

M. COM. DEGREE END SEMESTER EXAMINATION - APRIL 2021**SEMESTER 4 : COMMERCE****COURSE : 16P4COMT17EL : DIRECT TAXES - ASSESSMENT AND PROCEDURES***(For Regular - 2019 Admission & Supplementary - 2018/2017/2016 Admissions)*

Time : Three Hours

Max. Marks: 75

PART A**Answer any 10 (2 marks each)**

1. What is 'Foreign Company'?
2. What do you mean by 'Closely –held company'?
3. What is Book Profit?
4. Mention any two items disallowed under section 40(b).
5. What is Corporate Dividend Tax?
6. Explain the return submitted by a charitable trust.
7. What is reassessment?
8. What is the power to retain assets
9. What is TDS Certificate?
10. What is DTAA?
11. What is Tax Evasion?
12. Write a note on Profits in lieu of salary

(2 x 10 = 20)**PART B****Answer any 5 (5 marks each)**

13. PQ associates is an AOP with two members P and Q sharing 3:2. Income of the AOP for the year 2019-20 is ₹ 18,00,000. Compute tax liability of AOP and the members in the following cases.
 - a. Income of P and Q from other sources ₹ 2,00,000 and ₹ 6,60,000 respectively.
 - b. Income of P and Q from other sources ₹ 1,50,000 and ₹ 2,50,000 respectively.
14. A (a woman aged 70), B (aged 45) and C (aged 35) are members of an Association of Persons sharing in the ration of 1:2:3. During the financial year 2019-20, the taxable income of the AOP was ₹ 90,000, ₹ 1,50,000 and ₹ 2,50,000 respectively. Compute the tax liability of the AOP and the members A, B and C for the year 2019-20.
15. XYZ, is a partnership firm with X, Y, and Z as partners sharing profits and losses equally. The firm is assessed u/s 185. Z is the wife of X and she carries on another business from which her taxable income was ₹ 10,00,000. For the year ended 31st March 2020, the Profit and Loss Account of the firm discloses a net profit of ₹ 2 Crores. The following information is available on examination of the books and records.

Z became a partner by investing capital from her own resources, her husband having contributed no part of it directly or indirectly. She is actively engaged in the business. Salary of ₹ 6, 00,000 was paid to Y.

Interest ₹ 2, 00,000 and ₹ 4, 00,000 were paid to X and Z respectively on their capital.

Z's building has been occupied by the firm on a monthly rent of ₹ 50,000.

Tax ₹ 1, 00,000 paid during the year by the firm on behalf of a non-resident principal, (for whom the firm was treated as agent) was written off as it becomes irrecoverable. The firm claims it as bad debt.

The amounts noted in item (b), (c), (d), and (e) above were debited to the P&L a/c. X has ₹ 50,000 as income being interest on bank deposit. Y has Short term capital gains ₹ 1, 00,000. Determine the total income of the firm and each partner. Also, compute the tax payable by them for the previous year 2019-20.

16. Mr. Green, Mrs. Green and their son Mr. Brown formed a partnership. Miss White, minor daughter of Mr. Green was also admitted to the partnership as 'partner in profits only'. The firm satisfies the conditions of Sec. 184. During the year 2019-20, the firm made a net profit of ₹ 1,75,000 after charging the following expenses.
- ₹50,000 interest on loan taken from Mrs. Green at the rate of 20% p.a. (the amount was advanced out of money gifted by her father).
 - Rent paid to Mr. Brown ₹6,000 per month.
 - Bonus to four partners ₹25,000 each.
 - Salary to Mr. Green (the only working partners) ₹10,000 per month.
 - Donation to a famous church of the locality ₹10,000.
 - Miss White is a dancer. During the year she got ₹1,40,000 from various dance programmes. She also won a lottery of ₹ 5,00,000 during the year.
 - Mrs. Green is a lawyer and her income from profession during the year amounted to ₹1,00,000 after expenses ₹ 20,000.
 - During the year Mr. Green paid insurance premium ₹ 80,000 (₹20,000 each for the family members). He had a short term capital gain of ₹1,00,000 during the year.
- Compute the total income of the firm and the partners for the year 2019-20.

17. PQR is a partnership firm with three partners as follows.
- P – Resident Individual
 - Q – Representative of a Hindu Undivided Family.
 - R – Wife of P.
- The firm is eligible to be assessed as such since it fulfills the conditions of section 184. During the year 2019-20, the P&L a/c of the firm showed a net profit of ₹ 1,25,000 after debiting the following items.
- a. Depreciation ₹ 80,000 but the firm is eligible for depreciation ₹ 70,000 only.
 - b. Salary ₹ 75,000 to P and ₹ 1,50,000 to R, who are working partners.
 - c. Interest on capital (at the rate of 20%)
 - a. P - ₹ 20,000
 - b. Q - ₹ 40,000
 - c. R - ₹ 30,000
 - d. Short term capital loss ₹ 25,000.
 - e. Tax Consultancy charges ₹ 8,000 and audit fee ₹ 2,000.
 - f. Provision for bad debt ₹ 10,000.

Items credited to the P&L a/c include long term capital gains ₹ 40,000 and rent from a building let out ₹ 60,000.

Compute total income and tax payable by the firm for the year 2019-20.

18. Distinguish between a working partner and non-working partner. What privileges are enjoyed by a working partner?
19. What are the major features proposed by GAAR?
20. What are the limitations of tax planning?

(5 x 5 = 25)

PART C

Answer any 3 (10 marks each)

21. Royals India (Pvt.) Ltd. gives the following P&L a/c for the year 2019-20.

P&L a/c for the year ended 31.03.2020

Advertisement Expenses	8,700	Sales	2,28,350
Excise Duty	6,200	Other Income	10,000
Wealth Tax	2,200	Interest on advance tax	3,500
Audit Fees	4,350	Interest from Govt. securities	4,750
Salaries	13,500	Dividend (gross)	8,320
Provision for taxation	12,300		
Gift to an employee	1,000		
Staff welfare expenses	2,000		
Office Expenses	3,200		
Entertainment expenses	2,100		
Rent of premises	9,650		
Royalty	25,000		
Car expenses	7,200		
Depreciation	6,700		
Proposed dividends	28,300		
Net Profit	1,22,520		
	2,54,920		2,54,920

Following further information is available.

a. Advertisement expenses include the following

- i. Diaries and calendars ₹ 3,100
- ii. ₹ 4,000 incurred in connection with a road show conducted immediately after launching a new shop (special advertisement campaign)
- iii. Capital expenditure ₹ 1,600.

b. Salaries include ₹ 3,800 paid to the domestic servant of the manager which is unreasonable.

c. The car has been used 1/3 for business purposes & 2/3 for personal use of the directors

d. Depreciation has been correctly computed but includes ₹ 2,300 being unabsorbed depreciation of earlier years.

e. Rent of premises has been paid without supportive evidence.

Compute the total income and tax payable by the company.

22. Under *section 40(b)* what items are disallowed as deduction while computing firm's income from business or profession? Explain fully.

23. L&T Ltd. is a company in which public are substantially interested. The P&L a/c of the company showed a net profit of ₹ 3,35,000 during the financial year 2019-20. Scrutiny of the accounts revealed the following:

- i. Debits to Profit and loss Account include:
- ii. Donation to an approved public charitable trust ₹ 20,000
- iii. Provision for Income-tax ₹ 1,00,000.
- iv. Revenue expenditure on family planning ₹ 25,000.
- v. Capital expenditure on family planning ₹ 1,00,000

Credits to Profits and Loss Account include:

- i. Bad debts allowed earlier recovered during the previous year ₹ 10,000
- ii. Interest on Bank deposits ₹ 30,000
- iii. Long term capital gains ₹ 1,00,000
- iv. Dividend from an Indian Company ₹ 20,000 (gross).

There was (a) Unabsorbed depreciation ₹ 35,000 and (b) Unabsorbed long term capital loss of ₹ 40,000 brought forward from the earlier assessment year.

The company paid arrears of dividend ₹ 2,00,000 during August 2019, to the preference shareholders.

Compute total income of the company and tax payable for the year 2019-20.

24. Write short notes on:

- a) Best Judgment Assessment or ex-parte Judgment or ex-parte Assessment;
- b) Regular Assessment by Assessing Officer;
- c) Self-assessment;
- d) Rectification of Mistakes.

25. Explain the scope of tax planning by individuals.

(10 x 3 = 30)