

2012

**MASTER OF BUSINESS ADMINISTRATION**

**[ Fourth Semester Examination ]**

**CORPORATE TAXATION**

**[ Specialisation : *Financial Management* ]**

**PAPER—F 401**

*Full Marks : 100*

*Time : 3 hours*

*The figures in the right-hand margin indicate marks*

*Candidates are required to give their answers in their own words as far as practicable*

*Illustrate the answers wherever necessary*

**Write the answers to questions of each Half in separate books**

**FIRST HALF**

**[ Marks : 50 ]**

( Turn Over )

1. Answer any *four* questions from the following: 5 × 4

(a) *X* and *Y* are two shareholders of *Z* Ltd., a closely held company. *X* holds 55% share capital. On January 30, 2011, *X* transfers his share to *A*. *Z* Ltd. wants to set off brought forward loss of ₹ 4,00,000 (business loss ₹ 1,00,000, unadjusted depreciation ₹ 3,00,000) of the previous year 2010-11 against the income of the previous year 2011-12 (ie. ₹ 9 lakh). Can it do so? 5

(b) Profit and Loss A/c of five companies are given below:

						( ₹ in Lakh)					
Debit side						Credit side					
	A	B	C	D	E		A	B	C	D	E
Purchase	37	37	37	37	37	Sales	90	90	90	90	90
Depreciation (normal)	6	6	6	6	6	Withdrawal from reserve (1)	10	10	10	10	10
Depreciation (because of revaluation)	4	4	4	4	0	Withdrawal from reserve (2)	9	9	9	9	9
Other expenses	5	5	5	5	5	Withdrawal from revaluation reserve	0	4	1	11	11
Net profit	57	61	58	68	72						
	109	113	110	120	120		109	113	110	120	120

Reserve (1) was initially created on January 3, 2009, by debiting Profit & Loss A/c. However, reserve (2) was initially created on April 2, 2011 without debiting P/LA/c. Compute book profit. 5

(c) A company manufactured and sold 1,000 cars during the financial year 2011-12. The price of the car is ₹ 2,00,000 each and excise duty is charged separately. From the following information determine the central excise duty payable; 5

(i) The company purchased inputes ₹ 8,00,00,000. It includes basic excise duty ₹1,00,00,000.

(ii) The company purchased capital goods during the financial year ₹10,00,00,000. It includes basic excise duty ₹1,20,00,000.

(iii) On car the basic excise duty is charged @ 16% and special excise duty @ 8%.

(d) (i) Differentiate between customs duty and excise duty.  $2\frac{1}{2}$

- (ii) What are the objectives of imposing customs duty ? 2  $\frac{1}{2}$
- (e) Vikram Travels, Bangalore, has provided the following information. Calculate the service tax payable. Give reasons for exemptions, if any 5
- (i) Package tours conducted in South India  
₹ 25 lakh.
- (ii) One day site seeing trips conducted  
₹ 12 lakh.
- (iii) Pilgrimage tours conducted in North India  
₹ 13 lakh.
- (iv) Non-package tours conducted in Karnataka  
₹ 8 lakh.
- (v) Bills charged for hotel booking in relation to  
tours ₹ 78,000.
- (vi) Travels services offered to Canadian  
Embassy, New Delhi ₹ 2 lakh.
- (f) State the salient features of the West Bengal Value  
Added Tax Act, 2003. 5

2. Answer any *two* of the following : 10 × 2

(a) On the basis of the following information, compute total turnover, the taxable turnover and VAT payable by a dealer Hyderabad registered under VAT Act. (Tax is not included in sales); 10

(i) Sale of goods against form 'D' to Kerala Govt. (Local tax rate : 5%) ₹ 6,00,000

(ii) Sale of undeclared goods to registered dealers of Tamil Nadu (local tax rate : 8%) without form 'C' ₹ 2,00,000

(iii) Sale of declared goods to unregistered dealer of Goa (local tax rate : 3%) ₹ 3,00,000

(iv) Sale of goods to Govt. of Andhra Pradesh (Exempt under VAT) ₹ 1,00,000

(v) Declared goods purchased from a registered dealer in Mumbai ₹ 2,50,000

But while the goods were in transit they were sold to a registered dealer of Cochin (Kerala) against form 'C' by transfer of documents of title to goods for ₹2,00,000 (local tax rate : 7%).

(vi) Sale of declared goods to a registered dealer to Maharashtra against form 'C' ₹ 3,60,000

He returned goods worth ₹ 40,000 after 4 months and worth ₹ 20,000 after 6 months.

(vii) Goods worth ₹ 1,60,000 were sent to his agent in Andhra Pradesh. But while the goods were in transit, they were sold to a registered dealer in Orissa against 'C' by transfer of documents of title to goods for ₹ 2,00,000 (local tax rate : 3%).

(b) The accounts of X Ltd., a domestic company, prepared in accordance with the provisions of Part-II and Part-III of schedule VI of the companies Act, show the following position : 10

	₹
Profit before depreciation	100 lakh
Less Depreciation of the current year	10 lakh
	90 lakh

The previous year of the company is the financial year ending March 31, 2012. The profit of ₹ 100 lakh includes profit of ₹ 10 lakh qualifying for deduction under section 80IB.

The profit computed in accordance with the provisions of the Act is as under :

	₹
Profit before depreciation	90 lakh
Less Depreciation as per IT Rules	<u>60 lakh</u> <u>30 lakh</u>

The company is eligible to carry forward the following amounts :

From the assessment year 2011-12 :

	₹
Unabsorbed depreciation	40 Lakh
Business loss	10 Lakh

You are to examine :

- (a) the application of section 115 JB; and
- (b) the eligibility of tax credit in the subsequent years.
- (c) (i) What are the provisions for claiming eligibility of CENVAT CREDIT ?

3 + 7

- (ii) Tata Motors Ltd. manufactures Luxury Cars. The ex. factory price term is a follows :

Cost of car	₹ 5,00,000
Cost of luxury seats	₹ 25,000
Cost of Toolkit, manuals	₹ 10,000
Royalty to ford motors, USA	₹ 50,000
Warranty charges for year	₹ 24,000
Pollution inspection charge	₹ 5,000
	<u>₹ 6,14,000</u>

The company also collected an amount of ₹10,000 through debit note towards sales depot expenses. The company has the policy of delivering the car to customer's residence for which the company in cars average freight charges of ₹5,000. The company also has an optional extended warranty scheme for 2 years from the end of the base warranty period for which company charges ₹25,000. Compute the assessable value and if the rate of Basic Excise duty is 16% find out duty payable.

[ *Internal Assessment* : 10 Marks ]



SECOND HALF

[ Marks : 50 ]

3. Answer any *four* questions of the following : 5 × 4
- (a) Write a short note on Unilateral Relief U/S 91 of the Income Tax Act, 1961. 5
- (b) Explain briefly the mode of granting relief under ADT agreements. 5
- (c) A is entitled to a salary of ₹10,000 p.m. He is given an option by the employer either to take HRA @ ₹3,000 p.m. or a rent free accommodation which is owned by the company. If A opts for H.R.A. he will have to pay ₹ 3,000 p.m. as rent for his residential accommodation in Delhi. Advise A in this regard. 5
- (d) "Tax avoidance is nothing but tax evasion". Do you agree ? 5
- (e) (i) Mention any three objectives of tax planning.

(ii) Match the following :

3 + 2

AB

(1) Location of Industry (i) Section 80IB

(ii) Section 80JJAA

(2) Nature of Industry (iii) Section 10 AA

(f) The Balance Sheet of Trueheart Ltd. showed the following :

	₹
50,000 equity shares of ₹10 each	5,00,000
3,000, 12% preference share of ₹100 each	3,00,000
General Reserve	60,00,000

The directors of the company do not want to maintain such high amount of General reserve. In the Board of Directors' meeting then arise two opinions :

- (i) Issue bonus shares to both preference and equity shareholders.
- (ii) Pay high rate of dividend to the shareholders.

You are requested to comment on the best opinion from the angle of tax planning.

5

4. Answer any *two* of the following : 10 × 2

(a) X, a Director of Zion Ltd., Pune is offered an employment with the following two alternative packages :

	I ₹	II ₹
Basic pay per annum	1,38,000	1,38,000
Conveyance allowance for private use	9,000	—
Transport allowance for communicating the office	9,000	—
Motor car facility for private use of X and his family members (valued)	—	18,000
Entertainment allowance	18,000	—
Club facility (valued)	—	18,000
Children education allowance (On 2 children)	9,700	—
Free education facility in an institution run by the employer for children (valued)	—	9,700
Rent free unfurnished house with fair rental value	30,000	30,000

Which of the two packages should *X* opt for on the assumption that both employer and employee will contribute 20% of the basic pay towards an unrecognised provident fund. Assume the population of Pune is more than 25 Lakh as per 2010 census.

10

(b) "While making tax planning for amalgamation, there are certain benefits that can be enjoyed by an amalgamated company, amalgamating company and shareholders of the amalgamating company under the Income Tax Act". Discuss in details after considering that the amalgamation fulfils conditions U/S 2(IB) of the Income Tax Act.

10

(c) (i) A company has 1,00,000 equity shares of ₹10 each. The company expects its earnings at ₹7,50,000 and cost of capital at 10% for the next financial year. Using Walter's model, what dividend policy will you recommend when the rate of return on investment of the company is estimated at 8% and 12% respectively and corporate tax rate 30-90 and dividend distribution tax 16-995%? What will be the price of equity share if your recommendations are accepted?

- (ii) Omega company has a cost of equity capital of 10% corporate tax rate – 30.90%, dividend distribution tax 16.995% and the current market value of the firm,  $V$ , is ₹ 20,00,000 ( ₹ 20 per share). Assumed values for  $I$  (new investment),  $Y$  (earnings) and  $D$  (Dividends) at the end of the year are  $I = ₹ 6,80,000$ ,  $Y = ₹ 1,50,000$  and  $D = ₹ 1$  per share. Show that under the Modigliani-Miller assumptions, the payment of  $D$  does not affect the value of the firm.

4 + 6

[ *Internal Assessment* : 10 Marks ]

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