

INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN



Spring (August) 2012 Examinations

Thursday, the 30th August 2012

BUSINESS TAXATION (S-302)

STAGE – 3

CMA/ CAM STREAM

Time Allowed : 02 Hours 45 Minutes

Maximum Marks: 80

Roll No.:

- (i) Attempt ALL questions.
- (ii) Answers must be neat, relevant and brief.
- (iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
- (iv) Read the instructions printed inside the top cover of answer script CAREFULLY before attempting the paper.
- (v) Use of non-programmable scientific calculators of any model is allowed.
- (vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
- (vii) Question No.1 – “Multiple Choice Question” printed separately, is an integral part of this question paper.
- (viii) **Question Paper must be returned to invigilator before leaving the examination hall.**

Marks

Q.2 (a) Every individual (whether salaried or non-salaried) whose taxable income for the year exceeds the maximum amount that is not chargeable to tax under the Income Tax Ordinance, 2001 is required to furnish a return of income for the tax year under section 114 of the Income Tax Ordinance, 2001. In the light of sub-section (2) of section 114, what credentials are required to be furnished with filing of income tax return?

05

(b) M/s Ahsan Bilal and Company deals in speculation and non-speculation business. The company is allowed to set off and carry forward its losses arising out of its speculation business under section 58 of the Income Tax Ordinance, 2001. The following information has been extracted from the books of accounts of the company for the year ended June 30, 2012:

	<u>(Rupees)</u>
Income from speculation business	550,000
Income from non-speculation business	820,000
Carried forward losses for the last three tax years from speculation business	800,000

In the light of section 58 of the Income Tax Ordinance, 2001 answer the following:

- (i)** Can the company set off its losses arising out of its speculation business? Briefly state the provision. 02
 - (ii)** What would be the treatment of unadjusted losses arising out of speculation business under said section? 01
 - (iii)** How long losses arising out of speculation business can be carried forward? 01
 - (iv)** M/s Ahsan Bilal and Company has a loss carried forward for the last three years. Which year loss will be set off first under the above section? 01
- (c)** Mr. Aslam is an accountant and he is in a process of finalization of accounts and preparation of returns of the total income of M/s Alfa Foods Private Limited. While preparing the returns he is facing a problem in identifying admissible and inadmissible expenditures. Being a tax advisor of the company advise him as to which of the following expenditures are admissible/inadmissible? Briefly state the reasons.
- (i)** A salary of Rs. 450,000/- paid to an employee on which tax of Rs. 10,000/- was not deducted. 02
 - (ii)** Rs. 50,000/- paid by the company for the payment of director's personal traveling expenses. 02

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- (iii) Expenditures of Rs. 300,000/- expensed by the company for staff training for the new project. **02**
- (iv) A penalty of Rs. 5,000/- paid for delay in payment of tax. **02**
- (v) Contribution made by the company towards Recognized Provident Fund Scheme. **02**

Q.3 (a) As per section 20 of the Income Tax Ordinance, 2001 a deduction is allowed in computing the income of a person chargeable to tax under the head 'Income from Business' for a tax year for any expenditure incurred wholly and exclusively for the purpose of business. Rule 10 of the Income Tax Rules, 2001 laid down some conditions on a deduction for entertainment expenditure incurred by a person.

Required:

- (i) What are the conditions laid down in the rule 10 of the Income Tax Rules, 2002 for the deduction of entertainment expenditures? **06**
- (ii) What is the benchmark for the allowability of the entertainment expenditures under the above rule? **01**
- (iii) Define the term 'entertainment' under the rule 10 of the Income Tax Rules, 2002. **02**

(b) Define the following terms under the Income Tax Rules, 2002:

- (i) E-intermediary **03**
- (ii) Digital Certificate **02**
- (iii) Computerized Payment Receipt **01**

Q.4 (a) As per section 2(48) of Sales Tax Act, 1990 "zero-rated supply means a taxable supply which is charged to tax at the rate of zero percent under section (4)". On what grounds rate of zero percent is applicable under section 4 of the Sales Tax Act, 1990? **04**

(b) Where a person who is required to file a tax return fails to file the return for a tax period by the due date, an officer of (Inland Revenue) shall, after a notice to show cause to such person, make an order for 'assessment of tax' in accordance with sections 33 and 34 of the Sales Tax Act, 1990. What is the time limitation of passing an order related to 'assessment of tax' under section 11 of the Sales Tax Act, 1990? **03**

(c) Pak Manufacturing Company Limited is engaged in manufacturing of both taxable and exempted supplies. Following are the transactions for the month of June:

	Rupees
Supplies to registered manufacturers	4,250,000
Supplies to non-registered retailers	3,250,000
Sales of exempted supplies	600,000
Purchases from registered persons	3,000,000
Purchases from non-registered persons	2,100,000
Import of raw material	1,750,000

Required:

Compute the sales tax liability of Pak Manufacturing Company for the month of June. **08**

- Q.5** Global International Limited engaged in the manufacturing and trading of FMCG in the country. The shares of the company are listed on all the stock exchanges of Pakistan. Following information has been extracted from the profit and loss account of the company for the year ended 30th June, 2012.

	Rupees
Sales	55,300,000
Cost of sales	22,120,000
Gross profit	33,180,000
Add:	
Dividend received	300,000
Less	
Director's salaries	7,500,000
Staff salaries	12,150,000
Contribution to employees provident fund (a)	1,320,000
Administrative and selling expenses	2,550,000
Depreciation (b)	1,100,000
Entertainment expenses (c)	950,000
Insurance (d)	900,000
Fees (e)	650,000
Total expenses	27,120,000
Net income	6,360,000

Note:

- (a) Employees' Provident Fund Trust is revocable at the option of Managing Director of the company and an application for approval has been filed with the relevant tax authority.
- (b) Depreciation includes Rs.300,000 for plant & machinery. Depreciation on all assets is charged on rates for normal depreciation given in the Third Schedule to the Income Tax Ordinance, 2001. Written down value of plant & machinery for the purpose of calculating tax depreciation is Rs.1,350,000 which includes addition during the year of new machinery of the value Rs.650,000.
- (c) Entertainment expenses include Rs.200,000 reimbursed to a director of the company for which no support is available.
- (d) Insurance includes prepaid expenses amounting to Rs.320,000.
- (e) The company has paid fees to the tax consultant for defending taxpayer's appeal in Income Tax Appellate Tribunal.

Required:

Compute the taxable income and the tax liability of the Global International Limited. Give proper comments where any given information has not been utilized in the computation. **20**

- Q.6 (a)** Alpha Private Limited (APL) wanted to adjust the Federal Excise duty paid on the raw materials purchased against the account of duty required to pay on its finished products. Under section 6 of the Federal Excise Act, 2005 explain the conditions which Alpha Private Limited is required to fulfill for the adjustments of duty? **05**
- (b)** In the light of the Customs Act, 1969, define the following terms:
- (i)** Goods **02**
- (ii)** Master **02**
- (iii)** Coastal goods **01**

THE END