Seat No.: _____ Enrolment No.______

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA Sem-III Regular Examination January 2011

Subject code: 830201

Subject Name: Corporate Tax & Financial Planning (CT & FP)

Date : 12/01/2011 **Time: 10:30am-1.00pm**

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)** Discuss the relationship between residential status of tax payers and incidence of tax **07**

(b) Mrs.Madhu is offered an employment by PVR Ltd. at a basic salary of Rs.1,25,000 per month. Other allowance offered by the company includes: **07**
Dearness allowance: 15 percent of the basic pay (not forming part of salary for calculating retirement benefits)
Bonus Pay: 2 Months basic salary
Project allowance: 5 percent of basic pay

The company gives her an option either to take a rent free unfurnished accommodation at Indore for which the company would bear the rent of Rs.45,000 per month or to accept a house rent allowance of Rs.45,000 per month and she can find out her own accommodation. She wants to invest Rs.60,000 in Public Provident Fund and Rs.35,000/- in Reliance Tax Saver (ELSS) fund. As a Tax Consultant, determine which one is a better option for Mrs.Madhu.

Q.2 **(a)** The following is the profit and loss account for the year ending 2009-10 of Mr.Kabra who is a businessman. **07**

Particulars	Amt	Particulars	Amt
Sundry Charges	35,650	Gross Profit	4,81,660
Insurance	3,500	Commission	1,05,500
Salary	1,12,000	Interest on	
Donation to		Debenture(22,500)	25,000
Political Party	1,560	Short Term Gain	73,000
Income Tax	2,400		
Depreciation	1,00,000		
Advertisement	25656		
Office Expenses	42,500		
Advanced Tax	17,000		
Net Profit	3,44,894		
	6,85,160		6,85,160

1. Depreciation as per income tax rule is only Rs.75,000
2. Bad debts of a business which was discontinued in earlier years has been recovered during the year Rs.15000
3. The advertisement expenses include Rs.5000 which is paid for printing of Souvenir.
4. Salary includes Rs.50,000 paid to his son who is rendering part time services in his business
5. Sundry charges includes Rs.22,000 paid by bearer cheque

Compute the tax liability of Mr.Kabra if he invests Rs.50,000 in Public Provident Fund and Rs.50,000 in ELSS mutual Funds Schemes?

(b) What are the provision for computing income on estimated basis under section 44 AE and 44 AF? Explain with suitable numerical examples. **07**

OR

(b) Discuss how undisclosed income and investments are taxed **07**

Q.3 **(a)** From the following information regarding certain transactions of Shrikant,, calculate taxable amount of Capital Gain. **07**

1. Jewelry purchased on 10-3-75 for Rs.109, 000 was sold on 2-5-2009 for Rs.12, 04,810/-. The fair market value of the Jewellary on 1-4-1981 was Rs.1,10,000/-
2. He had to pay brokerage of Rs.2000/- on Purchase and Rs.4810/- on sales of the said Jewellary.
3. On 1-11-2009 he purchased Bonds of NHAI of Rs.1,92,160/- which are repayable after 3 years.
4. Cost Inflation Index of 1981-82 was 100 and that of 2009-10 632.

(b) Discuss the provisions of clubbing of income under the Income Tax Act, 1961 **07**

OR

Q.3 **(a)** IVRC Ltd. Sells the following assets: **07**

	Agriculture Land	Bonus Share	House Property
Date of Sale	31/01/2010	7/11/2009	25/3/2010
Date of Acquisition	9/5/1993	4/4/1983	6/6/1982
Sales Consideration	9,00,000	4,50,000	6,50,000
Purchase Consideration	70,000	Nil	1,00,000

The agriculture land is situated in an urban area and used for agriculture purpose since 1993.

IVRC Ltd. invests in the following assets as on dated 2/4/2010

1. Rs.4,00,000 in the Bonds (Redeemable on June 5,2013) of National Highway Authority
2. Rs.5,00,000 in the Bonds(Redeemable on May 10,2015) of Rural Electrification Corporation
3. Rs.80,000 in Agriculture Land

Year Cost Inflation Index
2009-10:632, 1993-94:244, 1992-93:223, 1983-84:116, 1982-83:109, 1981-82:100
Find out the Capital Gain chargeable to tax.

(b) Explain with examples set off and carry forward of losses and its exceptions **07**

Q.4 **(a)** JK Ltd obtains a telecom license on 22/04/2009 for a period of 10 years which ends on 31/03/2019 and paid Rs.27,00,000 as licence fee. Find out the amount of deduction under section 35 ABB under following situations: **07**

1. If the entire amount is paid on April 1,2010.
2. If the entire amount is paid in three instalments on April 30, 2009, April 30, 2010 and April 30, 2011.

(b) "Tax Planning is crucial while deciding upon the nature of business." Explain with numerical examples. **07**

OR

Q.4 **(a)** Discuss various tax incentives available while selecting a business location. **07**

(b) Differentiate between Tax Avoidance and Tax Evasion **07**

Q.5 **(a)** Supernova Ltd. is planning for an expansion of its business. It has to make a choice between debt issue and equity issue for the expansion of business. The current position of the company is as follows: **07**

10% Debenture	8,00,000
Equity Share Capital(Rs.100 Per Share)	20,00,000
Reserve and Surpuls	12,00,000
Total Capital	40,00,000
Sales Turnover	12,00,000
Less: Total Cost	10,00,000
EBIT	2,00,000
Less: Interest @ 10%	80,000
EBT	1,20,000
Less: Tax @ 33.2175%	39,861
EAT	80,139

The expansion of business will cost Rs.20, 00,000. If this is financed through the issue of 10% Debenture then the price- earnings ratio will be 5 times and if financed through the new issue of equity shares then the price earnings ratio will be 6 times. The expansion will generate additional sales of Rs.60, 00,000 with a return of 10% on sales before interest and tax.

If the company wants to maximize the market value of the shares, then which alternative should be adopted by the Supernova Ltd.?

07

(b) Evaluate the impact of budget 2010 with reference to an individual and corporate point of view. **07**

OR

Q.5 **(a)** Ivory Ltd. wants to raise capital of Rs.20,00,000 for a project where earning before tax is 30% of the capital employed. The company can raise debenture @ 12% p.a. suggest which of the three alternatives should be adopted by the company: **07**

1. Rs.20,00,000 to be raised by equity shares
2. Rs.15,00,000 by equity and 5,00,000 by debentures of 12 Percentage
3. Rs.5,00,000 by equity and Rs.15,00,000 by debentures of 12 Percentage

Assume that the corporate tax rate is 30%, education cess is 2 percent and secondary and higher secondary education cess is 1 percent.

(b) Discuss tax planning aspects of "Make or Buy" decision **07**

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