Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 03 – EXAMINATION – SUMMER 2017

Subject Code: 2830009 **Date: 09/05/2017**

Subject Name: Corporate Taxation (CT)

Time: 02.30 PM TO 05.30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 (a). MCQ (6 x 1= 6 Marks)

1. Income tax in India is charged at the rate prescribed by:

(a) The Finance Act
(b) The Income Tax Act
(c) The Central Board of Direct Tax
(d) The Ministry of Finance

2. B contributed a sum of Rs. 30,000 to an approved institution for research in social science, which is not related to his business. The amount of deduction eligible under section 35 would be:

(a) Rs. 30,000
(b) Rs. 45,000
(c) Rs. 37,500
(d) No deduction as it is unrelated to his business

3. The following is capital receipt :

(a) Dividend from investments;
(b) Bonus shares;
(c) Sale of technological know-how;
(d) Compensation received for compulsory evacuation of place of business.

4. The following is not a venture capital undertaking for the purposes of section 10(23F), if engaged in business of :

(a) Generation of power;
(b) Telecommunications;
(c) Providing infrastructural facility;
(d) Dairy farming whose shares are not listed in a recognised stock exchange.

5. In valuation of immovable property in Bangalore, the specified area means .... of the aggregate area, for wealth-tax purposes.

(a) 60 per cent;
(b) 65 per cent;
(c) 70 per cent;
(d) 75 per cent.

6. Avoidance of Double taxation agreement:

(a) Can Increase Tax Liability
(b) Can Reduce Tax Liability
(c) Does not have any impact on tax liability
(d) Can impose tax liability in respect of income which is otherwise exempt under

income tax Act.

Q1. (b). Short Answer / Definitions (4 x 1 = 4 Marks)

1. Define Assessee.
2. Define Assessment Year and Previous Year
3. Write a note on Residence of Company.
4. Write the exemption of Gratuity for non- government employee.

Q.1.(c). Enlist Any Eight heads of income that is exempted from tax as per Income Tax Act. **04**

Q.2. (a). State the method of computation of Book Profit (115 JB) for the company. **07**

(b). A Ltd. is engaged in the business of carriage of goods. On April 1, 2014, it owns 10 truck (6 out of which are heavy goods vehicle). On May 6, 2014, one of the heavy goods vehicles is sold by A ltd. to purchase a light goods vehicle on May 10, 2014 which is put to use only from June 17, 2014. Find out the net income of X ltd. for the assessment year 2015-16 taking into consideration the following data – **07**

Fright collected	Rs. 8,90,000
Less: Operational Exp	6,40,000
Depreciation as per sec. 32	1,90,000
Other office Exp	15,000
Net profit	45,000
Other Income	6,70,000

OR

(b). "When tax rates are falling, it is better to increase the financial leverage." Explain the truth of this statement using the following model which has three alternatives:

Equity (20% dividend): 60% or 50% or 40% & Cost of debt: 12%.

Tax rates likely to be 35%, 30% and 25% in the next three years. **07**

Q.3.(a). Discuss the tax provisions for Sections 33AB-Tea/Coffee/Rubber Development Account and 44AE-Transport Operators. **07**

(b). Shree & company, a firm is engaged in the business of paper trading (Turnover of 2014-2015) being Rs. 57,80,000. It wants to claim the following deduction. **07**

Particulars	**Amount**
Salary & interest to partners (as permitted by sec. 40(b)	60,000
Salary to employees	4,90,000
Depreciation	2,70,000
Cost of material used	45,90,000
Others Expenses	3,45,000
Total	**57,55,000**
Net Profit	**25,000**

Determine the net income of Shree & company for the current assessment year. Assuming long term capital gain is Rs. 40,000 & the firm is eligible for deduction of Rs. 5,000 under sec 80G.

OR

Q.3. (a). Explain giving suitable example - tax planning & tax avoidance. **07**

(b). Alpha Ltd,is a manufacturing company. On April 1, 2014, it owns Plant A and Plant B (depreciation rate: 15 per cent; depreciated value of block being Rs 2,40,000). Plant C (depreciation rate 15 per cent) is purchased by the company on June 10, 2014 for Rs 60,000.It is put to use on the same day.

Find out the tax consequences in the following different situations-

i) Plant B is destroyed by fire on January 25, 2015.Rs 10,000, being the compensation is paid by the insurance company on February 10, 2015.

ii) Plant A, B, and C are destroyed by fire on January 25, 2015. Compensation paid by the insurance company on February 10, 2015 is Rs 20,000. **07**

Q.4. (a). Give illustration to explain Indian income & foreign income. **07**

(b). AXA Ltd., manufactures electric pumping sets. The company has the option to either make or buy from the market component Y used in manufacture of the sets. The following details are available:

The component will be manufactured on new machine costing Rs.81,157 (Net of taxes i.e. tax savings on account of depreciation) (original cost of the machine is Rs.1,00,000) with a life of 10 years. Material required cost Rs.2 per kg and wages Re. 0.30 per hour. The salary of the foreman employed is Rs.1,500 per month and other variable overheads include Rs.20,000 for manufacturing 25,000 components per year. Material requirement is 25,000kgs and requires 50,000 labour hours. The component is available in the market at Rs.4.30 per piece. Will it be profitable to make or buy the component? Does it make any difference if the component can be manufactured on an existing machine? **07**

OR

Q4. (a). When is Minimum Alternate Tax applicable? How is Minimum Alternate Tax Calculated? **07**

(b). Monster Ltd. company wants to expand its facilities using the following alternatives:

Particulars	**Alternative I**	**Alternative II**	**Alternative III**
Share Capital	5,00,00,000	2,00,00,000	1,00,00,000
Debentures (14%)	-	2,00,00,000	1,50,00,000
Loan from Financial Institution (12%)	-	1,00,00,000	2,50,00,000

Expected rate of return before tax is 25%. Rate of dividend is 20%. As a tax consultant advise the company that which alternative it should adopt and Why? (Assume that the tax rate applicable to the firm is 30%, Surcharge 5% and EC 2% and HSEC 1%). **07**

Q.5. ABC Ltd. needs a component in an assembly operation. It is contemplating the proposal to either make or buy the aforesaid component.

(1) If the company decides to make the product itself, then it would need to buy a machine for Rs. 8 lakh which would be used for 5 years. Manufacturing costs in each of the five years would be Rs. 12 lakh, Rs. 14 lakh, Rs. 16 lakh, Rs. 20 lakh and Rs. 25 lakh respectively. The relevant depreciation rate is 15 per cent. The machine will be sold for Rs. 1 lakh at the beginning of the sixth year.

(2) If the company decides to buy the components from supplier the component would cost Rs. 18 lakh, Rs. 20 lakh, Rs. 22 lakh, Rs. 28 lakh and Rs. 34 lakh respectively in each of the five year.

The relevant discounting rate and tax rate are 14% & 33.99% respectively. Additional depreciation is not available. Should ABC Ltd. make the component or buy from outside?

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OR

Q.5. Shree Ltd. is contemplating an expansion programme. It has to make a choice between debt issue and equity issue for its expansion programme. Its current position is as under:

	Rs.(in Crore)
10% Debt	80
Equity share capital(Rs. 10 per share)	200
Reserves and Surplus	120
Total capitalization	400
Sales	1,200
Less: Total Cost	1,076
EBIT	124
Less: Interest	8
EBT	116
Less: Tax @ 33.99%	39.43
EAT	76.77

The expansion programme is estimated to cost Rs. 200 crore. If this is financed through debt, the new rate of debt will be 10% and the P/E Ratio will be 6 times. If the expansion programme is financed through equity, new shares can be sold getting Rs. 25 per share and the P/E Ratio will be 7 times. The expansion will generate additional sales of Rs. 600 crore with return of 10% on sales before interest and tax. Suggest which form of financing should it choose?

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