

M.B.A.-II (Sem.-III) Examination
Corporate Taxation & Financial
May-2017

Time : 3 Hours]

[Max. Marks : 100

- Instructions: (1) This paper contains five questions.
 (2) Questions 1 and 5 are compulsory.
 (3) Question 2, 3, 4 have internal options.
 (4) Figures in the right side in the parenthesis indicate marks

Q-1

- (a) • Xavy Ltd, a foreign company owns a property in Mumbai. It is given on rent (rent being 6000 Us Dollars per month) to Samuels Ltd., another foreign company. The two companies are non resident in India. The agreement is made outside India. Rent is payable in foreign currency outside India. As per the agreement, rent is accrued outside India. Discuss whether the rental income of Xavy Ltd is chargeable to tax in India under Income tax Act, 1961. (10)
- A non resident foreign citizen, comes to India for the first time on 10th April, 2016 for a visit of 100 days in the connection with the shooting of cinematograph film in Delhi. For this, he has been paid remuneration of Rs. 1,40,000 in India by A Ltd, a foreign company. None of the shareholders in A Ltd is a citizen of India or resident in India. Decide whether it is chargeable to tax or not.
- (b) Explain the role of tax planning while determining the Residential Status of an Assessee? (10)

- Q-2 From the following information of Shri Ajay, determine his net income for the assessment year 2017-18 (10)

Sr. No.	Particulars	Amount (Rs)
1	Taxable business income	365000
2	Dividend from Foreign Company (net)	6000
3	Dividend from ABC Ltd being an Indian Company	8000
4	Bank interest (on term deposits)	15000
5	Interest on deposit with a cooperative bank	400
6	Interest on deposit with a cooperative society	300

He had bought during the previous year P.O.N.S.C. (ix issue) of Rs. 20000 and has deposited Rs. 150000 in his PPF A/c.

- Q-2 Explain in brief the conditions for claiming the depreciation under Section 32 of Income tax Act. Also state the conditions for claiming additional depreciation. (10)

OR

- Q-2 Mr A's Profit and Loss Account for the year ended on 31-3-2017 is given below;

Particulars	Rs.	Particulars	Rs.
To Opening Stock	484000	By Sales	2400000
To purchases	1200000	By Closing Stock	630000
To salary	360000	By bad debt recovered	10000
To Depreciation on machinery	60000	By Interest on Govt. security	6000
To interest on capital	10000		
To income tax	68000		

(P.T.O)

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To bad debt reserve	5000		
To advertisement expenses	11000		
To donations	5000		
To motor expenses	9000		
Travelling expenses	10000		
Net profit	824000		
	3046000		3046000

Additional Information:

- 1) Opening stock is valued at 10% more than the cost and closing stock is valued at 5% more than the cost.
- 2) 40% of the bad debt recovered was disallowed in the past.
- 3) The approved depreciation on the machinery is Rs. 70000.
- 4) Travelling expenses includes Rs. 6000 for family pilgrimage and Rs. 4000 towards business promotion tour.
- 5) Motor car is equally used for office and personal purpose
- 6) A business income of Rs. 25000 is not recorded in the above profit and loss account.

Compute the taxable income from business and profession for the Ay: 2017-18

Q-2 Explain in brief Deduction under Section 80D and 80DD as explained under Incometax Act (10)

Q-3 On 15-11-2016, Shri Athavale (an ordinary resident and Indian citizen) has sold his personal Jewellery for Rs. 4752000 and incurred Rs. 40000 as valuation charges in connection with its sales. The original cost of jewellery bought in 1968-69 was Rs. 250000, but its fair market value on 1-4-1981 was Rs. 400000. On 10-2-2017, he has invested Rs. 500000 in 3 years Bonds of Rural Electrification Corporation Ltd. Relevant cost inflation index of year 1981-82 and 2016-17 are 100 and 1125 respectively.

Determine the capital gain for Ay. 2017-18

Q-3 Explain the concept of Double Taxation Avoidance Agreement with suitable example? (10)

OR

Q-3 From the following information submitted to you, compute the taxable income in the following situation (10)

Particulars	Situation 1	Situation 2
Long term capital gain / loss	(+) 340000	(-) 600000
Short term capital gain / loss	(-) 100000	(+) 220000
Business Income/ Loss	(-) 160000	(-) 180000

Q-3 Describe the provisions with respect to set off and carry forward of accumulated loss and unabsorbed depreciation in case of Amalgamation? (10)

Q-4 Explain in brief the tax implications of Make or Buy Decisions in context of Tax planning for the Managerial Decisions. (10)

Q-4 The director of the domestic company, whose capital is Rs. 2 crore all in equity shares, proposes to expand its business for which an additional investment of Rs. 1 crore would be needed. The entire money can be raised either by issue of equity shares or by issue of 12% debentures. They decide in the favour of issue of equity shares. As a tax consultant do you approve the proposal? Assume that rate of return is 25%, rate of income tax is 30.9%.

OR

Q-4 Explain in brief with suitable examples: (1) Tax Planning (2) Tax Evasion and (3) Tax Avoidance. (10)

Q-4 An asset costing Rs. 400000 is to be acquired. There are two alternatives available to the entrepreneur. First one is buying the asset by taking a loan of Rs. 400000 repayable in five equal instalments of Rs. 80000 each along with interest @14% p.a. assuming that lease rentals, processing fees, interest as well as the principal amounts are payable at the year end. The second one is leasing the asset for which annual lease rental is Rs. 120000 up to

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five years. The lessor charges 1% as processing fees in the first year. Assume the internal rate of return to be 10% and the present value factor at 10% is

Years	1	2	3	4	5
PV Factor	0.909	0.826	0.751	0.683	0.621

Assume the tax rate to be 30.9% and rate of depreciation @ 15%. Suggest which alternative is better in the above case under the tax and financial planning with respect to managerial decisions.

Q-5 Motilal Oswal has offered you a Job in Delhi at a basic salary of Rs. 23000 per month and an option to choose any one of the following two packages: (20)

Package 1: HRA Rs. 9000 per month (rent to be paid Rs. 9000 per month), Education allowance Rs. 600 per month (for one child), Telephone Allowance Rs. 2000 per month, Medical Allowance Rs. 3000 per month, Conveyance Allowance Rs. 3000 per month (for private user)

Package 2: Company owned unfurnished accommodation and its fair rental value is Rs. 108000 per annum. Education facility for one child in an institution owned by the employer valued at Rs. 600 per month. Free telephone facility at residence upto Rs. 2000 per month. Medical reimbursement upto Rs. 18,000 per annum. Motor car facility for private use with expenditure valued at Rs. 36000.

The company also offers you the services of watchman, sweeper, and gardener in both the above packages. The salary of each employee is Rs. 1000 per month.

Which package will you choose so that your tax liability is minimum?
