

**CMA JANUARY 2022 EXAMINATION
INTERMEDIATE LEVEL-II
SUBJECT: LT234-FOUNDATION OF TAXATION, VAT AND PUBLIC FINANCIAL
MANAGEMENT**

Model Solution

Section-A

Answer of the Question No. 1

- (i) Answer (c)
- (ii) Answer (b)
- (iii) Answer (d)
- (iv) Answer (a)
- (v) Answer (c)
- (vi) Answer (a)
- (vii) Answer (d)
- (viii) Answer (d)
- (ix) Answer (a)
- (x) Answer (a)

Answer of the Question No. 2

- (a) True.
- (b) False.
- (c) False. Any dividend income by an individual from a mutual fund or a unit fund is exempted from Tax up to Tk. 25,000.
- (d) False. Unabsorbed depreciation can be carried forward for unlimited time period.
- (e) False. Anti-dumping duty is imposed as per the Customs Act, 1969.

Answer of the Question No. 3

- (1) (d)
- (2) (e)
- (3) (d)
- (4) (c)
- (5) (a)

Answer of the Question No. 4

Assessee : Mr. Aminur Rahman
Assessment Year : 2021-2022
Income Year : 2020-2021
Computation of Total Income

Particulars	Tk.	Tk.	Tk.
Income from Salary			
Basic Salary (1,20,000 X 12)		1,440,000	
(iv) House rent allowance (50,000 X 12)	600,000		
Less: Annually Tk. 3,00,000 or 50% of Basic (14,40,000 X 50%) = 7,20,000 whichever is lower	300,000		
(ii) Festival Bonus (120,000 X 2)		300,000	
(i) Medical allowance (15,000 X 12)	180,000	240,000	
Less: 10% of Basic (14,40,000 X 10%) = 144,000 or Tk. 1,20,000 annually, whichever is lower	120,000		

(v)	Full time conveyance (5% of Basic 14,40,000 X 5% I.e. Tk. 72,000 or Tk. 60,000 whichever is higher)		60,000	
(vi)	Entertainment allowance (8,000 X 12)		72,000	
(vii)	Travel Allowance	45,000	96,000	
Less:	Exempted	45,000	-	
(viii)	Commission (40,00,00,000 X 0.10%)		400,000	
(ix)	Leave encashment		80,000	
	Income from Salary			2,688,000
Income from House Property:				
	Actual Rental value (60,000 X 12)	720,000		
Less:	Tenant's expenses paid by the owner	20,000	700,000	
	Municipal Value		680,000	
	Annual Value (Higher of actual rent and Municipal Value)		700,000	
	Unspent amount of repair and maintenance expense		19,000	
			719,000	
Less:	Admissible Expenses:			
	Repair and maintenance (700,000 X 25%)	175,000		
	City corporation tax	40,000		
	Fire insurance premium	35,000		
	interest on DBH Loan	80,000		
			330,000	
				389,000
Interest on Securities:				
	Interest on Tax exempt Govt Securities	30,000		
Less:	Exemption	30,000		
			-	
	Interest on Taxable Govt Securities (300,000 X 15%)		45,000	
	Interest on Debenture		10,000	
	Discount on zero coupon bond	20,000		
Less	Exemption	20,000		
			-	
				55,000
	Total Income			3132000

Tax Calculation

	Rate	Tax (Amount)
For the First Tk. 300,000 total income		
For the next Tk. 1,00,000 total income	5%	5,000
For the next Tk. 3,00,000 total income	10%	
For the next Tk. 4,00,000 total income	15%	60,000
For the next Tk. 5,00,000 total income	20%	100,000
For the rest Tk. 15,32,000 total income	25%	383,000
Tax Payable		548,000

Investment	
Insurance Premium	50,000
Purchase of Savings Certificate	500,000
Donation to Prime Minister Relief Fund	50,000
Contribution to Deposit Pension Scheme	60,000
Donation to Zakat Fund	30,000
Actual Investment	690,000
Allowable investment 25% of income (31,32,000 X 25% = Tk. 7,83,000 or Actual investment Tk. 6,90,000 or Tk. 1,50,00,000, whichever is lower	690,000

Particulars	
Tax on Income	548,000
Less: Investment Tax Credit (690,000 X 10%)	69,000
Net Tax Liability	479,000

Working Note:

- (i) Contributory Provident Fund is not recognized, hence employer's contribution is not included in Income from salary.
- (ii) Expense for. Installation of Electricity is capital in nature, hence not allowable against H P Income.
- (iii) Unspent repair and maintenance = 175,000 - (120,000 + 36,000) = 19,000

Answer of the Question No. 5

Assesse: Delta Enterprise Limited
Assessment Year : 2021-2022
Income Year : 2020-2021
Computation of Total Income

Particulars	Tk.	Tk.
Net Profit as per Profit and Loss Account		2,700,000
Add: Inadmissible expenses:		
Provision for Sales Commission	3,000,000	
Subscription paid to the Association	500,000	
Advertisement (For 4 years)	160,000	
Loss on Sale of Investment	200,000	
Income tax	400,000	
Provision for Bad Debt	600,000	
Loss on Stock destroyed by fire	400,000	
Charity	400,000	
Loss on Revaluation	500,000	
Depreciation	1,500,000	
Fines for violation of Customs Act	300,000	
Commission : Managing Agency	300,000	

Provision for Taxation	800,000	
		9,060,000
		11,760,000
Less: Admissible Expenses:		
Commission	1,000,000	
Depreciation	800,000	
Bad debt	200,000	
		2,000,000
		9,760,000
Less: Non-business income:		
Share Premium	400,000	
Income Tax Refund	140,000	
Dividend	400,000	
Interest on Taxable Commercial Security	820,000	
		1,760,000
Income from Business		8,000,000
Add: Non-business income:		
Dividend	400,000	
Interest on Taxable Commercial security	820,000	
		1,220,000
Total Income		9,220,000

Tax Liability			
Particulars	Gross Income	Tax Rate	Amount of Tax
1 Tax on Business Income (80,00,000 + 8,20,000)	8,820,000	30.00%	2,646,000
2 Dividend Income	400,000	20%	80,000
Tax Liability			2,726,000

Answer of the Question No. 6

AS & AA International

Income Year: 2020-21
Assessment Year: 2021-22

Particulars	TK.	TK.
Net Income as per accounts		1,000,000
Add: Inadmissible expenses:		
Travelling expenses	15,000	
Salary of GM	192,000	
Trademark	10,000	
Patent	50,000	
Depreciation	30,000	
Legal expenses	32,000	
Miscellaneous	18,000	
Promotional expenses	22,000	
Bad Debt	20,000	
Salary to MR. AS	120,000	
Commission to AA	60,000	
Interest on Capital: AA and AS	22,000	
Interest on Loan to AS	8,000	
		599,000

		1,599,000
Add: Income not recorded		60,000
Less: Inadmissible expenses Obsolescence losses of Motor car		10,000
		1,649,000
Less: Non-Business Income		
Interest on securities	60,000	
Income from House property	300,000	
Income from sale of Tea	168,000	528,000
Total Business Income		1,121,000
Non Business Income:		
Income from tax exempted government securities 10,000		0
Less: Fully exempted <u>10,000</u>	=	52,632
Interest on Commercial securities		225,000
Income from House property 300,000		<u>67,200</u>
Less: Repair and Maintenance <u>75,000</u>	=	
Income from sale of Tea 168,000		
Less: Cost of Production <u>100,800</u>	=	
Total Taxable Income of the firm		<u>1,465,832</u>

Allocation of Firm's Income to the Partners

	MR. AS	MR. AA	Total	Amount to be distributed
Amounts to be distributed				1,465,832
Salaries	120,000		120,000	1,345,832
Commission		60,000	60,000	1,285,832
Interest on Capital	12,000	10,000	22,000	1,263,832
Interest on Loan	8,000		8,000	1,255,832
Profit allocation	627,916	627,916	1,255,832	
Total Amount	<u>767,916</u>	<u>679,916</u>	<u>1,465,832</u>	

Taxable Income of the Partners:

	Mr. AS	Mr. AA
Total taxable Income	915,196	810,416

Tax Liability of the Firm

Slab	Rate	Amount
First 300,000	0%	0
Next 100,000	5%	5,000
Next 300,000	10%	30,000
Next 400,000	15%	60,000
On Balance 365832	20%	73,166
Total Tax Liability		<u>168,166</u>

Minimum Tax Liability: 19,000,000@.60% = 114,000 TK.

So, minimum tax is not applicable.

Tax Liability of the partners:

Slab	Mr. AS	Mr. AA	Rate	Mr. AS	Mr. AA
First 300,000	300,000	300,000	0%	0	0

Next 100,000	100,000	100,000	5%	5,000	5,000
Next 300,000	300,000	300,000	10%	30,000	30,000
Next 400,000	215,196	110,416	15%	32,273	16,562
Total	915,196	810,416		67,279	51,562
Less: Tax Rebate				56,452	44,404
Net tax liability of the partners				10,827	7,158

Answer of the Question No. 7

(c)

i) Compliance Audit

Compliance Audit (CA) focuses on whether a particular subject matter is in compliance with authorities identified as criteria. The subject matter of the compliance audit is determined by the audit scope and objective.

Compliance audit may be concerned with regularity i.e. adherence to formal criteria of laws, rules and regulations or agreements. It may be concerned with propriety i.e. observance of general principles of sound public sector management, the conduct of public officials or canons of financial propriety.

ii) Financial Audit

Financial Audits (FA) are attestation engagement. The subject matters (financial position, financial performance, cash flow statement, Owner's equity statement) of financial audits recognized and measured against the criteria of financial reporting framework by the responsible party who presents the financial statements which are treated as subject matter information.

iii) Performance Audit

Performance Audit (PA) focuses on whether interventions, programmes, and institutions are performing in accordance with the principles of economy, efficiency, and effectiveness and whether there is room for improvement. The subject matter of a performance audit is defined by the audit objectives.

(d) PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation. A large number of actors engage in this 'PFM cycle' to ensure it operates effectively and transparently, while preserving accountability.

Key Processes:

i) Macroeconomic Forecasting.

ii) Budget Preparation

iii) Budget Execution

iv) Accounting and Fiscal Reporting

v) Cash Management

vi) Debt Management

vii) Revenue Administration

viii) Auditing.

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