

PRIME ACADEMY
FINAL - 41st SESSION - PROGRESS TEST
DIRECT TAX LAWS

No. of pages: 3

Total Marks: 65
Time Allowed: 2 Hrs

PART - A

I.

1. Choose the right answer for the following questions:
 - A. Salary income is taxable on
 - B. Receipt basis
 - C. Due basis
 - D. Receipt or due basis.
2. Basic Exemption Limit for resident Women individuals is:
 - A. 190,000
 - B. 250,000
 - C. 500,000
 - D. 300,000
3. Investment allowance u/s 32AC(1A) is eligible for investments made in plant and machinery in excess of
 - A. INR 200 Crores
 - B. INR 100 Crores
 - C. INR 25 Crores
 - D. INR 50 Crores
4. Unlisted equity shares sold after 10 July 2014 shall be considered as long term assets if period of holding is in excess of
 - A. 12 Months
 - B. 36 Months
 - C. Both
5. Proceeds from Keyman insurance policy received the legal heirs of the Employee shall be taxable under the head:
 - A. Salary
 - B. Profits and Gains from Business or profession
 - C. Income from other sources
 - D. None of the head i.e. not taxable.

(5 x 1 = 5 Marks)

II.

1. State whether following statements are True or False and also relevant provision of Income tax act, 1961 for the same:
 - A. Expenditure incurred on land for Scientific research purpose is allowed as deduction under section 35 of income tax act, 1961.
 - B. Unrealized rent from House Property cannot be deducted from actual rent.
 - C. All dividend income is exempt in the hands of Shareholders
 - D. No deduction/expenditure is allowable against Salary income.
 - E. Loss of income from other sources can be carried forward for any number of years.

(5 x 2 = 10 Marks)

III.

1. Explain the following terms in brief with reference to Income Tax Act, 1961:
 - A. Profits in lieu of Salary u/s 17(3)
 - B. Bad debts deduction u/s 36 (1) (vii)
 - C. Exemption u/s 54F
 - D. Unexplained investments u/s 69
 - E. Business trust definition

(5 x 2 = 10 Marks)

PART - B

(50 Marks)

1.

A) The profit & loss A/C for the year ended 31.03.2015 of Jolly Ltd., a company engaged in different types of business activities, continuously incurring losses disclosed net loss of INR 1,50,000 arrived at after debiting/ crediting the following:

- (i) Profit of INR 3,13,000 from a hedging contract entered in to for meeting out loss in foreign currency payments towards an imported machinery of INR 60 lakhs installed and put to use on 01.01.2015.
- (ii) Amount in U.K. pounds 1,660 equivalent to INR 1,11,200 paid to a travel agent resident of U.K. as commission for the booking of international tourists to India in one of the hotel of the company; on which the tax at source was neither deducted nor paid.
- (iii) Amount of INR 25,000 debited in commission A/C represents payment to a party as secret commission duly approved by the board.
- (iv) Amount of INR 4,23,000 recovered from the C&F agents towards the excess freight charges collected up to financial year 2013-14 by them from the customers of the company which was neither remitted to the company nor refunded back to customers.
- (v) Amount of INR 5,00,000 of unpaid interest for the year 2013-14 waived by SBI after considering the financial health of the company.
- (vi) Interest on the amount of advance of INR 3,00,000 given to the subsidiary company at 10% p.a. was not charged on that the financial position of the subsidiary was not satisfactory.
- (vii) INR 50,000 representing the value of furniture found missing on physical verification and debited to General Expenses.
- (viii) Amount of salary of INR 1,50,000 paid to the managing Director for which the approval of the central Government was received on 18.04.2015.
- (ix) Amount of INR 3,30,000 received from the holding company in reimbursement of loss sustained in a particular transaction.
- (x) Expenses of INR 26,00,000 incurred on the dismantling of building and machinery and transportation to the new site for refitting because of shifting of the location of one of its unit.
- (xi) Provision of INR 75,000 of interest on the un paid purchase price of an asset which was put to use in August,2014.

Compute income under the head "Business of Profession" of Jolly Ltd. For the AY 2015-16 indicating brief Reasons for the treatment given to each of the items. Ignore the provisions of MAT. **(10 Marks)**

B) Peeyush, a Non-Resident Indian returned to India on 12th June 2014 for permanently residing in India after a stay of about 20 years in U.K., provides the source of his various income and seeks your opinion to know about his liability to income-tax thereon in India foray 2015-16.

- i) Income of the rent of the flat in London which was deposited in a bank there. The flat was given on rent by him after him return to India since July, 2014.
- ii) Dividends on the shares of three German companies which are being collected in a bank account in London. He purposes to keep the dividend on shares in London with the permission of the Reserve Bank of India.
- iii) He has got two sons, one of whom is of 12 years. Both the sons are staying in London and not returning to India with him. Each of both the sons is having income of INR 75,000 in U.K. (not received in India) and of INR 20,000 in India.
- iv) During the preceding accounting year when he was a non-resident, he had sold 1000 shares which were acquired by him in British pound sterling and the sale proceeds were repatriated. The profit in terms of British pound sterling on sale of these 1000 shares was 175% of the cost at INR 37,500 while terms of Indian rupee it was INR 50,000. **(5 Marks)**

C) Aerochem, a partnership firm, transfers a piece of land situated in Thane district on 17.08.2014 for stamp duty of INR 50 lakhs. The land purchased in 06.03.1981 for INR 1 lakh got registered 03.04.1988 on payment of stamp duty of INR 20,000. Expenses on land development and construction of boundary wall incurred in August, 1988 were INR 1,50,000. The charges for the transfer of land to the broker were 2.5% of the sale consideration. Fair market value of land as on 01.04.1981 was INR 1,50,000. The firm invested INR 30 lakhs on 01.12.2014 in the bonds issued by National Highways Authority of India redeemable after a period of 48 months. Compute the amount of capital gain chargeable to tax for AY 2015-16 with the help of cost inflation index for FY 1988-89 and 161 and 1024 respectively. Also given in brief the reasons and the provisions of the Act for each of the items dealt with. **(5 Marks)**

2.

A) Mr. Kadam is entitled to salary of INR 25,000 p.m. he is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was INR 5,000 p.m. the rent for the hired accommodation was INR 6,000 p.m. at New Delhi. Advise Mr. Kadam whether it would be beneficial for him to avail HRA or Rent free accommodation. Give your advice on the basis of "Net Take Home Cash Benefits". **(8 Marks)**

B. Happy home is a public charitable trust created under a trust deed for providing relief to physically challenged persons and registered u/s. 12A of Income-tax Act.

The following are the particulars of receipts of the trust during the year ended 31st March 2015:

Particulars	INR(in lakhs)
Income from properties held by trust (net)	15
Income(net) from business (incidental to main objects)	14
Voluntary contributions from public (including the corpus donation INR 7 lakhs)	18

The trust applied INR 189 lakhs towards various activities and programmes undertaken for the benefit of physically challenged persons during the year. The trust has also paid INR 8 lakhs towards repayment of a loan taken two years back for the purpose of construction of its centre for training the handicapped persons in various handicraft works and sports. Determine the tax liability, if any of the trust for the AY 2015-16 and also state how the trust can mitigate such liability. **(7 Marks)**

3. Compute the quantum of depreciation available u/s. 32 of the Income Tax Act, 1961 and any other benefit available in respect of the following items of plant and machinery purchased by PQR textile Ltd., which is engaged in the manufacture of textile fabrics, during the year ended 31.03.2015.

Particulars	Rs. (in crores)
New machinery purchased on 01.05.2014	84
New windmill purchased and installed on 18.06.2014	22
Items purchased after 30 th November 2014:	
Lorries for transporting goods to sales depots	3
Fork- lift- trucks, used inside factory	4
Computers installed in office premises	1
Computers installed in factory	2
New imported machinery	12

The new imported machinery arrived at Chennai port on 30.03.2015 and was installed 03.01.2015. All other items were installed during the year ended 31.03.2015. The company was newly started during the year. Also compute the WDV of the various blocks of assets.

Will your answer be different if the above assessee were a partnership firm?

(5 Marks)