

Question Paper

Business Law – II (MB262): July 2008

- Answer all 71 questions.
- Marks are indicated against each question.

Total Marks : 100

1. Which of the following is as an asset under Section 2 (ea) of the Wealth Tax Act, 1957, for an individual assessee? [<Answer>](#)
- (a) Cash in hand in excess of Rs.50,000
 - (b) Cash in hand in excess of Rs.20,000
 - (c) Bank deposit in savings account in excess of Rs.50,000
 - (d) Bank deposit in savings account in excess of Rs.1,00,000
 - (e) Fixed deposit in a bank account in excess of Rs.50,000. (1 mark)
2. The maximum amount of deduction under section 24 of the Income Tax Act, 1961, to an individual for the assessment year 2008-09, in respect of interest paid on loan taken for the construction of a self-occupied house property is [<Answer>](#)
- (a) Rs. 30,000
 - (b) Rs. 60,000
 - (c) Rs. 80,000
 - (d) Rs.1,00,000
 - (e) Rs.1,50,000. (1 mark)
3. Which of the following amounts is allowed as a deduction in the computation of income from let out house property? [<Answer>](#)
- (a) Municipal taxes paid by the tenant
 - (b) Insurance charges for the house paid by the owner
 - (c) Ground rent for the house paid by the owner
 - (d) Depreciation on the house
 - (e) Interest on loan taken by the owner for carrying out repairs. (1 mark)
4. According to the Customs Act, 1962, the goods, other than imported goods, transported in a vessel from one port to another are called [<Answer>](#)
- (a) Export goods
 - (b) Coastal goods
 - (c) Prohibited goods
 - (d) Dutiable goods
 - (e) Identical goods. (1 mark)
5. Which of the following places is/are considered as ‘place of business’ of a dealer according to Section 2(dd) of the Central Sales Tax Act, 1956? [<Answer>](#)
- I. The place of business of an agent, where a dealer carries on his business through an agent.
 - II. The place from where a dealer carries on his business.
 - III. The place where a dealer keeps his books of account.
- (a) Only (III) above
 - (b) Both (I) and (II) above
 - (c) Both (I) and (III) above
 - (d) Both (II) and (III) above
 - (e) All (I), (II) and (III) above. (1 mark)
6. Which of the following statements is **false** in respect of the provisions of the Wealth Tax Act, 1957? [<Answer>](#)
- (a) The assets transferred by an individual to spouse, without adequate consideration are included in the net wealth of the transferor
 - (b) Assets held by a minor child of an individual are included in the net wealth of such individual
 - (c) Assets transferred by an individual to a person, under revocable transfer are included in the net wealth of the transferor (1 mark)

- (d) Assets transferred directly or indirectly by an individual to his or her son's wife, without adequate consideration are included in the net wealth of the transferor
- (e) Assets transferred directly or indirectly by an individual without adequate consideration to a person for the benefit of his or her son's wife, are not included in the net wealth of the transferor.
7. Which of the following activities is considered as 'manufacture' under section 2(f) of the Central Excise Act, 1944? <Answer>
- (a) Printing and lacquering plain tubes and containers of aluminium bought from the market
- (b) Straightening of steel wires and cutting them into the required sizes
- (c) The processes of cleaning, cutting, deep freezing and packing green peas
- (d) De-husking of paddy into rice
- (e) Tanned leather cut into straps. (1 mark)
8. Under the Income Tax Act, 1961, 'Capital asset' under the head of 'Capital gains' includes <Answer>
- (a) Any stock-in-trade held for the purpose of business or profession
- (b) Any consumable stores held for the purpose of business or profession
- (c) Any raw materials held for the purpose of business or profession
- (d) Agricultural land in India, not situated in any notified area
- (e) Goodwill of a business. (1 mark)
9. The act by which a vessel (or) cargo is abandoned in the sea without any hope (or) intention of recovering it is called <Answer>
- (a) Wreck
- (b) Jetsam
- (c) Flotsam
- (d) Derelict
- (e) Abandoned. (1 mark)
10. Which of the following statements is **true** in respect of the registration under the Central Sales Tax Act, 1956? <Answer>
- (a) No registration is required if the gross turnover is less than Rs.1,00,000
- (b) No registration is required if the gross turnover is less than Rs.1,50,000
- (c) No registration is required if the gross turnover is less than Rs.2,00,000
- (d) Every dealer effecting sale in the course of inter-state trade is required to register compulsorily under the Act
- (e) No registration is required if the gross turnover is less than Rs.2,50,000. (1 mark)
11. Which of the following statements is **true** in respect of the wealth tax chargeable for the assets of a business? <Answer>
- (a) The non-depreciable assets except stock in trade of a business are taken at the book value
- (b) Only the stock in trade of a business is taken at the book value
- (c) Both the stock in trade and the non-depreciable assets of a business are taken at the book value
- (d) Both the stock in trade and depreciable assets of a business are taken at the book value
- (e) All depreciable assets, non-depreciable assets and stock in trade of a business are taken at the book value. (1 mark)
12. During the month of March 2008, Mr. Philips gets salary of April, 2008 and May 2008 in advance. How many months' salary is chargeable to tax in the assessment year 2008-09? <Answer>
- (a) 10 months
- (b) 12 months
- (c) 14 months
- (d) 15 months
- (e) 16 months. (1 mark)
13. On December 8, 2007, R & K Associates purchased goods for Rs.29,000 from a relative of one of the partners. The fair market value of the goods was Rs.25,000. The payment was made by a bearer cheque on February 25, 2008. The amount disallowed in the computation of business profit of R & K Associates for the assessment year 2008-09 was <Answer>
- (a) Rs.29,000
- (b) Rs. 4,000
- (c) Rs. 9,000
- (d) Rs.25,000 (2 marks)

- (d) Rs.25,000
- (e) Rs.10,000.

[<Answer>](#)

14. Which of the following is **not** a condition to be fulfilled for a price to be accepted as 'Transaction Price' under Section 4(1) (a) of the Central Excise Act, 1944?

- (a) The price should be one at which the goods are ordinarily sold by the assessee
- (b) The price should be the wholesale price
- (c) The sale should be for delivery at the time and place of removal of goods
- (d) The buyer in the ordinary course of trade should not be a related person
- (e) The price should not be the sole consideration for the sale.

(1 mark)

[<Answer>](#)

15. Under the Central Sales Tax Act, 1956, 'Sale Price' for the purpose of computation of sales tax does **not** include

- (a) Central Sales Tax paid, shown separately
- (b) Central Sales Tax paid, if not shown separately
- (c) Excise Duty paid, whether shown separately or not
- (d) Freight charges charged separately
- (e) Installation charges, if not shown separately.

(1 mark)

[<Answer>](#)

16. The incidence of the wealth tax in the case of an individual depends on

- (a) His residential status only
- (b) His economic status only
- (c) His citizenship only
- (d) Both his residential status and his citizenship
- (e) Both his residential status and economic status.

(1 mark)

[<Answer>](#)

17. Ram Mathur is the kartha of the HUF, whose members derive income as given below:

Particulars	Rs.
I. Income from Ram Mathur's own business	1,50,000
II. Salary of Mrs. Ram Mathur, a gynecologist	1,20,000
III. Minor son Deepak (earning interest on fixed deposits with ABC Ltd., which were gifted to him by his grand father)	10,000
IV. Minor daughter Priya gave a dance performance and received remuneration	10,000
V. Deepak got winnings from lottery (Gross)	50,000

The total income of the Mrs. Ram Mathur for the assessment year 2008-09 is

- (a) Rs.1,80,000
- (b) Rs.1,78,500
- (c) Rs.1,68,500
- (d) Rs.1,88,500
- (e) Rs.1,20,000.

(2 marks)

[<Answer>](#)

18. Damini Ltd., furnishes the following information in respect of assets acquired by it during the year 2007-08:

Asset	Acquisition Date	Date of putting to use	Cost (Rs.)
Plant A	May 01, 2007	June 30, 2007	12,50,000
Plant B	October 01, 2007	December 31, 2007	15,50,000

Assuming that the rate of depreciation is 25%, the depreciation that can be claimed by Damini Ltd., on these assets for the assessment year 2008-09 is

- (a) Rs.3,12,500
- (b) Rs.5,06,250
- (c) Rs.7,00,000
- (d) Rs.3,50,000
- (e) Rs.3,31,250.

(2 marks)

[<Answer>](#)

19. Under the Customs Act, 1962, the term 'Customs Station' does **not** include

- (a) Customs port
- (b) Inland container depot
- (c) Customs airport
- (d) Land customs station
- (e) Customs warehouse.

(1 mark)

- (e) Customs warehouse. [<Answer>](#)
- 20.** Form 'E-I' under the Central Sales Tax Act, 1956 is issued in case of [<Answer>](#)
- (a) Sales in the course of inter-state trade by a registered dealer
 (b) Indemnity furnished by registered dealer in matters of security deposit
 (c) Subsequent sale in the course of inter-state trade issued by the first dealer
 (d) Government Department to whom sales are effected in the course of an inter-state sale
 (e) Subsequent sale in the course of inter-state trade issued by selling dealers other than the first dealer. **(1 mark)**
- 21.** The deduction from the gross maintainable rent is allowed for the valuation of the property for wealth tax purposes at [<Answer>](#)
- (a) 10% of the Gross maintainable rent
 (b) 12% of the Gross maintainable rent
 (c) 15% of the Gross maintainable rent
 (d) 20% of the Gross maintainable rent
 (e) 25% of the Gross maintainable rent. **(1 mark)**
- 22.** According to the provisions of Section 70 of the Income Tax Act, 1961, the short term capital loss can be set off against [<Answer>](#)
- (a) Long term capital gain
 (b) Income from salary
 (c) Income from business and profession
 (d) Income from other sources
 (e) Income from house property. **(1 mark)**
- 23.** Mahesh purchases goods on credit from Praveen on two different dates amounting to Rs.17,000 and Rs.18,000 respectively. He makes a cash payment of Rs.35,000 to Praveen on the expiry of the credit period of 30 days. The amount to be disallowed u/s 40A(3) of the Income Tax Act, 1961 is [<Answer>](#)
- (a) Rs. 7,500
 (b) Rs. 7,000
 (c) Rs.35,000
 (d) Rs.15,000
 (e) Nil. **(2 marks)**
- 24.** Which of the following expenses is allowed to be deducted from assessable value determined under Section 4 of the Central Excise Act, 1944? [<Answer>](#)
- (a) Interest on delayed payments
 (b) Depot expense
 (c) Handling charges beyond factory gate
 (d) Remuneration paid to clearing and forwarding agents
 (e) Insurance incurred to insure the goods within the factory. **(1 mark)**
- 25.** Which of the following is treated as stock transfer under the Central Sales Tax Act, 1956? [<Answer>](#)
- (a) Goods dispatched through depot but there is only one buyer for the product
 (b) Goods dispatched through an agent after the buyer has been identified
 (c) Goods are standard products which are sold off the shelf
 (d) The buyer has been identified before the removal of the goods from factory
 (e) Goods are directly dispatched from the factory to a consignment agent. **(1 mark)**
- 26.** Who among the following persons is chargeable to wealth tax under the Wealth Tax Act, 1957? [<Answer>](#)
- (a) An individual
 (b) A co-operative society
 (c) A social club
 (d) A political party
 (e) A company registered under section 25 of the Companies Act. **(1 mark)**
- 27.** An assessee can request for provisional assessment under Rule 7 of Central Excise Rules, 2002 [<Answer>](#)
- I. When the selling price is not acceptable as the assessable value.
 II. When there is no selling price i.e. the goods have been captively consumed.
 III. When the assessee is unable to determine the value of excisable goods.
- (a) Only (II) above **(1 mark)**
 (b) Both (I) and (II) above

- (b) Both (I) and (II) above
- (c) Both (I) and (III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above.

28. Prahlad Purohit, an individual, holds 6% Government of India Loan of the face value of Rs.6,00,000. Interest is paid on June 30 and December 31 every year. He spends Rs.1,800 every year by way of bank charges and commission for realizing the interest. For the assessment year 2008-09, the amount of interest that would be chargeable to tax under the head 'income from other sources' is

[<Answer>](#)

- (a) Rs.34,200
- (b) Rs.36,000
- (c) Rs.37,800
- (d) Rs.18,000
- (e) Rs.17,100.

(2 marks)

29. During the previous year 2007-08, Arvind Ahuja has a short term capital gain of Rs.62,000 and a long-term capital loss of Rs.75,000 and he earned a business income of Rs.1,41,500, the taxable income of Arvind Ahuja for the assessment year 2008-09 is

[<Answer>](#)

- (a) Rs. 66,500
- (b) Rs.1,28,500
- (c) Rs.1,41,500
- (d) Rs.1,83,500
- (e) Rs.2,03,500.

(2 marks)

30. Which of the following is a taxable perquisite for the assessment year 2008-09 under the Income Tax Act, 1961?

[<Answer>](#)

- (a) Interest free loan in respect of medical treatment for specified ailments
- (b) Hotel accommodation in excess of 15 days on transfer
- (c) Conveyance provided from house to office and back
- (d) Use of computers and laptop
- (e) Leave travel concession to employees.

(1 mark)

31. Munnar Castings Ltd., an aluminum sheet manufacturing company, submitted the following particulars as on March 31, 2008:

[<Answer>](#)

Assets	Rs.
Land (within 5 km of Chennai)	50,00,000
Land in urban area (construction is not permitted as per municipal rules)	25,00,000
Motor cars not held as stock in trade	16,00,000
Loan for acquiring land (within 5 km of Chennai)	9,00,000
Loan for acquiring land in urban area (construction is not permitted as per municipal rules)	5,00,000
Loan for purchase of motor cars	7,00,000

The net wealth of the company for the assessment year 2008-09 is

- (a) Rs.50,00,000
- (b) Rs.66,00,000
- (c) Rs.70,00,000
- (d) Rs.35,00,000
- (e) Rs.55,00,000.

(2 marks)

32. In the case of an amalgamation of a company owning an industrial undertaking with another company, the amalgamated company is entitled to carry forward and set off

[<Answer>](#)

- (a) Only the accumulated losses
- (b) Only the unabsorbed depreciation
- (c) Only the carried forward long term capital losses
- (d) Both accumulated losses and the unabsorbed depreciation
- (e) Both unabsorbed depreciation and the carried forward long term capital losses.

(1 mark)

33. Srikanth, who runs a garment shop as a sole proprietor has provided the following data from his Profit and Loss account for the year ended March 31, 2008:

[<Answer>](#)

Particulars	Rs.
Net profit	1,62,500
Rent paid for residence @ Rs.3,000 per month	36,000

(2 marks)

Rent paid for residence @ Rs.3,000 per month	36,000
Agricultural Income	70,000
Winning from lottery (gross)	1,00,000

The amount to be shown under the head “Profits and Gains of Business” of Srikanth for the assessment year 2008-09 is

- (a) Rs.1,62,500
- (b) Rs. 28,500
- (c) Rs. 62,500
- (d) Rs. 98,500
- (e) Rs. (7,500).

34. Which of the following is **not** considered as ‘Deemed Income’ within the meaning of section 69 of the Income Tax Act, 1961? [<Answer>](#)

- (a) Unexplained investments
- (b) Unexplained money
- (c) Investments not fully disclosed
- (d) Explained expenditure
- (e) Amount borrowed or repaid on Hundi.

(1 mark)

35. Which of the following statements is **false** in relation to set off and carry forward of losses? [<Answer>](#)

- (a) Loss of speculative business can be set off against profit of speculative business
- (b) Long term capital loss can be set off against short term capital gain
- (c) Loss from maintaining and owning race horse cannot be set off against any other income except income from such business
- (d) Short term capital loss can be set off against any capital gain
- (e) Business loss cannot be set off against salary income.

(1 mark)

36. Ms. Aruna, an employee of a private sector company is in receipt of basic salary of Rs.1,50,000 p.a., dearness allowance of Rs.1,05,000 p.a., (forming part of the retirement benefits) and bonus of Rs.6,000 for the previous year 2007-08. Her employer also provided her with a rent free unfurnished accommodation (owned by the employer) in Lucknow (population 22 lakhs). The value of rent free accommodation included in the taxable income of Ms. Aruna for the assessment year 2008-09 is

- (a) Rs.19,575
- (b) Rs.26,100
- (c) Rs.39,150
- (d) Rs.19,125
- (e) Rs.38,250.

(2 marks)

37. Which of the following is **not** considered as ‘goods’ under the Central Excise Act, 1944? [<Answer>](#)

- (a) By-products
- (b) Drawings and designs relating to the machinery
- (c) Intermediate goods which are not marketable
- (d) Sub-standard goods
- (e) Gas and steam.

(1 mark)

38. Vishal Shetty owns a house at Mumbai, whose gross maintainable rent is Rs.1,00,000. The municipal taxes of Rs.10,000 are borne by the landlord and the tenant equally. The difference between the unbuilt area and the specified area does not exceed 5%. What is the capitalized value of the building for the purpose of the wealth tax as on March 31, 2008, assuming it is built on a freehold land for which capitalization is 12.5? [<Answer>](#)

- (a) Rs.10,00,000
- (b) Rs. 1,00,000
- (c) Rs.12,50,000
- (d) Rs. 9,37,500
- (e) Rs.11,25,000.

(2 marks)

39. The time limit within which the construction of the new residential house property is to be completed to avail exemption under section 54 of the Income Tax Act, 1961 in respect of tax on long-term capital gain arising from sale of residential house property, is [<Answer>](#)

- (a) 1 year from the date of transfer
- (b) 2 years from the date of transfer

(1 mark)

- (b) 2 years from the date of transfer
- (c) 3 years from the date of transfer
- (d) 4 years from the date of transfer
- (e) 5 years from the date of transfer.

40. Ramnath, aged 45 years, has the following income for the previous year 2007-08:

[<Answer>](#)

Particulars	Rs.
Income from salaries	4,25,000
Income from long term capital gains	1,15,000
Income from lotteries (gross)	1,40,000

The tax liability of Ramnath for the assessment year 2008-09 is

- (a) Rs.1,45,745
- (b) Rs.1,49,071
- (c) Rs.1,70,700
- (d) Rs.1,70,200
- (e) Rs.1,66,500.

(2 marks)

[<Answer>](#)

41. Vidya Balagopal has furnished the following data as on the valuation date March 31, 2008:

Assets	Rs.
Land in urban area (Construction is not permitted as per municipal laws in force)	25,00,000
Motor cars (used on hire)	3,00,000
Jewellery	10,00,000
Loan taken to purchase the jewellery given above	3,00,000
Guest house located in the city	10,00,000

The tax liability on wealth of Vidya Balagopal as on March 31, 2008 was

- (a) Rs. 5,000
- (b) Rs. 2,000
- (c) Rs.17,000
- (d) Rs.30,000
- (e) Rs.32,000.

(2 marks)

[<Answer>](#)

42. Bhavesh availed the leave travel concession from his employer as per the details given below:

February 2005	Visit to his native place
June 2006	Holiday to Sikkim
August 2007	Visit to his native place

Which of the following statements is **true** in respect of the claim for leave travel concession under the Income Tax Act, 1961?

- (a) He is eligible to claim only for any two places of his choice
- (b) He is eligible to claim for all the three trips
- (c) He is eligible to claim once to his native place and once for any other place of his choice
- (d) He is eligible to claim only for his visits to his native place
- (e) He is eligible to claim only for his visit to Sikkim.

(1 mark)

[<Answer>](#)

43. The due date for filing of return where the assessee is a 'working partner' in a firm whose accounts are required to be audited under any law for the assessment year 2008-09 is

- (a) 1st March 2008
- (b) 1st April 2008
- (c) 31st July 2008
- (d) 31st August 2008
- (e) 31st October 2008.

(1 mark)

[<Answer>](#)

44. Which of the following is **not** considered as an income according to the Income Tax Act, 1961?

- (a) Interest on listed debentures
- (b) Refund of income tax
- (c) Interest on un-listed debentures
- (d) Winnings from lotteries
- (e) Winnings from betting.

(1 mark)

(e) Winnings from betting.

[<Answer>](#)

45. Nagendra sold a residential building in Raipur for Rs.10,00,000 on July 1, 2007. The building was acquired for Rs.5,00,000 on June 1, 2000 and brokerage paid on purchase was Rs.10,000. The selling expenses of the property were 2% of the sale consideration.

The Cost of Inflation Index is given below:

Year	CII
2000-01	406
2007-08	551

The long term capital gain chargeable to tax for the assessment year 2008-09 is

- (a) Rs.4,70,000
- (b) Rs.6,92,143
- (c) Rs.3,01,429
- (d) Rs.2,87,857
- (e) Rs.7,12,143.

(2 marks)

[<Answer>](#)

46. While computing profits and gains of business or profession under the Income Tax Act, 1961, the percentage of depreciation allowed on land is

- (a) Nil
- (b) 5%
- (c) 10%
- (d) 15%
- (e) 20%.

(1 mark)

[<Answer>](#)

47. Under the Central Excise Act, 1944, in case of captive consumption of goods, valuation for the purpose of levy of excise duty shall be done on the basis of cost of production plus

- (a) 3%
- (b) 4%
- (c) 5%
- (d) 10%
- (e) 20%.

(1 mark)

[<Answer>](#)

48. An assessment or reassessment under section 147 must be completed within how much time from the end of the financial year in which notice under section 148 was served under the Income Tax Act, 1961?

- (a) 24 months
- (b) 15 months
- (c) 18 months
- (d) 9 months
- (e) 6 months.

(1 mark)

[<Answer>](#)

49. Raghu is the Senior Manager in Polaris Ltd., and has received the following emoluments for the previous year 2007-08:

Particulars	Rs.
Basic salary	2,48,000
Dearness pay (forming part of the retirement benefits)	74,400
Education allowance in respect of two sons	18,000
Accommodation in hotel during the tours on official duties	22,000

The gross taxable salary of Raghu for the assessment year 2008-09 is

- (a) Rs.4,00,800
- (b) Rs.3,40,400
- (c) Rs.3,38,000
- (d) Rs.3,60,000
- (e) Rs.3,88,800.

(2 marks)

[<Answer>](#)

50. Balakrishna purchased 4,000 fully convertible debentures of Rs.10 each for Rs.60,000 on January 31, 2005. The debentures were converted into 4,000 equity shares of Rs.10 each on February 01, 2007. The fair market value of the shares on February 01, 2007 was Rs.90,000. The shares were sold on January 20, 2008 for Rs.1,10,000.

(2 marks)

Year	Cost Inflation Index
2004-05	480
2005-06	497
2006-07	519
2007-08	551

The capital gains taxable in the hands of Balakrishna for the assessment year 2008-09 are

- (a) Rs.43,941 (Long term)
- (b) Rs.15,563 (Short term)
- (c) Rs.43,941 (Short term)
- (d) Rs.50,000 (Short term)
- (e) Rs.50,000 (Long term).

[<Answer>](#)

51. Subhash purchased a house property for Rs.38,000 on June 30, 1972. He incurred Rs.55,000 for the construction of first floor in 1978-79 and Rs.1,50,000 in 1984-85 for the construction of second floor. He made alterations to the house in 1991-92 by incurring Rs.3,00,000. The fair market value of the house on April 1, 1981 was Rs.2,00,000.

Year	Cost Inflation Index
1981-82	100
1984-85	125
1991-92	199
2007-08	551

If Subhash decided to sell the house on October 10, 2007, the indexed cost of the property for computation of capital gains was

- (a) Rs.25,93,853
- (b) Rs.22,75,630
- (c) Rs.17,63,200
- (d) Rs.22,63,200
- (e) Rs.19,32,653.

(2 marks)

[<Answer>](#)

52. Which of the following transactions is taxable under the Central Sales Tax Act, 1956?

- (a) A sale inside a state
- (b) A sale outside all other states
- (c) A sale in the course of import
- (d) A sale which occasions the movement of goods from one state to another
- (e) A sale in the course of export.

(1 mark)

[<Answer>](#)

53. Which of the following expenses is **not** allowed as deduction under Section 37(1) of the Income Tax Act, 1961?

- (a) Forfeiture of security deposit for breach of contract
- (b) Stamp duty incurred in connection with entering into agreement for obtaining overdraft facilities
- (c) Professional tax paid by a person carrying on business or trade
- (d) Amount paid to third parties in order to use his quota rights
- (e) Payments made for acquisition of goodwill.

(1 mark)

[<Answer>](#)

54. Bhaskar, an employee of Brahma Private Ltd., is entitled to a pension of Rs.5,000 per month but no gratuity. He retired on July 31, 2007 and received Rs.1,60,000 in lieu of commutation of 25% of pension. The amount of commuted pension exempt for the assessment year 2008-09 is

- (a) Rs.1,60,000
- (b) Rs. 8,000
- (c) Rs.2,13,333
- (d) Rs.3,20,000
- (e) Nil.

(2 marks)

[<Answer>](#)

55. Pallavi is an employee of a private company. During the previous year 2007-08, she purchased furniture from her employer at a concessional price, the details of which are given below:

Particulars	(Rs.)
Original cost of Furniture (Date of Purchase is June 13, 2005)	63,000
Amount paid by Pallavi (Date of transfer is June 13, 2007)	47,000

What is the value of the perquisite in respect of the furniture purchased at a concessional rate from the (2 marks)

employer by Pallavi for the assessment year 2008-09?

- (a) Rs.63,000
- (b) Rs.47,000
- (c) Rs.16,000
- (d) Rs. 6,300
- (e) Rs. 3,400.

[<Answer>](#)

56. Rahul, aged 30 years, is an employee of Zeneca Ltd., and draws a basic salary of Rs.1,20,000 and D.A. of Rs.40,000 (does not enter into pay for retirement benefits) during the previous year 2007-08. The employer contributes Rs.20,000 towards recognized provident fund to which a matching contribution is made by Rahul. Interest credited to the provident fund account on March 15, 2008 @ 11 per cent comes to Rs.93,500. His income from salary for the assessment year 2008-09 is

- (a) Rs.1,78,350
- (b) Rs.1,92,750
- (c) Rs.1,60,000
- (d) Rs.1,38,350
- (e) Rs.1,80,000.

(2 marks)

[<Answer>](#)

57. Dharani purchased a house property by availing a loan of Rs.6,00,000 @ 12% from the bank on January 1, 2004. The construction of the property was completed on the July 31, 2007. The total amount of interest on the loan for the pre-construction period is

- (a) Rs.2,16,000
- (b) Rs.2,52,000
- (c) Rs.2,58,000
- (d) Rs.2,88,000
- (e) Rs.2,34,000.

(2 marks)

[<Answer>](#)

58. The following particulars have been furnished by Arjun, who is an employee in a private sector company. He retired on March 31, 2008. The other information are as:

- Period of service : 15 years and 5 months.
- Leave entitlement per year : 1 month.
- Leave availed while in service : 3 months.
- Average salary for the 10 months ending on March 31, 2008 : Rs.10,000 p.m.
- Leave salary received at the time of retirement : Rs.1,20,000.

The amount of leave salary chargeable to tax for the assessment year 2008-09 is

- (a) Rs.20,000
- (b) Rs.22,000
- (c) Rs.30,000
- (d) Rs.40,000
- (e) Nil.

(2 marks)

[<Answer>](#)

59. Stock option plans are

- (a) Taxable in the hands of the specified employees only
- (b) Taxable in the hands of the non-specified employees only
- (c) Taxable in the hands of the all the employees
- (d) Taxable in the hands of the private sector employees only
- (e) Not taxable in the hands of any employee.

(1 mark)

[<Answer>](#)

60. If Dhruv sets up a new business on October 10, 2007, his previous year for the purpose of income tax for the assessment year 2008-09 is

- (a) April 01, 2007 to March 31, 2008
- (b) October 10, 2007 to March 31, 2008
- (c) January 01, 2008 to March 31, 2008
- (d) October 01, 2007 to March 31, 2008
- (e) November 01, 2007 to March 31, 2008.

(1 mark)

[<Answer>](#)

61. Kumar purchased 1,000 non-listed shares in a private company on July 31, 2000 for Rs.10,000. On May 15, 2007, he was allotted 300 bonus shares. Kumar transferred all his shares on March 20, 2008 at Rs.50 per share.

Year	Cost Inflation Index
2000-01	406
2005-06	497

(2 marks)

2005-06	497
2006-07	519
2007-08	551

The amount of the capital gains taxable in his hands for the assessment year 2008-09 is

- (a) Rs.36,429
- (b) Rs.51,429
- (c) Rs.55,000
- (d) Rs.15,000
- (e) Nil.

62. Which of the following persons is **not** considered as a dealer under the Central Sales Tax Act, 1956?

[<Answer>](#)

- (a) An auctioneer who carries on business of selling goods
- (b) A club
- (c) A milk co-operative society
- (d) A commission agent
- (e) A person offering skilled services e.g. a Doctor.

(1 mark)

63. Under the Central Sales Tax Act, 1956, the form applicable to sales in the course of export is

[<Answer>](#)

- (a) Form 'C'
- (b) Form 'D'
- (c) Form 'F'
- (d) Form 'G'
- (e) Form 'H'.

(2 marks)

64. Prasad, a person ordinarily resident in India had the following assets and liabilities as on March 31, 2008:

[<Answer>](#)

Assets	Rs.
Gold ornaments held in India	35,00,000
Gold ornaments kept outside India	47,25,000
Amount borrowed for purchasing gold ornaments outside India	3,00,000
Amount borrowed for acquiring gold ornaments held in India	2,55,000

The taxable wealth of Prasad for the assessment year 2008-09 is

- (a) Rs.64,70,000
- (b) Rs.17,45,000
- (c) Rs.32,45,000
- (d) Rs.61,70,000
- (e) Rs.76,70,000.

(2 marks)

[<Answer>](#)

65. Huang, a citizen of Taiwan, visited India for the first time in June 2003. The number of days he was in India for the past 5 years is as under:

Financial year	Days
2003-2004	92
2004-2005	96
2005-2006	86
2006-2007	97
2007-2008	78

The residential status of Huang for the assessment year 2008-09 is

- (a) Resident and ordinarily resident
- (b) Resident but not ordinarily resident
- (c) Non-resident
- (d) Non-resident and ordinarily resident
- (e) Non-resident and not ordinarily resident.

(2 marks)

[<Answer>](#)

66. Dharmendra Singh owns a house property, which was self-occupied by him up to September 30, 2007 and let out from October 01, 2007 on a monthly rent of Rs.20,000. Municipal valuation of the property is Rs.1,20,000, while fair rental value is Rs.1,10,000 and Standard Rent is Rs.1,10,000. Municipal taxes paid during the year 2007-08 is Rs.20,000 and interest paid on loan for construction of the house amounted to Rs.24,000. The income from house property for the assessment year 2008-09 is

- (a) Rs.46,000
- (b) Rs.23,000

(2 marks)

- (b) Rs.23,000
- (c) Rs.69,800
- (d) Rs.34,900
- (e) Rs.53,000.

67. Krishnaprasad, a 67 year old resident Indian has disclosed a sum of Rs.7,00,000 as taxable income. His tax liability for the assessment year 2008-09 is

[<Answer>](#)

- (a) Rs.1,48,920
- (b) Rs.1,64,980
- (c) Rs.1,50,380
- (d) Rs.1,63,770
- (e) Rs.1,67,054.

(2 marks)

[<Answer>](#)

68. Which of the following losses is deductible for the computation of business income under the Income Tax Act, 1961?

- (a) Loss of security deposited for the purposes of acquisition of stock-in-trade
- (b) Loss incurred due to sale of shares held as investment
- (c) Loss incurred due to damage, destruction, etc., of capital assets
- (d) Anticipated future losses
- (e) Depreciation of funds kept in foreign currency for capital purposes.

(1 mark)

[<Answer>](#)

69. Where the assessing officer is not satisfied with the correctness or completeness of the accounts of the assessee or where no regular method of accounting is used, he is empowered to make

- (a) Summary assessment
- (b) Regular assessment
- (c) Income escaping assessment
- (d) Reassessment
- (e) Best judgment assessment.

(1 mark)

[<Answer>](#)

70. During the year 2007-08, Kishore, a resident individual who had taken a loan for his higher education from a bank, paid an amount of Rs.25,000 towards the principal amount of loan. The amount of deduction he is eligible to claim under 80E in computing his income for the assessment year 2008-09 is

- (a) Rs.25,000
- (b) Rs.40,000
- (c) Nil
- (d) Rs.15,000
- (e) Rs.60,000.

(2 marks)

[<Answer>](#)

71. Manoj, aged 48 years, owns a house that is self occupied by him. He furnishes the following details of his income for the previous year 2007-08:

Particulars	Rs.
Municipal value per annum	2,00,000
Fair rent per annum	1,90,000
Standard rent per annum	2,20,000
Interest on loan taken for buying the house	80,000
Municipal tax paid	15,000

Given that his income from other sources is Rs.16,00,000 and he deposits Rs.60,000 in Public Provident Fund and Rs.50,000 in National Savings Certificate, his net taxable income for the assessment year 2008-09 is

- (a) Rs.14,20,000
- (b) Rs.14,10,000
- (c) Rs.16,00,000
- (d) Rs.13,60,000
- (e) Rs.13,50,000.

(2 marks)

END OF QUESTION PAPER

Suggested Answers

Business Law – II (MB262): July 2008

ANSWER	REASON	
1. A	Cash in hand in excess of Rs.50,000 is as an asset under Section 2 (ea) of the Wealth Tax Act, 1957, for an individual assessee.	<TOP>
2. E	The maximum amount of deduction under section 24 of the Income Tax Act, 1961, to an individual for the assessment year 2008-09 in respect of interest paid on loan taken for the construction of a self-occupied house property is Rs.1,50,000.	<TOP>
3. E	Interest on loan taken by the owner for carrying out repairs is allowed as a deduction in the computation of income from let out house property.	<TOP>
4. B	<ul style="list-style-type: none"> • The goods, other than imported goods, transported in a vessel from one port to another are called coastal goods. • Goods which are exported out of the country are exported goods. Goods which are prohibited to be exported or imported are called prohibited goods. • Identical goods are those goods which fulfill all of the following conditions a) the goods should be same in all respects, including physical characteristics, quality and reputation. b) the goods should have been produced in the same country, c) they should be produced by same manufacturer. • Dutiable goods means any goods which are chargeable to duty and on which duty has not been paid. • Export goods means any goods which are to be taken out of India to a place outside India. <p>Hence, option 'B' is correct answer.</p>	<TOP>
5. E	As per section 2(dd) of the Central Sales Tax Act, 1956, place of business includes (in case the dealer carries on business through an agent) the place of business of such an agent, a warehouse, a godown, or any other place where a dealer stores his goods and also a place where a dealer keeps his books of account.	<TOP>
6. E	Assets transferred directly or indirectly by an individual without adequate consideration to a person for the benefit of his or her son's wife, are included in the net wealth of the transferor. All other statements are true. Hence, 'E' is correct answer.	<TOP>
7. D	<p>As per the definition of the manufacture as per the Central Excise Act, 1944 a new and different article must emerge having a distinct name and character or use. The following have been held as not amounting to manufacture under the Central Excise Act, 1944:</p> <ul style="list-style-type: none"> • Printing and lacquering plain tubes and containers of aluminium bought from the market. • Straightening of steel wires and cutting them into the required sizes. • The processes of cleaning, cutting, deep freezing and packing green peas. • Tanned leather cut into straps. <p>De-husking of paddy into rice is a manufacturing process as rice is a commercially distinct and different commodity from paddy. Hence, 'D' is correct answer.</p>	<TOP>
8. E	<p>Any stock-in-trade, consumable stores or raw materials held for the purpose of business or profession and Agricultural land in India, not situated in any notified area are not treated as capital assets under section 2(14) of the Income Tax Act, 1961.</p> <p>The goodwill of a business is a capital asset and any excess realized over its book value would be a capital gain chargeable to tax. Hence, 'E' is correct answer.</p>	<TOP>
9. D	<ul style="list-style-type: none"> • Derelict means vessel or cargo which is abandoned in sea without any hope of recovering it. • Wreck refers to the property cast ashore within the ebb and flow of the tide after shipwreck. • Jetsam is where the goods are thrown into the sea with a view to lighten the ship in order to prevent it from sinking. 	<TOP>

- If the goods at sea in a ship are separated from it by some peril, it is known as flotsam.
10. D Every dealer effecting sale in the course of inter-state trade is required to register compulsorily under the Act. Under the Central Sales Tax Act, 1956 there is no exemption limit. Any amount of turnover in the course of inter-state sale is taxable and the dealer is required to be registered under the Act. [< TOP >](#)
11. A In respect of the wealth of a business, the depreciable assets are taken at the written down value, non-depreciable assets excluding the stock-in-trade are to be taken at the book value and the inventory at the value taken for the purposes of the income tax. [< TOP >](#)
12. C Salary is taxable on due or receipt basis whichever is earlier – Basis of charge in respect of salary income is fixed by section 15. Salary is chargeable to tax either on due basis or on receipt basis, whichever matures earlier. [< TOP >](#)
- For instance, if salary of 2008-09 is received in advance in 2007-08, it is included in the total income of the previous year 2007-08 ‘receipt basis’. Hence, 14 months salary is chargeable to tax for the assessment year 2008-09.
13. A Any excessive or unreasonable payment having regard to the fair market value of the goods is disallowed in computation of business profit i.e. Rs.29,000 – Rs.25,000 = Rs.4,000. Any payment in excess of Rs.20,000 if made otherwise than by a crossed cheque/bank draft, 100% of such expenditure will not be allowable as deduction = 100% of Rs.25,000 = Rs.25,000. Total amount disallowed = Rs.4,000 + Rs.25,000 = Rs.29,000. [< TOP >](#)
14. E The term normal price is defined by section 4(1)(a). For a price to be accepted as a normal price the following conditions must be fulfilled: [< TOP >](#)
- The price should be one at which the goods are ordinarily sold by the assessee.
 - The price should be the wholesale price.
 - The sale should be for delivery at the time and place of removal.
 - The buyer in the ordinary course of trade should not be a related person .
 - The price should be the sole consideration for the sale.
- From the above it is clear that the price should be the sole consideration for the sale, hence option ‘E’ is correct answer.
15. D Freight charges shown and charged separately are not included in sale price for the computation of sales tax payable under the Central Sales Tax Act, 1956. [< TOP >](#)
16. D The incidence of the wealth tax in the case of an individual depends on his residential status and the nationality whereas in the case of the HUF and the Company it is on the basis of the residential status. [< TOP >](#)
17. E
- Income from Ram Mathur’s own business is chargeable to tax in his hands. [< TOP >](#)
 - The clubbing provisions do not apply to salary income of Mrs.Ram Mathur since the same is not received from a concern in which the spouse has substantial interest.
 - The income of minor daughter shall not be clubbed if the income is earned on the account of manual work done by her or any activity involving application of skill, talent, specialized knowledge and experience. Therefore in the given case clubbing provision cannot be applied in respect of income earned by minor daughter Priya.
 - The interest income and lottery earnings of minor son Deepak will be clubbed in the hands of the parent whose total income is higher.
- In the given case Ram Mathur’s income of Rs.1,50,000 is greater than the income of Mrs. Ram Mathur, which is only Rs.1,20,000. Therefore, the income of minor son will be clubbed in the hands of Ram Mathur and not in the hands of Mrs. Ram Mathur.
- Hence, total income of Mrs. Ram Mathur for the assessment year 2008-09 is Rs.1,20,000.
18. B The depreciation that can be claimed by Damini Ltd., for the assessment year 2008-09 is as under: [< TOP >](#)

Name of the asset	Date of acquisition	Date when put to use	Cost of the asset	Depreciation @25% on cost
Plant A	May 15, 2007	June 30, 2007	12,50,000	3,12,500
Plant B*	October 01, 2007	December 31, 2007	15,50,000	1,93,750
The total depreciation that can be claimed				5,06,250

*Plant B is eligible only for 50% of the normal depreciation as it has been put to use for less

than 180 days.

19. E The term 'Customs Station' does not include the customs warehouse, but includes customs port, Inland container depot, customs airport and Land customs stations. [<TOP>](#)
20. C Form C - Sales in the course of interstate trade by a registered dealer [<TOP>](#)
 Form D - is issued by a Government department to whom sales are effected in the course of an inter-state sale.
 Form G - Indemnity furnished by dealer in matters of security deposit
 Form E-I – Subsequent sale in the course of inter-state trade issued by the first dealer
 Form E-II - Subsequent sale in the course of inter-state trade issued by selling dealers other than the first dealer.
21. C The deduction from the gross maintainable rent is allowed for the valuation of the property for wealth tax purposes at 15% of the Gross maintainable rent. [<TOP>](#)
22. A Short term capital loss can be set off against short-term or long-term capital gains. From the assessment year 2003-04, long-term capital loss can be set off only against long-term capital gains. Hence, 'A' is the correct answer. [<TOP>](#)
23. E No amount is to be disallowed though the total payment in cash exceeds Rs.20,000. The payment is in respect of two bills and both the bills are of value less than Rs.20,000. For the provisions of section 40A(3) to be applied, both the value of the individual bills and the payment should be in excess of Rs.20,000. [<TOP>](#)
24. D Remuneration paid to clearing and forwarding agents is deductible for the purpose of computing the assessable value under the Central Excise Act, 1944. All the other expenses are not deductible from the assessable value. Hence option 'D' is the correct answer. [<TOP>](#)
25. C Where goods are standard products that are sold off the shelf, it amounts to stock transfer. In case of all the other options, it amounts to an inter-state sale under the Central Sales Tax Act, 1956. [<TOP>](#)
26. A As per the provisions of section 45 of the Wealth Tax Act, no wealth tax is chargeable in respect of net wealth of : [<TOP>](#)
- Any company registered under section 25 of the Companies Act.
 - Any co-operative society.
 - Any social club.
 - Any political party.
 - A mutual fund specified under section 10(23D) of the Income Tax Act.
- An individual is an assessee for the purpose of the Wealth Tax Act.
27. E An assessee can request for provisional assessment under Rule 7 of Central Excise Rules, 2002 [<TOP>](#)
- I. When the selling price is not acceptable as the assessable value.
 II. When there is no selling price i.e. the goods have been captively consumed.
 III. When the assessee is unable to determine the value of excisable goods.
 Hence, 'E', the combination of Statements (I), (II) and (III) is the correct answer.
28. A Taxable income of Prahlad Purohit under 'Income from other sources' for the assessment year 2008-09 [<TOP>](#)

Particulars	Rs.
Interest – Rs.6,00,000X6%	36,000
Less: Realization expenses – Bank charges and commission	1,800
Taxable Income	34,200

29. E The short term capital loss can be set off either against the income of short term capital gain or long term capital gain but in the case of long term capital loss the long term capital loss can be set off only against long term capital gain. [<TOP>](#)

So the taxable income of Arvind Ahuja for the assessment Year 2008-09 is

Particulars	Rs.
Business Income	1,41,500
Short term capital gain	62,000
The taxable Income	2,03,500

The taxable Income	2,03,500
--------------------	----------

30. B The following are exempted prerequisites: [< TOP >](#)

- Interest free loan in respect of medical treatment for specified ailments.
- Hotel accommodation up to 15 days on transfer.
- Conveyance provided from house to office and back.
- Medical facility in own hospital; public hospital; Government hospital or approved hospital.
- Use of computers and laptop.
- Leave Travel concession to employees.

Hence the correct answer is 'B' which is taxable prerequisite because in this case the hotel accommodation is provided more than 15 days.

31. A Calculation of net wealth of Munnar Castings Ltd as on March 31, 2008 [< TOP >](#)

Assets	Rs.	Rs.
Land	50,00,000	66,00,000
Land in urban area (Since construction is not permitted)	Nil	
Motor cars	16,00,000	
Less:		
Loan taken for acquisition of land	9,00,000	16,00,000
Loan taken for acquisition of land in urban area	Nil	
Loan taken for acquisition of Cars	7,00,000	
Net wealth		50,00,000

32. D In the case of an amalgamation of a company owning an industrial undertaking with another company, the amalgamated company, is entitled to claim the carried forward business loss and the unabsorbed depreciation as its losses. [< TOP >](#)

33. B "Profits and Gains of Business" of Srikanth for the assessment year 2008-09 [< TOP >](#)

	Rs	.Rs.
Net profit as per profit and loss account		1,62,500
Add: Rent of residence	36,000	36,000
		1,98,500
Less:		
Winning from lottery (taxable under section 56)	1,00,000	1,70,000
Agricultural income [exempt Section 10(1)]	70,000	
Profits and Gains of Business		28,500

34. D Any income for which no explanation is forthcoming from the assessee with regard to its nature and source, such income is considered as deemed income by the Assessing Officer. If satisfactory explanation is not given with regard to investment made, monies received recorded and expended they are deemed incomes in the hands of assessee. Thus, the explained expenditure is not a deemed income that is allowed expenditure. Unexplained investments section 69; unexplained money Section 69 A; Investments not fully disclosed Section 69B and amount borrowed or repaid on Hundi Section 69 (D) are considered as deemed incomes if the assessee does not provide satisfactory explanation to the Assessing Officer. [< TOP >](#)

35. B Long term capital loss can be only set off against long term capital gain. Hence option (b) is the correct answer. [< TOP >](#)

36. B As the rent-free accommodation, owned by the employer is provided in a place having population between 10 lakhs and 25 lakhs, the prerequisite value is equal to 10% of the salary. [< TOP >](#)

Particulars	Rs.
Basic	1,50,000
DA	1,05,000
Bonus	6,000
Salary for RFA	2,61,000

Value of the prerequisite Rent-free unfurnished accommodation
= 10% of the salary = 10% of Rs. 2,61,000 = Rs.26,100.

37. C By-products, Drawings and designs relating to the machinery, Sub-standard goods and Gas and steam are treated as goods under the Central Excise Act, 1944. Intermediate goods which are marketable are treated as goods under the Central Excise Act, 1944 and not Intermediate goods which are not marketable. Hence, option 'C' is correct answer. [< TOP >](#)

38. D Computation of Capitalized value of the building of Vishal Shetty as on March 31, 2008 [< TOP >](#)

Particulars	(Rs.)	(Rs.)
Gross maintainable rent (GMR)		1,00,000
Less : Municipal taxes	10,000	
Less: Deduction (15% on GMR i.e. 15% of Rs.1,00,000)	15,000	25,000
Net maintainable rent (NMR)		75,000
Capitalized value of the building for the purpose of the wealth tax (NMR x 12.5)		9,37,500

As the difference between the unbuilt area and the specified area does not exceed 5%, no adjustment is required for premium.

39. C To claim exemption under section 54 of the Income Tax Act, 1961 in respect of tax on long term capital gain from transfer of residential house property, the construction of the new house should be completed within 3 years from the date of transfer of residential house property. [< TOP >](#)

40. A Computation of tax liability of Ramnath for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.
Income from salaries	4,25,000
Income from long term capital gains	1,15,000
Income from lotteries (gross)	1,40,000
Taxable income	6,80,000
Tax liability thereon :	
Income tax on the capital gains (20% on Rs.1,15,000 + 3% cess on 20% of Rs.1,15,000)	23,690
Income tax on the winnings from lotteries (30.9% on.1,40,000)	43,260
Income tax on the balance income (Rs.6,80,000 – Rs.1,15,000 – Rs.1,40,000) as per the slabs 24,000 + 30% of Rs.(4,25,000 – 2,50,000) = Rs.76,500 + 3% cess on Rs.76,500)	78,795
Total tax liability	1,45,745

41. B Computation of taxable wealth of Vidya Balagopal as on March 31,2008 [< TOP >](#)

Particulars	Rs.
Land in urban area	Nil
Motor cars	Nil
Jewellery	10,00,000
Guest house	10,00,000
Total wealth	20,00,000
Less: Loan obtained for jewellery	3,00,000
Net wealth as on March 31, 2008	17,00,000
Exemption	15,00,000
Taxable wealth	2,00,000

Tax liability on net wealth @1% on taxable wealth = 1% of Rs.2,00,000 = Rs.2,000.

42. B An assessee is eligible to claim the leave travel concession only for 2 journeys in a block of 4 years as per the income tax. The blocks as specified by the Act are 1994-97, 1998-2001, 2002-2005 and 2006-2009. In the given case the assessee has availed once in the block of 2002-2005 and again twice in the block of 2006-2009. Hence, he is eligible to claim for all the three trips. [< TOP >](#)

43. E [< TOP >](#)

Different situations		Due date of submission of return
1	Where the assessee is a company	October 31 st
2	Where the assessee is other than company	

a.	In case where accounts of the assessee are required to be audited under any law	October 31 st
b.	Where the assessee is a 'working partner' in a firm whose accounts are required to be audited under any law	October 31 st
c.	Where the assessee is covered by the first Proviso to section 139 (1)	October 31 st
d.	In any other case	July31 st

Hence the due date for filing of return where the assessee is a 'working partner' in a firm whose accounts are required to be audited under any law is October 31st of the assessment year.

44. B Interest on listed debentures, Interest on un-listed debentures, Winnings from lotteries and Winnings from betting are considered as incomes under the Income Tax Act, 1961 whereas refund of income tax is not considered as income because it is not recurring in nature. [< TOP >](#)

45. D Computation of Long term Capital gains of Nagendra for the Assessment Year 2008-09 [< TOP >](#)

Particulars	Rs.
Sale Consideration	10,00,000
Brokerage on sale (2% of Rs.10,00,000)	20,000
Net sale Consideration	9,80,000
Indexed *cost of acquisition $5,10,000 \times \frac{551}{406}$	6,92,143
Long term capital gain	2,87,857

*Cost of Acquisition = cost + Brokerage on purchase
= Rs.5,00,000 + Rs.10,000 = Rs.5,10,000

46. A No depreciation is allowed on the land in respect of profits & gains of business or profession under the Income Tax Act, 1961. [< TOP >](#)

47. D In case of captive consumption for levy of excise duty, valuation shall be done on the basis of cost of production + 10%. Cost of production is required to be calculated as per CAS-4. [< TOP >](#)

48. D An assessment or reassessment under section 147 must be completed within nine months from the end of the financial year in which notice under section 148 was served. [< TOP >](#)

49. C Calculation of the gross salary of Raghu for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.
Basic salary	2,48,000
Dearness allowance	74,400
Education allowance [Rs.18,000 - (2 × Rs.100 × 12)]	15,600
Accommodation in the hotels for official tours (not taxable)	—
Gross taxable salary	3,38,000

50. D The cost of acquisition of shares is the cost of debentures i.e. Rs.60,000. To find out whether or not the shares are long-term capital asset or short-term capital asset, the period of holding shall be determined from the date of allotment of shares. In the given problem, the period of holding of shares is from February 01, 2007 to January 20, 2008 i.e. less than one year. Hence, the shares are short-term capital assets. The capital gains taxable in the hands of Balakrishna are [< TOP >](#)

Particulars	Rs.
Sale consideration	1,10,000
Less : Cost of acquisition	60,000
Capital gains (short-term)	50,000

51. A Computation of indexed cost of acquisition [< TOP >](#)

Particulars	Rs.
Indexed cost of acquisition $Rs.2,00,000 \times \frac{551}{100}$	11,02,000
Indexed cost of second floor $Rs.1,50,000 \times \frac{551}{125}$	6,61,200
Indexed cost of alterations $Rs.3,00,000 \times \frac{551}{18}$	8,30,653

Rs.3,00,000 × $\frac{551}{199}$	8,30,653
Indexed cost of alterations	
Indexed cost of property for computation of capital gains	25,93,853

52. D A Sale which occasions the movement of goods from one state to another state is taxable under section 3 of the Central sales tax Act, 1956. A sale outside all other states, a sale inside a state, a sale in the course of import and a sale in the course of export are not taxable under the Central Sales Tax Act, 1956. [< TOP >](#)

53. E Payments made for acquisition of goodwill is a capital expenditure and hence it is not deductible under Section 37(1) of the Income Tax Act, 1961. All the other options are allowed as deduction under section 37(1). Hence, 'E' is the correct answer. [< TOP >](#)

54. A Commuted value of 25% of pension – Rs.1,60,000 Value of full of pension = Rs.1,60,000/25% = Rs.6,40,000. As Bhaskar does not receive any gratuity, the commuted pension exempted is commuted value of ½ of pension. i.e. 6,40,000/2 = Rs.3,20,000. As the amount received on commutation of pension is less than maximum amount exempt from tax, the total amount of Rs.1,60,000 is exempted and nothing is chargeable to tax. [< TOP >](#)

55. E In the case of the purchase of the movable assets at a concessional rate, the value of the perquisite is calculated after deduction of the depreciation from the original cost of the asset for the period for which the employer has used it. Depreciation to be calculated for 2 years as the asset has been sold only after a usage of 2 full years. [< TOP >](#)

Particulars	(Rs.)
Original cost of Furniture	63,000
Less: Depreciation for 2005-06 (10% of Rs.63,000)	6,300
	56,700
Less: Depreciation for 2006-07 (10% of Rs.63,000)	6,300
Book value	50,400
Less: Amount paid by Pallavi	47,000
Value of perquisite	3,400

56. A Income from salary of Rahul for the assessment year 2008-2009 [< TOP >](#)

	(Rs.)
Basic salary	1,20,000
Dearness allowance	40,000
Employer's contribution towards recognized provident fund in excess of 12% of salary (Rs.20,000 – 12% of Rs.1,20,000)	5,600
Interest credited to recognized provident fund account in excess of 9.5% per annum (i.e., Rs.93,500 × 1.5/11)	12,750
Income from salary	1,78,350

57. E The interest on the loan for the pre-construction period is calculated as under : Pre-construction period January 1, 2004 to March 31, 2007. [< TOP >](#)

Year	Months
2004	12
2005	12
2006	12
2007	3
Total months	39

Amount borrowed Rs.6,00,000 @ 12% p.a.

Interest for the period till the completion of the construction is Rs.6,00,000 × 12/100 × 39/12 = Rs.2,34,000

58. A Computation of taxable leave salary of Arjun for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.
Leave salary received from private sector company	1,20,000
19	
Less: Exemption under Sec.10 (10AA)	
Least of the following is exempted:	

(Rs.10,000 x 12)	1,20,000	
2. 10 Months' average salary	1,00,000	
3. Amounts specified by Government	3,00,000	
4. Actual leave salary received	1,20,000	1,00,000
Taxable leave salary		20,000

Particulars	Months
Leave entitlement for Income tax Act (15 months 1 month per year)	15 months
Less Availed on service	3 months
Leave credit:	12 months

59. E Employee Stock Option Plan is an exempted perquisite that is not chargeable to tax in the hands of any employee. Hence, 'E' is the correct answer. [< TOP >](#)

60. B In the case of newly set up business or profession, the first previous year is the period commencing from the date of setting up of business or profession and ending immediately following March 31. Since the business of Dhruv was set up on October 10, 2007 his first previous year for the assessment purpose of income tax shall be October 10, 2007 to March 31, 2008, pertaining to the Assessment year 2008-09. [< TOP >](#)

61. B The capital gains are computed as under [< TOP >](#)

Particulars	Rs.	Rs.
Sale consideration of 1,000 shares (1000 x Rs.50)	50,000	
Less the indexed cost of acquisition (Rs.10,000 x 551 /406)	13,571	
Long term Capital gains		36,429
Sale of the bonus shares (300 shares x Rs.50)	15,000	
Less: cost of acquisition	Nil	
Short term Capital gains		15,000
Total capital gains		51,429

62. E An auctioneer who carries on business of selling goods, a club, a milk co-operative society and a commission agent are considered as 'dealer' under the Central Sales Tax Act, 1956. Persons offering skilled services are not dealers, hence option 'E' is the correct answer. [< TOP >](#)

63. E Under the Central Sales Tax Act, 1956, the form applicable to sales in the course of export is called as Form H. [< TOP >](#)

64. D Computation of taxable wealth of Prasad for the for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.	Rs.
Assets		
Gold ornaments held in India	35,00,000	
Gold ornaments kept outside India	47,25,000	82,25,000
Less: Debts		
Amount borrowed for purchase outside India	3,00,000	
Amount borrowed in India	2,55,000	5,55,000
Net wealth		76,70,000
Less: Exemption		15,00,000
Taxable wealth		61,70,000

65. B According to section 6(1), an individual is said to be a resident if he satisfies at least one of the following two basic conditions : [< TOP >](#)

- He is in India in the previous year for a period of 182 days or more
- He is in India for a period of 60 days or more during the previous year and 356 days or more during the 4 years immediately preceding the previous year.

Huang was in India for 78 days during the previous year 2007-08 and for 371 days during the 4 years preceding the previous year. Hence, he is a resident.

According to section 6(6), a resident is said to be an ordinarily resident if he satisfies the

following two additional conditions :

- He has been resident in India in at least 2 out of 10 previous years immediately preceding the previous year.
- He has been in India for a period of 730 days or more during 7 years immediately preceding the previous year.

However as he was not in India for 730 days during 7 years preceding the previous year and he was not a resident for 2 out of 10 years preceding the previous year, he is not an ordinary resident.

Hence the residential status of Huang for the assessment year 2008-09 is resident but not ordinarily resident.

66. A Computation of income from house property of Dharmendra Singh for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.
Step I – Fair rent or the municipal value whichever is higher subject to a maximum of the standard rent	1,10,000
Step II – Actual rent received (Rs.20,000 x 6)	1,20,000
Gross annual value (higher of the above two)	1,20,000
Less municipal taxes	20,000
Net annual value of the property	100,000
Less deduction under Section 24	
Standard deduction @ 30% of Rs.1,00,000	30,000
Interest on borrowed capital	24,000
Income from house property	46,000

Note: A house that is self-occupied for a part of the year and let out for remaining part of the year is treated as a let out house.

67. C Computation of tax payable by Krishnaprasad [< TOP >](#)

Particulars	Rs.
Income tax payable on	7,00,000
- On first Rs. 1,95,000 (basic exemption for senior citizens)	Nil
- From Rs. 1,95,001 to Rs. 2,50,000 @ 20%	11,000
- On balance Rs. 4,50,000 @ 30%	1,35,000
	1,46,000
Add: Education and Higher Education cess @3% on Rs.1,46,000	4,380
Total tax payable	1,50,380

68. A Loss of security deposited for the purposes of acquisition of stock-in-trade is deductible from business income. Hence option 'A' is correct answer. [< TOP >](#)

69. E Where the assessing officer is not satisfied with the correctness or completeness of the accounts of the assessee or where no regular method of accounting is used, he is empowered to make best judgment assessment. [< TOP >](#)

70. C The deduction under section 80E can be claimed only when the assessee starts paying the interest on the loan and 7 immediately succeeding assessment years or till the interest on the loan is fully paid, whichever is earlier. No deduction is available for the principal from the assessment year 2006-07. [< TOP >](#)

71. A Computation of net taxable income of Manoj for the assessment year 2008-09 [< TOP >](#)

Particulars	Rs.	Rs.
Gross annual value		Nil
Less municipal tax		Nil
Net annual value		Nil
Less deduction under Section 24		
Standard deduction @ 30%	Nil	
Interest on loan taken for buying the house	80,000	80,000
Income from property		(80,000)
Income from other sources		16,00,000
Gross total income		15,20,000
Less deduction under 80C		1,00,000
Net taxable income		14,20,000

Note: Total amount invested is Rs.1,10,000 (Rs.60,000 in PPF and Rs.50,000 in NSC). However the maximum amount of deduction available under Section 80C is restricted to Rs.1,00,000.

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