

# Tax Laws and Tax Planning

## New Syllabus

Course Title: Tax Laws and Tax Planning  
Course No.: ACC 613  
Nature of the Course: Specialization  
Duration of the Course: 100 lecture hours  
Duration of the Class: 60 minutes duration

Full Marks: 100  
Pass Marks: 40

### Course Objectives

This course aims to provide the students with the knowledge of tax laws and tax planning for decision making and enable them to work as tax consultants in the corporate sector and tax officers in the government sector.

### Course Description

This course includes various direct and indirect taxes in Nepal covering income tax, value added tax, customs and excise. It also covers tax planning concept and its use in Nepal.

### Course Contents

#### Unit 1: Conceptual Foundation ..... LH 5

Sources of financing in Nepal. Structure of taxation in Nepal. Historical development of tax laws in Nepal. Definition of related terms.

#### Unit 2: Income Tax ..... LH 40

Sources of income, tax exempted income, tax exempted institutions, tax rates, tax exemptions, tax rebates, treatment of provisions related to deductions and reductions, tax deduction at source and its treatment, types of assessment, computation of assessable income, taxable income and tax liability under business and investment, set off and carry forward of losses, inter-source and inter-head adjustments-within country and outside country, tax audit and investigation, method of collection and realization, rights and duties of income tax authorities and assessee, advance ruling, fines and penalties for breach of rules, review and appeal.

#### Unit 3: Value Added Tax ..... LH 15

Taxable transactions, tax exemptions and zero rate, tax deduction and tax refund, tax invoice, tax accounting, tax calculation, tax registration, collection, fines and penalties, appeal, cases related to value added tax.

#### Unit 4: Customs ..... LH 10

Scope of Custom Act, import and export procedures, provisions regarding Jhitigunta, accompanied and non-accompanied goods, import under Duty Refundable Procedure and in-bond system, Bonded warehouse and provision of re-export, area of customs tariff, commodity classification, valuation system, customs rate, exemptions, fines and penalties, appeal.

#### Unit 5: Excise ..... LH 5

Excisable products, obtaining of license and its termination, determination of factory price, physical control system, method of excise assessment, recovery ratios, exemptions, fines and penalties, appeal.

#### Unit 6: Revenue Administration ..... LH 5

Structure of revenue administration, Inland Revenue Department, Ministry of Finance, Customs Department, Revenue Investigation Department.

#### Unit 7: Tax Planning Concept ..... LH 5

Concept of tax planning, significance of tax planning, tax evasion and tax planning, tax avoidance and tax planning, scope of tax planning.

#### Unit 8: Tax Planning for Various Payments and Activities ..... LH 10

Remuneration payment, self-employment, capital structure, depreciation system, location of industrial set up, timing of activities, leasing or buying.

#### Unit 9: International Taxation ..... LH 5

Taxation of non-resident (service providers) related to shipping, airlines, transport, telecommunication or remittances, foreign tax credit, double taxation avoidance treaties.

**Basic References**

- Nepal Government. **Budget Speech and Finance Act.** (Recent)  
 Nepal Government. **Customs Act 2064** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.  
 Nepal Government. **Custom Rules 2064** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.  
 Nepal Government. **Double Taxation Avoidance Treaties** with various countries.  
 Nepal Government. **Income Tax Act 2058** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.  
 Nepal Government. **Income Tax Rules 2059** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.  
 Nepal Government. **Value Added Tax Act 2052** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.  
 Nepal Government. **Value Added Tax Rules 2053** with amendments. Kathmandu: Ministry of Law, Justice and Constituent Assembly.

**Supplementary Readings**

- Bhattarai, I. and Koirala, G.P. **Tax Laws and Tax Planning** (Latest Edition). Kathmandu: Asmita Publication.  
 K.C., J. B. **Tax Laws and Tax Planning: Theory and Practice** (Latest Edition). Kathmandu: Khanal Books Prakashan.  
 Kandel, P.R. **Tax Laws and Tax Planning in Nepal** (Latest Edition). Kathmandu: Buddha Academic Publishers.  
 Khadka, R. (2001). **VAT in Nepal**. New Delhi: UBS Publisher Distributors Ltd.  
 Lekhi, R.K. (1995). **Public Finance**. New Delhi: Kalyani Publishers.  
 Mallik, V. **Nepal Ko Adhunik Ayakar Pranali** (Latest Edition). Kathmandu: Anita Mallik.  
 Prasad, B. **Direct Taxes: Laws and Practice** (Latest Edition). New Delhi: Vishwa Prakashan.  
 Singhaniya, V.K. **Direct Taxes: Law and Practice** (Latest Edition). New Delhi: Taxman Publication Pvt. Ltd.

**New Model Questions****Subject: Tax Laws and Tax Planning (ACC 613)****Level: MBS 2nd Year****Faculty: Management****Full Marks: 100****Pass Marks: 40****Time: 4 hours****Candidates are required to give their answer in their own words as far as practicable.****All the questions are compulsory.**

1. Briefly describe the following terms as laid down under Income Tax Act 2058.  
 a. Income year.  
 b. Individual.  
 c. Resident person.  
 d. Income. (4×2=8)

**OR**

- Briefly explain the sources of government financing in Nepal.
2. (a) Write down the present provision relating to Jhitigunta in custom clearance (4)  
 (b) Describe the method of excise assessment under Excise Act.2058. (4)
3. (a) Mr. Binod Pandey is a proprietor of ABC manufacturing company a special industry. Due to lack of knowledge of the provision of Income Tax Act, 2058, he asked you to calculate the amount of allowable depreciation for the relevant income year.  
 Opening WDV as on 1<sup>st</sup> Shrawan:
- |                   |              |
|-------------------|--------------|
| Building          | Rs.10,00,000 |
| Machinery         | Rs.500,000   |
| Office equipments | Rs.1,00,000  |
- Additional information:**
- Machine worth Rs.100,000 purchased on Falgun 15<sup>th</sup>
  - Shipping expenses of Rs.10,000 and custom duty Rs.40,000 were paid.
  - Machine the WDV of which Rs.50,000 was sold for Rs.45000 on Jestha.
  - ¼ of the building was used for residential purpose. (4)
- (b) The profit and loss A/c of XYZ Co. for the income year ended Asadh showed a net profit of Rs.300,000. On scrutiny made by tax officer the following facts were found.

- The company paid Rs.100,000 donation is included in total deduction, out of which Rs.20,000 were paid to non exempt organization.
  - Total expenses incurred for PCC Rs.250,000 and R&D cost Rs.100,000 were also included in total deduction.
  - The unrelieved previous year loss amounting to Rs.30,000 is not adjusted in the profit.
- Required:** Taxable income and tax liability (4)

4. (a) The following is the financial result of a company for the past few years.

Year	10	11	12	13	14
Profit/Loss	300,000	500,000	(700,000)	800,000	900,000

Accumulated unrelieved loss for the past few years is Rs. 10, 00,000, out of which Rs. 900000 was for year four and balance was for the year five. Profit of the 13<sup>th</sup> year was derived before deducting interest on bank loan amounted to rupees 150,000. Donation to the PADT (religious heritage) was given amounted to Rs.150, 000 in the year 14<sup>th</sup> but it was not adjusted in the net profit.

**Required:** Taxable Income of the company giving explanation wherever necessary. (4)

- (b) VAT is multi stage tax. Explain briefly. (4)

5. (a) Butwal Manufacturing Company provided the following facts to the excise officer.

- Raw material purchase Rs.10, 00,000, which includes Rs60, 000 as VAT.
- Indirect material (chemical etc) Rs.200, 000, out of which Rs.40, 000 is excise on imports.
- Carriage inwards Rs 50,000 and outwards Rs 65,000 were incurred.
- Manufacturing and administrative expenses amounted to Rs.4 00,000 each. Opening and closing stock of material were Rs.100,000 and Rs.150,000 respectively. Net profit of the company is Rs.250,000.

**Required:**

You as an excise officer determine the factory price and amount of excise tax to be paid if rate of tax is 20%. (4)

- (b) Asok Commercial Co. imported following goods from Hong Kong in CIF to Calcutta Port. The cost of transporting from Calcutta to Birjung was US\$ 3000. The quantity and CIF cost of goods are as follows:

Commodities	Quantities	Unit price	Total cost
Movie camera	50	US\$ 800	US\$ 40,000
Television	80	US\$ 200	US\$ 16000
Desktop computer	60	US\$ 300	US\$ 18000
Laptop computer	40	US\$ 700	US\$ 28000
<b>Total</b>			<b>US\$ 102,000</b>

From the examination of goods in customs point the custom officer found that the price of movie camera is US\$ 1000. Accordingly, the quantity of laptop computer was 50 pieces in place of 40. Compute the custom duty assuming the rate 25%, 20%, 5% and 10% for movie camera, television, desktop computer and laptop computer respectively. Assume local development fees of 1.5%. (4)

6. (a) A Company Limited would like to the effect and causes of tax policy. It is expected that the present policy of income tax will not change for the next five year. Given below are the expected operating results of the company for the next five years:

Year	10	11	12	13	14
Expected Profit/Loss	150,000	250,000	450,000	500,000	600,000

On scrutiny-it is found that there is unrelieved past losses Rs. 500000 in total out of which Rs. 150,000 was for year 3 and Rs. 200000 for year 4 and balance was for year 5.

In the light of above financial result the company would like to under take following activities with in the next 5 year period.

1. To bye software of Rs.150,000 and it needed to amortization with in the 3 year from the date of purchase.
2. To take a loan of Rs.500000 @ 10% p.a. at the beginning of any year and redeemable at the end of next year.
3. To pay cash dividend Rs.50, 000 in year 13.

4. To have PCC and R & D cost Rs.200000 each.
5. To give donation Rs.2,00,000 to the fully admissible sector and Rs.50,000 to a local sport club.

**Required:** Timing of activities to minimize tax liability. (6)

- (b) Mr. Suresh Panthi is planning to invest small amount of capital on his own business. He is in confusion whether to form sole proprietorship firm or registered a private company under Company Act.2063. From both transaction he is expected to earn net assessable income Rs.500,000 per annum. He is also planning his retirement scheme, for this he wanted to contribute Rs.50,000 to CIT.

**Required:**

As a tax planner suggest him which business he has to form, with supporting calculation, from the view point of minimizing tax liability. (4)

7. Describe the various methods of tax assessment. What circumstances the tax officer adopts jeopardy method of tax assessment? (6+4=10)

OR

- (a) For the relevant income year Mr. Bhattarai furnished the details of his income as:

- Total income from joint investment Rs.200,000 (Gross)
- (Mr. Koirala has 80% shares)
- Net income from house rent Rs.90,000 (TDS@10%)
- Gifts received from debtors Rs.5000
- Excess amount received in respect of investment due to exchange rate variation Rs.2000
- Income from writing articles in Kantipur Daily Rs.30000
- Received Rs.235000 as payment made by an approved retirement fund (tax deducted at source) Income from agriculture Rs.80000
- Interest on investment made to an unorganized sector Rs.85000 net
- Gain from investment insurance (net) Rs.90000
- B/D recovered (related to investment) Rs.20000, of which 30% was not allowed previously lack of proof.
- Gain on disposed of depreciable assets of block 'D' used in investment Rs. 40000 (whole pool is dissolve)
- Net gain from disposal of non business chargeable assets (land) Rs.125000
- Rent received by letting computer Rs.45000 (after TDS)
- He is also employed in a Public Limited Company and earned assessable income from employment Rs.260,000.
- Royalty income from two books Rs.40,000 each.

**Expenses claimed**

- Total expenses incurred for joint investment Rs.10000
- Taxi fare Rs.200 incurred while going to received income from Kantipur publication.
- Donation to a public hospital Rs.50,000.
- Medical expenses incurred Rs.30000 but approved by ITO only Rs.20000 as actual medical expenses for the year
- Eligible depreciation relating to computer is Rs.25000.
- He has claimed repair expenses relating to computer is Rs.10,000.
- House rent and royalty collection total cost is Rs.1800.

**Required:** Assessable income from Investment (6)

- (b) Mr X an Indian citizen came to Nepal on 15<sup>th</sup> Chaitra of previous year and involved in business and investment activities. He submitted the following income during the income year as:

- Income from small business Rs.200,000.
- Income from investment Rs.100,000.
- Consultation fees received Rs.51000 (after TDS).
- Income of small investment in India Rs.75,000.

**Required:**

- (i) Residential status of Mr. X.
- (ii) Taxable income and tax liability. (4)

8. (a) Mr. Dahal a professional doctor submitted the following cash statement of his private clinic for the previous year.

**Receipt and Payment Account**

Receipts	Amount	Payment	Amount
To Balance b/d	1,00,000	By Purchase of surgical equipment as on 1 <sup>st</sup> Poush	2,00,000
To Visiting fees	3,00,000	By Staff salary	75,000
To Surgical fees	2,00,000	By Miscellaneous expenses	80,000
To Rent from house	45,000	By Domestic expenses	22,500
To Interest on fixed deposit	19,000	By Medical expenses( wife)	5,000
To Rent by letting office computer(after TDS)	22,500	By Fine paid to Nepal Electricity Corporation for delay in payment of bill	3,500
To Sales of furniture (costing Rs.35,000)	42,000	By Legal fees	15,000
		By Balance b/d	277,500
<b>Total</b>	<b>6,28,500</b>	<b>Total</b>	<b>628,500</b>

**Additional information:**

- Visiting fees included Rs.35, 000 receivable for last year,
- Life insurance premium Rs.20, 000 paid to Indian Insurance Corporation for the life policy of himself is omitted to record in above statement.
- Allowable depreciation Rs. 23700.

**Required:**

(i) Assessable net income from profession.

(ii) Statement of taxable income

(4+1)

- (b) An importer imported a high quality air cooler from India paying vat to the Nepal government amounting to Rs.5200. The air cooler passes to the final consumer through two middle man i.e. wholesaler and retailer. The importer incurred Rs.2000 as carrying cost and sold charging 16% profit on selling price. Both the middle man incurred Rs.1600 each as carrying cost etc. and sold their customer charging 14% and 12% profit on their selling price respectively

**Required:** VAT collected by government at each level of sales.

(5)

9. "Tax planning is an effort of minimizing tax liability in the future" In the light of above statement explain the areas of short term and long term tax planning under Income Tax Act 2058. (5+10=15)

**OR**

- (a) A Company requires Rs.10, 00,000 capital outlay for its expansion programme. The company has the following alternatives to raise required capital.

Alt: 1: 100% through equity capital.

Alt: 2: 50% each through equity and 8% Debenture.

Alt: 3: 50% each through 8% Debenture and 12% bank loan.

- Bank loan could be available with in 15 days where as it takes two month and one month by issuing share and debenture respectively.
- It is expected that extension work is completed with in 20 days.
- The anticipated income before interest, present loss and brokerage commission is Rs. 3,000 per days.
- Flotation cost for both issuing share and debenture is 1% and brokerage charge to obtained bank loan is 2% (revenue).
- Present loss suffered by the company is Rs. 1000 per day.
- Company fall under special group with the assets under Block – D
- Out of total capital 25% is invested in working capital.
- Supplier of the machine extended credit for 25 days. It is also assumed that the supplier of material, labor and other expenses are required to pay after 25 days.
- Assume 360 days a year and all flotation cost are of revenue nature.

**Required:** Suggest the management which alternative is the best one from the point of view of tax planner.

(7)

- (b) A Ltd Company contemplates to invest a capital outlay of Rs40, 00,000 in an industry of special nature. The company expects the following profit before tax and considering the transportation charges.

Year	1	2	3	4	5
PBTT(Rs.)	6,00,000	8,00,000	10,00,000	12,00,000	18,00,000

There is no restriction from the government to establish the factory any where however, the income tax Act, 2058 has provided the following concessions for location at different places.

There are four alternative location viz, Kathmandu ,Myagdi, Salyan and Nuwakot.

Conditions	Tax Rebate
If located in Kathmandu	Nil
If located in Myagdi,(highly undeveloped)	50% of the applicable tax rate
If located in Salyan (undeveloped region)	30% of the applicable tax rate
If located in Nuwakot. (under developed region)	25% of the applicable tax rate

The company would like to fix a single price for its product. The major market of this product would be Kathmandu. The cost of transportation in respect of raw material and finished goods is mentioned below:

**Located in Kathmandu:**

- All material is supplied from Nuwakot.
- Transportation cost per unit of raw material is Rs 5/unit

**Located in Salyan**

- Transport cost of finished goods is Rs.15 per unit.
- 20% raw material is supplied from Nuwakot, cost of transport is Rs.7/unit from Nuwakot.

**Located in Nuwakot**

- Transport cost of finished goods Rs.5 per unit.
- Raw material is available locally

**Located in Myagdi**

- Transport cost of finished goods is Rs.20
- Raw material is available locally.

The budgeted production and sales of the industry is Rs.20, 000 units in the 1<sup>st</sup> year however, there will be at 10% increase in production & sales per year respectively as compared to the preceding year in order to meet the targeted demand of the market.

**Required:**

As a tax planner, where would you recommend to locate the factory showing details of calculation? The appropriate tax rate is 20% assume input cost & depreciation of assets have already been adjusted in above profit. (8)

10. Given below is the trading and Profit and Loss A/C of a manufacturing company for the previous year.

Dr. Cr.

Particulars	Amount	Particulars	Amount
To Opening stock	2,87,500	By Sales	50,00,000
To Direct material	12,00,000	By Closing stock	3,45,000
To Wages	8,00,000		
To Freight	2,07,500		
To Manufacturing cost	2,00,000		
To Gross Profit	26,50,000		
	53,45,000		53,45,000
To Office and Administrative	100,000	By Gross Profit	2650,000
To Staff Salaries	100,000	By Dividend	47500
To Provision for bad debt	20,000	By Bad debts recovered	100,000
To Contribution to P. F.	80,000	By Payment for accepting	
(Unapproved)		business restriction	200,000
To Staff Welfare expenses	50,000	By Rent from staff quarter	150,000
To Audit fees	40,000	By Gain on sale of non	
To Life Insurance Premium		business chargeable assets	200,000

to the staff	60,000		
To Fire insurance premium	20,000		
To Debenture redemption fund	30,000		
To Telephone and Electricity	50,000		
To Fine and Penalty	20,000		
To Loss on stock in trade	30,000		
To Distribution of sample	15,000		
To Depreciation block-D	50,000		
To TADA	20,000		
To Pollution control cost	400,000		
To Miscellaneous expenses	200,000		
To Net profit	1792,500		
<b>Total</b>	<b>3347,500</b>	<b>Total</b>	<b>3,347,500</b>

**Additional information:**

- Opening stocks over valued by 15% where as closing stock is recorded at cost price, the market value of which is Rs.360, 000.
- Purchase of an asset costing Rs.300, 000 was included in purchase and transportation cost of which is Rs.30, 000 was included in freight expenses in debit side. The asset was purchase on 15<sup>th</sup> Chaitra of previous year and opening WDV of which is Rs.600, 000. One asset having book value Rs.60,000 was sold at a profit of Rs40,000.
- Bad debts recovered Rs.45, 000 is not allowed previously by the ITO.
- An unrelieved business loss of previous year Rs.135, 000 is yet to be adjusted.  
A donation Rs.150, 000 given to a religious heritage for its promotion and Rs.56,000 to a public school is not recorded in above p/l a/c.
- Miscellaneous expenses included Rs. 23000 as actual repair expenses of machinery.

**Required:**

- Assessable net income from business.
- Assessable net income from investment.
- Statement of total taxable income.
- Tax liability

(10+2+2+1)

**1. CONCEPTUAL FOUNDATION****1. 2071 Q.No. 1**

"Government requires huge amount of fund to carry out various activities of public interest." On the light of this statement describe in brief the sources of government's revenue in Nepal. [8]

**2. 2070 Q.No. 1**

Briefly describe the following terms as laid down under Income Tax Act, 2058.

- |                    |                    |         |
|--------------------|--------------------|---------|
| a. Trading stock   | b. Retirement fund |         |
| c. Resident person | d. Entity          | [4×2=8] |

**3. 2070 Q.No. 1 OR**

"Tax is a major source of government financing in Nepal." Discuss. [8]

**4. 2069 Q. No. 1**

Briefly describe the following terms as laid down under Income Tax Act, 2058.

- |                                   |  |            |
|-----------------------------------|--|------------|
| a. Trading stock                  |  |            |
| b. Company                        |  |            |
| c. Non business chargeable assets |  | [2×2 +4=8] |

**5. 2069 Q. No. 1 OR**

"History of modern income tax laws in Nepal is not so long." Comment in brief. [8]

**6. 2068 Q.No. 1**

Write in brief the following terms as laid down under Income Tax Act 2058.

- |                                  |                              |         |
|----------------------------------|------------------------------|---------|
| a. Assessment year               | b. Natural resident person   |         |
| c. Non-business chargeable asset | d. Final withholding payment | [4×2=8] |

**7. 2068 Q.No. 1 or**

Explain briefly the tax exempt institutions under Income Tax Act 2058. [8]

**8. 2068 Old Q.No. 1**

Income Tax Act, 2058 is more wider than other previous income tax acts to increase the internal revenue of the government. Do you agree with this statement? Comment. [6]

**9. 2067 Q.No. 1**

Briefly describe the following terms as laid down under Income Tax Act 2058.

- |                            |                   |             |
|----------------------------|-------------------|-------------|
| a. Retirement contribution | b. Income         |             |
| c. Withholding payments    | d. Natural person | [4 × 2 = 8] |

**10. 2067 Q.No. 1 OR**

The Income Tax Act 2058 has made an effect for promoting industrial development in Nepal comment. [8]

**2. TAXATION OF INCOME IN NEPAL****1. 2062 Q.No. 9**

'Although the Income Tax Act, 2058 is far more superior to the previous Income Tax Act, however, the law in itself would not be sufficient to increase tax revenue, the implementation of law should be effective. Comment. [16]

**2. 2060 Q.No. 9**

Lack of clarity in the Income Tax Act, 2058 has completely failed to address the expectation of Nepalese tax payer. Comment. [16]

**3. EXEMPT AMOUNTS, CONCESSIONS, TAX RATES AND WITHHOLDING PAYMENTS****1. 2070 Old Q.No. 2 OR**

Income Tax Act gives absolute exemption in respect of certain incomes. Discuss. [6]

**2. 2070 Old Q.No. 10a**

"Special provisions for individuals as provided by Income Tax Act, 2058 are not sufficient." Comment. [6]

**3. 2069 Q. No. 9**

"Concessions and rebates provided in the Income Tax Act, 2058 are sufficient for industrial development of Nepal." In the light of above statement, describe the business concessions, exemption and rebates available in the Act. [15]

**4. 2068 Q.No. 6**

Explain the provision of business exemption and concessions as laid down under Income Tax Act, 2058. [10]

**5. 2068 Old Q.No. 2**

Explain the various provisions stated in present income tax act for the development of special and information technology industries of Nepal with regard to tax exemptions and concessions. [6]

**6. 2068 Old Q.No. 2 or**

Corporate taxation plays an important role in determining the choice between different sources of financing. Explain it with imaginary figures.

**7. 2067 Q.No. 1 (Old)**

"Promotion of industries in undeveloped area may be the outcome of tax planning scheme extended by the government." Explain the statement in the light of various concessions and rebate that are available in the income Tax Act, 2058. [6]

**8. 2067 Q.No. 10a (Old)**

Explain the provisions of gift/donation under income Tax Act, 2058. [8]

**9. 2065 Q.No. 2**

Explain the provisions regarding exemptions and concessions of an industry established in various geographical zones with respect to its income. [6]



**10. 2064 Q.No. 1**

"Provision of rebate is one of the features of IT Act 2058." Explain in brief the above statement on the backdrop of rebate provided by the act for different industries located at different places. [3+3]

**11. 2064 Q.No. 9**

"The present tax policy of the government is enough for the overall development of industries in underdeveloped regions." Comment the above statement on the basis of various facilities provided by IT ACT, 2058. [16]

**12. 2064 Q.No. 10 a**

"Donation paid to Tax Exempt Organization helps to reduce the tax liability of the assessee, provided it is paid to a worthy one." Comment in brief. Also state the provision of the Act in this connection. [4+4]

**13. 2063 Q.No. 10 a**

Write briefly the tax exemption and tax rebates given to industries set up in backward areas under Income Tax Act 2058. [8]

**14. 2062 Q.No. 1**

Explain the term "Withholding payment (tax deduction at source)." State those payments which shall be treated as final withholding (final deduction of tax at source) under Income Tax Act, 2058. [6]

**15. 2061 Q.No. 1**

"The present tax policy of the government is enough for the overall development of industries in under developed areas. Comment in brief the above statement on the basis of It Act, 2058." [6]

**16. 2060 Q.No. 1**

"Income Tax Act, 2058 has invited the potential investors to promote industries in undeveloped areas." Show your acquaintance with the various provisions that are given in the above act to promote industries. [6]

**17. 2058 Q.No. 2 OR**

Point out the major items that constitute concealment of income. [6]

**4. DEDUCTIONS NOT ALLOWED****1. 2070 Q.No. 7b Or**

State the expenses expressly disallowed for deduction while a computing business income. [5]

**2. 2067 Q.No. 2 OR (Old)**

State the various expenses which are expressly disallowed for deduction while computing net (assessable) income of an assessee. [6]

**3. 2066 Q.No. 9**

'All the payments made by an assessee from business are not deductible while computing taxable income.' Discuss. [16]

**5. TAX ACCOUNTING AND TIMING**

N/A

**6. QUANTIFICATION, ALLOCATION AND CHARACTERIZATION OF AMOUNTS**

N/A

**7. CAPITAL AND REVENUE****1. 2065 Q.No. 2 OR**

Why is it necessary to distinguish between a capital receipt and a revenue receipt? How would you decide whether a particular receipt is a capital receipt or a revenue receipt? Explain with suitable examples.

**8. INCOME FROM EMPLOYMENT**

N/A

## 9. INCOME FROM BUSINESS

### 1. 2071 Q.No. 3b

A Company Ltd reported the net income of Rs. 900,000 for the previous year. Under investigation the following facts are found:

- \* Payment of dividend to shareholders amounting to Rs. 1,00,000 is deducted before ascertaining the above net profit.
- \* Research and development cost Rs. 600,000 is not deducted in computing the profit.
- \* Business loss Rs. 50,000 (within 7 years) is not adjusted in profit.
- \* A donation to a political party Rs. 200,000 is deducted in computing net income.

**Required:** Taxable income and tax liability.

[4]

### 2. 2071 Q.No. 8a

Mrs. Mohan a practicing lawyer submitted the following summarized statement of receipts and payments account

Receipts and Payments A/C			
Receipts	Amount (Rs.)	Payments	Amount (Rs.)
To Balance b/d	80,000	By Office expenses	250,000
To Consultancy fees	400,000	By Utility expenses	10,000
To Legal fees	500,000	By Travelling expenses	20,000
To Fees from training programmes (net)	85,000	By Redemption of bank loan	
To Dividend from banks	57,000	By Interest on loan (paid @ 5%)	100,000
To Interest from bank saving deposit	76,000	By Drawings	5,000
To Sale of old journals	1,000	By Periodicals/ Journals	10,000
To Sale of computer	20,000	By Balance c/d	2,000
<b>Total</b>	<b>1,219,000</b>	<b>Total</b>	<b>1,219,000</b>

**Additional information:**

- i. Opening WDV of computer group was Rs. 60,000. No addition was made during the year.
- ii. Utility expenses include refilling of gas cylinder of his domestic kitchen amounting to Rs. 2,500.
- iii. Prevailing rate of interest in the market was 10%.
- iv. Travelling expenses include Rs. 5,000 of his son's academic tour to Pokhara.

**Required:** Assessable income from Profession.

[5]

### 3. 2071 Q.No. 10

Birat Company Limited presents the following Trading and Profit & Loss Accounts for the previous year:

Trading and Profit & Loss Account			
Dr.	Particulars	Cr.	Particulars
	Amount (Rs.)		Amount (Rs.)
To Opening stock	220,000	By Sales	2,500,000
To Purchases	1,200,000	By Closing stock	330,000
To Freight	200,000		
To Custom duty	50,000		
To Gross profit	1,160,000		
	<b>2,830,000</b>		<b>2,830,000</b>
To Office expenses	400,000	By Gross profit	1,160,000
To Salaries	200,000	By Royalty	100,000
To Contribution to employee's provident fund	50,000	By Commission	100,000
To Depreciation	150,000	By Dividend	150,000
To Research & Development cost	200,000	By Gain on sale of share	100,000
		By Miscellaneous income	50,000
		By Interest from bank (net)	85,000
		By Discount	15,000

To Donation	120,000	By Speculation gain	100,000
To Provision for dividend	50,000		
To Income tax	40,000		
To Fine and penalties	100,000		
To Loss on sale of machine			
To Miscellaneous expenses	15,000		
To Net profit	100,000		
	435,000		
Total	1,860,000	Total	1,860,000

**Additional information:**

- Purchases included Rs. 50,000 purchase of office computer.
- Opening and closing stocks are overvalued by 10%.
- Insurance premium of godown is not included in above statement of Rs. 10,000.
- Bad debts recovered amounting to Rs. 40,000 is not included in profit and loss account, 50% of which was not allowed previously.
- Allowable amount of depreciation is Rs. 160,000.
- Commission income includes Rs. 20,000 advance for the next year.
- It is required to adjust the loss of last year Rs. 10,000.
- Office expenses include Rs. 60,000 cash payments to Nepal Oil Corporation at a time.

**Required:**

- Net Assessable income from business
- Net Assessable income from investment (if any)
- Statement of total taxable income and tax liability.

[10+1+4=15]

**4. 2070 Q.No. 7b**

Following is the receipts and payments account of a practising professional lawyer:

Receipts	Amount	Payments	Amount
To Balance b/d	100,000	By Rent of office	120,000
To Legal fees (net)	425,000	By Assistant salary	120,000
To Advisory fees	200,000	By Computer purchased	50,000
To Meeting fees	34,000	By Travelling expenses	30,000
To Remuneration from part time teaching	102,000	By Sundry expenses	20,000
To Interest from bank	95,000	By Collection charge of agriculture income	10,000
To Agriculture income	80,000	By Office expenses	25,000
To Gifts from clients	32,500	By Electricity charge	5,000
To Rent from house	90,000	By Balance c/d	778,500
Total	1,158,500	Total	1,158,500

Consider the following information:

- Advisory fees include Rs.20,000 collected from last year receivable.
- Rent of office was paid for his own house.
- Opening WDV of the Block - B assets was Rs.100,000 and no disposal was made during the year.
- 50% of the travelling expenses is related to his personal visit to Pokhara.
- Office expenses include Rs.5,000 of the expenses relating to office kitchen.

**Required:** Net assessable income.

[5]

**5. 2070 Q.No. 3b**

KMC industry (manufacturing) reported a net income of Rs.800,000. However, the following facts were revealed under investigation:

- ▶ A dividend income of Rs.50,000 from a resident company is included in net income.
- ▶ Donation to a religious heritage of Rs.100,000 and total pollution control cost of Rs.200,000 are directly deducted from income to derive the above net profit.
- ▶ Previous unrecovered loss of Rs.200,000 is not deducted from income, out of which Rs.50,000 is the investment loss.

Required: Taxable income and tax liability.

[4]

## 6. 2070 Q.No. 10

A company limited presented the following trading and profit & loss account for the relevant income year. [15]

Trading and Profit & Loss Account			
Dr.	Amount (Rs.)		Cr.
Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To opening stock	120,000	By Sales	4,000,000
To Purchase: 2,000,000		By closing stock	240,000
Less: return 100,000	1,900,000		
To Carriage & Insurance	100,000		
To Custom duty	150,000		
To Gross profit	1,970,000		
	4,240,000		4,240,000
To Salaries & wages	600,000	By Gross profit	1,970,000
To Rent of office	120,000	By Commission	150,000
To Rent of land	75,000		
To Depreciation:		By Dividend	100,000
Block A - 100,000			
Block B - 50,000		By Interest	50,000
Block C - 200,000	350,000	By Refund of customs duty	100,000
To Repair cost	40,000	By Natural resource income (non-business)	150,000
To Research & development cost	200,000	By Prerequisites	10,000
To Interest on bank loan	50,000	By Gain from sale of computer (one piece)	5,000
To Travelling expenses	40,000	By Miscellaneous income	100,000
To Meeting expenses	30,000	By Gifts and prize	20,000
To Sales commission	20,000	By Compensation	200,000
To Advertisement	130,000		
To Utilities expenses	15,000		
To Provision for bad debts	50,000		
To Fine & penalties	20,000		
To Purchase of furniture	10,000		
To Medical expenses	15,000		
To Net profit	1,390,000		
<b>Total</b>	<b>3,155,000</b>	<b>Total</b>	<b>3,155,000</b>

Consider the following information:

- Opening and closing stocks were overvalued by 20%.
- The depreciation shown in the above statement of Block A and C are computed as per tax law. Repair expenses shown in the P/L account is related to Block - A.
- Opening WDV of the computer pool was Rs.120,000. The company sold a computer having book value of Rs.15,000 for Rs.20,000. The gain on sale of such computer is reported in P/L A/C.
- Advertisement expenses included Rs.60,000 cash payment even though banking services are available.
- Provision for bad debts include bad debts written off Rs.10,000.
- Fine and penalties include Rs.2,000 late fees paid to Drinking Water Corporation, Nepal.
- Compensation income include Rs.50,000 receivable of the previous year.
- Donation given to a public school Rs.75,000 is not shown in above statement.

Required: ① Assessable Income from Business

② Statement of Total Taxable Income

③ Tax liability

[11+2+2=15]

## 7. 2070 Old Q.No. 7

The following are the Receipts and Payments of Dr. M., a physician working at a remote area for the previous year:

Receipts and Payments Account			
Receipts	Rs.	Payments	Rs.
To Consultancy fees	300,000	By Salaries	60,000
To Visiting fees	200,000	By Rent of clinic	40,000
To Sale of medicine	100,000	By Purchase of furniture	55,000
To Rent of house from Gov't's office	50,000	By Subscription to medical association	5,000
To Interest on loan from a shopkeeper	50,000	By Donation	25,000
To Sale of computer	100,000	By Life insurance premium	15,000
		By Balance	600,000
	800,000		800,000

## Further information

- ▶ The furniture was purchased on 15<sup>th</sup> Marga.
- ▶ The insurance policy of Rs.200,000 was taken on his own life.
- ▶ He has expended Rs.5,000 for medical expenses of his own.
- ▶ During the year he has received gifts from patients: Rs.15,000 and has paid Rs.5,000 for the education of his son.

## Required:

- ① Net (assessable) income from profession.
- ② Statement of total taxable income
- ③ Tax liability (Ignore special fee)

[2+2+2=6]

## 8. 2070 Old Q.No. 11

The following are the details of the transaction of a Trading company for the relevant financial year:

Trading and Profit & Loss Account			
Particulars	(Rs.)	Particulars	(Rs.)
To Opening stock	150,000	By Sales	1,500,000
To Purchase	700,000	By Closing stock	200,000
To Freight	100,000	By Bad debts recovered	100,000
To Repairs	40,000	By Interest	50,000
To Depreciation	30,000	By Refund of customers	60,000
To Interest on loan	20,000	By Commission	40,000
	10,000	By Interest from government development bonds	30,000
To Income tax	15,000	By Royalty	100,000
To General charges	80,000	By Refund of income tax	20,000
To Salaries	300,000	By Rent received	50,000
To Reserve for bad debts	5,000		
To Fine and penalty	5,000		
To Advertisement	7,000		
To Provision for Tax	13,000		
To Miscellaneous expenses	175,000		
To Net profit	500,000		
	2,150,000		2,150,000

## Additional information:

- a. Closing stock was over valued by Rs.20,000.
- b. Rent received was from staff quarter.
- c. Bad debts recovered upto Rs.10,000 was not allowed previously.
- d. Depreciation was under charged by Rs.20,000.
- e. Income tax paid in advance Rs.15,000 and cost of pollution control device Rs.150,000 are not shown in above statement.
- f. 1/2 of the Reserve for bad debts accepted as bad debts by IT Officer.
- g. Loan was taken to purchase office furniture.
- h. Miscellaneous expenses include
  - ▶ Rs.15,000 insurance premium against loss of fixed assets.

- ▶ Rs.25,000 for income tax appeal.
- ▶ Rs.30,000 dividends paid to shareholders.

i. General charge include Rs.30,000 as a contribution to provident fund for the staff. The provident fund recognized since 1<sup>st</sup> Baisakh in the previous year only.

**Required:** ① Statement of total taxable income ② Tax liability

[14+2=16]

**9. 2069 Q. No. 3a**

Samurai Company Limited submitted the income statement to the tax officer reporting taxable income Rs. 300,000. However under investigation the following facts were revealed.

- Total deduction includes Rs. 100,000 donation paid to a public school and a newly opened private school in the community.
- Dividend income of Rs. 50,000 were included in net profit reported by the company.
- Expenditure incurred in the installation of pollution control device amounting to Rs. 200,000 also included in total deduction.
- Assessable income from investment Rs. 50,000 not shown in above income.

**Required:** Statement of total taxable income.

**10. 2069 Q. No. 8a**

Mr. Aryal a professional lawyer furnished the following income and expenditure account for the previous year.

Expenditure	Rs.	Income	Rs.
To Office and administrative cost	100,000	By Legal fees	250,000
To Office rent	25,000	By Consultation fees	290,000
To Staff salaries	45,000	By Meetings fees	9,000
To LIP paid on his wife life policy	18,000	By Dividend from Nepal Bank	18,000
To Tuition fees paid for his son	22,000	By Gifts from clients	25,000
To Depreciation on furniture	5,000	By Bad debts recovered	10,000
To Excess of income over expenditure	387,000		
	602,000		602,000

**Additional information:**

- Consultation fees includes Rs. 15,000 for the coming year.
- Bad debts recovered not allowed in the previous year due to lack of proof.
- Mr. Aryal received a loan from his client Rs. 1,000,000 at confessional rate of 10%. However market rate of interest was Rs. 15%.

**Required:** Net assessable income from profession.

[5]

**11. 2069 Q. No. 10**

A company limited furnished the following trading and profit & loss account for the previous year.

Dr.		Trading and Profit & Loss Account		Cr.	
Particulars	Rs.	Particulars	Rs.		
To Opening stock	550,000	By Sales	4,800,000		
To Purchase	1,500,000	By Closing stock	720,000		
To Customs duty	200,000				
To Gross profit	3,270,000				
	5,520,000				5,520,000
To Office and adm. expenses	1,000,000	By Gross profit	3,270,000		
To General expenses	210,000	By Commission	200,000		
To Discount allowed	20,000	By Discount	120,000		
To Provision for tax	150,000	By Dividend	85,000		
To Depreciation	300,000	By Rent by letting equipment (business)	130,000		
To Provision for dividend	25,000	By Rent from non-business assets	150,000		
To Legal expenses	5,000	By Miscellaneous income	100,000		
To Repairs	145,000				
To Donation	200,000				
To Penalties for violating rules	10,000				

To Pollution control cost	150,000	
To Net profit	1,840,000	
	4,055,000	4,055,000

**Additional information:**

- Opening as well as closing stock are under valued by 20%.
- Office expenses include Rs. 60,000 cash payment made at a time even though the banking services are available
- Compensation for not selling other company's goods from a dealer Rs. 100,000 not included in above statement.
- 50% of donations was given to Pashupati Area Development Trust.
- 75% of depreciation is related to Block 'B' (Computer/Furniture) assets which was calculated as per IT Act.
- Repair cost includes Rs. 100,000 for the repair of Block 'B' assets
- The company purchased a computer software costing Rs. 180,000 with estimated life of 4 years and 6 months but the depreciation of this asset is not included in above statement.

**Required:** ① Assessable income from business ② Assessable income from investment  
③ Statement of total income (net). [10+2+3=15]

**12. 2068 Q.No. 2b**

The income statement of a company showed a net income of Rs. 500,000 for the previous income year. An examination was made by tax authorities regarding the income statement and found the following facts.

- The net income was derived after deducting fines and penalties of Rs.30,000; donation to tax exempt organization of Rs. 100,000 and pollution control cost (PCC) of Rs. 200,000.
- The above net income was derived before adjusting the business loss of Rs.50,000 was occurred in last four year.

**Required:** Taxable income and tax liability. [4+4 = 8]

**13. 2068 Q.No. 8a**

Mr. Pant is a practising lawyer has submitted his Receipts and Payments Account prepared on cash basis for the previous year.

Dr.	Receipts and Payments Account		Cr.
Receipts	Rs.	Payments	Rs.
To Balance b/d	200,000	By Purchase of Computer (On 15th Bhadra)	200,000
To Legal fees	340,000	By Salary to staffs.	50,000
To Consultation Commission fees	200,000	By Interest on Bank loan	30,000
To Commission Received	50,000	By Vehicles expenses	20,000
To Gift From clients	25,000	By Domestic expenses	25,000
To Rent from houses (net)	27,000	By Medical expenses (self)	15,000
To Dividend from Nepal Bank Limited (net)	38,000	By Fine paid to Nepal Telecom Office for late payment of telephone bill amount	5,000
To Sales of Newspaper & journals	4,000	By Office expenses	27,000
To 15% bank loan	200,000	By Donation	8,000
To Gain on sale of securities	100,000	By Balance c/d	804,000
	1,184,000		1,184,000

**Additional information:**

- Depreciation and repairs on computer is to be charged as per Income Tax Act.
- Vehicle was used equally for personal and professional purpose.
- Consultation fees included Rs.25,000 received in advance.
- Life insurance premium of Rs.20,000 was paid to insurance company but omitted to record in amount.

**Required:**

- Net assessable income from profession.
- Statement of total taxable income.

## 14. 2068 Q.No. 9

The following Trading and Profit & Loss Account of a Company for the previous year, is given below.

Dr. Trading and Profit & Loss Account Cr.			
Receipts	Rs.	Payments	Rs.
To Opening Stock	200,000	By Sales	3,500,000
To Purchase	1,500,000	By Closing Stock	300,000
To Carriage on purchase	200,000		
To Customs duty	50,000		
To Gross profit c/d	1,850,000		
	3,800,000		3,800,000
To Salaries for staffs	300,000	By Gross profit b/d	1,850,000
To Administrative expenses	150,000	By Discount received	30,000
To Contribution to retirement fund	40,000	By Bad debts recovered	20,000
To Staff welfare expenses	20,000	By Gain on disposal of business liabilities	50,000
To General expenses	25,000	By Gift received (business)	20,000
To Fire insurance	10,000	By Income from natural resources	130,000
To Sinking fund	15,000	By Rent from staff quarters	40,000
To General reserve	10,000	By Dividend (net)	38,000
To Telephone & electricity charges	40,000	By Refund of custom duty	30,000
To Loss of trading goods	10,000		
To Pollution control cost(PCC)	250,000		
To Miscellaneous expenses	150,000		
To Interest on bank loan	30,000		
To Fines & penalties	15,000		
To Depreciation as machinery	60,000		
To Donation	120,000		
To Income Tax paid in advance (current year)	5,000		
To Net profit c/d	958,000		
	2,208,000		2,208,000

## Additional information :-

- Both opening and closing stock were under valued by 20%.
  - Purchase included Rs.250,000 the cost of machinery purchased on Bhadra 25<sup>th</sup> of previous year. The beginning WDV of which was Rs. 350,000. A part of machinery having book value of Rs. 150,000 was sold at a loss of Rs.30,000 during the previous year. Provide depreciation on it under IT Act.
  - Half of the bad debts recovered was not allowed previously.
  - Fifty percent of donation was given for the promotion of religious heritage and rest for public school.
  - The loan was borrowed at an interest rate of 8% on 1<sup>st</sup> Shrawan of previous year. The prevailing interest rate was 10% p.a.
  - Miscellaneous expenses included Rs.30,000 actual repair expenses of the machinery.
  - Unrecovered business loss of Rs.50,000 for the past 5<sup>th</sup> year was to be adjusted.
- Required:** ● Net (assessable) Income from Business ● Net (Assessable) Income from Investment  
● Statement of Total Taxable Income ● Tax liability [10+2+2+1=15]

## 15. 2068 Old Q.No. 5

The Receipts and Payment Account of Mr. Singh for the previous year is given below.

Receipts	Rs.	Payments	Rs.
To Balance b/d	50,000	By Salary of Staffs	200,000
To Consultation fees (Net)	170,000	By Office operation cost	80,000
To Dividend Received (Net)	38,000	By Donation to a tax exempt organization	20,000
To Rent from house let out (Net)	59,500	By General expenses	30,000
To Income from training program (Net)	68,000	By Approved medical expenses (self)	10,000



To Interest from Private money lending transaction	125,000	By collection cost of consultation fees	5,000
To Interest on deposit from bank (Net)	14,250	By Purchase of machinery in Aswin of last year	60,000
To Payment received from natural resources	130,000	By Payment of life insurance premium (self)	25,000
To Royalty from professional books (Net)	127,500	By Balance c/d	352,250
	782,250		782,250

**Additional information:**

- Depreciate machinery as per Income Tax Act, 2058
- General expenses include Rs.5,000 the domestic expenses of Mr. Singh
- Collection cost of interest from private money lending transactions of Rs.1,000 not shown in the above account.
- Mr. Singh has selected to assess his income separately.

**Required:** (1) Net Assessable Income from Profession. (2) Statement of Total Taxable Income. (3) Tax liability

**16. 2068 Old Q.No. 11**

A limited Company supplied the following Profit and Loss A/c for the relevant income year;

Particulars	Rs.	Particulars	Rs.
To Office & administration expenses	150,000	By Gross profit	2,627,500
To Salaries	220,000	By Discount & Commission	55,000
To Telephone & Stationery	25,000	By Bad debts recovered (previously not allowed by ITO 40%)	25,000
To Provision for bad debts	18,500	By Compensation	75,000
To Interim dividend	120,000	By Miscellaneous income	100,000
To Repairs (Block:D)	87,000	By interest on investment	150,000
To Staff bonus	55,000	By Gain on sale of business assets	100,000
To Penalty for breach of law	7,500		
To Installation of pollution control device	450,000		
To Electricity and power	150,000		
To Commission	61,000		
To General Expenses	186,000		
To Depreciation	150,000		
To Legal expenses	10,000		
To Donation	130,000		
To Premium on joint life policy of the staff	75,000		
To Advertisement	64,000		
To Net profit	1,173,500		
	3,132,500		3,132,500

The following information are needed to be considered;

- Closing stock is under valued by 10%.
- Miscellaneous income included Rs. 10,000 as refund of custom duty and Rs.20,000 interest on tax free government securities.
- Out of the depreciation charged in P/L A/C Rs.150,000 is allowable depreciation of machinery and remaining is allowable depreciation of Block'A' and Block 'C'.
- Provision of bad debts included Rs. Rs.5,000 as bad debts declared during the year.
- General expenses includes Rs.100,000 cost of computer purchased during the year. Opening WDV of computer pool was Rs.300,000.

**Required:**

- Assessable (Net) Income from Business
- Statement of Total Income
- Tax liability

**17. 2067 Q.No. 7 (Old)**

The following is the receipts and payments account of Mr. P. Giri a chartered accountant for the current income year:

**Receipts and Payments A/C**

Receipts	Rs.	Payments	Rs.
To Balance b/d	134,500	By Office & administration expenses	167,000
To Consultation fees (after TDS)	255,000	By Rent & stationery	73,000
To Audit fees	250,000	By Purchased computer	60,000
To Gift from clients	18,000	By Miscellaneous expenses	45,000
To Interest from government securities	28,500	By Travelling expenses	15,000
To Dividend from a company	38,000	By Medical expenses	15,000
To Gain on non-business chargeable asset	85,000	By Staff salary	72,000
To Sale of old news papers	1,500	By Balance c/d	363,500
	<b>810,500</b>		<b>810,500</b>

Following points are needed to be considered:

- Miscellaneous expenses included Rs. 5,000 as personal expenses of Mr. Giri.
- Audit fees included Rs. 15,000 as bad debts recovery of previous year.
- Collection cost of dividend Rs. 500 is not shown in the above account.
- Medical expenses included Rs. 10,000 of his children and remaining for his own.
- His wife is working in NR Bank and her assessable income from employment is Rs. 250,000 which is not included in the above statement.
- He is working in a remote area grouped - D.

Required: (a) Net assessable income from profession.

(b) Statement of total income

(c) Tax liability assuming single status

[3+2+1]

**18. 2067 Q.No. 11 (Old)**

Given below is the Trading and Profit & Loss Account of a Company Ltd. for the previous year:

**Trading and Profit & Loss Account for the previous year ended**

Particulars	Rs.	Particulars	Rs.
To Opening stock	150,000	By Sales	2,000,000
To Purchase	1,200,000	By Closing stock	200,000
To Wages	300,000		
To Custom duty	50,000		
To Gross profit c/d	500,000		
	<b>2,200,000</b>		<b>2,200,000</b>
To Salaries	150,000	By Gross profit b/d	500,000
To General expenses	30,000	By Bad debts recovered	20,000
To Legal expenses	5,000	By Miscellaneous incomes	6,000
To Telephone & electricity	8,000	By Discount received	5,000
To Interest on loan	4,000	By Gain on sale of non-business chargeable assets	120,000
To Fire insurance premium	3,500	By Commission income	8,000
To Repair expenses	2,000		
To Tax paid in advance	2,500		
To Commission paid	1,500		
To Depreciation on machinery	6,000		
To Donation to public school	5,000		
To Research & development cost	15,000		
To Net profit c/d	469,000		
	<b>701,500</b>		<b>701,500</b>

Additional information:

- Both opening stock and closing stock were over valued by 10%.

- b. Purchase includes Rs. 50,000 for purchase of machinery. It was purchased in Marga of the previous year. Charge depreciation as per IT Act 2058.
- c. Gain on sale of business assets of Rs. 10,000 not shown in profit and loss account.
- d. Sixty percent of bad debts recovered was allowed as deduction in previous year.
- e. Legal expenses include Rs. 1,000 to acquire the title of newly purchased machinery.
- Required:** (a) Net (assessable) Income from Business (b) Net (assessable) Income from Investment  
(c) Statement of Total Taxable Income (d) Tax liability [10+2+2+2=16]

**19. 2067 Q.No. 3b**

The Profit and Loss a/c of Sunsari Manufacturing Company showed a net profit of Rs.475,000. However, under investigation it is found that previous year business loss amounting to Rs.3,00,000 was not adjusted in the profit. Similarly total cost incurred for installing pollution control device amounting to Rs.500,000 and donation paid amounting to Rs.120,000 were included in total deduction. However evidence of 50% donation could not be produced.

**Required:** Taxable income and tax liability [2 × 4 = 8]

**20. 2067 Q.No. 8a**

Mr. Gautam a practicing Chartered Accountant furnished the following receipts and payment Account.

Receipts	Rs.	Payments	Rs.
To Balance b/d	5,000	By Purchase of office furniture	150,000
To Audit fees	400,000	By Office & administrative expenses	190,000
To Business consultation fees (after TDS)	340,000	By Salaries to staff	120,000
To Fees from trading work	80,000	By Books purchased for his son	12,000
To Meeting fees (net)	5,000	By Life insurance premium for his wife	20,000
To Dividend (after TDS)	15,000	By Balance c/d	545,000
To Rent from letting a house	72,000		
	1,037,000		1,037,000

**Additional information:**

- Total allowable depreciation was Rs.35,000.
- Allowable repair expenses Rs.5,000 was includes in cost of books.

**Required:** Assessable income from profession

[5]

**21. 2067 Q.No. 10**

The following is Income Statement of Moon Industry P. Ltd. situated in underdeveloped area

Particulars	Rs.	Particulars	Rs.
To Opening stock	152,000	By Sales	6,058,000
To Purchase	3,625,000	By Closing stock	176,000
To Wages to workers	900,000		
To Carriage inward	140,000		
To Customs duty	15,000		
To Gross profit c/d	1,402,000		
	6,234,000		6,234,000
To Salaries & Wages	325,000	By Gross profit b/d	1,402,000
To Donation	88,000	By Net gain from disposal of business assets	10,000
To Commission & brokerage	36,000	By Dividend income	40,000
To Interest on loan	190,000	By Royalty income	20,000
To Director's fees	35,000	By Income from natural resources	12,000
To Auditor's fees	10,000	By Miscellaneous receipts	25,000
To R & D costs	284,000	By Interest income from credit sales	10,000
To Bad debts	16,000	By Bad debts recovered	25,000
To Provision for bad debts	13,000		
To Printing & stationary	20,000		

To Depreciation	164,000		
To Distribution of profits	46,000		
To Net profit	317,000		
	1,544,000		1,544,000

**Additional information:**

- Opening stock was overvalued by 10 percent.
- Salaries and wages include contribution to an unapproved retirement fund Rs.7,000.
- Distribution of profits includes loan commitment charge to bank Rs.5000 and dividend to the shareholders Rs.41,000.
- Allowable depreciation allowance was Rs.155,000.
- Forty percent bad debts were not allowed previously.

**Required:**

- Net (assessable) Income from Business
- Net (assessable) Income from Investment
- Statement of Total Taxable Income
- Tax liability

[10 + 2 + 1 + 2 = 15]

**22. 2066 Q.No. 7**

Following is the summarized statement of cash concerning a lawyer for the previous year.

Statement of Cash			
Particulars	Rs.	Particulars	Rs.
To Balance b/d	150,000	By Office rent	84,000
To Legal fees	200,000	By Staff salary	93,000
To Consultation fees	80,000	By Office expenses	50,000
To Sale of an old computer	50,000	By Car expenses	40,000
To Dividend	19,000	By Computer purchased	100,000
To Interest on personal loan	125,000	By Balance c/d	257,000
	624,000		624,000

On query made by the tax officer, the following facts were revealed:

- Consultation fees included Rs. 10,000 gifts from clients and Rs. 34,000 salary from Law College as part time lecture.
- Car expenses included fuel expenses and repair expenses of car in equal proportion.
- The written down value of computer and car on opening day of the previous year were Rs. 130,000 and Rs. 200,000 respectively.
- He has claimed Rs. 25,000 as unabsorbed net loss of profession related to last 2nd year.

**Required:** Total net (assessable) income

[6]

**23. 2066 Q.No. 11**

Given below is the Profit and Loss Account of an Industrial Company (special nature) located at underdeveloped area for the previous year:

Profit and Loss Account			
Particulars	Rs.	Particulars	Rs.
To Salaries	100,000	By Gross profit	500,000
To Rent	90,000	By Interest from debtors	20,000
To Repairs	12,000	By Royalty from patent (after TDS)	
To Office expenses	80,000	By Dividend (After TDS)	34,000
To Advertisement	10,000	By Sundry income	36,000
To Provision for income tax	30,000		60,000
To Depreciation	50,000		
To Bad debts	25,000		
To Reserve for future loss	20,000		
To Donation	15,000		
To Interest on loan	35,000		
To Contribution to staff provident fund	30,000		
To Sundry expenses	93,000		
To Net profit	60,000		
	650,000		650,000

**Additional information:**

## a. Sundry income includes:

- Bad debts recovered Rs. 10,000
- Refund of income tax Rs. 5,000

## b. Sundry expense includes:

- Income tax paid in advance Rs. 5,000
- Net loss relating to last third year Rs. 20,000
- Insurance premium for the staff Rs. 10,000
- Cost of land Rs. 50,000

## c. Repairs include for Pool 'B' and 'D' assets in 1:2 proportion.

## d. Cost of pollution control device Rs. 90,000 and amount of penalty paid Rs. 5,000 are not included in above statement.

## e. 20% amount of depreciation was charged on Pool 'B' and balance for 'D'. Depreciation base of these assets were Rs. 50,000 and Rs. 100,000 respectively.

**Required:** (a) Net (assessable) income from business. (b) Tax liabilities.

[14 + 2=16]

**24. 2065 Q.No. 5**

The Receipts and Payments Account of Mr. Pant for the previous year is provided:

Receipts and Payments Account				
Dr.	Receipts	Rs.	Cr.	
	To Balance b/d	1,50,000	By Office employees costs	200,000
	To Dividend received (after TDS)	19,000	By Office operation costs	60,000
	To Rent from house let out (after TDS)	85,000	By Purchase of photocopy machine	50,000
	To Consultation fees (after TDS)	255,000	By Approved medical expenses (self)	15,000
			By Donation to a tax exempt organization	8,000
	To Royalty from professional books (after TDS)	212,500	By Collection charges (related to royalty and natural resources equally)	1,000
	To Interest on deposits from bank (after TDS)	47,000		
	To Payment received from natural resources (after TDS)	127,500	By Balance c/d	712,000
	To Interest from private money lending transactions	150,000		
		1,046,000		1,046,000

**Additional information:**

- Photo copy machine was purchased on Aswin of the previous year and charge depreciation on it as per Income Tax Act 2058.
- Office operation costs included Rs.5,000 payment of life insurance premium of Mr. Pant on policy amount of Rs. 150,000.
- Ms. Pant has elected to assess his income separately.

**Required:** (i) Net (Assessable) Income from Profession (ii) Statement of Total Taxable Income (iii) Tax Liability

[3+2+1=6]

**25. 2065 Q.No. 11**

Given below is the Trading and Profit & Loss Account of a Company Ltd., for the previous year:

Trading and Profit & Loss Account				
For the previous year ended				
Dr.	Particulars	Rs.	Cr.	
	To Opening stock	750,000	By Sales	4,500,000
	To Purchase	1,500,000	By Closing stock	850,000
	To Carriage on purchase	150,000		
	To Wages	500,000		
	To Custom duty	70,000		
	To Gross profits c/d	2,380,000		
		5,350,000		5,350,000
	To Salaries	500,000	By Gross profit b/d	2,380,000

To Office expenses	100,000	By Gain on sale of non-business chargeable assets	130,000
To General expenses	10,000	By Bad debts recovered	50,000
To Interest paid to banks	50,000	By Miscellaneous incomes	40,000
To Legal expenses	20,000	By Discount received	10,000
To Telephone charges	30,000	By Royalty received	120,000
To Electricity charges	20,000	By Rent from staff quarters.	110,000
To Fire insurance premium	10,000		
To Repairs expenses	15,000		
To Commission paid in advance	8,000		
To Commission paid	6,000		
To Depreciation on machinery	15,000		
To Depreciation on furniture	8,000		
To donation to tax exempt organization	10,000		
To Pollution control cost	40,000		
To Research and development cost	30,000		
To Net profit c/d	1,968,000		
	2,840,000		2,840,000

**Additional information:**

- Both opening stock and closing stock were under valued by 20 percent
- Purchases include Rs.300,000 for purchase of machinery. It was purchased on Bhadra of previous year (depreciation is to be charged).
- Depreciation base of furniture was Rs.40,000 at the beginning of the year. A new furniture costing Rs.30,000 was purchased on Jetha of previous year. A part of furniture costing Rs. 10,000 was disposed off Rs.5,000 during the previous year.
- Gain on sale of business asset of Rs. 15,000 not shown in profit and loss account.
- Legal expenses include Rs.2,500 to acquire the title of newly purchased machinery.
- Fifty percent of Bad debts recovered was not allowed as deduction in previous year.
- Repairs expenses already shown in profit and loss account is relating to furniture.

**Required:** (i) Net (Assessable) Income from Business (ii) Net (Assessable) Income from Investment  
(iii) Statement of Total Taxable Income (iv) Tax Liabilities [10+2+2+2=16]

**26. 2064 Q.No. 4**

Following is the summarized cash transactions of Mrs. G, a fashion designer by profession, for the previous year:

	Rs.		Rs.
To Opening balance c/d	300,000	By Remuneration to subordinates	460,000
To Fees from fashion show	500,000	By Office expenses	120,000
To Fees from training programme	150,000	By Interest collection cost	200
To Fees from fashion designing		By Domestic expenses	60,000
To Interest on taxable government bonds after TDS	250,000	By Purchase of vehicle	400,000
	28,200	By Telephone charge	2,000
		By Electricity charge	2,000
		By Balance c/d	184,000
	1,228,200		1,228,200

**Additional information:**

- Office expenses include Rs. 100,000 paid for office rent and rest for vehicle expenses.
- Vehicle was purchased on Falgoon of the previous year. No vehicles were disposed off during this period. Depreciation on vehicle is to be charged. It was used equally for both official as well as personal purpose.
- A donation of Rs. 20,000 was paid to a TE Organization but has not been recorded in the above cash book.

**Required:** (a) Net (assessable) Income from profession (b) Statement of Total Income. [4+2]

**27. 2064 Q.No. 11**

Given below is the Trading and Profit and Loss Account of a Manufacturing Company Ltd. for the previous year:

## Trading and Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening stock	1,000,000	By Sales	8,000,000
To Purchases	3,000,000	By Closing stock	500,000
To Carriage	100,000		
To Insurance on purchases	10,000		
To Wages	300,000		
To Custom duty	90,000		
To Gross profit c/d	4,00,000		
	<b>8,500,000</b>		<b>8,500,000</b>
To Salaries	1,000,000	By Interest charged on delinquent customers	20,000
To Office expenses	30,000	By Rent form staff quarter	150,000
To Commission	10,000	By Gain on sale of non-business assets	20,000
To Audit fees	5,000	By Bad debts recovered	25,000
To Depreciation:			
Machinery	20,000		
Vehicle	50,000		
Furniture	10,000		
To Legal fees	5,000		
To Miscellaneous	15,000		
To Interest paid to banks	50,000		
To Income tax paid in advance	30,000		
To Pollution control cost	450,000		
To Research and development	50,000		
To Life insurance premium (Staff)	70,000		
To Donation to tax exempt organization	60,000		
To Repairs of vehicles	20,000		
To Electricity charges	20,000		
To Telephone charges	24,000		
To Net profit c/d	2,296,000		
	<b>4,215,000</b>		<b>4,215,000</b>

## Additional information:

- Stock was undervalued by Rs. 200,000. It was Rs. 700,000 on last stocktaking.
- Purchase include Rs. 800,000 for purchase of car. It was purchased on Ashwin last year.
- Depreciable base of assets under pool 'D' was Rs. 800,000 at the beginning of the year. A part of machine costing Rs. 200,000 was disposed off for Rs. 225,000 during the year.
- Depreciable base of furniture was Rs. 60,000 at the beginning of year. No furniture were purchased or disposed off during the year.
- Legal fees include Rs. 2,000 to file a case to protect the title of assets and balance Rs. 3,000 to acquire the title of new purchase car.
- Bad debts recovered to the extent of Rs. 10,000 was not allowed previously for deduction.
- Miscellaneous expenses include Rs. 2,000 as expense relating to sale of business assets.

**Required:** (a) Net (Assessable) Income from Business

(b) Net (Assessable) Income from Investment

(c) Statement of Total Income (d) Tax liabilities

[10+2+2+2=16]

## 28. 2063 Q.No. 5

Given below is the summarized statement of cash relating to a Music Director for the previous year:

## Statement of Cash

Receipts	Rs.	Payment	Rs.
To Balance b/d	600,600	By Purchase of a car	1,200,000
To Receipts from music direction	1,000,000	By Car maintenance expenses	60,000
To Royalty from various music shows	500,000	By Salary to personal assistance	210,000
To Interest credited by bank to his bank saving account after deducting 6% tax	9,400	By Donations to political parties	200,000
	<b>2,110,000</b>	By Balance of cash c/d	440,000
			<b>2,110,000</b>

**Additional information:**

- i. Car was purchased on Falgun of the previous year  
 ii. Car was used for his official as well as private purpose at 2:1 ratio.

**Required:** (a) net (Assessable income from profession) (b) Statement of Total income [4+2]

**29. 2063 Q.No. 11**

Given below is the Trading and Profit and Loss Account of a Ltd., Company for the previous year:

**Trading and Profit and Loss Account**

Particulars	Rs.	Particulars	Rs.
To Opening stock	400,000	By Sales	2,500,000
To Purchases	1,000,000	By Closing stock	550,000
To Freight	50,000		
To Wages	450,000		
To Gross profit c/d	1,150,000		
	<b>3,050,000</b>		<b>3,050,000</b>
To Staff salaries	300,000	By Gross profit b/d	1,150,000
To Advertisement	50,000	By Commission earned	20,000
To General expenses	350,000	By Rent from staff quarter	50,000
To Reserve for bad debts	20,000	By Bad debts recovered	30,000
To Depreciation	20,000	By Gain on sales of business assets	100,000
To Research and development	350,000		
To Dividend	60,000		
To Life insurance premium of staff	50,000		
To Repairs	20,000		
To License renewals fees	2,000		
To Contribution to recognized provident fund	30,000		
To Net profit	98,000		
	<b>1,350,000</b>		<b>1,350,000</b>

**Additional information:**

- a. Opening stock and closing stock both were over valued by Rs. 50,000.  
 b. Purchases include Rs. 150,000 for installation of population control device in the factory.  
 c. Wages include Rs. 50,000 for expenses incurred on installation of the pollution control device.  
 d. General expenses includes Rs. 100,000 paid donation to different TE Organizations. However, evidence of Rs. 30,000 could not be produced.  
 e. Depreciation base value of plant on opening date was Rs. 800,000. An asset (plant) of Rs. 200,000 was purchased on the month of Falgun and a plant having book value of Rs. 200,000 was disposed off for Rs. 300,000 during the year.  
 f. Depreciation and repairs charged in the above profit and loss account were related to this plant.  
 g. 20% of bad debts recovered were not allowed previously.

**Required:** (a) Net (assessable) income from business. (b) Statement of Total income (c) Tax payable by the company [12 + 2 + 2 = 16]

**30. 2062 Q.No. 7**

Following is the summarized statement of cash concerning an auditor for the previous year.

**Statement of Cash**

	Rs.		Rs.
To Balance of cash	175,000	By Office expenses	140,000
To Audit fees	250,000	By Office rent	150,000
To Consultation fees	100,000	By Medical expenses (Self)	5,000
To Interest on personal loan	200,000	By Life insurance premium	25,000
To Rent from office computer	25,000	By Donation	25,000
To Income from writing articles.	65,000	By Purchase of computer	175,000
To Income from dividend	210,000	By Balance	505,000
	<b>10,25,000</b>		<b>10,25,000</b>

On query made by the tax officer, the following facts were revealed.

- a. The insurance policy of Rs. 300,000 was taken on his own life.  
 b. The computer was purchased on 1<sup>st</sup> Bhadra.  
 c. Depreciation base of the office furniture at the beginning of the year was Rs. 125,000  
 d. Dividend was received from a domestic company.  
 e. During the year he has paid Rs. 10,000 income tax in advance.



- f. His working place lies in a 'D' remote area and has selected individual status for income tax purpose.  
g. Loss on profession Rs. 1,00,000 of the previous assessment year.

**Required:**

- a. Net (assessable) Income from profession.  
b. Statement of Total Taxable Income  
c. Tax liability

[13+2+1]

**31. 2062 Q.No. 11**

The Trading and Profit & Loss Account of a Ltd. Company for the previous year is given below:

**Trading and Profit & Loss Account**

Particulars	Rs.	Particulars	Rs.
To Opening stock	150,000	By Sales	5,000,000
To Purchase	2,000,000	By Rent from staff quarter	60,000
To Freight	200,000	By Bad debts recovered	40,000
To Wages and salaries	1,000,000	By Commission	100,000
To Office expenses	200,000	By Share transfer fees	10,000
To Interest on loan	80,000	By Sales of vacant land used in business	500,000
To Annual renewals	10,000	By Sundry incomes	90,000
To Depreciation	200,000		
To Repairs	30,000		
To Advertisement	50,000		
To Reserve fund	70,000		
To Bad debts	75,000		
To Miscellaneous expenses	180,000		
To Net profit	1,555,000		
	<b>5,800,000</b>		<b>5,800,000</b>

**Additional information**

- a. Opening stock was over valued by Rs. 30,000  
b. Rs. 20,000 of bad debts recovered was not allowed to write off previously.  
c. 1/3 of the bad debt shows is not accepted by the IT officer.  
d. Allowable depreciation on Pool 'B' assets Rs. 50,000 is not included in the above statement.  
e. Loan was taken to construct office building.  
f. Repairs included 20,000 relating to Pool 'B' assets.  
g. Office expenses included Rs. 60,000 cash payment made at a time even though banking service was available.  
h. Miscellaneous expenses include:  
• Rs. 50,000 dividend paid to the shareholders.  
• Insurance premium for the office staff Rs. 50,000.  
• Income tax paid in advance Rs. 20,000  
• Donations of Lumbini Development Trust Rs. 30,000  
i. Sundry income include:  
• Refund of custom duty Rs. 20,000  
• Refund of income tax Rs. 10,000  
j. Cost of pollution control device Rs. 200,000 and Rs. 25,000 expenses for income tax appeal are not included in above statement.

**Required:** (i) Net (assessable) income from business (ii) Tax liabilities

[14+2]

**32. 2061 Q.No. 6**

Following is the summarized statement of cash concerning an Actor for the previous year.

**Statement of Cash**

Particulars	Rs.	Particulars	Rs.
To Balance of Cash	450,000	By Purchase of car	300,000
To Advance receipt for singing script playing	300,000	By Car expenses	75,000
To Receipt from script playing	600,000	By Live insurance premium	10,000
To Rent from house letout (net)	150,000	By Salary to personal assistant	102,000
		By Donation to Myanglung Bazar	10,000
		By Balance of cash	1,003,000
	<b>1,500,000</b>		<b>1,500,000</b>

**Additional information:**

- a. Car was purchased on Poush of the previous year. It was used equally for both professional and personal work.
- b. Dashain bonus to the assistant equal to one month salary has not been paid yet.

**Required:** (a) Income form profession (b) Statement of Total income

[4+2]

**33. 2061 Q.No.11**

The Trading and Profit & Loss Account of a Ltd. company for the previous year given below:

	Rs.		Rs.
To Opening stock	500,000	By Sales	4,060,000
To Purchase	1,000,000	By Commission earned	100,000
To Freight	30,000	By Rent from staff quarter	350,000
To Wages	420,000	By Gain on sale on machine	135,000
		By Interest charged on credit	35,000
To Salaries	600,000	By Bad debts recovered	50,000
To Entertainment expenses	150,000	By Closing stock	400,000
To Donation	300,000		
To Depreciation	250,000		
To Advertisement	50,000		
To Bad debts	20,000		
To Reserve for bad debts	60,000		
To Research & development exp.	350,000		
To General expenses	450,000		
To Dividend	70,000		
To Net profit	880,000		
	<b>5,130,000</b>		<b>5,130,000</b>

**Additional information:**

- a. In the last stock taking, the closing stock was of Rs. 450,000
- b. Wages include Rs. 50,000 paid on the construction of additional office building.
- c. Out of total donation paid, Rs. 100,000 was paid to Lumbini Development Trust, another Rs. 100,000 was paid to Pashupati Development Trust and balance Rs. 100,000 was paid to Maharsi Janak University.
- d. Total depreciation allowed by IT Office for the current year was Rs. 215,000
- e. Bad debts allowed by IT office was Rs. 10,000
- f. General expenses include: Rs. 300,000 for pollution control expenses and Rs. 100,000 for purchase of new sofa set for office use.
- g. 30% of bad debts recovered was not allowed previously.
- Entertainment expenses include Rs. 30,000 was paid for advance tax.

**Required:**

- (a) Net (assessable) income from business (b) Statement of Total income (c) Tax liabilities [10+4+2]

**34. 2060 Q.No. 6**

The given is the summarised statement of cash pertaining to an Artist:

Statement of Cash			
Receipt	Rs.	Payment	Rs.
To balance of cash	200,000	By Car purchased	400,000
To Receipt from script playing	400,000	By Car expenses	100,000
To Receipt from dance training programme	100,000	By Salary to assistants	150,000
To Advisory fees	100,000	By Life insurance premium	8,000
		By Donation to a local club	50,000
		By Balance of cash	92,000
	<b>800,000</b>		<b>800,000</b>

**Further information:**

- i. 75% of car expenses was related to her professional job.
- ii. A policy of Rs. 100,000 was taken on her own life.

- iii. A compensation of Rs. 200,000 for the breach of contract from a producer has not been received yet. She incurred Rs. 30,000 as legal expenses to recover this amount.

Required: (a) Income from profession. (b) Statement of total income.

[4+2]

**35. 2060 Q.No. 8**

The following receipts and payments account of a housing company for the previous year:

Receipts	Rs.	Payments	Rs.
To Opening balance	450,000	By Purchase of house	1,000,000
To Rent collection	1,000,000	By Office expenses	80,000
To Commission received on house letout	50,000	By Staff salary	200,000
To Sale of house	1,500,000	By Cash dividend	100,000
To Loan to purchase house	1,000,000	By Interest on loan to house purchase	20,000
		By Payment of partial loan	800,000
		By Legal expenses	10,000
		By Donation	20,000
		By Miscellaneous expenses	50,000
		By Balance c/d	1,720,000
	4,000,000		4,000,000

**Further information:**

- \* 50% of legal expenses was related to loan taken and balance for registration on the purchased of house sold.
- \* Assessee could not produce the evidence for 5% of the donation paid.
- \* Miscellaneous expenses include Rs. 20,000 paid for the accident insurance of shareholders. Rs. 10,000 paid for life insurance premium of staff member and balance Rs. 20,000 was paid to an unregistered loan taken from a private money lender.
- \* Total depreciation allowed for the house was Rs. 30,000.

Required: (a) Net income from house and land rent. (b) Tax liability.

[4+2=6]

**36. 2060 Q.No. 11**

The following are the details of the transaction of an Industrial Company for the relevant financial year.

Trading & Profit and Loss Account			
Dr.	Rs.	Particulars	Cr
To Opening stock	700,000	By Sales	13,500,000
To Purchase	5,300,000	By Sale of scraps	25,000
To Freight	345,000	By Commission	50,000
To Wages	2,500,000	By Dividends	60,000
To Royalty	500,000	By House rent	300,000
To Repairs	100,000	By Profit on sale of land	500,000
To Salaries	300,000	By Interest	75,000
To General charges	600,000	By Bad debts recovered	65,000
To Legal expenses	80,000	By Closing stock	500,000
To Prov. for tax	50,000		
To Research & Dev. exp.	150,000		
To Bad debts	200,000		
To Depreciation	700,000		
To Entertainment	160,000		
To Dividends	80,000		
To Advertisement	250,000		
To Donation	400,000		
To Reserve for bad debts	150,000		
To Net profit	2,510,000		
	15,075,000		15,075,000

**Additional Information:**

- a. Bad debts recovered upto Rs. 4,000 was not allowed previously.
- b. Donation includes Rs. 10,000 given to a public hospital.

- c. Legal expenses include Rs. 15,000 paid to lawyer for briefing income tax rules to the finance director.
- d. Amount allowed by ITO for depreciation was Rs. 650,000.
- e. Purchase includes Rs. 150,000 being cost of a new computer.
- f. General charges include Rs. 80,000 pollution control expenses and Rs. 25,000 for income tax appeal.
- g. Income tax paid Rs. 60,000 and custom duty Rs. 200,000 are not shown in above statement.
- h. Both of the stocks are overvalued by 10%.

Required: (i) Statement of Total Taxable Income. (ii) Tax Liabilities.

[14+2]

**37. 2059 Q.No. 7**

The following receipts and payments account of a Housing Company for the previous year ending Ashadh:

Receipts	Rs.	Payments	Rs.
To Balance of cash	50,000	By Office expenses	80,000
To Rent collected	800,000	By Property insurance	20,000
To Sales of newly constructed house	1,000,000	By Donation to Lions Club	50,000
To Interest on bank deposit	20,000	By Loss on sale of car	20,000
To Interest on other lending activities	30,000	By Staff salaries	100,000
To Sales of car	100,000	By Advance tax	30,000
		By Vehicles expenses	20,000
		By Cost of construction of disposed house	700,000
		By Miscellaneous expenses	200,000
		By Balance	780,000
	<b>2,000,000</b>		<b>2,000,000</b>

Information for consideration:

- Staff salaries include Rs. 10,000 contributed towards unrecognized Provident Fund
- Miscellaneous expenses include:
  - Legal fees Rs. 3,000
  - Travelling expenses Rs. 5,000
  - Repair Rs. 50,000
  - Purchase of furniture Rs. 10,000
  - vacancy allowance claimed Rs. 22,000 but only 50% was accepted by Tax office.

Required: Statement of Total income of the company

[3+1+2]

**38. 2059 Q.No. 8**

The following Cash account shows the summarized statement of Receipts and Payments of Mr. Gautam, a financial analyst by profession, for the previous year.

**Cash Account**

	Rs.		Rs.
To Balance	50,000	By Purchase of car	100,000
To Consultation fees	200,000	By Life insurance premium (own)	5,000
To Visiting fees	50,000	By Vehicle expenses	50,000
To Net profit from business run by his son	100,000	By Office expenses	30,000
To Sale of motorcycle	25,000	By Salary to subordinates	60,000
		By Advance tax	10,000
		By donation	30,000
		By Balance	140,000
	<b>425,000</b>		<b>425,000</b>

On a query made by the Tax officer, the following facts were revealed:

- Office expenses include Rs. 10,000 for purchase of office furniture.
- 20% of vehicle expenses meant for his business purpose.
- Admissible depreciation for motorcar and office furniture were Rs. 15,000 and Rs. 2,000 respectively.
- Business net profit was computed after adjusting the following expenditures
  - Bad debts of Rs. 20,000 but actual debts allowed by Tax officer was Rs. 5,000 only
  - Advance income tax paid of Rs. 10,000

- c. Interest of Rs. 30,000 paid on a loan taken from a moneylender without registration.  
 d. Salary of Rs. 30,000 to his son and Rs. 30,000 to his helper.

**Required:** (a) Compute statement of Total Income showing detailed computation of each sources of Income. (b) Tax liabilities. [3+3]

**39. 2059 Q.No. 9**

The given is the profit and loss account of a Ltd. company, whose shares are quoted in the Stock Exchange for the previous year.

**Profit and Loss Account**

	Rs.		Rs.
To Opening stock	550,000	By Sales	4,500,000
To Purchase	3,000,000	By Bad debts recovered.	30,000
To Freight	50,000	By Commission received	100,000
To Salaries	1,000,000	By Profit on sale of a piece of land	50,000
To Interest	100,000	By Closing stock	450,000
To Reserve for doubtful debts	20,000		
To Dividend	30,000		
To Provision for tax	50,000		
To Legal expenses	10,000		
To Miscellaneous expenses	100,000		
To Net profit	220,000		
	<b>5,130,000</b>		<b>5,130,000</b>

**Additional information:**

- Open stock was over valued by 10% but closing stock was under valued by 10%
- Purchases include the cost of machine of Rs. 600,000 installed under expansion programme.
- Rs. 10,000 freight relates on the transport of this machine.
- Installation cost Rs. 60,000 has not been charged in the profit and loss account.
- It was expected at the time of installation that the machine would produce goods with 30% efficiency.
- Salary paid include Rs. 240,000 paid to an advisor. However, tax at source has not been deducted.
- Interest was paid to a moneylender to the extent of Rs. 40,000 and balance to the bank. Both the loans were not registered.
- Depreciation of new machine @ 10% as approved by tax officer has not been charged in profit and loss account.
- 40% of bad debts recovered was not allowed previously.
- Miscellaneous expenses include:
  - Rs. 20,000 paid as donation to Nepal Football Association
  - Rs. 50,000 paid for various political parties
  - The balance was paid for the construction of recreational hall for the company's staff.

**Required:** (a) Net income from business (b) Statement of Total income (c) Tax liabilities of the company for the relevant year. [12+2+2]

**40. 2058 Q.No. 6**

The following statement has been extracted from the books of account of an Architect

**Statement of Cash**

	Rs.		Rs.
To Opening balance	20,000	By Vehicle expenses	20,000
To Consultation fees	200,000	By Purchase of computer	60,000
To Visiting fees	50,000	By Salary to assistants	160,000
To Net income from business	80,000	By Life insurance premium	10,000
		By Balance at close	100,000
	<b>350,000</b>		<b>350,000</b>

**Further information:**

- \* Allowable depreciation for vehicle was Rs. 3,000
- \* Net income from business was derived after adjusting the following expenses.
  - Salary of Rs. 3,000 p.m. was paid to his own son

- ii. Donation of Rs. 10,000 was paid to Lions Club  
 \* Policy of Rs. 200,000 was taken on the life of his son.  
 \* Vehicle was used for his professional work only.

Required: Statement of total income

[2+2+2]

41. 2058 Q.No. 7

The following is the receipts and payments of Housing Company for the previous year:

Receipts and Payments Account

	Rs.		Rs.
To Opening balance of cash	200,000	By Purchase of house sold	300,000
To Rent collected	800,000	By Salary to staffs	200,000
To Sale of house	500,000	By Office expenses	50,000
To Gain on sale of furniture	30,000	By Legal expenses	5,000
To Commission received on house letout	20,000	By Donation to flood victims	15,000
		By Miscellaneous expenses	130,000
		By Balance	850,000
	1,550,000		1,550,000

Information:

- \* Legal expenses was related on the purchase of house sold  
 \* Assessee could not produce the evidence for donation paid. Miscellaneous expenses includes:  
 i. Rs. 4,000 paid for insurance premium  
 ii. Rs. 10,000 paid for the repair of houses  
 iii. Rs. 50,000 paid as interest on a loan, the loan was not registered. Loan was taken from a finance company.  
 iv. Balance was general expenses.

Required: (a) Net income from house and Land rent. (b) Tax liability

[6]

42. 2058 Q.No. 8

Mr. A is an Auditor by profession has declared Rs. 150,000 and his professional income. Besides above shown income he showed the following incomes.

- a. Rent received of Rs. 100,000 by sub-letting a rented room for Rs. 60,000.  
 b. Prize received of Rs. 10,000 for the work done in favour of his employers friend.  
 c. Commission received of Rs. 5,000 on account of business negotiation.  
 d. Rent received of Rs. 60,000 from his house situated at Bhutan.  
 e. Royalty of Rs. 20,000 received on account of selling copyright of his own books to the publisher.  
 f. Interest received of Rs. 2,000 from a saving certificate issued by Agriculture Development Bank

Further information:

- i. Rent received from Bhutan is the net amount received after deducting traveling expenses of Rs. 2,000 and Rs. 500 for income tax paid there in  
 ii. Commission paid of Rs. 5,000 to Mr. X was an account of house sublet. Tax on this payment has not been deducted at source.  
 iii. Transportation expenses paid of Rs. 500 was in connection to selling copyright.

Required: (a) Net income from other sources (b) Statement of total income

[4+2]

43. 2058 Q.No. 11

Given below is the profit and loss account of A Ltd. Company, whose shares were quoted in the Stock Exchange, for the previous year.

Profit and Loss Account

	Rs.		Rs.
To Salaries	300,000	By Gross profit	895,000
To Contribution to provident fund	30,000	By Discount	10,000
To Provision for income tax	30,000	By Commission on sale	15,000
To Interest	80,000	By Rent from house let out	150,000
To Reserve for doubtful debts	20,000	By Bad debts recovered	20,000
To Reserve for contingencies	100,000		
To Bonus	60,000		
To General expenses	200,000		
To Depreciation	30,000		
To Net profit	240,000		
	1,090,000		1,090,000

**Additional information:**

- Opening stock of Rs. 240,000 and closing stock Rs. 360,000 were over valued by 20%
- A purchase of machine costing Rs. 100,000 was included in purchase account
- 50% of interest was paid to a private moneylender and balance to a bank. Both the loans, however, were not registered in revenue office.
- Salary paid to GM Rs. 30,000 p.m. was not approved yet, however tax at source has been deducted.
- General expenses include Rs. 75,000 for making a permanent signboard, Rs. 5,000 in connection to collection of rent and Rs. 20,000 as donation to a hospital.
- Bad debts recovered were not allowed previously.
- Depreciation allowable was Rs. 22,000

**Required:**

- |                               |                                     |
|-------------------------------|-------------------------------------|
| (a) Income from business      | (b) Income from House and Land Rent |
| (c) Statement of Total Income | (d) Tax liabilities [10+2+2+1]      |

**10. CAPITAL GAINS TAX****1. 2071 Q.No. 3a**

A Co. Ltd furnished the following information regarding its depreciable assets under two blocks.

	Block -B(Rs.)	Block -C(Rs.)
Opening written down value	100,000	1,500,000
Addition during the year:		
Marga (Computer)	100,000	-
Chaitra (Bus)	-	2,400,000
Disposal for the year:	1,98,000	Nil
Repair cost incurred:	Nil	300,000

**Required:** Chargeable amount of depreciation as per IT Act.

[4]

**2. 2070 Q.No. 3a**

Following is the information regarding depreciable assets of a company:

Block	Opening WDV	Addition	Disposal
B	Rs.300,000	Nil	Rs.297,500
C	Rs.1,200,000	Rs.300,000	Nil

The asset was purchased on Chaitra during the year.

**Required:** Allowable depreciation for block B and C.

[4]

**3. 2070 Old Q.No. 6**

A company's balance sheet showed the balance of depreciated value of its assets grouped under 'B' was Rs.1,500,000 for the preceding income year. During the company added and disposed off the following assets of the same block as:

- ▶ Added one asset on 1<sup>st</sup> Poush at a cost of Rs.250,000.
- ▶ Added another asset on 15<sup>th</sup> Falgun at a cost of Rs.200,000.
- ▶ Added another asset on 25<sup>th</sup> Jetha at a cost of Rs.150,000.
- ▶ Disposed off: Asset having book value of Rs.100,000 at a profit of Rs.30,000 and another asset having book value of Rs.120,000 at a loss of Rs.20,000.

**Required:**

- ① Allowable depreciations
- ② Opening depreciation base for the next year.

[3+3=6]

**4. 2069 Q. No. 3b**

Makalu manufacturing company imported a digital plant from India at a cost of Rs. 750,000 on 1st Magh of previous year. The company paid for shipping charge and custom duty amounting to Rs. 100,000 and Rs. 50,000 respectively. The opening WDV as on 1st Shrawan of the year was Rs. 1,000,000. The company incurred Rs. 120,000 for the repair of the plant. The disposal made during the year was Rs. 200,000.

**Required:** Allowable depreciation for the year.

[4+4=8]

**5. 2068 Q.No. 2a**

The XYZ Company limited provided the following particulars of different assets used in business. You, as a tax consultant, is requested by the company administration to calculate the allowable amount of depreciation as per Income Tax Act 2058 for the relevant income year.

Beginning WDV as on 1 <sup>st</sup> Shrawan	
Automobile	Rs. 2,500,000
Computers	Rs. 200,000
Machinery	Rs. 1,500,000

Additional information:

- 1/5 of the automobile was not used for business purpose.
- The book value of machinery worth Rs. 30,000 was disposed off for Rs.40,000 on Magh.
- The computer worth Rs. 50,000 was purchased on Marg of previous year.

**6. 2068 Old Q.No. 6**

An industry wholly engaged in operating special industry activities showed the following details of its assets under group 'D' during the previous year.

- Depreciation base of the asset at the beginning of the year Rs.1,200,000.
- New additions during the previous year are:
 

on Kartik	Rs.600,000
on Chaitra	Rs. 900,000
- Disposal of asset during the previous year;
 

Book value of asset at the beginning	Rs.200,000
Disposal off value during the period	Rs. 300,000
- To be capitalized value of the previous years with respect to pollution control cost and repairs and improvement cost of Rs.100,000 and 50,000 respectively which were not included in the beginning depreciation base.

**Required:**

- Amount of depreciation to be charged during the year.
- Opening depreciation base of asset for the next year.

[4+2=6]

**7. 2067 Q.No. 3a**

Mr. N.K Singh, a proprietor of a manufacturing firm disclosed the details of various assets as:

	Block -A	Block -D
Opening depreciation base	Rs.1,000,000	Rs.1,200,000
Disposal during the year	Nil	Rs.1,00,000

Construction of a new building was completed within the Poush end for the total cost of Rs.1,000,000. Actual repair cost incurred for machinery is Rs.90,000.

**Required:**

- Current amount of depreciation to be charged.
- Closing depreciation base value at the year end.

**8. 2067 Q.No. 5 (Old)**

An special industry incorporated under Company Act has supplied the following details of its assets under block - D:

(a) Beginning depreciation base	Rs. 1,250,000
(b) Purchase of one assets in Chaitra	450,000
(c) Cash disposal value of an asset during the year	100,000
(d) Actual repair cost for the year	120,000

**Required:** (a) Allowable depreciation for the current income year

(b) Opening depreciation base amount for the next year

[4+2=6]

**9. 2066 Q.No. 5**

A Ltd. Co. provided the following details of its fixed assets under various pools:

Particulars	Pool 'B' (Rs.)	Pool 'C' (Rs.)
Depreciation base of the assets at the beginning of the year:	200,000	300,000
New addition of the assets:	150,000	-
Assets disposed off during the year:		



• Book value at the beginning	75,000	—
• Disposed off value	50,000	—
Repair expenses incurred during the year:	15,000	25,000

It is noted that purchases, sales as well as repairs of the assets were made at 15<sup>th</sup> Chaitra.

**Required:** (a) Amount of depreciation to be charged (b) Opening depreciation base of the assets for the next year. [4+2]

**10. 2065 Q.No. 6**

A Limited Company showed the following details of its asset under block 'D' during the previous year.

- Depreciation base of the asset at the beginning of the year Rs. 1,000,000.
- New additions during the previous year are:
 

On Marg	Rs.400,000
On Falgun	Rs.600,000
- Disposal of asset during the previous year
 

Book value at the beginning	Rs.150,000
Disposed off value during the period	Rs.100,000
- To be capitalised value of previous year which are not included in beginning depreciation base:
 

Repairs & improvement cost	Rs.40,000
Pollution control cost	Rs.60,000

**Required:** (i) Current amount of depreciation to be charged (ii) Opening depreciation base of asset for the next year [4+2=6]

**11. 2064 Q.No. 5**

The Balance Sheet of a Ltd. company showed the following details of its Asset under Pool B during previous year.

- Depreciation base at the beginning - Rs. 400,000
- New additions:
 

On Magh	Rs. 300,000
On Baishak	Rs. 300,000
- Disposed of asset during the period.
 

Book value	Rs. 200,000
Cash value	Rs. 100,000
- Expenses charged in the Profit and Loss Account
 

Depreciation	Rs. 60,000
Repairs	Rs. 75,000

**Required:** (a) Current amount of depreciation to be charged.

- Amount of repair to be charged
- Depreciation base of asset for the next year. [2+2=2]

**12. 2063 Q.No. 6**

The following information relates to depreciable assets of a company fall under Group D.

- Balance at the beginning of previous year Rs. 1,800,000
- Purchased during the year:
 

On Magh for Rs. 600,000; On Jestha for Rs. 900,000
--
- Disposed off during the year:
 

Book value at opening date Rs. 400,000
Cash disposed value Rs. 300,000

**Required:**

- Current amount of depreciation to be charged (b) Depreciation base of assets at closing [3+3]

**13. 2062 Q.No. 6**

The Balance Sheet of a Ltd. Co. shows the following details of its assets under different pools.

Particulars	Pool 'B' Rs.	Pool 'D' Rs.
Depreciation base of assets at the beginning of the year		
New addition of assets:		
On 15 <sup>th</sup> Poush	600,000	300,000
	—	100,000