

**BBS 3rd Year**  
**Model Question for Taxation in Nepal**  
**2023**

**Full Marks: 100**  
**Pass Marks: 35**

Candidates are required to give their answer in their own words as far as practicable. The figures in the margin indicate full marks.

**Attempt ALL Questions**

**Brief Answer Questions**

**(10x2=20)**

1. Write down different types of taxes.
2. What do you mean by “Tax Deduction at Source”?
3. Differentiate between income year and assessment year.
4. Explain the meaning of “Canon of Equity”?
5. What do you mean by Permanent Account Number (PAN)?
6. Briefly describe the provision related to quantification of vehicle and accommodation facilities provided to an employee.
7. Mr. Messi is Argentina citizen arrived in Nepal on 1<sup>st</sup> Shrawan of previous year and stayed here till to 30<sup>th</sup> Marg of the previous income year. During this period he provided consultation services to Nepal Football Association and earned amount Rs 400,000 here in Nepal.

**Required:** His residential status and tax liability.

8. Proprietorship firm invested Rs 500,000 on XYZ Company Ltd. In return of such investment, XYZ Company provided interest amount to Rs 50,000. What will be the tax implication of such interest income received by proprietorship firm?
9. A trading organization supplied the following information.
  - Beginning inventory of merchandise of Rs 175,000
  - Import of merchandised during the year Rs 500,000
  - Customs duty paid Rs 50,000 for merchandised products.
  - Freight charges Rs 25,000 for merchandised products.
  - Ending inventory value costing Rs 50,000 but the market value Rs 70,000.

**Required:** Cost of trading goods.

10. Susan is presumptive taxpayer has total turnover and income amount Rs.3 million and Rs 3 lacs respectively. Firm is situated in Kathmandu Metropolitan City; he claims the medical expenses and life insurance premium amount Rs.10,000 and Rs.30,000 respectively. What will be the tax implication of such presumptive taxpayer?

**Short Answer Questions: (Attempt any FIVE Questions)****[5 × 10 = 50]**

11. Suman is an Executive Director in an office. He was promoted to this post on 1<sup>st</sup> Shrawan 2078, at a salary scale of Rs 40,000-1000-43,000-EB-1500-58,000. The other details provided by him for the previous years as follows :

- Director allowance Rs 10,000 p.m.
- Remote area allowance : 20% of basic salary
- City compensatory allowance: 10% of salary and one month equal Dashain allowance.
- Meeting allowance Rs. 850 (Net) per meeting for 24 meetings
- Interest on Fixed Deposit (Net) Rs 18,800.
- Car facility with fuel but without driver. However the employer has paid driver's allowance of Rs 6,000 p.m. Where his own contribution was Rs 2,000 p.m. as agreed.
- Employer has also provided a free quarter for his accommodation.
- A gardener and a cook were also provided by the employer. Their salaries were Rs 5,000 pm and Rs 4,000 pm respectively. His contribution towards these facilities was Rs 4,000 pm and Rs 2,000 pm respectively.
- He claimed the following expenses for deduction:
- He is a member of Recognized Provident Fund contributing 10% of his salary towards this fund.
- Salary of guard Rs 1,500 p.m. who was appointed by himself.
- Donation to tax exempt organization Rs 50,000.
- Life insurance premium Rs 3,000 pm policy of Rs 800,000
- Unabsorbed medical tax credit amount Rs 2,250.

**Required:**

- a. Net (assessable) income from Employment
- b. Statement of Total Taxable Income
- c. Tax liabilities( he elected status of couple)

**[5+3+2]**

12. Given is the summarized statement of cash pertaining to an artist for the previous income year.

<b>Receipts</b>	<b>Amount</b>	<b>Payments</b>	<b>Amount</b>
To Balance b/d	450,000	By Computer purchased (Falgun )	180,000
To Receipt from script playing	500,000	By Telephone expenses	30,000
To Receipt from dance training program	200,000	By Salary to assistants	170,000
To Advisory fees	100,000	By Life insurance premium (Own)	30,000
To Dividend received	50,000	By Research and development	20,000
To Interest on investment	100,000	By Office rent	120,000
To Lottery income	50,000	By Water/Electricity expenses	50,000
To Gift from clients	50,000	By Balance c/d	900,000
<b>Total</b>	<b>1,500,000</b>	<b>Total</b>	<b>1,500,000</b>

**Further information:**

- Telephone and water/electricity expenses are used equally for professional and personal purpose.
- Compensation of Rs 200,000 for the breach of contract from a producer has not been received yet.
- Gift from clients includes Rs 2,000 bad debts recovered which is not allowed for deduction previously.
- Outstanding salaries Rs 10,000 are yet to be paid.
- Advisory fees include Rs 5,000 relating to three years ago and advance consultation fees Rs 10,000 is not included in above receipts account.

**Required:**

- a. Assessable (Net) income from profession
- b. Statement of taxable income
- c. Tax liability [6+2+2]

13. (a) A retailer paid to importer Rs 13,673 selling price including value added tax. The goods were imported by Bikash. Both the middlemen importer as well as retailer incurred packaging and administration cost Rs 1,000 and 900 respectively. Profit charged by the importer 10 percent on cost plus profit but retailer charged 15 percent on their transfer price.

**Required:**

- a. Import price of the importer
  - b. Total VAT to government. [4+1]
- (b) “Value added tax is effective only in developed countries”, comment. [3+2]

14. (a) Susan furnished you following particulars of income and expenses for the previous income year.

1. Mining rent from natural resources (TDS Rs. 90,000)	Rs 510,000
2. Royalty received (net)	Rs 85,000
3. Dividend received from foreign country	Rs 50,000
4. Interest received from financial institution after TDS	Rs 85,000
5. Having equal investment in shares, Mr. Susan and his brother they received all together Rs 100,000 as interest on investment.	
6. Gain on sales of non-chargeable business assets	Rs 1,00,000.
7. Interest received from saving deposit	Rs 47,500
8. Interest received from local money transaction	Rs 50,000
9. Dividend from domestic country	Rs 30,000
10. House rent received	Rs 90,000

He claimed the following expenses to deduct.

1. Collection charge of royalty related with natural resources Rs 3,000

2. One month equal commission paid to agent for mining rent of natural resources.
3. Health insurance premium Rs 30,000 includes Rs 5,000 as cosmetic surgery.

**Required:** Net assessable income from investment. [5]

- (b) What are the incomes that should be excluded while calculating employment income as per the section 10 of the Income Tax Act, 2058. [5]
15. State the expenses which are allowed for deduction while computing taxable income from business under Income Tax Act, 2058.
16. “Auditing begins where accountancy ends” explain.

**Long Answer Questions: (Attempt any TWO Questions)** [2 × 15 =30]

17. (a) Following are the details of the fixed assets of Sujal organization.

Particulars	Block C Rs.	Block D Rs.
Beginning WDV	500,000	500,000
New addition during the year:		
25 <sup>th</sup> Marg	180,000	90,000
10 <sup>th</sup> Magh	180,000	90,000
10 <sup>th</sup> Jestha	180,000	90,000
Disposal of the parts of assets during the year	160000	180000
Repairs and maintenance during the year	50,000	50,000

**Required:**

- a. Allowable depreciation
  - b. Value of fixed assets at the end of the fiscal year. [3+5=8]
- (b) Following are the profit and loss position of a firm for the previous income year:

Years	6	7	8	9	10
Profit or (Loss)	100,000	125,000	(50,000)	200,000	800,000

Additional information:

- a. On scrutiny, it revealed that donation 75,000 charged in the profit and loss account in the 8<sup>th</sup> year.
- b. In the 7<sup>th</sup> year profit was derived before deducting allowable depreciation expenses Rs 25,000.
- c. Profit of 9<sup>th</sup> year was derived before adjusting business income Rs 50,000.
- d. Profit of the 10<sup>th</sup> year was derived after deducting research and development cost Rs 200,000 and before deducting donation Rs 50,000.
- e. The firm had unabsorbed loss at the closing of 5<sup>th</sup> year was Rs 725,000, out of which Rs 300,000 was related to 1<sup>st</sup> year, 2<sup>nd</sup> year Rs 275,000, 3<sup>rd</sup> year Rs 100,000 and fourth and fifth year Rs 25,000 each.

**Required:** Taxable income, tax liability and giving explanation wherever is necessary. [7]

18. Given below is the trading, profit and loss account of a proprietorship organization.

Particulars	Amount	Particulars	Amount
To Opening stock	500,000	By Sales excluding VAT	8,550,000
To Purchase	5,050,000	By VAT collected from clients	300,000
To Carriage on purchase	50,000	By Closing stock	300,000
To Wages	550,000		
To Gross profit c/d	3,000,000		
	9,050,000		9,050,000
To Office rent paid	150,000	By Gross profit b/d	3,000,000
To salary	350,000	By House rent received	100,000
To General expenses	65,000	By Dividend received	50,000
To Legal expenses	20,000	By Refund of customs duty	50,000
To VAT paid to supplier	250,000	By Bad debt recovered	40,000
To Interest on bank overdraft	30,000	By Agriculture income (own hard work )	10,000
To Fine and penalties	5,000	By Rent from staff quarter	25,000
To Life insurance premium (Own)	30,000	By Speculation incomes	25,000
To Insurance premium of fixed assets	15,000	By Gain on non-chargeable business assets	100,000
To Pollution control cost	225,000		
To Depreciation ( Block – D )	50,000		
To Membership renewal charges	5,000		
To Provision for tax	10,000		
To Donation	110,000		
To Advance tax paid	20,000		
To Drawing	30,000		
To Net profit	2,035,000		
	3,400,000		3,400,000

**Further information:**

- Opening and closing stock were undervalued by Rs 30,000 and Rs 20,000 respectively.
- Legal expenses include Rs 5,000 for income tax appeal.
- Loss from business last year stood Rs 100,000.

- Purchase includes Rs 250,000, the value plant purchased on Kartik of previous year, beginning depreciation base amount of plant was Rs 50,000. No part of plant was sold during the previous year.
- 60% of donation was paid to non-approved institution by Inland Revenue Department and balance paid to TE organization.
- Seventy percent of bad debts recovered was allowed previously.
- General expenses include Rs 60,000 printing expenses paid at a time by cash, while banking facility is available within 10 KM and Rs 5,000 fine paid to the Nepal Electricity Corporation.

**Required:**

- a. Net (assessable) Income from business
  - b. Statement of total taxable Income
  - c. Tax liabilities *[10+3+2]*
19. (a) Self-assessment tax could be an effective system of tax assessment. Justify. *[8]*
- (b) Describe the installment method of tax collection as per the Income Tax Act, 2058 with example. *[7]*