



Chartered Accountants  
Professional Consultants

[www.gcaofficial.org](http://www.gcaofficial.org)

[fb.com/gcaofficial](https://fb.com/gcaofficial)



## Taxation Mock for Spring 2014 Attempt (Skans)



SKANS School of Accountancy  
Taxation

Intermediate Examination  
Mock  
Module C

17 February 2014  
100 marks – 3 hours  
Additional reading time – 15 minutes

**Question - 1**

Ms Fauzia, a resident in Lahore, Pakistan, has worked as an internal auditor for Star Products (Pvt) Ltd (SPPL) for many years and got retired on 31 March 2012. For the year ended 30 June 2012, her income/receipts are as detailed below: 9 months

- (i) Basic salary was Rs. 100,000 per month.
- (ii) A medical allowance at 15% of her basic salary. The terms of her employment do not provide for free medical treatment or hospitalisation or any reimbursement of such expenses.
- (iii) She had received 50,000 shares in SPPL on 1 January 2008 under an employee share scheme at Rs. 10 per share against a fair value of Rs. 30 per share. She had the option to transfer the shares on or after 1 January 2009 on which date the fair value was Rs. 40 per share. However, she sold all of the shares on 1 April 2012 at Rs. 50 per share.
- (iv) SPPL gave her a loan of Rs. 600,000 on 1 July 2011 at 5% mark-up. Ms Fauzia, however, waives the interest on her account with SPPL.
- (v) SPPL paid her Rs. 100,000 in lieu of her unavailed recreational leaves.
- (vi) SPPL contributed Rs. 10,000 per month to the account of Ms Fauzia in the recognised provident fund of the company.
- (vii) On retirement she received Rs. 200,000 from unapproved gratuity fund. (Exempt upto ten times of - Rs. 25,000 - 30% of gratuity)

*Employee contribution  
credit with balance of  
- 1/2 of BS+DA  
- Rs. 20,000  
Interest  
- 1/2 of BS+DA  
- Interest 1000*

**Other information:**

- a) She received Rs. 18,000 (after deduction of tax) from the Tourism Department of the Government of Sindh as a commission on the sale of tickets for a whole day excursion to Moenjodaro. She paid Rs. 5,000 to the girls working with her who had helped in selling the tickets.
- b) After retirement she commenced her own business, of preparing returns of income. The income and expenditure a/c for current tax year is as follows:

	Rupees	Rupees
<b>Receipts</b>		
Fees received (net of tax) from a company for preparing the tax returns for all of its the employees – category 1	279,000	
Fees received from other individuals – category 2	100,000	379,000
<b>Expenditure</b>		
Salaries to employees working exclusively for category 1		(155,600)
Expenditure common to both categories 1 and 2		
- Salaries to part-time employees	64,000	
- Stationery, computer hire and conveyance of staff	24,432	(88,432)
Surplus of receipts over expenditure		134,968

- c) On 5 Sep. 2011 she sold 5,000 Modaraba certificates in Fidelity Leasing Modaraba (FLM) for Rs. 200,000. She had purchased these certificates on 25 June 2011 for Rs. 150,000.
- d) On 15 Mar. 2012 she gifted 5,000 shares in Greenwood (Pvt) Ltd, to her son who has been living in Iran since 15 Jan. 2008. She had acquired the shares on 1 Jul. 2010 for Rs. 75,000. The fair value of the shares on the date of the gift was estimated to be Rs. 200,000.
- e) She earned foreign source income of Rs. 600,000 from China on which tax of Rs. 10,000 is paid. *foreign tax credit*
- f) She paid life insurance premium of Rs. 30,000 to Life Insurance Company during the year. *Tax credit*

Required: Calculate tax liability for TY 2012. (Rates are at last page)

(22)



**Question-2**

Mr. Sheikh Suleman is a member in two AOPs Sun Lark (SL) and Venus Lence (VL). Both SL and VL are engaged in the manufacturing and supply of chemicals. SL and VL is owned by two equal partners. Mr. Sheikh Suleman also owns a shop in the name of Mars Lotus (ML). ML is engaged in the trading of packing materials and sells its products to individual customers. Following information has been extracted from the records for the year ended 30 June 2012:

	SL	VL	ML
	Rs. in '000		
Net Profit/(loss)	3,700	(1,400)	1,300

(i) The above profit/(loss) has been arrived at after inclusion/adjustment of the following:

**In case of SL:**

- Rs. 1,000,000 paid by SL towards a scientific research conducted in Belgium for business.
- Income of Rs. 150,000 on account of sale of securities within 5 months.
- Salary expenses include an amount of Rs. 40,000 each paid to two equal partners every month.
- Commission paid to Mr. Sheikh Suleman for attracting new clients amounted to Rs. 70,000.
- Gain of Rs. 100,000 on sale of building. The cost of building was Rs. 300,000 and it sold for Rs. 500,000. Its tax written down value at the time of sale was Rs. 120,000.
- Donation expense of Rs. 10,000 in respect of amount donated to a non-profit organization.

**In case of VL:**

- Rs. 80,000 written off against a loan provided to an employee.
- Salary expenses include an amount of Rs. 30,000 each paid to two equal partners.
- Sales promotion expenses of Rs. 600,000 paid by VL to Moon Advertisers. The benefits are expected to extend to three years.
- Professional tax paid at Rs. 200,000 to the Government of Punjab. The tax is payable annually irrespective of the income of the company.
- Paid Rs. 500,000 on account of technical services, to an individual resident in the USA who remained in Pakistan for one week. No tax was deducted.

**In case of ML:**

- Bad debt recovered against previous year debt amounted to Rs. 50,000. In previous tax year, against a total bad debt claim of Rs. 200,000, the Commissioner of Inland Revenue allowed a deduction of Rs. 120,000 only.
- Gain of Rs. 300,000 on sale of car. The cost of car was Rs. 3,200,000 and it sold for Rs. 900,000. Its tax written down value at the time of sale was Rs. 700,000.
- A gain of Rs. 400,000 on disposal of shares in a private company purchased 2 years back.

(iii) Accounting depreciation deducted in arriving profit of SL, VL and ML amounted to Rs. 760,000, Rs. 660,000 and Rs. 100,000 respectively.

(iv) Tax depreciation as per Third Schedule of ITO, 2001 on all assets of SL, VL and ML amounted to Rs. 495,000, Rs. 330,000 and Rs. 135,000 respectively.

(v) The losses b/f from previous year and taxes collected /paid in current year were as follows:

	SL	VL	ML
	Rs. in '000		
Business loss	200	500	50
Unabsorbed tax depreciation	250	500	100
Capital loss	750	250	150
Advance tax u/s 147 and tax on imports	789	275	-
Tax on electricity bill u/s 235	-	40	-

**Required:** Compute the tax payable / refundable for above three persons for tax year 2012. For calculating taxable income use three columns on a single page. (25)



**Question-3**

- i) Explain the tax treatment of amount received by an employee as compensation for redundancy or loss of employment? *Golden rule bond* (3)
- ii) Mr Umer is going to file an appeal in an Appellate Tribunal. You being a tax consultant is requested by him to suggest him regarding payment of tax as pointed out by Commissioner? (4)
- iii) What is the procedure for serving notice to companies under the Income Tax Ordinance, 2001? (3)

**Question-4**

*Chap 16*

Q Ltd is a company incorporated under the Companies Ordinance, 1984 . The following payments were made by Q Ltd during its accounting year ended 30 June 2006:

- (1) Rs. 100,000 to Mr Plus Minus for providing accounting services. The payment was made under a contract dated 1 June 2006. During the period from 1 July 2005 to 31 May 2006, PlusMinus was not present in Pakistan. He was serving in Dubai as an employee of the Ministry of Foreign Affairs, Government of Pakistan.
- (2) Rs. 1,000,000 to Builders Associates (BA) as an advance towards the execution of a contract for the construction of a building. No work on the building had commenced at the time of payment. BA is a partnership firm and the control and management of its affairs was situated partly in Pakistan.
- (3) Rs. 400,000 for Rent as payment on account of furniture and fixtures provided by the landlord.
- (4) Rs. 90,000 paid for Purchase of goods from commercial importer.

**Required:**

For each of the payments made by Q Ltd:

- (a) briefly explain the nature of the payment in the context of the relevant provisions relating to the deduction of tax, if any, at the time of the payment; and
- (b) identify the transactions where the tax deducted, if any, would be the final tax of the recipients on the income arising from the transaction. (8)

**Question-5**

- i) What are the tax implications from point of view of shareholder and company of debentures issued by a company to its shareholder out of its accumulated profits?

You should solve this question under two independent scenarios:

- Company is a private company
- Company is a public listed company

- ii) Explain the provisions relating to recovery of tax by District Officer (Revenue)? (4)
- iii) Explain the conditions applicable for availing benefit of group taxation? (3)
- iv) When the salary will be considered as foreign-source income? (2)

**Question-6**

- a) Explain the conditions for claiming input tax credit? (5)
- b) State the responsibility of a person who has collected sales tax in excess of the tax actually payable under a misapprehension of the law? (4)
- c) Mr Yousha, a registered person under the Sales Tax Act, 1990, is carrying on business in the name of Yousha Associates. Yousha is informed by his chief accountant that a credit note has to be issued to a debtor in respect of an invoice issued on 30 June 2008. The chief accountant intends to issue the credit note in the month of January 2009.

**Required:**

State, giving reasons, whether or not you are in agreement with the chief accountant's proposal to issue the credit note in the month of January 2009. (4)

*Sale Tax*



**Question-7**

a) Cinderella Ltd is engaged in the manufacture of ready-to-wear clothing. The company's business transactions for the month of May 2006 are summarised as follows:

	<b>Rupees</b>
(i) Purchase of raw materials used exclusively in making taxable supplies (excluding zero-rated)	1,350,000
(ii) Purchase of raw materials for all supplies, the payments for which were made as under:	2,285,000
Online transfer of funds from the business bank account of the company to the business bank account of the supplier	1,150,000
Payment by credit card into the business bank account of the supplier	<u>1,069,500</u>
	<u>2,219,500</u>
(iii) Purchase of raw materials used exclusively in making exempt supplies	900,000
(iv) Raw material and spare parts purchased exclusively for making zero rated supplies	1,600,000
(v) Purchase of fixed asset	400,000
(vi) Payment to a courier company	365,000
(vii) Sale of taxable goods	6,850,000
(viii) Sale of exempt goods	1,175,000
(ix) Sale of zero rated goods	2,220,000
(x) Goods sold in January 2006 to Mr Bee were returned by him in May 2006 due to defective workmanship for which the company issued credit notes to Bee and received debit notes from Bee.	694,000
(xi) Sales tax credit brought from previous month	15,000

**Note:**

All payments for the purchases and the payment to the courier company are stated inclusive of sales tax at the rate of 17%. The figures for the sales, and the credit notes issued are stated exclusive of sales tax.

**Required:**

Calculate the sales tax payable by Cinderella Ltd in respect of the sales tax return for the month of May 2006.

(10)

**Thanks to our member (Mauzim Ali) for sharing.**