowed as deduction under section 80GGB from the gross total income of the company.

A. Taxability in case of succession of Neerja Textiles by New Look Textile Private Limited

As per provisions of section 47(xiv), in case a proprietorship concern is succeeded by a company in the business carried by it and as a result of which any capital asset is transferred to the company, then the same shall not be treated as transfer and will not be chargeable to capital gain tax in case the following conditions are satisfied:

1. All the assets and liabilities of sole proprietary concern becomes the assets and liabilities of the company.
2. The shareholding of the sole proprietor in the company is not less than 50% of the total voting power of the company and continues to so remain as such for a period of 5 years from the date of succession.
3. The sole proprietor does not receive any consideration or benefit in any form from the company other than by way of allotment of shares in the company.

In the present case, all the conditions mentioned above are satisfied therefore, the transfer of capital asset by Neerja Textiles to New Look Textiles Private Limited shall not attract capital gain tax provided Neerja continues to hold 50% or more of voting power of New Look Textiles Private Limited for a minimum period of 5 years`

Taxability in case of transfer of land by New Look Textiles Private Limited As per the provisions of section 49(1) and Explanation 1 to section 2(42A), in case a capital asset is

transferred in the circumstances mentioned in section 47(xiv), the cost of the asset in the hands of the company shall be the cost of the asset in the hands of the sole proprietor.

Consequently, for the determining the period of holding of the asset, the period for which the asset is held by the sole proprietor shall also be considered. Therefore, in the present case, the urban land shall be a long-term capital asset since it is held for more than 36 months by New Look Textile Private Limited and Neerja Textiles taken together. Cost of acquisition of land in the hands of the company shall be ₹ 9,80,000 i.e., the purchase cost of the land in the hands of Neerja.

Computation of capital gain chargeable to tax in the hands of New Look Textile Private Limited

Particulars	₹
Net Sale Consideration	15,00,000
Less: Indexed Cost of acquisition =9,80,000*852/852 (Refer Note 1)	9,80,000
Long Term Capital Gain	5,20,000

Note:

1. The cost inflation index of F.Y. 2012-13 is notified by CBDT to be 852 vide *Notification No. 38/2012 dated 17.09.2012*.
2. The year of transfer and the year in which the company first held the asset are the same in this case, which is the reason why the numerator and the denominator for calculating the indexed cost of acquisition would remain the same. Therefore, in effect, there is no benefit of indexation in this case. However, as per the view expressed by Bombay High Court in CIT v. Manjula J. Shah 16 Taxman 42, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would have to be calculated by taking the CII of F.Y.2009-10, being the year in which the capital asset was acquired by the previous owner, Neerja, as the denominator, in which case, the capital gains chargeable to tax would undergo a change.

B. Computation of taxable capital gains for A.Y.2013-14

Particulars	
Gross Consideration	90,00,000
Less: Expenses on transfer (1% of Gross Consideration)	90,000
Net Consideration	89,10,000
Less: Indexed cost of acquisition (Refer Note below) (` 24,36,000 × 852/406)	<u>51,12,000</u>
	37,98,000
Less: Exemption u/s 54GB (` 37,98,000 × ` 60,00,000 / ` 89,10,000)	<u>25,57,576</u>
Taxable Capital Gains	12,40,424

Deemed cost of new plant and machinery for exemption under section 54GB

	Particulars		
(1)	Purchase cost of new plant and machinery acquired in July, 2013		65,00,000
	Less: Cost of office appliances, i.e., computers	6,00,000	
	Cost of vehicles, i.e., cars	8,00,000	
	Cost of air-conditioners at residence of Mr. Akash	<u>1,00,000</u>	<u>15,00,000</u>
			50,00,000
(2)	Amount deposited in the specified bank before the due date of filing of return		<u>10,00,000</u>
	Deemed cost of new plant and machinery for exemption under section 54GB		60,00,000

- C. Transfer pricing until now was applicable to companies having cross border transactions with their ASSOCIATED ENTERPRISE. However, Finance Bill 2012, honoring the supreme court ruling in case of CIT vs. M/S Glaxo Smithkline Asia (P) Ltd. (Special Leave to Appeal (Civil) No(s).18121/2007), expanded the ambit of transfer pricing to specified domestic transactions w.e.f 01 April 2013.

Transactions covered under the ambit of domestic transfer pricing:

- Any expenditure in respect of which payment is made or is to be made to a person referred to in Section 40A(2)(b) of the IT Act;
- Any transaction that is referred to in Section 80A;

- c. Any transfer of goods or services referred to in Section 80-IA(8) i.e. applicable to companies operating as industrial undertaking or enterprises engaged in infrastructure development;
- d. Any business transacted between the assessee and other person as referred to in section 80-IA(10);
- e. Any transaction, referred to in any other section under Chapter VI-A or section 10AA, to which provisions of sub-section (8) or sub-section (10) of section 80-IA are applicable;
- f. Any other transaction, as may be prescribed by the board.

Provided that the aggregate value of the transaction entered into by the assessee with its domestic associated enterprise exceeds ` 5 crore.

3.

A. Tax treatments for Mingle Engineering Limited:

The facts given in the problem are similar to the facts of the case decided by the Apex Court in *CIT v. Hyundai Heavy Industries Co. Ltd. [2007] 291 ITR 482*. The answer to the various parts of the question is accordingly based upon the ruling of the Apex Court in this case and the Provisions as contained in sections 9,92B, 92C and 92F of the Income-tax Act, 1961.

- i. The Korean Company, for the purpose of commissioning of the platform in Bombay High Court, shall be having an office in India for a period of around 9 months. The business of the enterprise shall be wholly or partly carried on in India through the office to be set up by the non-resident company. As per section 92F(iia), maintaining of an office by the non-resident in India for the conduct of its business, shall be treated as a 'permanent establishment'. Therefore, the office of Mingle Engineering Ltd. to be opened in India can be considered as its permanent establishment in India.
- ii. The total income of a person who is a non-resident includes only income which accrues or arises or is deemed to accrue or arise to him in India during the previous year. The Income which accrues or arises outside India is not includible in the total income of a Non-resident assessee.
Accordingly, only the profits attributable to the permanent establishment of the Korean Non-resident company i.e., ` 1.5 crores relating to the second part of the agreement for carrying out the activity of installation and commissioning of the platform in Bombay High (which is being conducted/supervised from the office in India) would be taxable in India, since it accrues or arises in India.
The profit of ` 2 crores relating to the fabrication work of the platform shall not be taxable in India because the completed structure is to be supplied from Korea. Such profits are not attributable to the permanent establishment, because the work of fabrication was completed in Korea prior to coming into existence of the permanent establishment in India.
- iii. Since the variation between the ALP and the transfer price (TP) is within 5% of the TP, the TP shall be deemed to be the arm's length price and no adjustment is required to be made.
In this case, the TP is ` 20 crores and 5% of the TP is ` 1 crore. Since the variation between the ALP of ` 19 crores and the TP of ` 20 crores is within 5% of TP (i.e., ` 1 crore), no adjustment is required and the TP of ` 20 crores shall be deemed to be the ALP.

The income subject to tax in India would, therefore, continue to be only ` 1.50 crores.

- B. Note: If the asset is acquired before 1.4.1981, then option of Fair Market Value on 1.4.81 is not allowed and the original cost shall be used for indexation.

Capital Gains of Mr.X for the A.Y. 2013-14

Capital Gain on sale of Tenancy right >>

Period of holding : 1.2.1981 to 1.2.2013

Particulars	Amount (₹)
Full value of consideration	22,00,000
Less: Indexed cost of acquisition ₹3,00,000 x 852/100	25,56,000
Long Term Capital Loss	3,56,000

- C. Slump sale is transfer of one or more business undertakings for a lump sum consideration, without assigning individual values to the each assets and liabilities to be transferred. It is not sale of assets which on its own cannot produce sustainable revenue.

Under Indian Income tax Act, 1961, "slump sale" means the transfer of one or more undertakings as a result of the sale for a lump sum consideration without values being assigned to the individual assets and liabilities in such sales. Therefore transferor is not required to assign value to each "assets and liabilities" of "business undertaking" to be transferred.

Tax Treatment under Sec.50B

- (1) Any profits or gains arising from the slump sale effected in the previous year shall be chargeable to income-tax as capital gains arising from the transfer of long-term capital assets and shall be deemed to be the income of the previous year in which the transfer took place.
- (2) In relation to capital assets being an undertaking or division transferred by way of such sale, the "net worth" of the undertaking or the division, as the case may be, shall be deemed to be the cost of acquisition and the cost of improvement for the purposes of sections 48 and 49 and no regard shall be given to the provisions contained in the second proviso to section 48.
- (3) Every assessee, in the case of slump sale, shall furnish in the prescribed form along with the return of income, a report of an accountant as defined in the Explanation below sub-section (2) of section 288 indicating the computation of the net worth of the undertaking or division, as the case may be, and certifying that the net worth of the undertaking or division, as the case may be, has been correctly arrived at in accordance with the provisions of this section.

D. Meaning of composite rent

The owner of a property may sometimes receive rent in respect of building as well as –

- 1) other assets like say, furniture, plant and machinery.
- 2) for different services provided in the building, for eg. –
 - (a) Lifts;
 - (b) Security;

- (c) Power backup;
The amount so received is known as “composite rent”.

Tax treatment of composite rent

- (1) Where composite rent includes rent of building and charges for different services (lifts, security etc.), the composite rent is has to be split up in the following manner -
 - a. the sum attributable to use of property is to be assessed under section 22 as income from house property;
 - b. the sum attributable to use of services is to charged to tax under the head “Profits and gains of business or profession” or under the head “Income from other sources”.

- (2) Where composite rent is received from letting out of building and other assets (like furniture) and the two lettings are not separable –
 - (a) If the letting out of building and other assets are not separable i.e. the other party does not accept letting out of buildings without other assets, then the rent is taxable either as business income or income from other sources;
 - (b) This is applicable even if sum receivable for the two lettings is fixed separately.

- (3) Where composite rent is received from letting out of buildings and other assets and the two lettings are separable –
 - (a) If building is let out along with other assets, but the two lettings are separable i.e. letting out of one is acceptable to the other party without letting out of the other, then income from letting out of building is taxable under “Income from house property”;
 - (b) Income from letting out of other assets is taxable as business income or income from other sources;
 - (c) This is applicable even if a composite rent is received by the assessee from his tenant for the two lettings

PRIME ACADEMY

36TH SESSION PROGRESS TEST – INDIRECT TAX LAWS

No. of Pages: 7

Total Marks: 75
Time Allowed: 2Hrs

PART- A

- 1) What is the Section for Declared Services under Finance act, 1994?
 - a. Section.66D
 - b. Section.66E
 - c. Section.65B
 - d. None of these.

- 2) Any process amounting to manufacture is
 - a. Not taxable as per negative list of services.
 - b. Not taxable as per exempted list of services.
 - c. Not taxable as per declared services.
 - d. None of these.

- 3) Consideration received by the trust to the extent ofis exempted from service tax on engaging the amounts towards charitable activities. Write for the year 2012-2013.
 - a. ` 18,75,000
 - b. ` 25,00,000
 - c. ` 10,00,000
 - d. ` 1,50,00,000

- 4) Construction of hospital by the private trust is
 - a. Exempted
 - b. Taxable.
 - c. Exempted subject to conditions
 - d. None of these.

- 5) Maintenance/Repairs of airports is
 - a. Exempted
 - b. Taxable.
 - c. Exempted subject to conditions
 - d. None of these.

- 6) Works contract under reverse charge mechanism, composition is
 - a. 75:25
 - b. 60:40
 - c. 50:50
 - d. 67:33

- 7) Man power supply proportion under reverse charge mechanism is
- 75:25
 - 60:40
 - 50:50
 - 67:33
- 8) Services of directors are liable for service tax under reverse charge mechanism from
- 01/07/2012.
 - 07/08/2012.
 - 08/07/2012.
 - 01/04/2012.
- 9) Security services is liable for service tax under reverse charge mechanism from
- 01/07/2012.
 - 07/08/2012.
 - 08/07/2012.
 - 01/04/2012.
- 10) A Works contract is executed in the nature of servicing of goods. The service portion in the execution of such works contract as per service tax determination of value Rules,2006 is:
- 60%
 - 70%
 - 40%
 - 100%.
- 11) What is the applicability of service tax on Agency services carried out on payment of commission on non government business
- Not liable
 - Liable as it is not appearing in negative list.
 - Liable subject to conditions.
 - None of the above.
- 12) Service tax applicability to RBI
- Services by RBI exempted as per negative list.
 - Services to RBI are taxable.
 - Both (a) & (b) are correct.
 - Both (a) & (b) are wrong.
- 13) Advertisement in Google website
- Liable to service tax
 - Not liable as per negative list.
 - Liable subject to conditions
 - None of the above.
- 14) Is membership in club is qualified as access to an amusement facility and exempted from service tax as per negative list.

- a. Yes.
 - b. No.
 - c. Yes. Subject to conditions
 - d. None of the above.
- 15) "Services provided to educational institutions are exempted from service tax as per negative list." TRUE or FALSE:-
- a. True
 - b. False.
- 16) Whether the transportation of goods by a vessel within Inland waterways is exempted:
- a. As per negative list.
 - b. As per exemption Notification.
 - c. As per Declared Services
 - d. It is taxable.
- 17) Negative list explained under.....section as per finance act, 2012.
- a. Section 65B
 - b. Section 66D
 - c. Section 66E
 - d. None of the above.
- 18) "On site development of a software"-Under which category of service it will come?
- a. Business auxiliary service.
 - b. Goods transport agency service.
 - c. Development of software technology service.
 - d. None of these.
- 19) Which notification deals with the mega exemption list?
- a. 25/2012
 - b. 26/2012
 - c. 30/2012
 - d. 33/2012.
- 20) Value of service portion in an activity wherein goods, being food or any other article of human consumption or any drink (whether or not intoxicating) is supplied in any manner.....
- a. Restaurant-40% and as part of outdoor catering-60%.
 - b. Restaurant-60% and as part of outdoor catering-40%.
 - c. Restaurant-75% and as part of outdoor catering-025%.
 - d. None of these
- 21) The concept of Partial reverse charge (Joint charge) came in to effect from
- a. 01/04/2012.
 - b. 07/07/2012.
 - c. 01/07/2012.
 - d. 04/08/2012.

- 22) Is the reverse charge applicable on services provided and complete before 1.7.2012 though payments were made after 1.7.2012? Assume that, the Service provider has discharged his liability on the accrual basis on the invoice raised.
- Not applicable.
 - Applicable.
 - Applicable based on certain services.
 - None of these.
- 23) Export of services governed by.....of service tax rules 1994.
- Rule 3(1)
 - Rule 5
 - Rule 6A
 - None.
- 24) Place of Provision of Services Rules, 2012 governed by the notification no.....
- 22/2012
 - 24/2012
 - 28/2012
 - 26/2012
- 25) Service has been defined to include:-
- Any activity
 - For consideration
 - Carried out by a person for another
 - And includes a declared service.
 - All of the above.
- 25 Marks

PART-B

50 Marks

- Describe the intention of the Government in bringing out the Negative List of taxation.
- Write any five clauses of negative list.
- Write any five clauses of Exemption Notification.
- What is the role of a Chartered Accountant in the new regime of service tax.
- With reference to Negative List and Place of Provision of Services Rules, 2012 express your views on taxability of Air Freight and Ocean Freight paid by a service provider for importing and exporting of goods.

6. A farmer cultivates paddy and sells it to a buyer. The buyer in turn takes it to a rice mill where the paddy is separated into husk and rice. Is this process liable for service tax? Explain with reasons.
7. A Partner of a firm which is engaged in trading of goods is in receipt of remuneration of ₹ 18,75,000/- for the year 2012-13. Is anybody liable to pay service tax? If yes, Who is liable to obtain registration and pay, If no, why?
8. Explain in brief the provisions of small scale exemption that an assessee can avail under the new service tax law from 01-07-2012.
9. What are the aspects of legal services which are covered under reverse charge mechanism where the service receiver is liable to pay the tax and what are the aspects where the legal service provider is liable to pay the entire amount of service tax? Is there any exemption available under reverse charge? If yes explain the same.
10. Explain the tax implications:
 - a. A main contractor is engaged in construction of Metro rail in Chennai. There is a sub contractor who is providing services to the main contractor.
 - b. Actor Anushka Shetty performs an advertisement for a Garment Manufacturing company. She also performs a folk dance for promotion of art and culture.
 - c. Foodstuff including flours, tea, coffee, jaggery, sugar, milk products, salt and edible oil, excluding alcoholic beverages; are transported through Lorry or Train.
 - d. A Means of transportation of goods is given on hire to a goods transport agency and a Trader of goods.
 - e. A Visiting Doctor charges consideration from patient and pays a part of the amount to the hospital on using its premises. Or the Hospital charges the consideration from the patient and pays a part amount to the visiting doctor for his services.

PRIME ACADEMY

36TH SESSION PROGRESS TEST – INDIRECT TAXES

SUGGESTED ANSWERS

PART-A

1	b
2	a
3	a
4	b
5	b
6	c
7	a
8	b
9	b
10	b
11	b
12	c
13	b
14	b
15	b
16	a
17	b
18	c
19	a
20	a
21	c
22	a
23	c
24	c
25	e

PART-B

1) The intention of the Government in bringing out the Negative List of taxation.

While the revenue expectations were often exceeded in all these years the administrative challenge began to assume unmanageable proportions. The newer additions to the list of services often raised issues of overlaps with the previously existing services, confounding both sides as to whether some activities were taxed for the first time or were already covered under an earlier, even if a little less specific head.

There was also a near unanimity across a wide section of thinkers that potential of service tax remained huge and largely untapped. Part of the problem identified was the lack of comprehensive taxation of services, not so much in the lack of coverage but more on account of lack of clarity and significant gaps in existing definitions, exposing the tax collection process to avoidable leakages and litigation.

Budget 2012 has ushered a new system of taxation of services; popularly known as Negative List. The new changes are a paradigm shift from the existing system where only services of specified descriptions are subjected to tax. In the new system all services, except those specified in the negative list, will be subject to taxation. For those who like to use modern-day terminology one could call it taxation of service version 2.0.

2. Five clauses of negative list.

➤ Any Five Clauses as per negative list is attached below.

- (a) Services by Government or a local authority excluding the following services to the extent they are not covered elsewhere:
 - 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;
 - services in relation to an aircraft or a vessel, inside or outside the precincts of a port or an airport;
 - transport of goods or passengers; or
 - support services, other than services covered under clauses (i) to (iii) above, provided to business entities.
- (b) Services by the Reserve bank of India.
- (c) Services by a foreign diplomatic mission located in India.
- (d) Services relating to agriculture or agricultural produce by way of –
 - agricultural operations directly related to production of any agricultural produce including cultivation, harvesting, threshing, plant protection or seed testing;
 - supply of farm labour;

- processes carried out at an agricultural farm including tending, pruning, cutting, harvesting, drying, cleaning, trimming, sun drying, fumigating, curing, sorting, grading, cooling or bulk packaging and such like operations which do not alter essential characteristics of agricultural produce but make it only marketable for the primary market;
- renting or leasing of agro machinery or vacant land with or without a structure incidental to its use;
- loading, unloading, packing, storage or warehousing of agricultural produce;
- agricultural extension services;
- (services by any Agricultural Produce Marketing Committee or Board or services provided by a commission agent for sale or purchase of agricultural produce.

(e) Trading of goods.

(f) Any process amounting to manufacture or production of goods.

(g) Selling of space or time slots for advertisements other than advertisements broadcast by radio or television.

(h) Service by way of access to a road or a bridge on payment of toll charges.

(i) Betting, gambling or lottery.

(j) Admission to entertainment events or access to amusement facilities.

(k) Transmission or distribution of electricity by an electricity transmission or distribution utility.

(l) Services by way of –

- (i) pre-school education and education up to higher secondary school or equivalent;
- (ii) education as a part of a curriculum for obtaining a qualification recognized by law;
- (iii) education as a part of an approved vocational education course.

(m) Services by way of renting of residential dwelling for use as residence;

(n) Services by way of –

- (i) extending deposits, loans or advances in so far as the consideration is represented by way of interest or discount;
- (ii) inter-se sale or purchase of foreign currency amongst banks or authorized dealers of foreign exchange or amongst banks and such dealers;

(o) Service of transportation of passengers, with or without accompanied belongings, by –

- (i) a stage carriage;
- (ii) railways in a class other than –
 - a) first class; or
 - b) an air conditioned coach;
- (iii) metro, monorail or tramway;
- (iv) inland waterways;
- (v) public transport, other than predominantly for tourism purpose, in a vessel between places located in India; and
- (vi) metered cabs, radio taxis or auto rickshaws;

(p) Services by way of transportation of goods –

(i) by road except the services of –

- a. a goods transportation agency; or
- b. a courier agency;

(ii) by an aircraft or a vessel from a place outside India up to the customs station of clearance in India; or

(iii) by inland waterways;

(q) Funeral, burial, crematorium or mortuary services including transportation of the deceased.

3. Five clauses of Exemption Notification.

➤ Any Five Clauses as per Exemption Notification is attached below.

1. Services provided to the United Nations or a specified international organization;
2. Health care services by a clinical establishment, an authorised medical practitioner or para-medics;
3. Services by a veterinary clinic in relation to health care of animals or birds;
4. Services by an entity registered under section 12AA of the Income tax Act, 1961 (43 of 1961) by way of charitable activities;
5. Services by a person by way of-
 - (a) renting of precincts of a religious place meant for general public; or
 - (b) conduct of any religious ceremony;
6. Services provided by-
 - (a) an arbitral tribunal to –
 - (i) any person other than a business entity; or

- (ii) a business entity with a turnover up to rupees ten lakh in the preceding financial year
 - (b) an individual as an advocate or a partnership firm of advocates by way of legal services to,-
 - (i) an advocate or partnership firm of advocates providing legal services ;
 - (ii) any person other than a business entity; or
 - (iii) a business entity with a turnover up to rupees ten lakh in the preceding financial year; or
 - (c) a person represented on an arbitral tribunal to an arbitral tribunal;
7. Services by way of technical testing or analysis of newly developed drugs, including vaccines and herbal remedies, on human participants by a clinical research organisation approved to conduct clinical trials by the Drug Controller General of India;
 8. Services by way of training or coaching in recreational activities relating to arts, culture or sports;
 9. Services provided to or by an educational institution in respect of education exempted from service tax, by way of,-
 - (a) auxiliary educational services; or
 - (b) renting of immovable property;
 10. . Services provided to a recognised sports body by-
 - (a) an individual as a player, referee, umpire, coach or team manager for participation in a sporting event organized by a recognized sports body;
 - (b) another recognised sports body
 11. Services by way of sponsorship of sporting events organised,-
 - (a) by a national sports federation, or its affiliated federations, where the participating teams or individuals represent any district, state or zone;
 - (b) by Association of Indian Universities, Inter-University Sports Board, School Games Federation of India, All India Sports Council for the Deaf, Paralympic Committee of India or Special Olympics Bharat;
 - (c) by Central Civil Services Cultural and Sports Board;
 - (d) as part of national games, by Indian Olympic Association; or
 - (e) under Panchayat Yuva Kreedaa Aur Khel Abhiyaan (PYKKA) Scheme;

12. .Services provided to the Government, a local authority or a governmental authority by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of -
- (a) a civil structure or any other original works meant predominantly for use other than for commerce, industry, or any other business or profession;
 - (b) a historical monument, archaeological site or remains of national importance, archaeological excavation, or antiquity specified under the Ancient Monuments and Archaeological Sites and Remains Act, 1958 (24 of 1958);
 - (c) a structure meant predominantly for use as (i) an educational, (ii) a clinical, or (iii) an art or cultural establishment;
 - (d) canal, dam or other irrigation works;
 - (e) pipeline, conduit or plant for (i) water supply (ii) water treatment, or (iii) sewerage treatment or disposal; or
 - (f) a residential complex predominantly meant for self-use or the use of their employees or other persons specified in the *Explanation* 1 to clause 44 of section 65 B of the said Act;
13. Services provided by way of construction, erection, commissioning, installation, completion, fitting out, repair, maintenance, renovation, or alteration of,-
- (a) a road, bridge, tunnel, or terminal for road transportation for use by general public;
 - (b) a civil structure or any other original works pertaining to a scheme under Jawaharlal Nehru National Urban Renewal Mission or Rajiv Awaas Yojana;
 - (c) a building owned by an entity registered under section 12 AA of the Income tax Act, 1961(43 of 1961) and meant predominantly for religious use by general public;
 - (d) a pollution control or effluent treatment plant, except located as a part of a factory; or a structure meant for funeral, burial or cremation of deceased;
14. Services by way of construction, erection, commissioning, or installation of original works pertaining to,-
- (a) an airport, port or railways, including monorail or metro;
 - (b) a single residential unit otherwise than as a part of a residential complex;
 - (c) low- cost houses up to a carpet area of 60 square metres per house in a housing project approved by competent authority empowered under the 'Scheme of Affordable Housing in Partnership' framed by the Ministry of Housing and Urban Poverty Alleviation, Government of India;
 - (d) post- harvest storage infrastructure for agricultural produce including a cold storages for such purposes; or
 - (e) mechanised food grain handling system, machinery or equipment for units processing agricultural produce as food stuff excluding alcoholic beverages;

15. Temporary transfer or permitting the use or enjoyment of a copyright covered under clauses (a) or (b) of sub-section (1) of section 13 of the Indian Copyright Act, 1957 (14 of 1957), relating to original literary, dramatic, musical, artistic works or cinematograph films;
16. Services by a performing artist in folk or classical art forms of (i) music, or (ii) dance, or (iii) theatre, excluding services provided by such artist as a brand ambassador;
17. Services by way of collecting or providing news by an independent journalist, Press Trust of India or United News of India;
18. Services by way of renting of a hotel, inn, guest house, club, campsite or other commercial places meant for residential or lodging purposes, having declared tariff of a unit of accommodation below rupees one thousand per day or equivalent;
19. Services provided in relation to serving of food or beverages by a restaurant, eating joint or a mess, other than those having (i) the facility of air-conditioning or central air-heating in any part of the establishment, at any time during the year, and (ii) a licence to serve alcoholic beverages;
20. Services by way of transportation by rail or a vessel from one place in India to another of the following goods -
 - (a) petroleum and petroleum products falling under Chapter heading 2710 and 2711 of the First Schedule to the Central Excise Tariff Act, 1985 (5 of 1986);
 - (b) relief materials meant for victims of natural or man-made disasters, calamities, accidents or mishap;
 - (c) defence or military equipments;
 - (d) postal mail or mail bags;
 - (e) household effects;
 - (f) newspaper or magazines registered with the Registrar of Newspapers;
 - (g) railway equipments or materials;
 - (h) agricultural produce;
 - (i) foodstuff including flours, tea, coffee, jaggery, sugar, milk products, salt and edible oil, excluding alcoholic beverages; or
 - (j) chemical fertilizer and oilcakes;
21. Services provided by a goods transport agency by way of transportation of -
 - (a) fruits, vegetables, eggs, milk, food grains or pulses in a goods carriage;
 - (b) goods where gross amount charged for the transportation of goods on a consignment transported in a single goods carriage does not exceed one thousand five hundred rupees; or
 - (c) goods, where gross amount charged for transportation of all such goods for a single consignee in the goods carriage does not exceed rupees seven hundred fifty;

22. Services by way of giving on hire -
- (a) to a state transport undertaking, a motor vehicle meant to carry more than twelve passengers;
 - or
 - (b) to a goods transport agency, a means of transportation of goods;
23. Transport of passengers, with or without accompanied belongings, by -
- (a) air, embarking from or terminating in an airport located in the state of Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, or Tripura or at Bagdogra located in West Bengal;
 - (b) a contract carriage for the transportation of passengers, excluding tourism, conducted tour, charter or hire; or
 - (c) ropeway, cable car or aerial tramway;
24. Services by way of vehicle parking to general public excluding leasing of space to an entity for providing such parking facility;
25. Services provided to Government, a local authority or a governmental authority by way of -
- (a) carrying out any activity in relation to any function ordinarily entrusted to a municipality in relation to water supply, public health, sanitation conservancy, solid waste management or slum improvement and upgradation; or
 - (b) repair or maintenance of a vessel or an aircraft;
26. Services of general insurance business provided under following schemes -
- (a) Hut Insurance Scheme;
 - (b) Cattle Insurance under Swarnajayanti Gram Swarozgar Yojna (earlier known as Integrated Rural Development Programme);
 - (c) Scheme for Insurance of Tribals;
 - (d) Janata Personal Accident Policy and Gramin Accident Policy;
 - (e) Group Personal Accident Policy for Self-Employed Women;
 - (f) Agricultural Pumpset and Failed Well Insurance;
 - (g) premia collected on export credit insurance;
 - (h) Weather Based Crop Insurance Scheme or the Modified National Agricultural Insurance Scheme, approved by the Government of India and implemented by the Ministry of Agriculture;
 - (i) Jan Arogya Bima Policy;
 - (j) National Agricultural Insurance Scheme (Rashtriya Krishi Bima Yojana);
 - (k) Pilot Scheme on Seed Crop Insurance;
 - (l) Central Sector Scheme on Cattle Insurance;
 - (m) Universal Health Insurance Scheme;

- (n) Rashtriya Swasthya Bima Yojana; or
- (o) Coconut Palm Insurance Scheme;

27. Services provided by an incubatee up to a total turnover of fifty lakh rupees in a financial year subject to the following conditions, namely:-

- (a) the total turnover had not exceeded fifty lakh rupees during the preceding financial year; and
- (b) a period of three years has not been elapsed from the date of entering into an agreement as an incubatee;

28. Service by an unincorporated body or a non- profit entity registered under any law for the time being in force, to its own members by way of reimbursement of charges or share of contribution -

- (a) as a trade union;
- (b) for the provision of carrying out any activity which is exempt from the levy of service tax; or
- (c) up to an amount of five thousand rupees per month per member for sourcing of goods or services from a third person for the common use of its members in a housing society or a residential complex;

29. Services by the following persons in respective capacities -

- (a) sub-broker or an authorised person to a stock broker;
- (b) authorised person to a member of a commodity exchange;
- (c) mutual fund agent to a mutual fund or asset management company;
- (d) distributor to a mutual fund or asset management company;
- (e) selling or marketing agent of lottery tickets to a distributor or a selling agent;
- (f) selling agent or a distributor of SIM cards or recharge coupon vouchers;
- (g) business facilitator or a business correspondent to a banking company or an insurance company, in a rural area; or
- (h) sub-contractor providing services by way of works contract to another contractor providing works contract services which are exempt;

30. Carrying out an intermediate production process as job work in relation to -

- (a) agriculture, printing or textile processing;
- (b) cut and polished diamonds and gemstones; or plain and studded jewellery of gold and other precious metals, falling under Chapter 71 of the Central Excise Tariff Act ,1985 (5 of 1986);
- (c) any goods on which appropriate duty is payable by the principal manufacturer; or
- (d) processes of electroplating, zinc plating, anodizing, heat treatment, powder coating, painting including spray painting or auto black, during the course of manufacture of parts of cycles or sewing machines upto an aggregate value of taxable service of the specified processes of one hundred and fifty lakh rupees in a financial year subject to the condition that such aggregate value had not exceeded one hundred and fifty lakh rupees during the preceding financial year;

31. Services by an organiser to any person in respect of a business exhibition held outside India;
 32. Services by way of making telephone calls from –
 - (a) departmentally run public telephone;
 - (b) guaranteed public telephone operating only for local calls; or
 - (c) free telephone at airport and hospital where no bills are being issued;
 33. Services by way of slaughtering of bovine animals;
 34. Services received from a provider of service located in a non- taxable territory by -
 - (a) Government, a local authority, a governmental authority or an individual in relation to any purpose other than commerce, industry or any other business or profession;
 - (b) an entity registered under section 12AA of the Income tax Act, 1961 (43 of 1961) for the purposes of providing charitable activities; or
 - (c) a person located in a non-taxable territory;
 35. Services of public libraries by way of lending of books, publications or any other knowledge- enhancing content or material;
 36. Services by Employees' State Insurance Corporation to persons governed under the Employees' Insurance Act, 1948 (34 of 1948);
 37. Services by way of transfer of a going concern, as a whole or an independent part thereof;
 38. Services by way of public conveniences such as provision of facilities of bathroom, washrooms, lavatories, urinal or toilets;
 39. Services by a governmental authority by way of any activity in relation to any function entrusted to a municipality under article 243 W of the Constitution.
4. The role of a Chartered Accountant in the new regime of service tax.
- Render Proper Advisory services
 - Ensure proper compliances of various new rules and regulations
 - Take steps for proper growth of the economy by suggesting various measures to the Government
 - Make the citizens to be a tax compliant party by educating and advising them.

5. With reference to Negative List and Place of Provision of Services Rules, 2012 express your views on taxability of Air Freight and Ocean Freight paid by a service provider for importing and exporting of goods.
 - As per Clause (P)(ii) of negative list, import freight is not taxable
 - As per rule 10 of POP rule, 2012, export freight is exempted as destination of goods is in non taxable territory.
6. The said sub-clause (iii) of clause (d) of Section 66D also includes 'such like operations which do not alter the essential characteristic of agricultural produce'. Therefore, activities like the processes carried out in agricultural farm would also be covered if the same are performed outside the agricultural farm provided such processes do not alter the essential characteristics of agricultural produce but only make it marketable in the primary market. Therefore, cleaning of wheat would be covered in the negative list entry even if the same is done outside the farm. Shelling of paddy would not be covered in the negative list entry relating to agriculture as this process is never done on a farm but in a rice seller normally located away from the farm. However, if shelling is done by way of a service i.e. on job work then the same would be covered under the exemption relating to 'carrying out of intermediate production process as job work in relation to agriculture'.
7. The partner of the firm can be held liable for payment of service tax as there is no employer employee relationship exists between the partner and the firm. Though it can be said that, principles of mutuality exists, in the eyes of law, both are distinct persons and hence, partner can be held liable for registration and payment of service tax.
8. The old law gave the exemption based on receipts. The new law gives the exemption on the first consecutive invoices issued or required to be issued by the provider of taxable service.

aggregate value" means the sum total of value of taxable services charged in the first consecutive invoices issued or required to be issued, as the case may be, during a financial year but does not include value charged in invoices issued towards such services which are exempt from whole of service tax leviable thereon under section 66 of the said Finance Act under any other notification.

9 Service provided by an Advocate or Firm of Advocates

S.No	Particulars (Service Provided in any branch of Law)	Person Responsible for Paying Taxes	Percentage of Tax Liability
1	To a Individual Advocate	None	0
2	To a Firm fo Advocates	None	0
3	To a Business Entity	Service Receiver	100
4	To an Individual (Non business entity)	None	0
5	To a business entity whose turnover is less than 10 lakhs in the previous year	None	100
S.No	Particulars (Service Provided which is not in any branch of Law)	Person Responsible for Paying Taxes	Percentage of Tax Liability
1	To a Individual Advocate	Service Provider	100
2	To a Firm fo Advocates	Service Provider	100
3	To a Business Entity	Service Provider	100
4	To an Individual (Non business entity)	Service Provider	100
5	To a business entity whose turnover is less than 10 lakhs in the previous year	Service Provider	100

10.

- a. The main contractor is providing services in construction of metro rail which is exempted by notification no.25/2012. Similarly, the sub contractor providing any services to a main contractor who is in turn engaged in providing exempted service is also not liable for payment of service tax as per the same notification.
- b. The actor performing for an advertisement will be liable for service tax as she becomes a brand ambassador for the company. Where if she is performing a folk dance she will not be liable for service tax as per the exemption notification.
- c. If the items listed are transported through lorry, then service tax is liable to be paid. However, if the items are transported through the means of rail (Train) then service tax is exempted.
- d. If the means of transport is given to a transport agency, the same is exempt from service tax. However, if it is given on hire to a trader in goods, it is liable for service tax.
- e. Visiting doctor paying to the hospital will partake the character of payment of rent towards utilisation of resources and hence, hospitals will be liable for payment of service tax. However, if the hospital collects and pays to the doctor, it will amount to payment of professional charges only which is exempt from service tax by way of the exemption notification.