

On 15 th Chaitra	300,000	—
Assets disposed off during the period:		
Book value at the beginning	300,000	300,000
Disposed off value	25,000	398,000

Required:

- Current amount of depreciation to be charged.
- Opening depreciation base of the assets for the next year [4+2]

14. 2061 Q.No. 7

As shown by balance sheet of a Ltd. company in the previous year, the depreciated value of its assets grouped under C was Rs. 1,500,000. During the year, the company added two more assets of this group: one Bhadra of Rs. 500,000 and another on Falgun of Rs. 600,000. The company disposed off one asset with book value on opening date of Rs. 100,000 at Rs. 125,000.

Required: (a) Current amount of depreciation to be charged (b) Depreciation base of asset at closing. [4+2]

15. 2060 Q.No. 7

The Balance Sheet of a Limited Company of the previous year showed a depreciated value of its asset grouped under D was Rs. 650,000. During in the year the company added two items of this group: one of Rs. 100,000 on 1st Kartik and another of Rs. 150,000 on 1st Baishak. However, the company disposed off one of its asset with book value on opening date of Rs. 50,000 and original value of Rs. 75,000 at Rs. 80,000.

Required:

- Depreciated value of asset at closing.
- Current amount of depreciation.
- Capital gain on the deal. [3+2+1]

11. INCOME FROM INVESTMENT

THEORETICAL QUESTIONS

1. 2063 Q.No. 3 a

Write short notes with example where necessary: Income from natural resources [3]

NUMERICAL PROBLEMS

2. 2071 Q.No. 7OR (a)

Mr. Kamal Adhikari an investor furnished the following particulars of his income and expenses during the previous year:

- Rent from house Rs. 108,000 (after TDS)
- Interest from bank deposit Rs. 95,000 (after TDS).
- Interest from unrecognised sector Rs. 170,000 (after TDS).
- Gain from investment insurance Rs. 17,000 (after TDS).
- Natural resources payment received Rs. 255,000 (after TDS).
- Gifts relating to investment Rs. 10,000.
- Dividend income from Everest Bank Ltd. Rs. 40,000.
- Compensation relating to investment loss of last year amounting to Rs. 50,000.

He claimed following expenses for deduction:

- Rent collection charge Rs. 2,000.
- Expenses of natural resources Rs. 5,000.
- Commission for compensation collection Rs. 10,000.
- Allowable amount of depreciation relating to investment under block-B assets was Rs. 7,500 and actual repair cost incurred for it was Rs. 2,500.
- He claimed previous year business loss Rs. 10,000.

Required: Net assessable income from investment.

3. 2070 Q.No. 8a

Mrs. Janaki provides the following information, regarding her incomes and expenses during the year:

- Natural resource payment Rs.144,500 (after TDS).
- Interest from fixed deposit Rs.351,000 (after TDS).

- (iii) Interest from unorganized sector Rs.150,000.
 (iv) Amount received from maturity of life insurance policy Rs.300,000.
 (v) Rent from house let out Rs.180,000.
 (vi) Rent from computer let out Rs.54,000 (after TDS).
 (vii) Gain on sale of non-business lad (within 5 years) Rs.180,000 (after TDS).

She has claimed the following expenses:

- i. Total collection cost of rent from house and computer amounted to Rs.9,600.
 ii. Eligible depreciation on computer Rs.10,000.
 iii. Collection cost of interest from fixed deposit Rs.2,000.
 iv. Donation to a private school Rs.10,000.

Required: ① Assessable income from investment.
 ② Taxable income

[5+1=6]

4. 2070 Old Q.No. 8

Mrs. Acharya disclosed the following information during the previous income year:

- (a) Royalty income Rs.85,000 after TDS of Rs.15,000 in respect of a book.
 (b) Rent from house (gross) Rs.200,000.
 (c) Gain from unapproved retirement fund Rs.50,000.
 (d) Interest received from friends (in respect of lending money) Rs.100,000.
 (e) Rent from letting furniture (gross) Rs.40,000.
 (f) Bad debts recovered on loan (30% were not allowed previously) Rs.50,000.
 (g) Gifts received from tenants Rs.15,000.
 (h) Income from agriculture Rs.60,000.
 (i) Interest received from Nepal Bank Ltd. Rs.60,000.
 (j) Amount received in lieu of not renting second house Rs.100,000.

She claimed the following expenses:

- Bank interest collection charge Rs.1,000.
 - Repair of rented furniture Rs.15,000.
 - Expenses incurred for writing book Rs.10,000.
 - Loss on sale of agricultural land Rs.50,000.
 - Amount deposited to the approved retirement fund Rs.150,000.
 - Donation to tax exempted organization Rs.10,000.
 - Depreciation on rented house Rs.20,000 (which is as per Act) and repair expenses Rs.30,000.
- It is noted that the WDV of rented furniture was Rs.200,000.

Required

- ① Net (assessable) income from investment
 ② Statement of total taxable income
 ③ Tax liability (ignore special fee)

[4+1+1=6]

5. 2069 Q. No. 7OR

a. Mr. Kaushal Kumar furnishes the following details of income and expenditure of investment.

• Dividend from Kumari Bank Ltd.	Rs. 95,000
• Interest from fixed deposit	114,000
• Natural resource income (after TDS)	244,800
• Lottery income	75,000
• Interest from private money lending	148,000
• Royalty from publication (after TDS)	498,950
• Gain from sale of non business chargeable assets	200,000

He claimed following expenses for deduction:

• Purchase of lottery tickets	Rs. 1,000
• Cost of books publication	30,000
• Interest collection cost of private money lending activities	10,000
• Life insurance premium paid for own life	25,000
• Domestic expenses	120,000
• Assessable income from business	100,000

Required:

- ① Assessable income from investment

② Statement of total taxable income

6. 2068 Q.No. 6 or a

Mr. B. furnished the following incomes and expenditures for the previous year.

- House rent received Rs.45,000(net.)
- Income from writing articles in Republica Daily Rs.20,000.
- Total income from joint investment Rs.40,000(B's share is 25%)
- Excess amount received with respect to investment due to exchange rate variation of Rs.5,000.
- Gift received relating to investment Rs.45,000.
- Gain from investment insurance (net) Rs.190,000.
- Royalty from books (net) Rs.42,500.
- Rent received by sub-letting rooms of Rs.150,000.
- He earned net assessable income from business Rs.200,000.
- Income from agriculture Rs.40,000.
- Interest from unorganized sector Rs.68,000(net).
- Winning from lottery Rs.300,000(net).
- Bad debts recovered (related to investment) Rs.50,000. (40% was not allowed previously)
- Amount received for accepting investment restriction Rs.35,000.
- Net gain from disposal of non-business chargeable assets (building) of Rs.200,000.
- Gain from disposal of depreciable assets used in investment of Rs.50,000.

He had claimed the following expenses for deduction.

- Total expenses relating to joint investment of Rs.20,000.
- House rent collection charges of Rs.3,000.
- Collection charges of remuneration relating to article published in Republica Daily of Rs.2,000.
- Donation was given to Nepal Eye Hospital of Rs. 10,000.
- Allowable depreciation relating to building of Rs.15,000.
- Medical expenses incurred Rs. 10,000 but approved by IRO only Rs.5,000.

Required: Net assessable income from investment.

7. 2068 Old Q.No. 7

The following incomes and expenditures of Mr. Sherpa for the previous year are provided:

- | | |
|---|-------------|
| • Dividend from resident company (Net) | Rs. 28,500 |
| • Interest on saving deposit (Net) | Rs. 14,250 |
| • Rent received from letting out a machinery (having book value of Rs. 200,000) | Rs. 40,000 |
| • Natural resources payment received (Net) | Rs. 170,000 |
| • Interest received from a friend | Rs. 20,000 |
| • Royalty from books (Net) | Rs.34,000 |
| • Exchange gain relating to investment | Rs.5,000 |
| • Compensation received relating to investment | Rs.40,000 |
| • Rent received from house let out to a bank (Net) | Rs.102,000 |
| • Gift received relating to investment | Rs.10,000 |
| • Examinership remuneration from T.U. | Rs.4,000 |
| • Income from joint investment (2 : 1, Sherpa : Varma) | Rs.30,000 |
| • Bad debts recovered (60% was allowed previously) | Rs.25,000 |

He claimed following expenses for deduction:

- | | |
|---|------------|
| • Collection cost relating to: | |
| a) Natural resources | Rs. 1,000 |
| b) Royalty from books | Rs. 500 |
| c) Dividend | Rs. 1,000 |
| d) House rent | Rs. 500 |
| e) Compensation | Rs. 1,500 |
| • Depreciate machinery under income tax act. | |
| • Expenses relating to joint investment (2 : 1) | Rs. 600 |
| • Donation to Bir Hospital | Rs. 20,000 |

Required: ① Net assessable income from investment. ② Statement of total taxable income. [4+2=6]

8. 2067 Q.No. 6 (Old)

Mr. Kishor Adhikari an investor submitted the following particulars of his income and expenditure for the relevant income year:

- Gain on investment insurance Rs. 57,000 (after TDS).
- Payment received for accepting restriction regarding investment Rs. 36,000.
- Rent from agriculture land Rs. 41,000.
- Interest from investment Rs. 51,000 (after TDS).
- Rent by letting house Rs. 108,000 (after TDS).
- Royalty from books Rs. 170,000 (after TDS).
- Gift from publisher Rs. 12,500.

He has claimed the following expenses:

- Total collection cost of royalty and rent by letting house Rs. 13,200.
- Interest from investment is received from unorganized sector.
- Collection cost of rent from agricultural land Rs. 200.
- Donation to a school Rs. 6,000.
- Life insurance premium of Rs. 15,000 of his life policy of Rs. 100,000.

Required: (a) Net assessable income from investment

(b) Statement of total taxable income

(c) Tax liability assuming that he has selected a couple status.

[4+1+1]

9. 2067 Q.No. 7OR a

Mr. Paudel has submitted the following cash statement regarding investment income for the relevant income year.

Receipts	Rs.	Payments	Rs.
To Balance b/d	27,000	By medical expenses (self)	20,000
To Interest on bank deposit (net)	47,500	By Collection cost:	
		Royalty:	2,000
		N. Resources:	1,500
			3,500
To Royalty on books (TDS Rs.7,500)	42,500	By Household expenses	100,000
To Interest on Pvt. money lending	200,000	By Donation	15,000
To Windfall gains	22,500		
To Natural resource payment (TDS Rs.22,500)	127,500	By Balance c/d	457,500
To Dividends (TDS Rs.3,000)	57,000		
To Gain on sale of share (TDS Rs.8,000)	72,000		
Total	596,000		596,000

Additional information:

- He has earned Rs.200,000 as a net assessable income from a small business but not shown in above statement.
- Rent by letting computers Rs.36,000 (net) is not included in above statement. However, depreciation allowable on such computers Rs.12,500 is included in household expenses.

Required:

- Assessable income from investment
- Statement of total taxable income

[4 + 2]

10. 2066 Q.No. 8

Miss Sherchan, a permanent resident of Mustang (Class: B) disclosed the following information during the previous income year:

• Income from natural resources	Rs. 35,000
• Interest from lending money	Rs. 100,000
• Winning from lottery (after TDS)	Rs. 75,000
• Rent by letting furniture (after TDS)	Rs. 85,000
• Gain from sale of non-business chargeable assets)	Rs. 85,000

She claimed the following expenses

• Repairs of rented furniture.	Rs. 10,000
• Expenses for natural resources	Rs. 5,000

• Donation to a local public school	Rs. 15,000
• Life insurance premium for the insured sum of Rs. 200,000	Rs. 12,000
• Interest and lottery collection charges Rs. 5,000 each	

It is noted that depreciation base of the rented furniture was Rs. 200,000 at the beginning of the previous year.

Required: (a) Net (assessable) income from investment (b) Tax liability

[4+2=6]

11. 2065 Q.No. 7

The following incomes and expenditures of Mr. Lama for the previous year are provided:

• Natural resources payment received (after TDS)	Rs. 144,500
• Rent received from letting out a machinery (having book value Rs.300,000)	Rs.50,000
• Compensation received relating to investment	Rs.30,000
• Income from joint investment (3:2. Lama: His friend)	Rs.25,000
• Dividend from resident company (after TDS)	Rs.14,250
• Interest on fixed deposit (after TDS)	Rs.28,200
• Rent from house let out (after TDS)	Rs.34,000
• Income from writing articles	Rs.1,500
• Gift received relating to investment	Rs.5,000

Expenditures claimed are:

• Collection costs relating to:	
i. Natural resources	Rs.500
ii. Article writing	Rs.100
iii. House rent	Rs.200
iv. Dividend	Rs.500
• Interest on loan taken to purchase machinery	Rs. 1000
• Provide depreciation on machinery as per Income Tax Act	
• Expenses relating to joint investment (3:2)	Rs.500
• Donation to tax exempted organization	Rs.5 000

Required: (i) Net (Assessable) Income from Investment

(ii) Statement of Total Taxable Income

[4+2=6]

12. 2064 Q.No. 6

Mr. X, disclosed his following incomes and expenditures for the previous year.

a. Incomes after deducting tax at sources (TDS)	Rs.
• Interest on private money lending activities	127,500
• Royalty from natural resources	153,000
• Interest on fixed deposit	75,200
• Dividends from domestic companies	57,000
• Royalty from writing articles	750
• Royalty from books publication	63,750
b. Expenditure claimed	Rs.
• Collection cost pertaining to:	
i. Interest on private money lending	1,600
ii. Natural resources	2,000
iii. Royalty from writing articles	100
• Tax fate incurred to:	
i. Collect interest on fixed deposit	300
ii. Collect dividend	300
• Life Insurance premium on his own life policy of Rs. 150,000	13,000
• Salary to assistants	30,000
• Legal expenses	2,000
• Donations to tax exempt organization	10,000

Required: (a) Net (assessable) income from investment

(b) Statement of total income

[4+2]

13. 2063 Q. No. 7

Given below is the receipts and payment account of Mr. Gopal for the previous year.

Receipts and Payment Account

Receipts	Rs.	Payment	Rs.
To Opening balance of cash	400,000	By Salary to assistants	250,000
To Payment received from natural resource after TDS	127,500	By collection cost	15,000
To Royalty from books after TDS	85,000	By Taxi charge	200
To Interest credited by the bank in Gopal's saving account	940	By Rent	6,000
To Rent from house let out after TDS	85,000	By Donation to tax exempt organization	50,000
To Interest on money lending activities	85,000	By Purchase of furniture	150,000
		By Balance of cash at closing	312,240
	783,440		783,440

Additional information

- Collection cost relates to collect natural resource and royalty from books.
- Taxi charge relates to collect interest from private money lending activities.
- Rent was paid for a room used for official purpose in his own house.
- Depreciation on furniture is to be charged.

Required: (a) Net (assessable income from investment) (b) Statement of total taxable income [4+2]

14. 2062 Q.No. 8

Mr. Arjun disclosed the following information during the previous income year.

- Interest from private money transaction (gross) Rs. 50,000
- Income from Royalty on books of Rs. 85,000 (net)
- Income from natural resources Rs. 35,000
- Gifts received in respect of private investment Rs. 10,000.
- Rent from house Rs. 150,000 (net)
- Rent from letting machinery Rs. 170,000 (net)

He claimed the following expenses:

- Repair of rented machinery Rs. 40,000.
- Excess incurred for writing books Rs. 10,000
- Repair of rented house Rs. 45,000
- Donation to a tax-exempt organization Rs. 10,000

It is noted that beginning depreciation base of rented machinery was Rs. 500,000 at the beginning of the year.

Required:

- Net (assessable) income from investment
- Statement of total taxable income

[5+1]

15. 2061 Q.No. 8

The following receipts and payments account of Mr. A for the previous year.

Receipts	Rs.	Payments	Rs.
To Opening balance cash	200,000	By Collection cost of interest	3,000
To Interest on private money lending activities	150,000	By Taxi charge	200
To Royalty from natural resources after TDS	170,000	By Rent of the room used for office	36,000
To Interest on fixed deposit after TDS	9,400	By Salary to assistant	120,000
To Royalty from books	30,000	By Legal expenses	5,000
To Amount received in lieu of accepting restriction on investment	50,000	By Donation to different exempt organization	15,000
	609,400	By Balance of cash	430,200
			609,400

Further information:

- * Collection cost of interest related to money lending activities.
- * Taxi was used to collect interest on fixed deposit.
- * Legal expenses relates to preparing legal documents concerning to investment restriction.
- * Evidence against donation of Rs. 2,000 paid, could not be produced.

Required: (a) Net (assessable) Income from Investment (b) Statement of Total assessable income [4+2]

12. SET-OFF AND CARRY FORWARD OF LOSSES

THEORETICAL QUESTIONS

1. 2071 Q.No. 1 OR

"Income Tax Act 2058 has tried to provide some relief to the investor with respect to loss adjustment provision." Do you agree with this statement? Comment. [8]

2. 2070 Old Q.No. 2

"The taxable income cannot be correctly computed unless a loss from a source of income is set-off against any other income." Discuss the provisions regarding set-off and carry forward to losses under Income Tax Act, 2058. [6]

3. 2065 Q.No. 10 a

Describe the provisions of set off and carry forward of losses under IT Act 2058. [3]

4. 2062 Q.No. 10 a

Set off and carry forward of losses provide incentive and relief to the tax payer. Briefly describe how the treatment of business loss and investment loss differs. [8]

NUMERICAL PROBLEMS

5. 2071 Q.No. 5a

A Ltd. Co. provides the following information:

Years:	13	14	15	16	17
Profit/ Loss (Rs.)	400,000	200,000	(150,000)	200,000	500,000

On scrutiny it is revealed that a donation of Rs. 50,000 was paid on the 15th year. Interest on bank loan amounting to Rs. 40,000 was omitted to record in the P/L A/C of year 16. The balance of unrelieved loss of previous years was Rs. 600,000 in the beginning of 13th year, which represented Rs. 500,000 for year 6th and balance for year 9th.

Required: Taxable income and tax liabilities. [4]

6. 2070 Q.No. 4a

An individual reported the following sources of income during the income year:

- ▶ Net income from business (Nepal) Rs. 300,000.
- ▶ Natural resource income (Nepal) Rs. 75,000
- ▶ Loss from business (India) Rs. 225,000
- ▶ Income from investment (India) Rs. 50,000
- ▶ Income from another business (India) Rs. 130,000.

Required: Taxable income and tax liability with explanation. [4]

7. 2069 Q. No. 4b

The following are the operating results of a company for the last 5 year period.

Year	5	6	7	8	9
P/L (Rs.)	20,000	40,000	15,000	50,000	55,000

Upon the inquiry made by the tax officer, the following facts were found:

- Service fees earned Rs. 15,000 in the year- 7 not included in profit and loss account.
- Profit of 8th year was derived after deducting total donation of Rs. 10,000 given to a private school.
- Commission expenses Rs. 30,000 were not shown in the year 5.
- The balance sheet of past loss at the beginning of year 5 was Rs. 90,000; of which Rs. 50,000 for year one and balance for year two.

Required: Taxable income of the company giving explanation wherever necessary. [4+4=8]

8. 2068 Q.No. 3a

The following are the operating results of a company:

Year	8	9	10	11	12
Profit/Loss (Rs.)	400,000	300,000	(700,000)	700,000	1,000,000

The total unrecovered loss stood of Rs. 800,000 at the end of year 3, out of which Rs. 600,000 was for year two and balance was for the year three. The profit of year 11 was derived before deducting allowable depreciation under income tax act of Rs. 500,000. The profit of year 12 was derived after

deducting the donation of Rs. 30,000 was given for an ancient religious heritage with the pre-approval of IRD.

Required: Taxable income of the company giving explanation wherever necessary. [8]

9. 2067 Q.No. 4a

A Company Ltd. furnished the following financial position for the last few years.

Year	7	8	9	10	11
Profit/Loss(Rs.)	(100,000)	100,000	90,000	200,000	150,000

Unrelieved loss relating to year two was Rs.200,000. The company had paid donation amounting to Rs.45,000 in year 10. However the total expenses in research and development Rs.100,000 paid by the company was not included in the deduction of 10th year.

Required: Taxable income of the company giving proper explanation [4]

10. 2059 Q.No. 6

A Ltd. company anticipates the following operating results for the next 7 years:

Year	1	2	3	4	5	6	7
Profit/Loss (Rs.)	(50,000)	(25,000)	10,000	20,000	15,000	(30,000)	25,000

In the year 1, a donation of Rs. 10,000 given to a public school and in year 2, a life insurance premium of Rs. 5,000 paid on the policy of executive director was charged before determining the aforesaid losses.

Required: Taxable income of the company giving explanation where necessary. [3+3]

13. SPECIAL PROVISIONS FOR INDIVIDUALS, ENTITIES AND RETIREMENT SAVINGS

1. 2066 Q.No. 1

"An assessee is not only liable in respect of his own income for tax purpose but his liability may extend to some other income also." Comment on this statement. [6]

2. 2066 Q.No. 10 a

"The incidence of income tax depends upon the residential status of an assessee." Discuss fully. [8]

14. TAX ADMINISTRATION

1. 2061 Q.No. 9

"Income Tax Act, 2058 has given a lot of discretionary powers to Tax officer." Show your acquaintance with relevant provisions of the act. Also suggest some effective measures how these power exercise could be minimized. [10+6]

15. OFFICIAL DOCUMENTATION, RECORD-KEEPING AND INFORMATION COLLECTION

N/A

16. RETURNS OF INCOME AND ASSESSMENT

1. 2067 Q.No. 2 (Old)

Stating the meaning of 'Jeopardy Assessment' of tax. Explain the various circumstances when such assessment is done. [6]

2. 2067 Q.No. 7

Describe the various methods of tax assessment. In what circumstances a tax officer adopts Jopardy Method of tax assessment. [10]

3. 2064 Q.No. 2

"Effectiveness of 'Self-assessment' of tax largely depends upon, the tax consciousness on the part of people." Elucidate. [6]

4. 2063 Q.No. 1

"Self assessment of tax is effective only in advanced countries." Explain. Also state some measures that help to make the self-assessment systems effective in Nepal. [3+3]

5. 2063 Q.No. 4

Explain the term 'Jeopardy Assessment' according to Income Tax Act 2058. Also state the conditions mentioned in the Act where Jeopardy Assessment could be applied. [2+4]

6. 2062 Q.No. 2

"Self assessment is the best method ever exercised to collect tax if it is assessed rightly." Comment. [6]

7. 2061 Q.No. 2

"Inclusion of self assessment provision in tax law could be the most effective tax policy, provided that the tax payer cooperate with it full." comment [6]

8. 2060 Q.No. 2

'Concealing the income by an assessee is one of the possible defects of self assessment tax system.' Comment. [6]

9. 2059 Q.No. 1

Tax authorities generally do not prefer to use best judgment assessment of tax, however, under certain circumstances they are compelled to do so. Justify. Also state the circumstances why such assessment is done? [6]

10. 2059 Q.No. 10 a

Explain briefly the different basis of assessing the tax as laid down in Nepal Income Tax Act. [8]

11. 2058 Q.No. 9

Stating the meaning of 'Reassessment of tax' explain the various circumstances why such reassessment is done? []

17. COLLECTION OF TAX, REMISSION AND REFUND**1. 2063 Q.No. 2**

What do you understand by "Payment of Income Tax by installments?" State the provision of the Act relating to payment of tax by installment. [2+4]

2. 2058 Q.No. 2

'Amount of tax once paid is never refunded.' Do you agree with this statement. Describe the conditions under which a claim for refund of tax may arise. [3+3]

18. ADMINISTRATIVE REVIEW AND APPEAL

N/A

19. PENAL PROVISIONS

N/A

20. TAX PLANNING**1. 2071 Q.No. 7**

'Effective implementation of all provisions of tax law is difficult in underdeveloped country like Nepal.' Do you agree with this statement? Discuss. [10]

2. 2071 Q.No. 9

Briefly describe the scope of long term tax planning under Income Tax Act, 2058. [15]

3. 2070 Q.No. 9b OR

Describe the scope of strategic and operational tax planning under Income Tax Act, 2058.

4. 2070 Old Q.No. 9

"Tax planning is a scheme whereby the tax payer makes use of all the concessions and exemptions available to him in tax law at time". Discuss the statement in the light of various business concessions and exemptions given in Income Tax Act, 2058. [16]

5. 2069 Q. No. 7

"With proper tax planning, an assessee can reduce his tax liabilities." Discuss. [10]

6. 2068 Q.No. 10

Tax planning is a scheme whereby a taxpayer can manage his cash outflow properly. Describe this statement in the light of selecting industrial setup. [15]

7. 2068 Old Q.No. 9

Tax Planning is neither tax avoidance nor tax evasion. It is done in legal and moral backing to minimize tax burden in future using rebate and concession available in the tax law. Comment [16]

8. 2067 Q.No. 9

"Tax planning is a scheme where an assessee uses all the concessions available in the tax laws for minimizing the tax burden." On the light of the above statement describe the areas of long term tax planning under Income Tax Act, 2058. [15]

9. 2067 Q.No. 9 (Old)

Tax planning is a scheme whereby an assessee can manage his cash out flow properly. Do you agree with this statement? Explain this statement in the light of short-term tax planning. [16]

10. 2066 Q.No. 2

Distinguish between 'tax planning' and 'tax evasion'. Do you agree with the view that tax evasion takes place on account of high rate of tax? Discuss. [6]

11. 2066 Q.No. 2 OR

"Tax planning should not involve the use of colourful devices for deducting tax liability." Discuss. [6]

12. 2065 Q.No. 9

As per the provision made in IT Act 2058, the scope of tax planning can broadly be divided in two heads. Explain the areas in which the long term tax planning can be made. [16]

13. 2064 Q.No. 2 OR

"Tax planning and tax evasion both reduce the tax liabilities." Comment [6]

14. 2063 Q.No. 3 b

Write short notes with example where necessary: Tax evasion

15. 2060 Q.No. 10 a

A successful tax planner should employ its expenditure scheme in such a way that both employer and employee would be benefited. Justify this statement in the light of salaried person citing at least two examples. [8]

16. 2059 Q.No. 2 OR

"With proper tax planning an assessee can reduce his tax liability." Explain this statement from the point of view of a salaries person. [6]

17. 2059 Q.No. 11

"Tax planning is a scheme whereby the tax payer makes use of all the concessions available in tax laws at a time." Discuss the above statement in the light of various concession given in the Industrial Enterprise Act, 2049. [16]

18. 2058 Q.No. 1

"Promotion of industries in undeveloped areas may be the outcome of tax planning a scheme extended by the government." Explain the statement on the light of various concessions that are available in the Industrial Enterprise Act, 2059. [6]

19. 2058 Q.No. 10 a

Explain in brief the basic philosophy of Tax planning.

21. TAX PLANNING FOR VARIOUS PAYMENTS AND ACTIVITIES

A. DEPRECIATION

THEORETICAL QUESTIONS

1. 2068 Old Q.No. 10a

"Through proper tax planning scheme an assessee can reduce his tax liability." Explain this statement in the light of acquisition of depreciable assets. [4+4]

2. 2065 Q.No. 1

"Block based depreciation system is one of the features of IT Act 2058." On the basis of the above statement explain in brief the provisions stated in the Act regarding tangible and intangible assets. [3+3]

NUMERICAL PROBLEMS

3. 2069 Q. No. 9 OR

- a. A company is planning to invest a capital outlay of Rs. 3,000,000 in an industry of special nature. The company expects the following profit before tax and considering transportation cost.

Year	1	2	3	4	5
Profit/loss (Rs.)	1,000,000	1,500,000	1,200,000	1,400,000	1,800,000
Sales unit	10,000	12,000	11,000	13,000	15,000

There is no restriction by the Government of Nepal to setup such industry anywhere. However considering the concession and rebate provided by the Income Tax Act, the company considered Kathmandu, undeveloped zone and highly undeveloped zone as the three major locations. Kathmandu would be the major market of the product. Other details are as follows:

Locations	Kathmandu	Undeveloped zone	Highly undeveloped zone
Transportation cost: Finished goods	Nil	Rs. 20/unit	Rs. 30 /unit
Raw materials: Local collection	Rs. 10/unit	Rs. 3/unit	Rs. 1/unit
Surrounding districts	Rs. 12/unit	Rs. 8/unit	Rs.5/unit
Raw materials (Locally available)	30%	40%	50%

Required: As a tax planner where would you recommend to established the industry and why? [8]

- b. A company limited needs Rs.2,000,000 for its expansion. The financial manager developed the following alternatives of capital structure to raise the required fund.

Sources of capital	Plan - 1	Plan - 2	Plan 3
Equity capital	50%	50%	Nil
10% Debenture	50%	Nil	50%
24% Private loan	Nil	50%	50%
Total	100%	100%	100%

The company expects Rs. 4,000 profit per day before considering tax and financing scheme expenses. Current loss of the business is Rs. 1,000 per day. The dealer of the plant agreed to grant 30 days credit subject to within the credit period. Flotation cost is 2% for share and debenture. Experience shows that the fund can be collected in 90 days by issuing share and 30 days issuing debenture. However, the private loan can be obtained within 4 days. As the plant is locally available, it can be installed and put into operation within the 15 days.

Required:

- Calculate earning after tax of each alternative structure
- Suggest appropriate capital structure to the management.

[6+1]

4. 2058 Q.No. 10 B

A company purchased a machine costing Rs. 180,000 including transportation and installation cost of Rs. 20,000 for its expansion programme. The company's practice was to use accelerated depreciation method to charge depreciation with Rs. 10,800 as salvage value. The annual rate of depreciation will be as follows:

Year	1	2	3	4	5
Rate of depreciation	20%	32%	19%	12%	11%

After the installation of this machine the production capacity would increase by 30%. The company expects the annual profit before tax and depreciation for the next 5 years are:

Year	1	2	3	4	5
GFBTD	150,000	200,000	250,000	200,000	200,000

Nepal Income Tax Act has accepted only two methods of depreciation straight line method and diminishing balance method... to charge depreciation. Thus, the method suggested above is rejected.

The government of Nepal notified recently that a 60% rebate for the first 2 years and 20% for the remaining period to such group of industry. The applicable tax rate is 20%.

Required: (a) Amount of tax payable each year. (b) Suggest the method of charging depreciation from the viewpoint of tax planning and why? (Use 20% rate for charging depreciation) [8]

B. SELF-EMPLOYMENT

N/A

C. CAPITAL STRUCTURE

1. 2071 Q.No. 6b

Director of Delta Company Limited proposed a new strategic business unit to enhance the earning capacity in the future. Mr. Agrawal, a tax consultant advised him to consider tax factor while selecting the nature of business. Considering the tax concession and rebate the director proposed two alternative business i.e. to operate a trading house or to establish a manufacturing unit. Both proposals yields same amount of assessable income before considering tax and depreciation amounting to Rs. 2,200,000 per year. Total investment on fixed assets will be needed Rs. 5,000,000; which will be allocated under different assets blocks (for both alternatives) as:

Block-B	Rs. 1,000,000
Block-D	Rs. 4,000,000

Required:

Make an analysis considering tax factor and suggest to the director which business is more appropriate to the Delta Company. [4]

2. 2071 Q.No. 9 OR (a)

A company required Rs. 2,000,000 additional capital for expansion purpose. The company is currently incurring a loss of Rs. 1,000 per day. The company has expected a net income of Rs. 4,000 per day before considering financing scheme expenses. The financial manager proposed the following alternatives to raise required capital:

Alt. 1. 100% through equity capital.

Alt. 2. 50% through equity and 50% through 10% debentures.

Alt. 3. 50% through 10% debentures and 50% through 14% bank loan.

Flotation cost of 3% will incurred for issuing share and debentures, however the bank will charge 2% commission. Experience shows that the fund will be obtained within 60 days by issuing share capital and 30 days for issuing debentures. The bank loan will be availed in 15 days of application. The period of expansion is expected 20 days. The corporate tax rate is 20% and operating days in a year is assumed 360.

Required: As a tax planner suggest which alternative is preferable on the basis of EAT.

3. 2070 Q.No. 9a

An industrial company limited is planning its expansion to meet the increasing demand of the market. The estimated net cash outlay of the proposal is Rs.2,000,000. It is expected that the new expansion will generate Rs.5,000 net income per day before adjustment of financing scheme cost. The company currently incurring a net loss of Rs.1,000 per day. The financial manager developed and approved the following financing alternative schemes:

Alt. 1. 100% through raising equity capital.

Alt. 2. 50% through raising equity capital and balance by issuing 8% debenture.

Alt. 3. 50% through issuing 8% debenture and balance from 12% bank loan.

It is estimated that the required fund will be collected in 60 days, 30 days and 15 days respectively from issuing equity share capital, debenture and bank loan. The extension work would be completed within 15 days.

Required: ① EAT of each alternative
② Recommendation of best alternative

[6+1=7]

4. 2070 Old Q.No. 10b

A company requires Rs.1,500,000 capital outlay for its expansion purpose. Company's advisor has suggested the following four alternatives.

	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Share capital	1,500,000	700,000	500,000	—
8% Debenture	—	800,000	500,000	—
15% Bank loan	—	—	500,000	800,000
25% Private loan	—	—	—	700,000
Total	1,500,000	1,500,000	1,500,000	1,500,000

After expansion the company will earn a net income of Rs.5,000 per day, before charging interest, flotation cost and brokerage charge. It takes only 15 days to complete extension work. The flotation cost is 1% for both new share and debenture. However, the company has to incur 2% as brokerage charge to obtain loan from bank. Normally it takes two months to avail capital by issuing new shares and one month by issuing debenture. Loan can be obtained from bank within 15 days, whereas, it takes only five days to obtain it from private lenders. At present the company is incurring a loss of Rs.1,500 per day. The corporate tax rate is 20%. Assume 360 days a year.

Required: Which alternative is preferable and why?

[8+8]

5. 2068 Q.No. 10 or a

XYZ Company Limited needs Rs.1,500,000 capital outlay for its future expansion programme. The company has the following financing plans to manage required capital.

Plan 1:	100%	equity financing
Plan 2:	50%	equity and rest 10% debenture financing
Plan 3:	50%	debenture and rest 12% bank loan financing

Further information:

- Bank loan could be available within 20 days - whereas it takes two months and one month by issuing share and debentures respectively.
- It is expected that expansion work is completed within 25 days.
- The company's expected income before interest, percent loss, brokerage commission is Rs. 3,500 per day.
- Flotation cost for both issuing shares and debenture is 1.5% and brokerage charge to obtain bank loan is 2% (assumed revenue cost).
- Present loss suffered by the company is Rs.500 per day.
- company falls under special group with the assets users block - D.
- Out of total capital 20% is used for working capital.
- The supplier of block- D asset allowed credit for 25 days. It is also assumed that the supplier of material labour and other expenses are required to pay after 25 days.
- Assumed 360 days in a year.

Required: You, as a tax planner, suggest the management which financing plan is the best.

6. 2068 Old Q.No. 8

A company requires Rs.1,500,000 capital outlay for its expansion program under block 'D' assets. The company has the following three alternatives financial plans to raise the capital.

Sources of Capital	Alternative 1 (Rs.)	Alternative 2 (Rs.)	Alternative 3 (Rs.)
Share capital @ Rs. 100 each	1,500,000	1,000,000	—
10% Debentures	—	50,000	750,000
15% Term loan	—	—	750,000
Total (Rs.)	1,500,000	1,500,000	1,500,000

The company has expected a profit of Rs.4,000 per day before charging interest, depreciation, other related expenses and tax. At present the company is suffering from a loss of Rs. 1,500 per day. Normally, it takes 45 day to avail capital by floating new shares and one month by issuing debentures. Term loan can be borrowed from a bank within 20 days. Flotation costs for both issuing shares and debenture is 1.5% whereas brokerage and commission charge to obtain term loan from bank is 2%.

It is expected that it takes only 15 days to complete the expansion work. The company falls under special group. Assume 360 days in a year and all the flotation costs are of revenue nature.

Required: As a tax planner, suggest the management which alternative is the best one. [6]

7. 2067 Q.No. 8 (Old)

An industrial company required additional capital of Rs. 1,200,000 for its expansion programme. The four alternatives plans offered by its finance department are as follows:

Alt. 1: 100% through equity capital.

Alt. 2: 50% through equity and rest from debenture.

Alt. 3: 50% through debenture and rest from bank loan.

Alt. 4: 100% through private loan.

Evidence shows that equity capital could be collected within 60 days and debenture in 30 days. Bank loan could be collected within 10 days and private loan in 5 days. The rate of interest of debenture, bank loan and private loan are 10%, 14% and 20% respectively. The supplier of machine agreed to grant 20 days credit subject to payment within the credit period. Fund cost of issuing share and debenture is 3% and 2% respectively.

Similarly commission on bank loan is 2%. Extension work will be completed within 15 days and would generate Rs. 7,000 profit per day before charging tax, depreciation, interest and issuance cost after completion of extension work. At present the company is suffering Rs. 1,000 loss per day. Out of the total capital 25% is required for working capital and rest on machinery.

Required: As a tax planner recommend the best alternative. [6]

8. 2067 Q.No. 9OR a

ABC manufacturing company is planning to purchase a plant to extend its activities for which it need Rs.1,000,000 additional capital. The finance manager of the company has developed the following financial plan.

Sounds of capital	Plan-I	Plan-II	Plan-III
Equity capital	100%	50%	-
14% Debenture	-	50%	50%
24% Term loan	-	-	50%

The company expects Rs.6,000 profit per day before charging interest, tax and other financing scheme expenses. The current loss suffered by the company is Rs.1,000 per day. The following details are given.

	Equity share	Debenture	Term loan
Collection period	60 days	30 days	10 days
Flotation	2%	2%	3%

The supplier of the machine has agreed to extend 30 days credit subject to payment within the credit period. The extension work would be completed within 15 days.

Required: As a tax planner suggest which plan is preferable from the view of tax planning. [7]

9. 2066 Q.No. 6

A Ltd. Co. estimated a capital outlay of Rs. 2,000,000 for its expansion programme. Company's advisor has suggested the following three alternatives:

	Alternative 1 (Rs.)	Alternative 2 (Rs.)	Alternative 3 (Rs.)
Equity shares	2,000,000	1,000,000	-
8% Debenture	-	1,000,000	1,000,000
15% Bank loan	-	-	1,000,000
Total (Rs.)	2,000,000	2,000,000	2,000,000

The company expects an income of Rs. 5,000 per day before charging interest, depreciation and flotation cost from this expansion programme. It takes only 25 days to complete extension work. The flotation cost is 2% for both new share and debenture.

Normally, it takes two months to avail fund by issuing share and one month by issuing debenture whereas loan from bank can be obtained within 15 days.

At present the company is bearing a loss of Rs. 3,000 per day. 50% of the collected fund will be used to purchase a plant under Pool 'D'.

Being an industry, the corporate tax rate is 20%.

Assume 360 days in a year and flotation cost as revenue expenditure.

Required: As a tax planner, suggest which alternative is preferable. [6]

10. 2065 Q.No. 8

A Company requires Rs. 1,000,000 capital outlay for its expansion purpose. The company has the following three alternatives to raise the capital.

	Alternative 1	Alternative 2	Alternative 3
Share capital	1,000,000	500,000	—
8% Debenture	—	500,000	500,000
14% Bank loan	—	—	500,000
Total (Rs.)	1,000,000	1,000,000	1,000,000

The company has expected a profit of Rs.3,000 per day before charging interest, tax depreciation and other related expenses. At present the company is incurring a loss of Rs.1,000 per day. Normally, it takes 2 months to avail capital by floating new shares and one month by issuing debenture. Loan can be obtained from bank within 15 days. Flotation cost for both issuing share and debenture is 1% whereas brokerage charge to obtain bank loan is 2%.

It is expected that it takes only 20 days to complete extension work. The company falls under special group. Assume 360 days a year and all the flotation costs of revenue nature.

Required: As a tax planner, suggest the management which alternative is the best. [6]

11. 2064 Q.No. 8

A company has the following three alternatives to avail funds for its expansion activity.

	Alternative 1	Alternative 2	Alternative 3
Equity	500,000	—	—
7% Debenture	500,000	500,000	500,000
14% Bank loan	—	300,000	400,000
18% Private loan	—	200,000	100,000
Total fund required	1,000,000	1,000,000	1,000,000

The company's management has expected a profit of Rs. 5,000 per day before charging funding cost interest, and depreciation from this new scheme. Profit could be earned from the date of its commercial production. It takes 230 days to complete the extension work for its commercial operation. At present the company is bearing a loss of Rs. 2,000 per day.

The plant is available with a local dealer at 60 days 'net' credit term. Company met this obligation within the due period.

Accounts department of the company made the following comments in connection to availing the fund.

Source	Time lag	Funding cost (Revenue)
Shares issue	1 ½ months	2%
Debenture issue	1 month	2%
Commercial banks	15 days	3%
Private loan	5 days	1%

Company falls under 'special industry' with the assets under 'Pool D'. Assume 360 days a year and accounts are closed at Asahdh each year.

Required: Suggest the management which alternative is the best one from the point of view of a tax planner? [5+1]

12. 2063 Q.No. 8

A Ltd. Company intends to invest Rs. 2,000,000 on its expansion programme. The company wants to raise capital by using the following alternative capital structure.

Alternatives	1	2	3
Equity capital	1,500,000	1,000,000	1,000,000
10% term loan	—	1,000,000	500,000
15% private loan	500,000	—	500,000
	2,000,000	2,000,000	2,000,000

The company's anticipated average rate of return on its capital employed before charging interest and depreciation is 35%. This company falls under special group.

Required:

Appropriate capital structure for investment. Give your decision from income Tax point of view. [5+1]

13. 2062 Q.No. 10 b

A company requires Rs. 1,000,000 capital outlay for its expansion purpose. Company's advisor has suggested the following four alternatives.

	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Share capital	1,000,000	500,000	200,000	—
7% Debenture	—	500,000	500,000	—
18% Bank loan	—	—	300,000	500,000
20% Private loan	—	—	—	500,000
Total fund	1,000,000	1,000,000	1,000,000	1,000,000

After expansion, the company has expected a profit of Rs. 7,000 per day before charging interest, flotation cost of brokerage charge. It takes only 20 days to complete extension work. The flotation cost is 2% for both new share and debenture. However, the company has to incur 1% as brokerage charge to obtain loan from bank. Normally it takes two and half months to avail capital by issuing new shares and one month by issuing debenture, loan from bank can be obtained from bank within 10 days, where as, it takes 4 days to obtain if from private lenders. At present the company is bearing a loss of Rs.2,500 per day. The corporate tax rate is 20%. Assume 360 days in a year.

Required: Suggest which alternative is preferable.

[8]

14. 2061 Q.No.10 b

A company has the following form alternatives capital structure to avail funds for its expansion programme.

	Alternative 1	Alternative 2	Alternative 3	Alternative 4
Equity	1,000,000	600,000	—	—
9% Debenture	—	400,000	500,000	—
12% Bank loan	—	—	500,000	600,000
20% Private loan	—	—	—	400,000
Total fund	1,000,000	1,000,000	1,000,000	1,000,000

The company has expects a profit of Rs. 6,000 per day before charging interest and depreciation from the present scheme. At present the firm is bearing a loss of Rs. 2,000 per day. The new assets falls under group D. Profit could be reaped from the date of its commercial operation.

The dealer has agreed to supply the plant on 60 days credit subject to payment is made within credit period. Installation work would be completed in 30 days for its commercial operation. Assume that the supplier is paid within the credit period.

The Account Department informed that it takes normally one and half months to avail fund either by issuing share or debenture whereas it takes 15 days and 7 days only to obtain fund from bank and or private moneylenders respectively.

The corporate tax rate is 20%. Assume 360 days in a year.

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

[8]

15. 2060 Q.No. 10 b

A Company estimated a capital outlay of Rs. 1,000,000 for its expansion programme. Company's advisor has suggested the following four alternatives.

	Alternate 1	Alternate 2	Alternate 3	Alternate 4
Share capital Rs.	1,000,000	500,000	400,000	—
7% Debenture	—	500,000	400,000	—
15% Term loan	—	—	200,000	500,000
24% Private loan	—	—	—	500,000
Total	1,000,000	1,000,000	1,000,000	1,000,000

The company expects a net income of Rs. 4,000; before charging interest and the cost of financing expenses scheme, a day from this expansion programme from the date of its commercial operation. The dealer agreed to extend 60 days credit to supply the machine subject to payment is made within the credit period. At present the company is incurring a loss of Rs. 1000 a day. Experience shows that it takes normally one and half months to obtain fund either from issuing share or debentures, whereas it takes 15 days and 5 days to avail funds from bank or private money lender respectively. Extension works would be completed within 15 days for its commercial production. Loan will be

retired on the very day of operation. Company incurred 2% scheme expenses (assume revenue) to raise funds from share and debenture.

The corporate tax rate is 20%. Assume 360 days a year.

Required: Which alternative is preferable and why?

[8]

16. 2059 Q.No. 4

A company needs of Rs. 1,000,000 capital fund for its expansion purpose. The company wants to carryout the programme immediately in the following fiscal year. The anticipated net income, before charging interest, tax another related expenses, of Rs. 2,000 per day since the completion of extended work. The company has the following alternative at present:

Alt. 1: Issuing equity shares

Alt. 2: Issuing 12% Debentures.

Alt. 3: Loan from financial institution at 18% p.a. interest

Company must incur 3% flotation cost on the issue of both share capital as well as Debenture. Bank charges 3% commission on loan. In spite of the financial advisor advice to obtain loan by issuing debenture, the management decided to avail the fund from financial institution on the ground that 'earliest the fund earliest, the operation.' Evidence shows that bank loan could be valid on the 15th day since the date of application whereas it takes 2 months and 1 month by issuing shares and debentures respectively. At present the company is incurring a loss of Rs. 1,000 per day. As the new machine is available locally, it could be installed and put into operation from the 15th days of the availability of the fund. Assume 360 days, average in a year and corporate tax rate is 20% and current extension increases only 20% in the production capacity

Required: As a tax planner, which alternative is preferable to the company and why? (Ignore depreciation of the assets)

[6]

D. LOCATION OF INDUSTRIAL SETUP**1. 2071 Q.No. 9 OR (b)**

A company contemplates to invest capital outlay of Rs. 2,500,000 in a special industry. For it the management has developed a five years plan. The net profit before considering transportation and tax is expected as follows:

Years:	1	2	3	4	5
PBIT (Rs.)	500,000	600,000	700,000	800,000	900,000

There is no restriction to establish the factory anywhere; however it is relevant to consider the tax factor while selecting location for such industry. The company is considering three alternative location to set-up the factory i.e. Kathmandu, Mustang (highly undeveloped area) and Gulmi (undeveloped area).

Kathmandu would be the major market of the finished product, whereas raw materials of the product will be locally available. In first year the total transportation cost of finished goods to Kathmandu will be Rs. 150,000 and Rs. 50,000 from Mustang and Gulmi respectively. It is expected that the transportation cost of finished goods will be increased by 10% every year as compared to preceding year.

Required: On the basis of an analysis, suggest the company which location is suitable to establish the factory.

[4+8=15]

2. 2070 Q.No. 9b

An industry is planning to invest Rs.5,000,000 in a herbs processing factory. The expected net income before considering transportation and tax for the five years period are:

Years:	1	2	3	4	5
PBTT: (Rs)	800,000	1,200,000	1,300,000	1,400,000	1,600,000

The management is considering various alternative locations to install the factory. The cost benefit analysis has been made logical ground and also considering tax rebates an concessions as per Income Tax Act, 2058.

1. Darchula (Highly undeveloped zone)
2. Taplejung (Undeveloped zone)
3. Pala (Underdeveloped zone)

Raw materials are locally available. The major market for the finished product would be Kathmandu. Expected transportation cost of finished goods to Kathmandu would be Rs.200,000; Rs.150,000 and Rs.50,000 from Darchula, Taplejung and Palpa respectively for the year 1. These expenses are expected to increase by Rs.10,000 per year.

Required: As a tax planner, recommend the best alternative to locate such factory. [8]

3. 2070 Old Q.No. 5

A Ltd Company contemplates to invest a capital outlay of Rs.20,00,000 in a Herbs processing factory. The company anticipates the following profit before depreciation, transportation and tax.

Years:	1	2	3	4	5
Profit Rs.	400,000	500,000	400,000	700,000	800,000

Though there is no restriction from the government to establish factory anywhere however, the Income Tax Act, 2058 has provided following rebates for location at different places.

- No rebate if the factory is established at Kathmandu Valley.
- 20% rebate if it is established at under developed region.
- 25% rebate if it is established at undeveloped region.
- 30% rebate if it is established at remote region.

For this purpose, company has selected four different location viz, Kathmandu, Nuwakot (under developed), Sindhupalchok (undeveloped) and Ramechhap (remote). The company would like to fix a single price for its product. The major market of this product would be Kathmandu, whereas raw materials of the product will be available locally everywhere. The cost of transportation of finished product to Kathmandu would be Rs.3,000; Rs.3,500 and Rs.5,000 per truck from Nuwakot, Sindhupalchok and Ramechhap areas respectively. The budgeted production and sale of the company is 50,000 bottles of finished goods per year i.e. 20 trucks of 2500 bottles each. The company intends to invest 50% out of the total capital outlay in acquiring the required machineries (Assets under block 'D').

Required:

As a tax planner, where would you recommend to establish the factory? [6]

4. 2068 Q.No. 5b

Mr. Y is interested to invest his capital on his own business. He is in confusion whether to establish sole trading concern or private company under Company Act 2063. From both business transaction he is expected to earn net assessable income of Rs.300,000 per annum. He is also planning his retirement scheme, for the purpose he wanted to contribute Rs.30,000 to Citizen Investment Trust (CIT).

Required: You, as a tax planner, suggest him which business he has to establish with supporting calculations from the view point of minimizing tax liabilities.

5. 2068 Q.No. 10 or b

A company is interested to invest a capital outlay of Rs. 6,000,000 in an industry of special nature. The company expects the following profit before transportation cost and corporate tax.

Year	1	2	3	4	5
PBTCT (Rs.)	800,000	1,000,000	1,200,000	1,400,000	1,600,000

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 three alternatives location viz. Kathmandu, Baglung and Dang.

- No tax rebate will be allowed if factory is located at Kathmandu.
- 30% tax rebate if located at Baglung.
- 25% tax rebate if located at Dang.

The company would like to fix a single price for its product. The major market of the finished product would be Kathmandu. All the raw materials are available locally.

The budgeted production and sales of the factory is 30,000 units in the first year however there will be a 10% increase in production and sales per year respectively as compared to the preceding year in order to meet the targeted demand of the market. The transportation cost of finished product to Kathmandu would be Rs.5 and Rs.10 respectively from Baglung and Dang.

Required: As a tax planner where would you recommend to establish the factory and why? [7 + 8 = 15]

6. 2068 Old Q.No. 10b

An industrial company is intended to invest in a herbal processing factory. The initial investment is expected to be Rs.2,000,000 out of which 50% will be invested in plant. The Income Tax Act has provided several rebates and concessions to the industry established in backward areas. Keeping this point of view, the management of the company listed out three places as alternative locations to set up the factory.

- 30% rebates in tax if located in Darchula.
- 25% rebates in tax if located in Panchthar.
- No tax rebate if located in Kathmandu.

Expected annual production of the factory is 50,000 units and one unit of finished product would require 3 kg. of input material. One half of the finished product will be supplied to Kathmandu and remaining in the major cities of the country. Transportations cost of finished product and raw materials are as follows.

If the factory will be located in Darchula:

- 90% input will be available locally and remaining will be collected from surrounding districts.
- Transportation cost of input from surrounding districts will be Re.1 per kg.
- Transportation cost of finished goods to Kathmandu will be Rs. 6 per unit and it will be Rs. 4 per units to other cities.

If the factory will be located in Panchthar:

- 30% input will be available locally and remaining will be collected from surrounding districts.
- Transportation cost of input from surrounding districts will be Re.0.75 per kg.
- Transportation cost of finished goods to Kathmandu will be Rs. 5 per unit and it will be Rs. 3 per unit to other cities.

If the factory will be located in Kathmandu:

- No input will be locally available.
- Transportation cost of materials will be Re.1.5 per kg.
- Transportation cost of finished product to other cities will be Rs. 2 per unit.

The Company anticipates the following profit before tax, depreciation and transportation cost:

Year	1	2	3	4	5
Profit (Rs.)	500,000	700,000	800,000	700,000	900,000

Required: As a tax planner, which alternatives is the best? [8]

7. 2067 Q.No. 6b

Mr. Khanal has two business proposals:

One is formation of sole proprietorship firm and another is a private company under Company Act, 2063. The net assessable income from both activities will be same i.e. Rs.465,000. He has a plan to buy a life insurance policy at an annual premium of Rs.22,000. He has also contributed Rs.35,000 to CIT.

Required: As a tax planner which business do you suggest from the view point of minimizing tax liability if the required investment for both activities will be same [6 + 4 = 10]

8. 2067 Q.No. 9OR b

A special industry is planning to invest a capital outlay of Rs.2,000,000. The company expects the following profit before tax and transportation expenses.

Year	1	2	3	4	5
PBIT (Rs.)	800,000	900,000	1,100,000	1,200,000	1,400,000

For this purpose the company has selected three various places such as Kathmandu, Ramechhap and Parbat. Kathmandu is the major market of the finished goods. The 50% of required raw materials are available locally in every location. The other details of selected locations are as follows:

Locations	Kathmandu	Ramechhap	Parbat
Transportation cost of finished goods	Nil	@ Rs.3/unit	@ Rs.2/unit
Transportation cost of raw materials for one unit of production	@ Rs.4	@ Rs.0.50	@ Rs.0.75
Tax rebate	Nil	50%	30%

The expected production and sales for the next 5 years are as given:

Year	1	2	3	4	5
Output (Units)	100,000	110,000	120,000	125,000	140,000

Required: As a tax planner where would you recommend to locate the factory showing the details calculation. [8]

9. 2067 Q.No. 10b (Old)

ABC Company limited wants to invest a total capital of Rs. 5,000,000 in a jam industry. Out of total capital 40% will be invested in working capital and rest for plant & machinery. The company expects the following profits before depreciation, transportation cost and tax.

Year	1	2	3	4	5
Profit (Rs.)	800,000	900,000	10,00,000	11,00,000	12,00,000

The company has considered Kathmandu, Dolakha and Mustang, the three alternative locations to install the industry.

Income Tax Act has provided the following rebates on tax for different places.

- No rebate on tax will be allowed if it is located at Kathmandu.
- 20% rebate on tax will be allowed if it is located at Dolakha.
- 30% rebate on tax will be allowed if the industry is located at Mustang.

Kathmandu is the main market of the finished product (jam). The anticipated production and sales of industry is 3,000 kg (jam). In Dolakha and Mustang raw material will be available locally whereas for Kathmandu it will collect from different areas of the country. On an average the transportation cost of fruits (inputs) to Kathmandu will be Rs. 10 per kg. On an average 2 kg fruits is required to make 1 kg of finished product (jam). The transportation cost of finished product from Dolakha and Mustang to Kathmandu will be Rs. 3 and Rs. 6 per kg respectively.

Required: As a tax planner, where would you recommend to locate the industry? [8]

10. 2066 Q.No. 10 b

A Ltd. Company wants to invest a capital outlay of Rs. 5,000,000 in a Juice Factory. The company expects the following profit before transportation and income tax:

Year	1	2	3	4
Profit (Rs.)	1,000,000	1,200,000	1,400,000	1,500,000

There is no restriction from the government to establish the factory anywhere however, there are three alternative locations for the company viz. Nepalgunj, Surkhet and Salyan. The Income Tax Act, 2058, has provided following concession for location at different places.

- No rebate will be allowed if factory is located at Nepalgunj.
- 20% rebate if established at Surkhet.
- 25% rebate if established at Salyan.

The company would like to fixed single price for its product. The major market of the finished product will be Nepalgunj whereas all the required raw materials are locally available. The budgeted production and sales of the factory is 25,000 bottles of 750ml. each in first year however, there will be at 10% increase in production and sales per year respectively as compared to the preceding year. Per bottle transportation cost of finished goods to Nepalgunj would be Rs. 10 and Rs. 5 respectively from Salyan and Surkhet.

Required: As a tax planner, where would you recommend to establish the factory and why? [8]

11. 2065 Q.No. 10 b

XYZ Company Ltd., wants to invest a total capital of Rs.4,000,000 in a shoe factory. Out of total capital 30% will be invested in working capital and rest is for plant and machinery.

The company expects the following profit before depreciation, transportation cost and tax.

Year	1	2	3	4	5
Profit (Rs.)	800,000	950,000	1,200,000	1,100,000	1,300,000

The company has considered Kathmandu, Khotang and Kalikot, the three alternative locations to install the factory. IT Act has provided the following rebates for different places.

- No rebate on tax will be allowed if it is located at Kathmandu.
- 25% rebate on tax will be allowed if it is located at Khotang.
- 30% rebate on tax will be provided if the factory is located at Kalikot.

Kathmandu is the major market of the finished goods. The anticipated production and sales of factory is 10,000 pairs of different size of shoes per year. In Khotang and Kalikot raw materials will be available locally where as for Kathmandu it will be collected from surrounding districts. Average

transportation cost of leather (input) to Kathmandu will Rs.5 per square feet. On an average two square feet of leather is required to make a pair of shoe irrespective of their size. Transportation cost of finished product from Khotang and Kailkot to Kathmandu will be Rs.20 and Rs.30 per pair respectively.

Required: As a tax planner, where would you recommend to locate the factory? [8]

12. 2064 Q.No. 10 b

A company is considering investing in a textile industry. The project would require a total capital outlay of Rs. 3,000,000 where Rs. 2,000,000 would be spent in acquiring the required plant and machinery. The company expects the following incomes before depreciation, transportation cost and tax.

Year	1	2	3	4	5
Income (Rs.)	1,000,000	1,200,000	1,400,000	1,200,000	1,00,000

The company has considered Nepalgunj and Biratnagar, two alternative locations, to install the plant. Raw materials are available locally. Average transportation cost per truck to collect raw material would be Rs. 3,000 in Nepalgunj and Rs. 3,500 in Biratnagar. 50 trucks of raw materials would require to produce budgeted production of 100,000 sq. meter cloths.

Kathmandu is the major market of this product. Government has not prohibited to locate factory anywhere; however a rebate of 20% on tax has provided by the IT Act, 2058. Recently the government has provided a further rebate of 12% and 10%, for the next five years, to all basis industries located at western region and eastern region respectively.

The transportation cost to Kathmandu from Nepalgunj and Biratnagar would be Rs: 20,000 and Rs. 16,000 per truck containing 10,000 sq. meter of cloth respectively. Assuming the company met both production as well as the sales targets during the year.

Required: As a tax planner, which alternative is the best from the point of view of tax? The corporate tax rate is 20%. [8]

13. 2063 Q.No. 10 b

A Ltd Company is considering to invest a capital outlay of Rs. 2,500,000 in an Iron and Steel Industry. The company has preferred either Pyuthan or Gaighat to install the factory.

The company has anticipated the following profit before tax, depreciation and transportation expenses.

Year	1	2	3	4	5
PBDT (Rs.)	800,000	700,000	900,000	1,000,000	700,000

Government has not put any restriction to located industry any where, however, Income Tax Act 2058 provided the following rebates and concessions for location at different places.

a. A 20% rebate on tax is given if located at under developed region (Gaighat).

b. A 25% rebate on tax is given if located at underdeveloped region. (Pyuthan)

The company has promised the following direct employment through out the year. The company needs 10,000 tons of one to run the factory at 90% level. Assume the company met this level over the years.

Further information: If the factory is located at Gaighat.

- * 80% inputs are available locally, and rest 20% are supplied from neighbouring districts.
- * Road will be the means of transport.
- * Average transportation cost per ton would be: for locally collection Rs. 5 and from surrounding districts Rs. 30.
- * Company could employ more than 600 direct labour from the third year only.

If factory is located at Pyuthan

- * 70% inputs are available locally, and rest 30% would be collected from surrounding districts..
- * Road will be the means of transport.
- * Average transportation cost per ton would be: for local supply Rs. 5 and for surrounding districts Rs. 25.
- * Company provided a direct employment of more than 600 people throughout the year only from the second year of establishment.

Required:

As a tax planner, which alternative is the best from the point of view of tax? This assets falls under group D. Assume that the corporate tax rate is 20%.

14. 2062 Q.No. 5

A Ltd Co. contemplates to invest a capital outlay of Rs. 3,000,000 in a carpet factory. The company expects the following profit before depreciation, transportation and income tax.

Year	1	2	3	4	5
Profit (Rs.)	400,000	550,000	600,000	750,000	800,000

Government does not prohibit to locate factory anywhere however, the Income Tax Act, 2058 has provided following tax rebates for location at different regions:

- No rebate if the factory is located at Kathmandu
- 20% rebate if it is established at underdeveloped region.
- 25% rebate if it is established at underdeveloped region.
- 30% rebate if it is established at remote areas.

Kathmandu would be major market of finished product whereas raw materials of the product will be available locally everywhere. The company would like to fix single price for its product. The cost of transportation of finished product to Kathmandu would be Rs. 4,000; Rs. 6,000 and Rs. 6,500 per 500 square meter from underdeveloped area, undeveloped area and remote area respectively. The budgeted production and sale of the company is 10,000 sq. meter per year i.e. 20 trucks of 500 sq. meter each. The company intends to invest 1/3 (one third) out of the total capital outlay in acquiring the required plant and machinery (under group 'D' assets).

Required: As a tax planner, where would you recommend to establish the factory and why? [6]

15. 2061 Q.No. 4

A Co. Ltd wants to invest a total capital of Rs. 1,000,000 in a shoe factory. The company expects the following profits before depreciation, transportation cost and tax.

Year	1	2	3	4	5
Profit (Rs.)	150,000	200,000	300,000	400,000	300,000

The company has considered Kathmandu, Dharan and Dailekh, the three alternative locations, to install the factory.

Consider the following concession and rebate as provided by the IT Act before installment of machine:

- No rebate will be allowed if factory is located at Kathmandu.
- 10% rebate on tax will be allowed if it is located at any part of Tarai, and
- 60% rebate for first two years and 10% rebate for another 2 years, if it is located at hilly region.

Kathmandu is the major market of this product and hilly regions are the major suppliers of raw inputs. Company's expected production and sales is 50,000 pairs of different sizes of shoes. On an average two square feet of leather is required to make a pair of shoe irrespective of their size. Assume that the company achieved both production and sale target and there is not stock at the end.

Further information

Alt. No. 1: If factory is located at Kathmandu.

- * All inputs will be supplied from hilly regions.
- * Road will be the means of transport
- * Average transportation cost per 10 sq. ft. of leather is Rs. 2.00

Alt. No. 2: If factory is located at Dharan

- * 80% of inputs will be supplied from hilly regions and balance 20% are available locally.
- * Road will be the means of transport.
- * Average transportation cost per 10 sq. ft. of leather is Rs. 2.00
- * Transportation cost of finished product to Kathmandu will be Rs. 0.50 per pair.

Alt. No. 3: If factory is located at Dailekh

- * 80% of raw inputs will be available locally, and balance 20% will be supplied from Tarai.
- * Road will be the means of transport
- * Average cost of inputs collection from the surrounding collection centers is Rs. 1.00 per 10 sq. ft.
- * Transportation cost of finished product to Kathmandu by road will be Rs. 1.00 per pair.

Required: As a tax planner, which alternative is the best from the point of view of tax? charge 15% p.a. depreciation of plant. Assume the corporate tax rate is 20%. [2+2+2]

16. 2060 Q.No. 4

A Ltd. company wants to invest in a capital outlay of Rs. 1,000,000 in a Juice Factory. The company expects the following profit before depreciation, transportation cost and tax.

Year	1	2	3	4	5
Profit (Rs.)	200,000	300,000	400,000	200,000	150,000

The company management has preferred Kathmandu as a plan to set up the factory. However, considering the facilities extended by Income Tax Act, 2058 localization in other part also cannot be ignored. Company has considered Sindhuli and Kalaiya as other two alternative locations.

The Income Tax Act, 2058 has provided the following concessions for location at different places.

- No rebate will be allowed if factory is located at Kathmandu.
 - 20% rebate will be extended, if it is located at any part of Terai region, and
 - 80% rebate for first 2 years and 20% concession for another 3 years if located at hilly regions.
- Kathmandu is the major market for this product and hilly regions are the major suppliers of inputs. The anticipated production and sale of the factory will be 10,000 bottles of finished goods of 1 litre each. 10 kgs of input will be required to produce one bottle of finished product. Assume the factory runs throughout the year with targeted capacity. Consider the following further information.

Alternative I: If factory is located at Kathmandu.

- * 80% of inputs will be supplied from hilly regions and balance 20% will be available locally.
- * Road will be the means of transport.
- * Average transportation cost per 10 kgs of input is Rs. 4.00.

Alternative II: If factory is located at Kaliya

- * 60% of inputs will be supplied from hilly regions and balance 40% will be available locally.
- * Road will be the means of transport.
- * Transportation cost of 10 kgs. of input is Rs. 2.
- * Transportation cost of finished product to Kathmandu will be Rs. 2 per bottle.

Alternate III: If factory is located as Sindhuli

- * Raw inputs will be available locally
- * Road will be the means of transport.
- * Transportation cost of finished product to Kathmandu by road will be Rs. 2 per bottle.

Required: As a tax planner, which alternative is the best from the point of view of tax. Charge depreciation @ 1% per annum. [6]

17. 2058 Q.No. 5

A Ltd. Company wants to invest a capital outlay of Rs. 1,000,000 in a Herbs Processing Factory. The company anticipates the following profits before tax and before considering the transportation cost.

Year	1	2	3	4	5
Profit Rs.	300,000	400,000	500,000	300,000	400,000

The government has extended a liberal policy to set up such industry anywhere, but the Industrial Enterprise Act has provided the following rebates and concessions for location at different places.

- No rebate is allowed if the factory is located at Kathmandu.
- A 25% rebate is extended, if it is set-up in any part of Terai.
- 100% rebate for first 2 years and 60% concession for another 3 years if located at remote area.

The company has selected three locations viz. Kathmandu, Nepalgunj and Jumla but has preferred Kathmandu as best one. Remote area is the major supplier of input material whereas Kathmandu is the major market for its product. The budgeted production and sale of the factory is 20,000 bottles of finished goods of 200 ml. each. To produce 1 bottle of finished goods 10 kgs of input is required. This target could be achieved if the factory runs for the whole year at a 90% capacity. assume the factory runs at this capacity for the whole year.

Consider the following further information:

Alternate 1: If factory is located at Kathmandu

- * All inputs will be supplied from Jumla
- * Air is the only means of transport
- * Transportation cost per kg of input is Rs. 1.5

Alternate 2: If factory is locate at nepalgunj

- * 80% inputs will be supplied from Jumla and the balance 20% is available locally.
- * Air is the only means to transport raw inputs.
- * Transportation cost per kg input is Re. 1
- * Transport of finished product to Kathmandu by bus costs Re. 1 per bottle

Alternate 3: If factory is located at Jumla

- * Air transport is the only means of transport
- * Transportation cost of Rs. 5 per bottle

Required:

As a tax planner, which alternative would be the best one from the point of view of tax. Assume depreciation of assets has already been adjusted in above profit. [6]

E. TIMING OF ACTIVITIES

THEORETICAL QUESTIONS

1. 2070 Old Q.No. 1

"An assessee can reduce his tax liabilities with proper timing of activities." Elucidate with appropriate example. [6]

2. 2063 Q.No. 9

Tax planning is a scheme whereby an assessee can manage its cash flows properly. Do you agree with this statement? Explain this statement in the light of timing of activities. [6+2+8]

3. 2062 Q.No. 2 OR

Through proper tax planning scheme assessee can reduce his tax liability." Explain this statement in the light of timing of activities. [6]

4. 2061 Q.No.10 a

How does the timing of activities help to reduce the tax liability and cash out flows? Explain. [8]

5. 2060 Q.No. 2 OR

A firm can manage its tax-flows with the help of 'Timing of Activities' scheme. Comment. [6]

6. 2059 Q.No. 2

Timing of activities is one of the best measures by which an assessee could manage cash flow. In a light direction.' Elucidate giving an appropriate example. [6]

NUMERICAL PROBLEMS

7. 2071 Q.No. 6a

A company is planning its future activities for tax efficiency. As per the advise of tax expert, the management has approved the following activities for this purpose:

- To purchase of computer software costing Rs. 300,000 with effective life of 3 years and 4 months.
- To have Research and Development cost amounting to Rs. 150,000 and donation to a school of Rs. 25,000.
- To pay cash dividend Rs. 100,000.

The company expects the following financial results in coming 5 years period: [6]

Years:	1	2	3	4	5
Profit/ Loss (Rs.)	100,000	(150,000)	150,000	100,000	400,000

Required: Planning of activities to minimise tax.

8. 2070 Q.No. 6a

Rupantar Manufacturing Company anticipated the following financial results for the six succeeding years:

Years:	1	2	3	4	5	6
Profit/Loss (Rs.)	(150,000)	80,000	(75,000)	150,000	300,000	400,000

It is expected the government policy will not depart for the next few years period. Therefore the company would like to take the following financial activities during these periods. These activities are required to arrange properly considering the provisions of tax law so that it may minimize the tax burden in legal ground. The company seeks your assistance.

- To donate Rs.15,000 to a tax exempt public school.
- To redeem bank loan Rs.200,000.
- To install a pollution control device at a cost of Rs.75,000.
- To buy a patent having life three years at a cost of Rs.90,000.

Required:

- ① Timing of activities
- ② Amount of tax payable in each year

9. 2070 Old Q.No. 4

After suffering losses for past two years a manufacturing company of special nature established in underdeveloped area expects the following operating results for the next four years.

Past losses	Expected profits
Year 1, Rs.400,000	Year 1, Rs.300,000
Year 2, Rs.200,000	Year 2, Rs.300,000
	Year 3, Rs.400,000
	Year 4, Rs.300,000

In the light of above expected financial performance, the company would like to undertake the following activities within the given period of four years. The company seeks your advice to consider the effect of tax planning to reduce the tax burden.

The activities were:

- To donate Rs.10,000 to Pashupati Area Dev. Trust.
- To install a pollution control device at a cost of Rs.200,000.
- To pay business loan of Rs.200,000.
- To construct office building at a cost of Rs.400,000.
- To have research and development expenses of Rs.150,000.

Required: ① Timing of activities
② Amount of tax payable in each year

[4+2=6]

10. 2069 Q. No. 6a

A public limited company expects the following operating result for the next 5 year period:

Year	12	13	14	15	16
Profit/Loss (Rs.)	400,000	300,000	200,000	500,000	600,000

In the backdrop of above expected financial performance the company would like to undertake the following activities within the given period of 5 years.

- In the beginning of year 12, the past unrecovered losses was Rs. 400,000; out of which Rs. 200,000 represent of year 6 and balance amount was for year 5.
- To make an advertisement expenses of Rs. 300,000 subject to written off within the three years.
- To purchase a software costing Rs. 700,000. The life of which will be 3 years and 6 month.
- To make pollution control costs R&D cost of Rs. 150,000 each.
- To give donation amounting Rs. 100,000 to the work of fully allowable.

Required: Timing of activities showing details of activities planned.

11. 2068 Q.No. 5a

A company has the following expected operating results for the next five years.

Year	8	9	10	11	12
Exp. Profit/Loss (Rs.)	200,000	400,000	550,000	700,000	900,000

On scrutiny it is found that there is unrelieved past accumulated loss of Rs.575,000. Out of which Rs.200,000 was for the year 2 and Rs. 200,000 for year 3 and rest was for year 4. Regarding the above financial results the company would like to undertake the following activities within the next 5 years period.

- To purchase a patent right having life of 2 years, and 4 months at a cost of Rs.50,000.
- To borrow loan from a financial institution Rs.200,000 for 2 years at 15% interest rate p.a. loan is taken at the beginning of the year and repayable at the end of next year.
- To install a pollution control device at a cost of Rs.200,000.
- To pay cash dividend of Rs.30,000 in year 11.
- To give donation of Rs.150,000 to the fully admissible sector as per tax law. It is assumed that present tax policy of the government will not change for the next 5 years. The company seeks your advice to show the effect of tax planning for reducing tax burden of above activities.

Required: Timing of activities to minimize tax liability.

[8]

12. 2068 Old Q.No. 4

A Company Limited anticipates the following operating performance of different income years.

Year	1	2	3	4	5
Profit/Loss (in Rs.)	(300,000)	(400,000)	(500,000)	250,000	300,000

Year	6	7	8	9
Profit/Loss (in Rs.)	500,000	600,000	650,000	700,000

With considering the above operating performance the company would like to undertake the following business activities to minimize the tax liability in the coming years.

- To buy a software of Rs. 150,000 having a estimated life of 6 years 5 months.
- To pay cash dividend of Rs. 50,000.
- To have pollution control cost of Rs.200,000.
- To donate Rs.350,000 for the work of a fully deductible area.

Required: ① Timing of activities ② Amount of tax payable for each year.

[5+1=6]

13. 2067 Q.No. 6a

The following is the expected financial results of a company for the next 5 year:

Year	9	10	11	12	13
Profit/Loss(Rs.)	85,000	130,000	200,000	300,000	200,000

The past losses of the company related to 2nd and 3rd year were Rs.50,000 and Rs.135,000 respectively.

In the Light of above financial result, the company would like to undertake the following activities within the next 5 year period.

- i. To buy a life policy of employees at a cost of Rs.30,000, p.a.
- ii. To have PCC and R & D cost of Rs.85,000 each.
- iii. Donation to a public school amounting to Rs.13,000.

Required: Timing of activities to minimize tax liability

14. 2067 Q.No. 4 (Old)

An Electronic Company would like to take the benefit of concessions and rebates available in the act to minimize its tax burden. The company expects that the present policy of Income Tax Act, 2058 will not be changed for next few years. The following are the expected financial results of the company for next five years period.

Year	7	8	9	10	11
Profit/loss (Rs.)	100,000	150,000	200,000	250,000	300,000

Past record of the company shows that there is an unrelieved loss of the previous years amounting to Rs. 300,000 at the end of 6th year, which represents Rs. 200,000 for the year one and balance for the year three.

In the light of the above financial result the company would like to under take the following activities within the period of five years.

- To purchase a software costing Rs. 125,000 having estimated life of two years and six months.
- To take a joint life policy to the employees with annual premium of Rs. 50,000.
- To install a pollution control device and have a research and development cost amounting to Rs. 85,000 each.
- To donate to a local club Rs. 5,000.

Required: (a) Timing of activities (b) Amount of tax payable

[4+2=6]

15. 2066 Q.No. 4

A Ltd. Co. wants to undertake the following financial activities for the next four years. It is expected that there would not be major departure in government policy for another few years. The company seeks your advice to consider the effect of tax planning to reduce tax burden. The activities are:

- a. To buy a patent right having life of two years and five months at a cost of Rs. 60,000.
- b. To install a pollution control device at a cost of Rs. 125,000.
- c. To borrow loan from a bank Rs. 300,000 for two years @ 15% interest.
- d. To purchase a plot of land to construct office building at a cost of Rs. 500,000.
- e. To donate Rs. 125,000 to a fully admissible sector trust.

Given below are the expected operating results of the company for the next four years after suffering a continuous operating losses for the past two years:

Year	1	2	3	4	5	6
Profit/loss (Rs.)	(100,000)	(150,000)	100,000	150,000	250,000	200,000

Required: (a) Timing of activities (b) Amount of tax payable in each year

[5+1]

16. 2065 Q.No. 4

ABC Limited anticipates the following profit for next five years after suffering losses in the past three years.

Anticipated profit:					
Year	4	5	6	7	8
Profit (Rs.)	200,000	300,000	400,000	450,000	600,000
Past losses:					
Year	1	2	3	-	-
Losses (Rs.)	500,000	400,000	100,000	-	-

On the light of the above financial result the company would like to under take the following activities to minimize tax liability in the coming five years.

- To buy a patent having estimated life 4 years and 9 month for Rs.180,000.
- To have research and development cost Rs.300,000.
- To donate Rs. 190,000 for the work of a fully admissible sector.
- To pay cash dividend Rs.200,000.

Required: ① Timing of activities ② Amount of tax payable for each year

[5+1]

17. 2064 Q.No. 7

A Ltd., Company expects the following operating results in the next three years.

Expected profits

Rs. 300,000 in year 1, Rs. 400,000 in year 2 and Rs. 100,000 in year 3

Past losses suffered:

Rs. 500,000 in year 1, Rs. 400,000 in year 2 and Rs. 300,000 in year 3.

The company wants to undertake the following activities based on the above expected profit within the time limit of three years.

- To incur Rs. 400,000 on research and development
- To install a new machine, that increases the revenue by 305 at a cost of Rs. 300,000

Required: (a) Timing of activities (b) Effect of tax in planning these activities

[4+2]

18. 2062 Q.No. 4

The following are the anticipated profit of a Limited Company for the first six succeeding years:

Year	1	2	3	4	5	6
Profit/Loss Rs.	(100,000)	50,000	(50,000)	100,000	200,000	400,000

The company likes to undertake the following financial activities during these period. It is expected that there would not be major departure in the government policy for another few years. The company seeks your advise to consider the effect of tax planning to reduce the tax burden. The activities were:

- To have research and development expenses of Rs. 80,000
- To donate Rs. 15,000 to a tax exempt public school.
- To redeem bank loan of Rs. 100,000.
- To install a pollution control device at as cost of Rs. 75,000.
- To buy a patent having life of three years at a cost of Rs. 75,000.

Required:

- Timing of activities
- Amount of tax payable in each year.

[5+1]

19. 2061 Q.No. 5

At a Ltd. Company expects the following operating results in the next three years.

Expected profits:

Rs. 500,000 in year 1, Rs. 600,000 in year 2 and Rs. 400,000 in year 3

Past loss suffered:

Rs. 800,000 in year 1, Rs. 300,000 in year 2 and Rs. 100,000 in year 3

The company wants to under take the following activities based on the above expected profits within the time limit of three years.

- to install a pollution control device at a cost of Rs.300,000.
- To take of Life Insurance Policy of the staff with annual premium of Rs. 50,000

Required: (a) Timing of activities. (b) Effect of tax in planning these activities.

[4+2]

20. 2060 Q.No. 5

After suffering a loss for the past few years, a Ltd. Company expects the following operating results for the next three years.

Expected Profits:	Rs. 200,000 in year 1, Rs. 400,000 in year 2 and Rs. 600,000 in year 3.
Past losses were:	Rs. 400,000 in year 1, Rs. 200,000 in year 2 and Rs. 50,000 in year 3.

In the backdrop of the above expected financial performance, the company would like to undertake the following activities within the given period of three years. The company seeks your advice to consider the effect of tax planning to reduce the tax burden. The activities were:

- To set off the preliminary expenses of Rs. 250,000.
- To install a pollution control device at a cost of Rs. 400,000
- To construct office building at a cost of Rs. 500,000.

Required: (i) Timing of activities. (ii) Effect of tax in planning these activities.

[6]

21. 2059 Q.No. 5

After incurring losses for the past two years, A Ltd company anticipates the following operating results in the next three years.

Year 1 and year 2	(Rs. 75,000)	and (Rs. 50,000)
Year 3, 4, and 5	Rs. 100,000 and Rs. 250,000	Rs. 200,000 respectively

On the light of these expected financial performances the company would like to under take the following activities and seeks your advise to consider the effect of tax planning to reduce the tax liability. The activities anticipated are:

- To write off preliminary expenses of Rs. 50,000 in year 3, 4, and 5
- To install a pollution control device at a cost of Rs. 150,000
- To launch a life insurance scheme for company's employees. The total yearly premium being Rs. 50,000

Required: (a) Timing of activities (b) amount of tax payable for the last 5 years considering the activities planned above.

[3+3]

22. 2058 Q.No. 4

After suffering losses over losses for several years, A Ltd. Company expects the following operating results for the next three years.

Expected profit

	Year	1	2	3
		Rs. 300,000	400,000	500,000
Past losses:				
	Year	1	2	3
		Rs. 300,000	100,000	50,000

In the light of these expected financial performances the company would like to undertake the following activities within these three years and seeks your advice to consider the effect of tax planning to reduce the tax burden. The activities are:

- * to launch Family Planning Programme at a cost of Rs. 150,000 for the company's employees. It is expected that 2/3rd cost is used on purchase of planning instrument and rest for other expenses.
- * To install a machine at a cost of Rs. 500,000. After installation, it is expected that the production would increased by 30%
- * To redeem bank loan of Rs. 200,000

Required:

(a) Timing of activities (b) Effect of Tax in planning these activities

[6]

F. LEASE VS. BUY**1. 2059 Q.No. 10 b**

A company is interested in acquiring an asset costing Rs. 300,000. It has two options: (a) to borrow the amount @ 18% p.a. repayable in 3 equal installments or (b) to take on lease the assets for a period of 3 years at a rental value of Rs. 20,000. The corporate tax is 50% and depreciation is allowed @ 10% on original cost.

[8]

G. SELECTION OF BUSINESS**1. 2070 Q.No. 6b**

A businessman is interested in the tax policies and provisions regarding forms of business organization. He is considering two business proposals i.e. to form sole trading business or manufacturing industry registered under Company Act, 2063. His expected net assessable income before considering depreciation is Rs.600,000 from both proposals. The normal amount of depreciation will be Rs.120,000 each for both proposals. He is also planning retirement scheme depositing Rs.36,000 p.a. to the recognized retirement fund.

Required: Which proposal will save more tax to him and by how much? [4]

2. 2069 Q. No. 6b

Mr. Madhukar has considered two business proposals: One is formation of sole proprietorship firm and another is a private company under Company Act, 2063. The annual expected net assessable income is Rs. 900,000 from both proposals. He is also planning a retirement scheme and contributed Rs. 200,000 to Citizen Investment Trust. The business will be located at remote area- A.

Required: As a tax planner find out the amount of annual tax saving from sole proprietorship firm if the required investment is same for both proposals. [6+4=10]

22. VALUE ADDED TAX (VAT)**THEORETICAL QUESTIONS****1. 2071 Q.No. 5b**

"Public awareness is essential for effective implementation of VAT in underdeveloped country like Nepal." Discuss. [4]

2. 2070 Q.No. 4b

"Effectiveness of value added tax depends on public awareness." Comment. [4]

3. 2070 Old Q.No. 3

"The basic philosophy of Value Added Tax is to levy tax on the value added at each level of sales." Explain. [3+3]

4. 2069 Q. No. 2b

"Value added tax is a device to check and control the tax avoidance." Explain briefly. [4]

5. 2068 Q.No. 3b

Value Added Tax (VAT) is superior to sales tax. Explain. [4+4=8]

6. 2068 Old Q.No. 3

Value Added Tax (VAT) is more transparent than sales tax. Discuss. [6]

7. 2067 Q.No. 2b

Value added tax is imposed on added value at each level of sales. Comment briefly. [2×4=8]

8. 2067 Q.No. 3 (Old)

Value added tax is a multistage tax. Discuss. [6]

9. 2066 Q.No. 3

"Effectiveness of Value Added Tax depends upon the morality of tax personnel." Comment. [6]

10. 2065 Q.No. 3

"The Government of Nepal is unable to generate more revenue replacing sales tax by value added tax." Do you agree with the above statement? Justify. [6]

11. 2064 Q.No. 3

"Value Added Tax" is value added tax. Explain. [6]

12. 2062 Q.No. 3

"Effectiveness of Value Added Tax depends upon the tax consciousness of the people." Discuss. [6]

13. 2061 Q.No. 3

"There has been a gradual increase in tax revenue since the implementation of VAT." Give two reasons how VAT has helped to increase tax revenue in Nepal [4+2]

14. 2060 Q.No. 3

"Inclusion of Value Added Tax in the price of commodity, is contrary to the basic philosophy of the Value Added Tax." Give your opinion in favour of above statement. [6]

15. 2059 Q.No. 3

Success of VAT in Nepal is an illusion unless some improvement is made in this regard. Suggest at least two approaches for the improvement of current VAT policy. [6]

16. 2058 Q.No. 3

"The basic philosophy of value added tax is to levy tax on the value added at each level of sales." Discuss. [6]

NUMERICAL PROBLEMS**17. 2071 Q.No. 8b**

An importer certain goods from India at an imported price of Rs. 18,000 excluding VAT. He paid VAT on import. The importer incurred Rs. 1,000 as freight and carrying cost and sold to a retailer charging 20% profit on selling price. The retailer incurred Rs. 250 as holding and carrying cost and sold the same to the consumer charging 10% profit on cost.

Required: Total amount of VAT paid by the final consumer. [5]

18. 2071 Q.No. 8 OR

ABC Manufacturing Company provided the following details regarding its transaction during the month of Baisakha:

- Purchase of raw materials for Rs. 250,000 no VAT was paid on it.
- Materials imported (including VAT) Rs. 113,000.
- Purchased indirect materials (including VAT) Rs. 79,100.
- Total sales revenue (inclusive VAT) Rs. 565,000.

Required:

- VAT paid by the manufacturer to the government for the month.
- If the firm has submitted its tax return on the 30th Jestha how much fine the firm paid to the government? [5+5=10]

19. 2070 Q.No. 7a

Shrestha a dealer imported a Micro oven from India paying VAT to Nepal government. Import price including VAT was 9040. The importer incurred further expenditure of Rs.1,000 and charged 10% margin on selling price. Two middlemen i.e. wholesaler and retailer are also involved in the distribution channel. Both of them made a profit of 15% on selling price and incurred Rs.500 each as holding cost. [5]

20. 2070 Old Q.No. 3 OR

An importer imported a car paying VAT to the government. The car passes to the final customer through three different stages and each of them incurred expenses Rs.15,000 before selling it to their customers at a profit of 20% on sales price. The final customer paid Rs.60,000 VAT on this item.

Required:

- Cost price at different stages
- Amount of VAT collected by government in different stages [3+3]

21. 2069 Q. No. 8b

Dhankuta manufacturing firm produces a goods with production cost Rs. 10,000. He has paid VAT on input materials. The product passes to the final consumer through retailer. The producer incurred Rs. 2,000 for selling and distribution and has charged 20% profit on selling price. The retailer incurred Rs. 2,100 for administration cost and charged 10% profit on selling price.

Required: VAT collected by the government at each level of sales showing value added by both businessmen. [5]

22. 2068 Q.No. 8b

An importer imported certain taxable goods from outside the country paying Vat to the Nepal Government amounted to Rs. 65,000. These goods were sold to the final customer through two businessmen i.e. wholesaler and retailer. The importer has spent Rs.2,500 as freight and sold charging 15% margin on cost price. Both businessmen wholesaler and retailer incurred Rs.1,500 and 2,000 as carrying cost and sold to their customers charging 10%, and 15% margin on their cost price respectively.

Required:

- Added Value of wholesaler and retailer
- Vat collected by government at each level of sales.

[4+1+5=10]

23. 2068 Old Q.No. 3 or

Mr. Pradhan purchased certain taxable goods from a retailer paying Rs.33,900 (inclusive vat). The retailer had purchased it from a wholesaler at Rs.25,500 exclusive vat. The wholesaler had imported it from different suppliers at Rs.18,000 inclusive vat. Each seller had charged profit margin at 15 percent on sale price of goods.

Required: ① Selling price of wholesaler. ② Added Value of wholesaler and retailer. ③ VAT collected by government at each level of sales. [2+2+2]

24. 2067 Q.No. 8b

A customer purchased a mobile from a retailer paying total price of Rs.12,995. The retailer had purchased the same mobile from an importer and incurred additional expenses Rs.1,000 and charged 15% profit on cost price. Importer incurred an additional expenses Rs.1,150 and 15% profit on selling price. He had paid VAT on import.

Required: Imported price and VAT collected by Government at each stage [2 + 3]

25. 2067 Q.No. 3 Or (Old)

An importer imported an air cooler from India paying VAT to the Nepal Government. He incurred Rs. 3,000 as transportation and other cost and sold to a retailer at a profit of 25% on cost price. Retailer also incurred Rs. 1,000 as transportation and other cost and sold same to a customer charging 10% profit on cost price. VAT paid by the final consumer is Rs. 5,148.

Required: (a) Cost price of the importer. (b) VAT collected by the government at different stages. [3+3]

26. 2066 Q.No. 3 OR

A dealer imported a Honda Motorbike for Rs. 56,500 (inclusive VAT) and incurred expenses Rs. 10,000 before selling it to a customer at a profit of 20% on sales prices.

Required: (a) Total added value by the dealer (b) Cost price to the customer (c) VAT collected by Government in each stage. [2+2+2]

27. 2065 Q.No. 3 OR

Mr. Tiwari purchased a television from a retailer at a total payment of Rs22,000. The retailer itself had purchased it from a dealer at Rs. 17,500 exclusive of VAT. The dealer had purchased it from a manufacturer at Rs. 16,500 inclusive of VAT. The manufacturer had assembled it purchasing different parts from different shops for Rs. 11,000 out of which he had paid VAT Rs. 1265.50.

Required: (a) Amount of VAT collected by Govt. at each level of sales (b) Value added by each businessman [3+3]

28. 2064 Q.No. 3 OR

A retailer purchased a Micro-oven from the importer paying Rs. 15,820 inclusive VAT. He sold the same to a customer at 10% profit margin on his sale price. The importer had charged 9% profit on his cost price. He had paid VAT on its purchase.

Required: (a) Cost price of the importer (b) VAT collected by the government at each level of sales. [4+2]

29. 2063 Q.No. 4 OR

A customer purchased a computer from a retailer at a total payment of Rs. 27,146. Both middlemen-wholesaler and retailer charged 10% profit on their respective cost price. The applicable VAT rate is 13%.

Required: (a) Cost price of wholesaler (b) Amount of VAT paid by the wholesaler (c) VAT collected by the government at each level of sales. [2+2+2]

30. 2062 Q.No. 3 OR

A dealer imported a refrigerator from India paying VAT to the government. The refrigerator passes to the consumer through two middlemen i.e. wholesaler and retailer. Each businessman incurred expenses. of Rs. 1,000 before selling it to their customers at a profit of 15% on sales price. The final consumer paid Rs. 5,000 VAT on this item.

Required:

- Cost price of importer
- Amount of VAT at each level of sales.

[3+3]

31. 2061 Q.No. 3 OR

A customer purchased a Micro oven from retailer paying Rs. 22,000 inclusive VAT. Two middle-men i.e. wholesaler and retailer were involved in this deal. both of them charged a profit margin of 7% and 10% respectively on their cost price. The importer had not paid VAT on its import.

Required: (a) Cost price of importer (b) VAT collected by the government at each level of sales. [3+3]

32. 2060 Q.No. 3 OR

An importer imported a VCR from Japan. No VAT was paid on it. This item passes to the consumer through two middlemen i.e. wholesaler and retailer. The consumer paid Rs. 20,215 net for this item. Both middlemen charged 7% profit on their cost price. (Calculate nearest to Rupee).

Required:

1. Cost price to importer.
2. Value Added Tax at each level of sales.

[3+3]

33. 2059 Q.No. 3 OR

An importer purchased a cooler at a cost of Rs. 20,000. No VAT was paid on its import. This item passes through two middlemen-wholesaler and retailer before reaching to the final consumer. The importer, wholesaler and retailer incurred Rs. 400 each for administration expenses and charged 5% profit on their cost.

Required: (a) Cost price to customer (b) VAT charged at each level of sales.

[6]

34. 2058 Q.No. 3 OR

An importer imported certain goods. NO VAT was paid on it. This item passes to the consumer through a retailer. The consumer paid Rs. 2,420 VAT on this item. Both middlemen charged 10% profit on their cost.

Required: (a) Cost price to importer (b) VAT at each level of sales.

[2+4]

23. CUSTOM DUTY**THEORETICAL QUESTIONS****1. 2071 Q.No. 2a**

Explain and illustrate the transaction value method of custom valuation.

[4]

2. 2070 Q.No. 2b

"Commodity classification is the grouping of similar goods which are traded in world trade."
Comment.

[4]

3. 2069 Q. No. 2a

Describe in short the various method of custom assessment under Custom Act, 2064.

[4]

4. 2068 Q.No. 7b

Explain the provisions of import and export procedures as stated in Custom Act 2064.

[5]

5. 2067 Q.No. 2a

Explain the method of determining customs price under Custom Act 2064.

[8]

NUMERICAL PROBLEMS**6. 2071 Q.No. 4a**

RK Dealers of Biratnagar imported some goods from Singapore in CIF to Calcutta port. the details of the goods declared by the dealers to the custom office Birgunj are as follows:

Commodities	Quantity	CIF cost/ unit
A	1000	\$10
B	1200	\$15
C	800	\$20

When physical and other examinations were made by the custom authorities the quantity of commodities 'C' were found 1000 units instead of 800 units. The actual price of commodities A was \$15/unit. The transportation cost from Calcutta to Birgunj was \$1600. Applicable custom duty rate: 10% for A, 20% for B and 15% for C.

Required: Amount of custom duty for the above transactions.

[4]

7. 2070 Q.No. 5b

Ramesh and Brothers, an authorized importer of Honda Company of Japan, imported the following items in CIF to Calcutta Port. The cost of transportation from Calcutta to Birgunj was \$1300.

Commodities	Quantities	Unit price in US\$
Honda Shine (125 cc)	15	700
Honda Unicorn (150 cc)	10	900

On the examination made by custom officer, quantity of Honda Unicorn Rs.11 pieces and the unit price of Shine was \$750. The prevailing custom duty of motor cycle is 30%.

Required: Amount of custom duty including fine and custom service fees. [4]

8. 2069 Q. No. 5b

Mahesh and Brothers Enterprises imported set-wet items from Singapore in CIF to Calcutta port. The transportation cost from Calcutta to Birgunj was \$1840. The CIF cost and other details are provided as follows:

Commodities	Set-wet saving cream	Set-wet hair colour	Set-wet body spray
Quantities (pieces)	120,000	290,000	50,000
Price per piece (\$)	1	0.5	1.5

Upon the investigations made by the custom officer in Birgunj Custom point, it was found that there was low invoicing of saving cream by \$0.2. The custom duty rates are 15%, 20% and 25% respectively for saving cream, hair colour and body spray.

Required: Determine the amount of custom duty payable by the Mahesh and Brothers Enterprises including amount of fine. [4]

9. 2068 Q.No. 4b

A business firm imported following goods from foreign country and incurred transportation cost US \$ 2,000 up to Nepal's custom point.

Types of goods	Quantities	Unit price	Total cost	Rate of custom duty (assumed)
Refrigerator	20	US \$ 300	US \$ 6,000	25%
Washing Machine	40	US \$ 400	US \$ 16,000	20%
Micro Oven	50	US \$ 100	US \$ 5,000	30%
Gas Heater	30	US \$ 150	US \$ 4,500	15%

From investigation of goods in custom from the view point of the custom valuation, the customs authority found that the price of micro oven is US \$ 200. In the same way the quantities of gas heater was 35 pieces in the place of 30 pieces.

Required: Custom duty. [4+4=8]

10. 2067 Q.No. 5b

MSN Company, an authorized seller of Gillette Brand in Nepal imported the following goods from Dubai in CIF to Calcutta port. The quantity and CIF cost to Calcutta were as follows:

Commodities	Quantities (Cartons)	Unit Price/Carton (in US\$)	Total Cost (in US\$)
Gillette Excel Razer	60	2,200	132,000
Gillette Excel Blade (4p)	90	3,200	288,000
Gillette Saving Gel (100 ml.)	80	1,800	144,000
	230		564,000

The company paid \$ 4,800 as transportation cost from Calcutta to Birgunj custom point. On enquiry made by custom officer it is found that actual quantity of Excel Blade were 100 cartons and price of Razer was \$2,000 per carton only.

Required: Compute the custom duty assuming the rate are 30% for Razer and Blade and 25% for Gel.

24. EXCISE DUTY

THEORETICAL QUESTIONS

1. 2071 Q.No. 2b

Explain the methods of excise assessment under Excise Duty Act, 2058. [4]

2. 2070 Q.No. 2a

'Major target of excise duty is socially harmful and health injury products.' On the light of this statement describe the excisable products under Excise Act, 2058. [4]

3. 2069 Q. No. 4a

Describe the methods of excise assessment under Excise Duty Act, 2058.

4. 2068 Q.No. 7a

Describe the provision of physical control system as laid down under Excise Act 2058.

[5]

5. 2067 Q.No. 4b

Briefly describe the method of excise assessment under Excise Act, 2058.

[4]

NUMERICAL PROBLEMS**6. 2071 Q.No. 4b**

Butwal Manufacturing Co. has produced and sold excisable products in the market itself and required to deposit tax payable amount in the concerned office on stipulated date. The details of the goods manufactured and sold during the month of Magh were as follows:

Prime cost amounting to	Rs. 600,000
Factory overhead	Rs. 200,000
Office overhead incurred	Rs. 100,000
Amount of profit	Rs. 200,000

The company has deposited excise duty to the tax office after 15 days of the expiry of stipulated period. The excise duty rate is 20%.

Required: Amount of excise duty to be paid including required amount of fine.

[4]

7. 2070 Q.No. 5a

Surkhet Manufacturer which produces plastic products such as chairs and buckets supplied the following information for a month:

Prime cost Rs.600,000. Factory overhead Rs.70,000. Office and administrative overhead Rs.140,000. The company's profit was 20% of cost of production. The company paid Rs.5,000 excise duty on its input. Excise duty rate applicable to the product is 5%.

Required:

Amount of excise duty including fine assuming that the firm submitted tax return after 10 days of expiry of stipulated tax return period.

[4]

8. 2069 Q. No. 5a

Alka Manufacturing Company of Dharan submitted the following details regarding manufacturing cost and profit of the month of Baishakh.

Cost of production Rs. 1,500,000; selling and distribution cost Rs. 122,500; beginning and ending inventory of finished goods were 2,000 and 3,000 units respectively. Production during the month were 15,000 units. The company paid Rs. 24,000 excise duty on its input materials and the excise duty rate was 15%. The profit earned by the company was 25% on selling price.

Required: Determine the factory price per unit of goods sold and excise duty payable on sold units of product.

[4]

9. 2068 Q.No. 4a

A Manufacturing Company provided the following particulars:

- Raw material purchased of Rs. 600,000.
- Indirect material of Rs. 500,000; out of which Rs. 20,000 is excise tax on imports.
- Freight on raw materials purchased was Rs. 10,000 and Rs. 15,000 was incurred for selling expenses.
- Opening and closing stock of raw materials were Rs. 60,000 and Rs.50,000 respectively.
- Manufacturing and management expenses amounted to Rs. 100,000 each.
- Net profit of the company was Rs.70,000.

Required: Factory price and amount of excise tax to be paid if tax rate is 18%.

10. 2067 Q.No. 5a

A firm producing under self control system furnished the following details for the month of Baisakh.

- Direct materials consumed Rs.720,000.
- Indirect materials Rs.220,000 including 10% excise paid on import.
- Manufacturing, office and administrative cost of Rs.700,000.
- Selling and distribution expenses were Rs.100,000. The company's expected profit was 20% on selling prices.

Required: As an excise officer you are required to determine factory price and excise duty payable by the firm if duty rate is 10%.

25. RESIDUAL STATUS**1. 2071 Q.No. 7 OR (b)**

Mr. Goyal an Indian citizen working in UNDP Office of Nepal came to Nepal on 1st Poush of previous year. He furnished the following details of his income and expenses for the previous year:

- Consultation fees from NGOs Rs. 170,000 (after TDS).
- Royalty from professional books Rs. 42,500 (after TDS).
- Salary from UNDP US \$3000 per month.
- Various allowance from UNDP US \$1500 per month.
- The exchange rate of US \$ is Rs. 98 per \$.

He claimed following expenses for deduction:

- ✓ Donation to a private school Rs. 5,000.
- ✓ Domestic expenses Rs. 480,000.

Required:

- ① Residential status of Mr. Goyal ② Statement of Taxable income and tax liability [6+4=10]

2. 2070 Q.No. 8b

Mr. Hari Pathak, a permanent resident of Palpa district, formed a handicraft business in Pokhara. He visited foreign countries several times for business promotion and stayed there for 190 days. He earned assessable income Rs.300,000 from business and interest from private money lending activities Rs.425,000 (net). Income foreign investment was Rs.100,000 to which he paid Rs.25,000 tax to the foreign government. He claimed foreign tax credit:

Required: ① Residential status of Mr. Pathak.

- ② Taxable income and tax payable amount. [1+3=4]

3. 2069 Q. No. 7b

Mr. Goyal an Indian citizen came to Nepal on 1st Kartick of previous year. He submitted the following income and expenditure to the tax officer:

- Income from a small business in Kathmandu amounting to Rs. 200,000.
- Consultation fees earned Rs. 100,000 (gross)
- Royalty income Rs. 100,000 (gross)
- Dividend income Rs. 20,000
- Domestic expenses Rs. 50,000
- He has paid Rs. 2,000 for collection charge on consultations fees and Rs. 15,000 advance tax on royalty income.

Required: ① Residential status of Mr. Goyal ② Tax liability [1+3=4]

4. 2067 Q.No. 7OR b

Mr. R.K Lhakpa a citizen of Bhutan came to Nepal on Falgun 20, has submitted the following details of his income during the year.

- i. Income from royalty from two books Rs.50,000 each.
- ii. Gain from sale of share Rs.27,000 (TDS Rs.3,000)
- iii. Net assessable income from trading business Rs.2,00,000.
- iv. Net assessable income from trading business of Bhutan Rs.150,000.

Required:

1. Residential status of Mr. Lhakpa
2. Total taxable income and tax liability [4]

5. 2068 Q.No. 6 or b

Mr. S. a Pakistani citizen came to Nepal on 20th Falgun of previous year and he had declared following incomes while stayed in Nepal during the previous year.

- Net assessable income from business of Rs.300,000.
- Net assessable income from investment of Rs.150,000.
- Winning from lottery (net) of Rs.75,000.

He claimed following expenses for deductions:

- Donation to a Private Nursing Home Rs: 15,000.
- Purchased of lottery ticket of Rs.500.

Required: ① Residential Status of Mr. S ② Taxable income and tax liability. [6+2+2=10]