

# Model Answer

## Code - AS-2635 Sub: Income Tax

01

Q N 01 (i) In a common way every tax payer is an assessee. Assessee means a person by whom any tax or any other sum of money is payable under the Act and includes - (a) Every person (b) Deemed assessee (c) HUF (d) company (e) Firm (f) AOP etc.

(ii)

Gross Total Income	Total Income
(i) G.T.I does not include the deductions	T.Income includes all allowed deductions
(ii) Tax calculation is not done on GTI	Tax calculation is done on Total Income.
(iii) GTI can remain more than or equal to total Income	Total Income can remain less than or equal to GTI
(iv) Rounding off procedure does not apply	Total Income is rounded off to the nearest multiple of Rs ten.
(v) Agriculture Income shall not be included in GTI	For tax purpose, agriculture income shall be added to T.I.

(iii) (a) Employee's contribution to this P.F. upto Rs 100000 qualifies for deduction u/s 80 C.

(b) Employee's contribution in excess of 12% of Salary of employee shall be added to the salary of employee.

(c) Interest on PF's balance in excess of 9.5% shall be added to the Salary of employee.

(d) lump-sum amount received at the time of retirement shall be fully exempted by tax.

(iv) (a) Short-term Capital Gain - STCG means profit or loss arising from the transfer of asset which is held by the assessee for not more than 36 months.

However is case of shares and Securities, bonds, units etc held by the assessee for not more than 12 months.

LTCG :- Shares, Bonds, Securities, Units held by the assessee for more than 12 months. Other assets held by the assessee for a period of more than 36 months.

(V) Minor's income shall be included in the income of his parent. However income of a physically handicapped minor's income shall not be included in the income of either of his parent. This income shall be included as follows: (i) where the marriage of his parent subsists in the income of that parent whose total income is greater.

(ii) where marriage does not subsist, in the income of the parent who maintains the minor child in the previous year.

(VI) As Mr Peterson resided in India for 122 days during the previous year. He stayed for more than 365 days during the preceding four previous years. He satisfies the condition II G(i). As he is residing in India since last 12 years so that he full fills both the additional conditions. Hence his residential status shall be Resident.

(VII) The term Salary includes:

B. Salary 12000 + DA 24000 + commission 10000 = 154000

HRA Received	18000	
(-) A) HRA received	18000	
(b) Rent paid - 10% of Salary	24000 - 15400	8600
(c) 40% of Salary	61600	<u>8600</u>
		<u>9400</u>

(viii) Profit on per P&C A/c:		38000
+ (i) Income tax disallowed	7000	
(ii) Penalty for delay payment of Sales tax	4000	
(iii) Cash Payment to a creditor	28000	39000
		<u>77000</u>

(ix) Sale consideration		3100000
-> Index cost of House Sold		
$\frac{348000 \times 852}{116}$		2556000
		<u>544000</u>
Long term Capital gain		544000
-> exemption w/s 54		
Purchase of new House		
$\frac{544000 \times 800000}{3100000}$		140387
		<u>403613</u>

(x) Income from other sources:		
(i) Income from lottery		
$24500 \times 100/70$		35000
(ii) Int. on Capital Investment Bonds		Exempted
(iii) Family Pension	48000	
-> 1/3 S. Deduction	15000	33000
(iv) Int on tax-free debentures		
$\frac{4500 \times 100}{90}$		5000
		<u>73000</u>

Q2 main features of Income:

- (a) It can be received in cash or in kind.
- (b) It may be legal or illegal

- (c) Regularity of Income (d) Receipt basis vs Accrual basis (e) MUA come from outside (f) Personal gifts (g) Dispute regarding title (h) Revenue or Capital receipt (i) Entries in the accounting books.

**Q N 03** meaning of Capital Gain. Exempted Capital Gain - (a) Gain on Sale of long term residential House (54) (b) Gain on transfer of Agricultural land (54B) (c) compulsory acquisition of land and building of Industrial undertakings 54(D) (d) Investment in Certain Bonds 54 EC (e) LIC other than a House property 54(F).

Determination of Gross Total Income - for the Ay 13-14

Q N 04	Resident	Not ordinary resident	Non resident
(i)	50000	10000	10000
(ii)	80000	-	-
(iii)	40000	-	-
(iv)	45000	45000	-
(v)	80000	80000	80000
(vi) $75000 - 22500 = 52500$	52500	52500	52500
	347500	187500	142500

**Q N 05** computation of income under the Head Salary of Mr Suresh for the AY 2013-14 &

Basic Salary	76800
Dearness allowance @ 20%	15360
HRA	NIL
Pension $(3000 + 1500 \times 3)$	7500
commuted value of Pension $(81000 - 54000)$	27000
Gratuity $(114000 - 105600)$	8400
	Signature _____

leave encashment (45000-38400)	6600
RPF contribution exceeding 12%	1536
Receipt from RPF	NIC
Travelling Expenses	NIC
<b>Gross Salary</b>	<b>143196</b>
(-) Professional tax allowed 16(iii)	1200
<b>Income from Salary</b>	<b>141996</b>

Notes: (i) 1/3 of total estimated value of pension  
 1/3 of 162000 = 54000 shall be exempted.

(ii) Gratuity received 114000 OR max. limit 100000 OR  
 15 days salary 4800 for 22 yrs 105600 least shall  
 be exempted.

(iii) Received for leave encashment 45000, 4 months  
 salary 38400, 10 months average salary 96000 OR  
 max. limit 300000, least will be exempted.

**Q16** income under the head House property of Mr  
 X for the Assessment year 2013-14

	House A Self occupied	House B Rented
Annual value	NIC	48000
(-) M. Taxes		12000
Net Annual Value	NIC	36000
(-) Deductions allowed:		10800
(i) Standard ded. @ 30%		2500
(ii) Int on loan		13300
	NIC	22700
<b>Income under the Head H/P</b>		<b>22700</b>


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**Q.107** Determination of Income under the Head Business of Mr Suresh for the AY 13-14:

Business receipts		105670
(-) Business exp and losses allowed:		
Salaries 12000-2000	10000	
office expen.	5000	
Revel. Gro + 1/2 of 2400 =	1800	
misc. exp.	7100	
Insurance pre. 3000-1800	1200	
Int. on loan	1500	
compensation	1500	
Bad debts written off	700	
Dep allowed	1600	30400
<b>Income from Business</b>		<b>75270</b>
<b>Alternative method</b>		
Net profit		51022
+ Disallowed items		
Salary	2000	
Revel. 1/2	1200	
House Hold exp	1900	
Provision for Bad debts	2000	
loss on sale of car	2000	
LI Premium	1800	
Donations	20000	
Pro. for Depreciation	6400	37300
		<b>88322</b>
(-) Exp allowed:		
Bad debts	700	
Depreciation	1600	2300
		<b>86022</b>
(-) Incomes not chargeable under this Head:		
Int on Govt Sec.	5352	
Income from H/P	5400	10752
<b>Income from Business</b>		<b>75270</b>

Q. N 08 Income under the Head other sources of Mrs. Seema for the A.Y. 2013-14:

(i) 5% Govt. Securities 20000	1000
(ii) 5% UP Ele. Board 15000	750
(iii) G.T. Central Govt. Sec. 50000	3000
(iv) G.T. <del>Govt.</del> Tax Free Non Govt. Sec. 25000 $1500 \times 100/90$	1667
(v) Dividend from co-operative society	1000
(vi) Dividend from IIT	---
(vii) Share in HUF	---
(viii) Speculation profit	---
	7417
(-) collection charges allowed	400
	7017


 Arjun Krishna  
 06/12/13