



THE INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF BANGLADESH  
CMA JUNE, 2017 EXAMINATION  
PROFESSIONAL LEVEL-II SUBJECT: 204. TAXATION

Time: Three hours

Full Marks: 100

- ❖ All questions are to be attempted.
- ❖ Show computations, where necessary.
- ❖ Answer must be brief, relevant, neat and clean.
- ❖ Start answering each question from a fresh sheet.

**Q No. 1**

Mr. Mahmud is a government officer. His salary in the financial year 2015-16 is as follows:

Particular	Amount in Taka
Basic salary	507,540/-
Festival bonus	82,360/-
House rent	172,500/-
Medical allowance	16,800/-
Dearness allowance	28,750/-
Additional charge allowance	13,500/-
Bengali new year bonus	10,260/-
Arrear basic salary	92,197/-

The amount of tax deducted at source under section 50 (1A) is TK. 18,192/-.

Mr. Mahmud occasionally delivers lecture in various organizations. In the financial year 2015-16 he received honorarium for delivering lectures TK. 320,540/- in total. Mr. Mahmud also earned bank interest 68,281/- in the financial year 2015-16. Tax at sources had been deducted properly from the aforesaid incomes.

Mr. Mahmud is also the owner of 10 acres agricultural land and received TK. 200,000/- in 2015-16 as proceeds from the sale of produce of the agricultural land. However, he does not maintain any proper books of account for this income.

In the financial year 2015-16 Mr. Mahmud contributed TK. 27,600/- to the government provident fund and TK. 10,800/- in total to the welfare fund and insurance premium.

Mr. Mahmud purchased saving certificate of TK.300, 000/- in 2015-16.

Mr. Mahmud's net asset as on 30/06/2015 is TK. 53,78,960/-. As per life style form Mr. Mahmud's family expenditure other than taxes is TK. 5,46,537/-. He paid advance tax TK. 10,000/- U/S 64 for the assessment year 2016-17 and TK. 30,000/- to pay off the tax liability of the assessment year 2015-16 vide chalans in 2015-16. Mr. Mahmud's net asset shown in the IT 10B as on 30/06/2016 is TK. 63, 78,960/- that includes all the investments he made in 2015-16.

**For the assessment year 2016-17 compute the following with regard to Mr. Mahmud.**

- (i) Salary income
- (ii) Agricultural income
- (iii) Income from other sources
- (iv) Total Income and tax chargeable on total income
- (v) Investment allowance and tax credit
- (vi) Amount of AIT paid on account of tax deducted at sources
- (vii) Net tax payable
- (viii) Does Mr. Mahmud have to pay any surcharge in 2016-17? Why, why not?

[Marks: (3.5 +3.5+10+3+3+2+3+2) = 30]

### **Solution to the Q. No. 01**

Salary income:

Since Mr. Mahmud is a govt. officer his income from salary will be computed as per SRO No: 211 dated 21/6/2017. Accordingly, his basic salary and festival bonus are only taxable. All other allowances including bengali new year bonus are exempted from tax.

Basic salary	:	507,540/-
Festival bonus	:	82360/-
Arrear basic salary	:	<u>92,197/-</u>
<b>Taxable Salary income</b>		<b>682,097/-</b>

### **Agricultural income:**

Sales proceeds of produce of agricultural land	:	200,000/-
Less: cost of production (60% of sales proceeds)	:	<u>120,000/-</u>
		80,000/-

### **Income from other sources:**

Honorarium	:	320,540/-
Bank interest	:	68,281/-
Deemed income u/s 33(d)/19(3):		<u>250,883/-</u>
		639,704/-

Net assets as on 30/6/2016	:	63,78,960/-
Net assets as on 30/6/2015	:	<u>53,78,960/-</u>
Apparent accretion in net assets		10,00,000/-

Family expenditure	:	546,537/-
TDS U/S 50 (1A)	:	18,192/-
TDS from bank int. and honorarium	:	38,882/-
Advance tax U/S 64	:	10,000/-
Tax paid u/s 74 for A/Y 2015-16	:	<u>30,000/-</u>
Total expenses and increase in assets	:	16,43,611

Funds available:

Salary income	:	682,097/-
Agricultural income	:	80,000/-
Honorarium	:	320,540/-
Bank interest.	:	68,281/-

Tax exempted salaries:

House rent allowance:	172,500/-
Medical allowance:	16,800/-
Dearness allowance:	28,750/-
Charge allowance:	13,500/-
Bengali new year allowance:	<u>10,260/-</u>
	<u>241,810/-</u>

Total source of fund	<u>13,92,728/-</u>
Wealth accretion not covered by fund	250,883/-

Will be treated as deemed income u/s 33(d)/19(3)

**Total income and tax chargeable on total income:**

Salary income:	682,097/-
Agricultural income:	80,000/-
Income from other sources:	<u>639,704/-</u>
Total income:	14,01,801/-

Tax chargeable on total income: 165,360/-

**Investment allowance and tax credit:**

Actual investment:	338,400/-
25% of total income	14,01,801/-
	= 350,450/-
Hence, investment allowance =	338,400/-
Investment tax credit:	

Since the total income is more than ten lakhs but less than thirty lakhs

$$\begin{aligned} \text{Investment tax credit} &= (250,000 * 15\%) + (338,400 - 250,000) * 12\% \\ &= 37,500 + 10,608 = 48,108/- \end{aligned}$$

Amount of AIT paid on account of tax deducted at sources:

TDS U/S 50 (1A)	18,192/-
TDS from bank int. and honorarium:	<u>38,882/-</u>
	57,074/-

**Net tax payable:**

Tax chargeable on total income:	165,360/-
Less: Investment tax credit :	<u>48,108/-</u>
Total tax payable :	117,252/-

Less: Tax paid

TDS U/S 50 (1A) :	18,192/
TDS from bank int. and honorarium:	38,882/-
Advance tax U/S 64 :	<u>10,000/-</u>
Net tax payable :	<u>50,178/-</u>

Mr. Mahmud does not have to pay any surcharge as his net wealth is less than TK. 2.25 crore

**Q. No. 2**

The following information has been taken from the accounting records Labib Bangladesh Limited for the year 2016:

(i) Raw materials inventory January 1,	Tk. 60,000;
(ii) Raw materials inventory December 31,	Tk. 25,000;
(iii) Work in process inventory, January 1,	Tk.100,000;
(iv) Work in process inventory, December 31,	Tk. 50,000;
(v) Finished goods inventory, January 1,	Tk. 130,000
(vi) Finished goods inventory, December 31,	Tk. 105,000
(viii) Purchase of Raw materials	Tk. 375,000
(ix) Direct labor	Tk. 75,000
(x) Manufacturing overhead	Tk. 320,000
(xi) Selling expenses	Tk. 70,000
(xii) Administrative expenses	Tk. 135,000

The company sells its product by adding 20 profit on cost. Determine the amount of VAT if the rate is 15%.

[Marks: 10]

**Q. No. 3**

The financial statement extracts for ABC & Co Ltd. for the income year ended on June 30, 2016 is given below:

ABC & Co Ltd.			
Trading, Profit & Loss and Profit & Loss Appropriation Account			
Dr.			Cr.
Beginning Inventory	Tk. 150,000	Sales	Tk. 8,000,000
Purchase	4,500,000	Ending Inventory	500,000
Wages	500,000		
Fuel, power and Gas	350,000		
Gross Profit	3,000,000		
	<b>8,500,000</b>		<b>8,500,000</b>
Salary	1,200,000	Gross Profit brought down	3,000,000
Repairs	210,000	Share Premium	400,000
Addition to Building	450,000	Recovery of Bad Debt	25,000
Interest on Debenture	50,000	Refund of Income Tax	15,000
Legal Expenses	20,000	Dividend	60,000
Audit Fee	45,000	Gain on Sale of Asset	40,000
Income Tax	40,000	Interest on Tax free Govt. Securities	22,000
Provision for Bad & Doubtful Debt	25,000		
Donation	25,000		
Loss on Sale of Investment	15,000		
Loss of Stock due to Fire	120,000		
Penalty	25,000		
Depreciation	80,000		
<b>Net profit</b>	<b>12,57,000</b>		
	<b>3,562,000</b>		<b>3,562,000</b>

Commission to Managing Agent		82,000	Net Profit Brought down	1,257,000
Bonuses to Shareholder	218,000			
Provision for Taxation	40,000			
Dividends	80,000			
Balance		<u>837,000</u>		
		<u>1,257,000</u>		<u>1,257,000</u>

Determine the taxable income of the company and net tax liability thereof. Assume that ABC & Co Ltd. is a public limited company and their tax depreciation amounts to taka 100,000; provision for bad & doubtful debt allowed to the extent of taka 10,000 and the company has sold an asset for taka 100,000 that the company has purchased 4 years back at a cost of taka 80,000 with a written down value of taka 60,000 to date.

[Marks: 25]

### Solution to the Q. No. 03

**ABC & Co Ltd..**  
**Computation of Total Income**  
**Assessment year 2016-2017 (Income year 2015-2016)**

	<u>Note</u>	<u>Taka</u>
<b><u>Income from business or Profession (u/s-28):</u></b>		
Net profit before tax as per profit and loss a/c		1,257,000
<b>Less: Non-business income included in P&amp;L A/c for separate consideration:</b>		
a) Dividend	60,000	
b) Share Premium (it is not income. So not to be considered later)	400,000	
c) Gain on sale of asset	40,000	
d) Interest on tax free govt. securities	22,000	
e) Refund of income tax (it is not income; so not to be considered later)	15,000	
		(537,000)
<b>Add: Expenditure to be considered as per provision of law afterwards</b>		
a) Depreciation (for consideration as per 3rd schedule)	80,000	
b) Loss on Sale of Investment (capital loss to be shown separately)	15,000	
c) Provision for bad debt	25,000	
		120,000
<b>Add: Inadmissible expenses as per provision of law:</b>		
a) <b><u>Income Tax paid in advance</u></b>	40,000	
Tax is not an expense rather appropriation of profit. So, it is not chargeable in P/L a/c and disallowable fully being non business expense.		

b)	<b><u>Penalty</u></b> Disallowed u/s-29(1)(xvii) assuming Company committed any legal non-compliance.	25,000	
c)	<b><u>Addition to building</u></b> This is a capital nature expenses which is not allowed u/s 29(xxvii).	450,000	
d)	<b><u>Legal expense</u></b> Income taxes related legal expense Tk 20,000 is allowable up to appeal to the Taxes Appellate Tribunal. Assuming this expense is related to appeal, so nothing to be added back.	-	
e)	<b><u>Donation</u></b> Donation paid only to any approved institutions is allowed. Assuming the donation of Tk. 25,000 has not been provided to any approved institutions, so it is disallowed.	25,000	
f)	<b><u>Loss of Stock due to Fire</u></b> Loss of Stock due to Fire is purely for business purpose, and assuming no insurance claim has been recognized, So, nothing is added back.	-	
			540,000
<b>Less: Admissible expenses as per provision of law:</b>			
a)	Tax depreciation as per 3rd schedule	100,000	
b)	Bad debt written off (mentioned in the question that Tk. 10,000 is allowed as per income tax ordinance, assuming same has been duly written off and proved with corroborative evidence)	10,000	
			(110,000)
<b>Add: Deemed income u/s-19</b>			
	<b><u>Profit on sale of asset</u></b>		
	Sale price	100,000	
	Written down value (given in Question)	60,000	
	Total profit	<b>40,000</b>	
	Cost price	80,000	
	<b>Capital gain (Sales less cost)</b>	<b>20,000</b>	
	<b>Revenue gain (total profit - capital gain)</b>	<b>20,000</b>	
	Capital gain to be considered afterwards. Only revenue gain to be added here u/s-19(16).	20,000	
			20,000
	<b>Income from business or Profession (u/s-28):</b>		<b>1,290,000</b>
<b>Income from Interest on securities (u/s-22):</b>			
	Interest on Tax free Govt. Securities	22,000	
	Less: Exempted fully as per 6th schedule, Part-A para 24 of ITO	(22,000)	

**Capital Gain (u/s-31):**

Capital gain on sale of asset (no roll-over relief applied)  
 Capital loss on sale of investment (current year loss set-off)

20,000	
(15,000)	
	5,000

**Income from Other sources (u/s-33)**

Dividend income (assuming gross)

60,000	60,000
	<b><u>1,355,000</u></b>

**Total income**

**Computation of tax liabilities**

- a) On total income Tk. 1,290,000 excluding capital gain and dividend income @ 35% on (assuming not publicly traded Company).
- b) On capital gain @ 15% (para-2(a) 2nd schedule)
- c) On dividend income @ 20%

451,500	
750	
12,000	
	<b><u>464,250</u></b>

**Total calculated tax liability**

**Minimum tax u/s 82(C)(4)**

Sales  
 Share Premium (is not a revenue, so not considered)  
 Recovery of Bad Debt  
 Refund of Income Tax (is not a revenue, so not considered)  
 Dividend  
 Gain on Sale of Asset  
 Interest on Tax free Govt. Securities

8,000,000
-
25,000
-
60,000
40,000
22,000

**Gross receipts**

**8,147,000**

Minimum tax @ 0.60% on gross receipts

48,882

**Total tax liability for the year**

**464,250**

Less: Advance tax paid (as per section 64)

(40,000)

Refund of income tax adjusted

(15,000)

TDS on dividend income (assuming deducted duly @20%)

(12,000)

**Net tax liability**

**397,250**

**Q. No. 4**

Citing relevant section of the Income Tax Ordinance 1984 explain the legal measures that can be taken in each of the following circumstances:

Mr. Julmat Ali has been submitting income tax return since the assessment year 1996-97 and the assessment of his total income for all the assessment years from 1996-97 to current 2016-17 has been completed. However, in April 2017 it is unearthed by the income tax authority that -

- (a) Actually Mr. Julmat Ali had total income chargeable to tax since the income year 1993-94;
- (b) There exists definite information of escaping a certain amount of income chargeable to tax in the assessment year 2000-01;
- (c) Mr. Julmat Ali purchased a savings certificate of TK. 500,000/- in April 2010 which he did not show in the corresponding IT 10B;
- (d) Mr. Julmat Ali opened a savings account in a Bank on December 15, 2008 and the balance of this account as on June 30, 2009 was TK. 750,000/- which he did not disclose in the corresponding IT 10B.

Also citing the relevant section of the Income Tax Ordinance 1984 explain the deadline by which assessment shall be completed if legal measures are taken in the above-mentioned cases.

**[Marks: (4 x 5) = 20]**

**Solution to the Q. No. 04**

- a) Mr. Julmat Ali had taxable income in the assessment years 1994-95 and 1995-96. But he did not submit income tax returns for those assessment years and as such the assessment of his income was not made for those years. Hence, the DCT can serve notice U/S 93 and assess total income Mr. Julmat Ali for the assessment years 1994-95 and 1995-96.

Deadline by which assessment shall be completed is 2 years from the end of the year of issuing notice u/s 93 as mentioned at section 94 of ITO, 1984.

- b) Mr. Julmat Ali submitted return for the assessment year 2000-01. Consequently, the assessment was also made for 2000-01. Hence, even though concealment of income has been earthed, the DCT cannot serve notice u/s 93 to re-open the case of the assessment year 2000-01. Because the assessment year 2000-01 falls beyond six years from the current assessment year 2016-17.

- c) Mr. Julmat Ali failed to disclose all material facts necessary for the assessment year 2010-11. It falls within six years from June 30, 2017. Hence even though assessment for the assessment year 2010-11 had already been done, notice u/s 93 can be served and the case can be re-opened on the ground of concealment of income. But notice u/s 93 must be served within June 30, 2017.

Deadline by which assessment shall be completed is 2 years from the end of the year of issuing notice u/s 93 as mentioned at section 94 of ITO, 1984.

- d) This is a case of concealment. But the assessment year is 2009-10 which falls beyond six years from June 30, 2017. Hence, notice u/s 93 cannot be served and the case cannot be re-opened on the ground of concealment of income as because the assessment for the assessment year 2009-10 had already been done.



**Q. No. 5**

- (a) Name three goods which are prohibited to bring Bangladesh under section-15 of Custom Act-1969.
- (b) Discuss transaction value method and deductive value method of fixing price of imported goods according with Valuation Rules-2000 of Custom Act, 1969.
- (c) What are the major differences between New VAT systems (VAT & SD Act-2012) and Old VAT systems (VAT Act-1991)?
- (d) Describe procedure of VAT registration under Online VAT System in Bangladesh.

**[Marks: (3+5+4+3) = 15]**

**= THE END =**