

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A. Sem. – III - Examination –June- 2011

Subject code :(830201)

Subject Name: Corporate Taxation & Financial Planning

Date:09/06/2011

Time: 02.30 pm – 05.30 pm

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 ABC Ltd., an Indian company, submits the following particulars relevant for the assessment year 2010: **14**

Particulars	Rs.	Particulars	Rs.
Salary to Staff	5,24,000	Gross profit	23,52,000
Income tax	20,000		
Expenses on issue of shares for setting up a new show room at Delhi	40,000		
Expenses on raising a long term loan for setting up a new show room at Mumbai	60,000		
Interest on public deposits	20,000		
Capital expenditure for promotion of family planning among employees	8,000		
Legal expenses for filing income – tax appeals before Delhi High Court	11,000		
Reserve for losses	16,000		
Reserve for payment of fines and penalty	6,000		
Reserve for bad and doubtful debts	400		
Maintenance expenses for car	12,000		
Bad debts written off	3,600		
Depreciation to be written off: Plant and machinery			
Car	42,000		
	6,000		
Office expenses	8,000		
Rent & repairs	28,000		
Sundry expenses	2,43,000		
Net profit	13,04,000		
Total	23,52,000		23,52,000

Other information:

1. Car is partly used for official purposes and partly for personal purposes of manager. In the past 50 percent of car expenditure is disallowed.
2. Sundry expenses include payment of an advertisement bill to a person who has substantial interest in company. The payment is excessive to the extent of Rs. 9,800.
3. Office expenses include an expenditure of Rs. 4,000 which is paid in cash.
4. Sundry expenses include an expenditure of Rs. 40,100 which is paid by a bearer cheque.
5. Depreciation on machinery as per income tax provisions is Rs. 18,000
6. On March 10, 2010, the company pays Rs. 1, 80,000 to National Laboratory for carrying an approved scientific research programme in natural science. The payment is not recorded in the above P & L Account.
7. Sundry expenses included royalty payment of Rs. 50,000 to a resident on which tax is deducted at source on March 31, 2010 and paid to the government on September 5, 2010 (i.e. after the time limit given under section 200(1)).

Determine the taxable income and tax liability of the company for the assessment year 2010-11.

Q.2 (a) Distinguish between : (Any Two) 07

- (i) Tax avoidance and Tax evasion
- (ii) Tax planning and Tax management
- (iii) Real ownership and Beneficial ownership

(b) X furnishes the following particulars of his income earned during the previous year relevant to the assessment year 2010-11 07

	Rs.
1. Income on German Development Bonds (one-sixth is received in India)	72,000
2. Income from agriculture in Pakistan, received there but later on Rs. 1,72,000 as remitted to India	6,82,000
3. Interest from property in USA received outside India (Rs. 1,84,000 is used in Canada for meeting the education expenses of X's son is in Canada and Rs. 4,96,000 is later on remitted to India)	6,80,000
4. Income earned from business in Iran which controlled from New Delhi (Rs. 1,40,000 is received in India)	8,10,000
5. Dividend paid by an Indian company on May 10, 2009 but received out side India	3,91,600
6. Pasted untaxed profit of 2006-07 brought to India in May,2009	4,20,000
7. Profit from the business in New Delhi and managed from out side India (60 % of profit is received out side India)	1,84,000
8. Profits on sale of building in India but received in Nepal	37,48,000
9. Pension from a formal employer in India received in Iran	4,30,000

10. Gift in foreign currency from a friend received 1,60,000
in India on September 6, 2009
Find out the gross total income of X if he is
(i) Resident and ordinarily resident in India
(ii) Resident but not ordinarily resident in India
(iii) Non- resident in India
For the assessment year 2010-11

OR

- (b)** X joined a company at Ajmer (population 24 lakh) on June 1, 2009 and was paid the following emoluments and allowed perquisites as under: **07**

Emoluments :

- Basic pay Rs. 25,000 per month
Dearness allowance Rs. 10,000 per month
Bonus Rs. 50,000 per month

Perquisites:

- i. Furnished accommodation owned by the employer and provided free of cost.
- ii. Value of furniture therein Rs. 3,00,000
- iii. Motor car owned by company (with engine cubic capacity less than 1.6 litres) along with chauffeur for official and personal use.
- iv. Sweeper salary paid by company Rs. 1,500 per month.
- v. Watchman salary paid by company
- vi. Rs. 1,500 per month.
- vii. Educational facility for two children provided free of cost. The school owned and maintained by the company.
- viii. Interest free loan of Rs. 5,00,000 given on October 1, 2009 for purchase of a house repayable within five years. No repayment was made during the year (SBI landing rate is 9.75%).
- ix. Interest free loan of Rs. 50,000 for purchase of computer to be used for education purpose given on January 1, 2010. No repayment was made during the year (SBI landing rate is 11.75%)
- x. Corporate membership of a club. The initial fee of Rs. 1,00,000 was paid by the company. X paid the bills for his use of club facilities.

You are required to compute the income of X under the head "salaries" in respect of assessment year 2010-11.

- Q.3 (a)** Mr. Jay furnish the following details for the year ending March 31, 2010, assumed that figures given below are computed and arrived after considering eligible deductions. **07**

Particulars	Rs.
<u>Salary Income</u>	4,50,000
<u>Income(loss) from House property</u>	
House – 1	1,40,000
House – 2 (Self-occupied)	(7,05,000)
House – 3	1,15,000
<u>Profit or Gain from Business or Profession</u>	
Pharmaceutical business	5,00,000
Electronic business	(7,50,000)
Speculation business	3,60,000

Capital Gains

Long - term capital gain	3,00,000
Short - term capital gain	1,90,000
Long - term capital loss	(3,25,000)

Income from other sources

Loss on owning and maintaining race horses	(1,50,000)
Interest on securities	2,90,000

Compute total taxable income of Jay.

- (b) Explain the concept of Double Taxation Avoidance Agreement (DTAA). **07**

OR

- Q.3 (a)** ABC Ltd. is in process of expansion of programme. It has to make choice between debt issue and equity issue for its expansion programme. Its current position is as under. **07**

Particulars	Rs. In Crore
Equity share capital (Rs. 10 per share)	500
10 % loan	200
Reserve & Surplus	<u>300</u>
Total Capital Employed	<u>1,000</u>
Total sales	3,000
Less:	
Total costs	<u>2,690</u>
	310
Less:	
Interest (10 % on 200)	<u>20</u>
Profit Before Tax	290
Less:	
Tax @ 33. 2175 %	<u>96.33</u>
Profit After Tax	193.67

The expansion programme is estimated to cost Rs. 500 crore. If this is financed through debt, the new rate of debt will be 10 percent and the price-earning ratio will be 6 times. If the expansion programme is financed through equity shares, new shares can be sold @ Rs. 25 per share and price-earning ratio will be 7 times. The expansion will generate additional sales of Rs. 1500 crore with return of 10 % on sales before interest and taxes. If company wants to follow maximizing the market value of its shares, which form of financing, should it choose?

- (b) Explain advantages of Limited Liability Partnership (LLP) as compared to company form of organization **07**

- Q.4** XYZ Ltd. is considering the purchase of a new machine costing Rs. 1, 20,000 with an expected life of 5 years with salvage value of Rs. 6,000, in replacement of an old machine purchased 3 years ago for Rs. 30,000 with expected life of 8 years. The present market value of this old machine is Rs. 70,000. Because of the purchase of new machinery, the annual profits before depreciation are expected to increase by Rs. 24,000. The relevant depreciation rate for the machine is 15 percent on written down value basis **14**

and the tax rate is 33.2175 percent. Assume the after tax cost of capital (discounting rate) to be 14 percent. Advice the company suitably.

OR

- Q.4 (a)** R Ltd., is engaged in the business of carriage of goods. On April 1, 2009 it owns 10 trucks (6 out of which are “heavy goods vehicle”). On May, 16, 2009, one of the heavy goods vehicles is sold by R. Ltd. to purchase a light goods vehicle on May 25, 2009, which is put to use only from August, 1 2009. Find out the net income of R Ltd. for the assessment year 2010-11 taking in to consideration the following data: **07**

Particulars	Rs.
Freight collected	7,75,000
Less:	
Operating expenses	5,25,000
Depreciation as per section 32	1,40,000
Other office expenses	<u>65,000</u>
Net Profit	45,000
Other Business Income	55,000

- (b)** Explain Methods of Accounting under income-tax Act 1961. **07**

- Q.5 (a)** XY & Co., a partnership firm, transfers a piece of land situated in Thane district on August 17, 2009 for Rs.50 lakh. The land purchased on March 6, 1980 for Rs. 1 lakh got registered on April 3, 1983 on payment of stamp duty of Rs. 20,000. Expenses on land development and construction of boundary wall incurred in August 1983 where of Rs. 1, 50,000. The charges for transfer of land paid to the broker where 2.5% of the sale consideration. Fair market value of the land as on April 1, 1981 was Rs. 1, 50,000. The firm invested Rs. 30 lakh on December 1, 2009 in the bonds issued by a National Highways Authority of India redeemable after a period of 48 months. Compute the amount of capital gain chargeable to tax and amount of exemption U/S 54EC for the assessment year 2010-11. Cost Inflation Index for 1981-82 and for 2009-10 is 100 and 632 respectively. **07**

- (b)** Explain implications of Direct Tax Code on Steel Sector. **07**

OR

- Q.5 (a)** Write provisions relating to deduction of tax at source from Salary. **07**

- (b)** X Ltd., is engaged in business of growing and manufacturing tea in India. **07**

During previous year 2008-09, it deposits Rs. 100 lakh in the “special account” and claim the same as deduction under section 33AB (i.e. 40 % of the business profit: Rs. 250 lakh). During 2009-10, the company withdraws Rs. 35 lakh from the “special account” which is utilized as follows :

a. Rs. 25 lakh on December 31, 2009 for the purpose of scheme framed by the Tea Board ; and

b. Rs. 4 lakh for the other purpose on January 27, 2010.

c. 6 lakh is not utilized up to March 31, 2010.

Find out the amount chargeable to tax for the assessment year 2010-11.
