



The Institute of  
Chartered Accountants  
of Pakistan

## Certified Finance and Accounting Professional Stage Examination

19 December 2023  
3 hours and 30 minutes – 100 marks

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### Tax Planning and Practices

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CRN:

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Name: \_\_\_\_\_

#### INSTRUCTIONS

Please carefully read the following instructions:

1. You are required to access your answer working area by using your Student ID and Password as mentioned on your Admit Card.
2. The overall duration of the exam is 3 hours and 30 minutes, which includes the 15-minute reading time and an extra 15 minutes of time that has been allocated due to the introduction of computer-based examinations, for the Winter 2023 examinations only.
3. All questions are compulsory.
4. Questions can be attempted in any sequence.
5. There is no specific time allocated for individual questions.
6. An auto-save function runs every minute. Further, your answers are saved automatically when you navigate between questions or click on the > (**NEXT**) or < (**BACK**) symbols.
7. Each question provides an answer area with a Rich Text Format (RTF) editor for writing your answers. Additionally, below the RTF editor, a spreadsheet is provided to facilitate examinees in doing rough calculations or other workings. **However, please note that any work performed in the spreadsheet will not be considered for marking. To ensure your work is considered, you must copy and paste it from the spreadsheet to the RTF editor.**
8. Work done in the spreadsheet of one question can also be copied into the RTF editor of the same or another question.
9. You may use Microsoft Office applications such as MS Word or MS Excel for rough working. However, please remember that any work performed in these applications cannot be copied into the examination software, and vice versa. Furthermore, any such work will not be uploaded with your exam for marking.
10. You may use pen and paper for rough work, but please note that pen and paper work should only be done on the last two pages of the question paper that are specifically allocated for this purpose. Remember that any rough work done on these pages will not be uploaded with your exam for marking.
11. In accordance with the open book policy of this paper, you are allowed to use only digital copies of the permissible books. Keeping a hard copy of any book or notes is not permissible and will be considered a violation of the use of unfair means policy, leading to disciplinary action.
12. An external calculator can be used, provided it is included in the list of permissible calculators issued by ICAP.
13. During the exam, access to any website other than Assessment Master and the digital copies of permissible books is strictly prohibited. Engaging in such activities will be considered a violation of the use of unfair means policy, leading to disciplinary action.

- Q.1 Iman Limited (IL), a listed company, is engaged in the production and trading of various leather goods. IL operates five retail outlets located in Karachi and is registered with the sales tax authorities as a Tier-1 retailer. The following information has been extracted from IL's records for the year ended 30 September 2023:

	Rs. in million
Sales – (net of sales tax)	272
Cost of sales	(193)
<b>Gross profit</b>	<b>79</b>
Administrative and selling expenses	(49)
Other income	10
<b>Profit before taxation</b>	<b>40</b>

**Additional information:**

- (i) Sales include a sum of Rs. 8.91 million (net of withholding tax) received from the sale of leather jackets to Baramad Enterprises, which is registered under the Duty and Tax Remission for Export Rules, 2001. IL manufactured these jackets at a cost of Rs. 6.3 million. No other expenditure was incurred by IL on these jackets.
- (ii) Cost of sales include accounting depreciation of Rs. 12 million. Tax depreciation for the year amounted to Rs. 15.3 million.
- (iii) Administrative and selling expenses include:
- Rs. 0.5 million in respect of technical books purchased to enhance IL's production processes.
  - Rs. 0.6 million for the purchase of point-of-sale machines, which were installed in all outlets on 1 October 2022, to integrate with the FBR's computerized system for real-time reporting of sales.
  - a bad debt of Rs. 4 million, with the opening and closing balances of the provisions for bad debts account standing at Rs. 7.7 million and Rs. 6.6 million, respectively.
  - Rs. 18 million in relation to an advertising campaign, launched on 20 July 2023. IL expects to receive its benefits over the years.
- (iv) Other income comprises of:
- dividend-in-specie received on 1 December 2022 in the form of 35,000 shares in a listed company, Munafa Limited (ML). The dividend income was recorded by IL at Rs. 45 per share. A tax of Rs. 0.236 million was collected from IL in respect of this dividend-in-specie. On 1 May 2023, IL sold 15,000 shares in ML at Rs. 48 each. The gain of Rs. 0.045 million from this sale is also included in other income.
  - share of profit of Rs. 8.38 million from an associate, Tijarat Limited (TL), recorded under equity method of accounting. IL holds 1 million shares representing 20% shareholding in TL.  
During the year, TL paid dividend of Rs. 5 per share to its shareholders. The turnover of TL during the year amounted to Rs. 380 million.
- (v) Following are the details of losses brought forward from previous years:

	Rs. in million
Loss from business relating to the tax year 2021	4
Unabsorbed tax depreciation	22
Capital losses on sale of listed securities relating to:	
▪ tax year 2020	1
▪ tax year 2021	2

**Required:**

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder, compute under the correct head of income, the total income, taxable income and tax liability of IL for the tax year 2024.

(21)

- Note:**
- Ignore WWF and WPPF.
  - Show all relevant exemptions, exclusions and disallowances.

- Q.2 Green Bike (Private) Limited (GBPL) is considering to start the business of manufacturing motorcycles. It has a plan to sell the motorcycles to dealers, who will then subsequently sell them to end-customers at retail price. During a recent board meeting, the following extracts have been presented to the board:

**Details of total projected sales for the first year:**

Dealer name	Registered under Sales Tax Act, 1990 and appearing in Active tax payers' list	Projected sales (Rs. in million)
A	No	600
B	Yes	435
C	No	625
D	No	90
		<b>1,750</b>

**Other information:**

Projected deductible expenses for the first year (Rs. in million)	1,590
Dealer price per motorcycle (Rs.)	175,000

In addition, the dealer would be entitled to a commission of Rs. 5,000 per motorcycle.

During the meeting, the finance director raised a concern that since most of the dealers are unregistered under the Sales Tax Act, 1990, there could be certain disallowance of expenses and addition to income for GBPL under the Income Tax Ordinance, 2001, due to making sales through them.

**Required:**

- (a) Comment on the concern raised by the finance director in the light of Income Tax Ordinance, 2001. Support your comments with all possible computations. (11)
- (b) Explain whether there are any implications for GBPL in respect of supplies to unregistered dealers in the light of Sales Tax Act, 1990. (04)
- Q.3 Karam Limited (KL) is a trading company which follows a normal tax year. The following information has been extracted from the records of KL:

	Up to 30 November 2023	Tax year 2024 (Estimate)
	----- Rs. in million -----	
Sales	450	1,050
Cost of sales	(280)	(630)
<b>Gross profit</b>	<b>170</b>	<b>420</b>
Administrative and selling expenses	(100)	(210)
Finance cost	(30)	(60)
<b>Net profit before tax</b>	<b>40</b>	<b>150</b>
Inadmissible expenses	16	35
Withholding tax deductions:		
▪ Under section 153(1)(a)	5	11
▪ Under section 152	2	5
▪ Under section 147 (Note)	4	4

**Note:** This represents the tax liability paid for the quarter ended 30 September 2023, which was computed on the basis of tax assessed on the prior year's turnover at 2%.

Assume that the turnover for the month of December 2023 amounts to Rs. 95 million.

**Required:**

In the light of the provisions of Income Tax Ordinance, 2001, compute the advance tax liability of KL for the quarter ending 31 December 2023. *(Ignore minimum tax and super tax)* (07)

- Q.4 Muslim Sports Limited (MSL), an unlisted company, is engaged in the business of manufacturing and selling sports items. It was incorporated on 1 October 2022 with share capital of Rs. 102 million. It operates as a subsidiary of Baka Corporation, a Filipino company, which holds a 52% shareholding in MSL.

MSL recently appointed a tax manager who has submitted the following initial draft of MSL's tax computation for the year ended 30 September 2023, along with accompanying notes, for management's approval:

<b>Income from business:</b>	<b>Note</b>	<b>Rs. in million</b>
Sales (including exports of Rs. 40 million)		234.00
Expenses	(i)	(181.87)
Other income		15.00
<b>Profit before taxation</b>		<b>67.13</b>
Add/(Less): Inadmissible expenses / (income)		
Other income being subject to tax under separate block of income	(ii)	(15.00)
Interest expense paid to Baka Corporation	(iii)	8.10
Warehouse rent	(iv)	5.40
<b>Taxable income for the year</b>		<b>65.63</b>
<b>Tax liability:</b>		
Normal tax regime @ 29%		19.03
Separate block of income @ 5%		0.75
<b>Total tax liability</b>		<b>19.78</b>

**Notes to the tax computation:**

- (i) MSL incurred an exchange loss of Rs. 1.2 million in relation to machinery acquired on 1 November 2022, from the USA through a short-term foreign currency loan of USD 36,000. The loan was repaid on 30 April 2023.
- (ii) A gain of Rs. 15 million was realized from the sale of an office building to a Rental REIT Scheme at Rs. 115 million on 1 May 2023. MSL had acquired this building in November 2022 for Rs. 100 million.
- (iii) A mark-up of Rs. 8.1 million incurred on a loan denominated in USD equivalent to Rs. 180 million, obtained on 1 April 2023, from Baka Corporation. The repayment of the principal is scheduled to commence in March 2025.
- (iv) This represents the annual rent payable in arrears to the landlord for a warehouse obtained in Hyderabad. The rent is due on 1 October 2023. MSL has not paid any withholding tax on this amount.

**Required:**

Under the provisions of the Income Tax Ordinance, 2001 and Rules made thereunder:

- (a) discuss the tax regimes available to MSL for determining its tax liability. (09)
- (b) comment on each note to the tax computation, prepared by the tax manager for the tax year 2024. Assume that MSL plans to file its return under the normal tax regime. (12)

**Note:** ▪ *Revised computation of taxable income and tax liability is not required.*  
 ▪ *Ignore WWF and WPPF.*

- Q.5 Moin Limited (ML) is an audit and tax client of Hashim & Co., Chartered Accountants (the firm). The ML's amended assessment proceedings for the tax year 2021 are ongoing, and the firm has filed an appeal with the Appellate Tribunal (ATR). ML has offered a fee of Rs. 1 million for this engagement, along with an additional bonus of 25% if the matter is resolved in ML's favour.

**Required:**

In light of the ICAP's Code of Ethics, discuss the potential threats that the firm may face in the above situation and how these threats should be responded to. *(Your answer should be limited to the threats faced by the tax department and the tax partner)* (06)

- Q.6 (a) Rabia operates a business of selling homemade spices through Easy Foods (EF), an online food delivery platform, which is registered with the sales tax authorities and has its head office in Faisalabad. She receives orders from EF's online platform, which are collected by EF's riders and delivered to the customer. To support her business, she has hired two employees. Below is an extract from Rabia's business records for the year ended 30 November 2023:

	<b>Rupees</b>
Sales	4,500,000
Cost of sales	(1,920,000)
Commission to EF (20%)	(900,000)
<b>Profit</b>	<b>1,680,000</b>

Rabia is considering expanding her business to sell her products in Australia, with the help of her cousin, Fatema, who lives there.

**Required:**

In the light of the provisions of Sales Tax Act, 1990 and Rules made thereunder, discuss whether Rabia's business is required to be registered with the sales tax authorities. (04)

- (b) Aqua Enterprise (AE) is a registered person under the Sales Tax Act, 1990, and is engaged in the business of manufacturing and supplying electric coolers. AE has received two notices from the sales tax authorities regarding the following transactions:
- (i) On 1 August 2023, AE supplied taxable goods worth Rs. 2.8 million to one of its associates at a concessional price of Rs. 2.1 million. However, AE inadvertently failed to levy sales tax or issue a sales tax invoice for the supply. On 10 December 2023, the Assistant Commissioner Inland Revenue served a notice requiring AE to show cause for the non-payment of the amount specified in the notice.

AE intends to make the payment on 20 December 2023 and seeks clarification on the exact amount owed to the sales tax authorities.

**Required:**

Under the Sales Tax Act, 1990, compute the amount of sales tax payable by AE. (05)

- (ii) AE placed five electric coolers worth Rs. 200,000 at a leading departmental store for advertisement purposes and received a security deposit of Rs. 100,000. On 9 December 2023, AE received a notice from the Deputy Commissioner Inland Revenue, demanding payment of Rs. 54,000 for sales tax on the electric coolers and security deposit.

**Required:**

Under the Sales Tax Act, 1990, advise on the legality of the notice issued by the Deputy Commissioner Inland Revenue. (03)

- Q.7 Craft Cove (CC) is engaged in the business of manufacturing and supplying furniture. It also operates two retail outlets in Lahore, and is registered with the Sales Tax Authorities as an importer, manufacturer and retailer. Both the retail outlets of CC are integrated with the Board's computerized system, enabling real-time reporting of sales. The following information has been extracted from CC's records for the month of November 2023:

	Rs. in million
<b>Purchases</b>	
From registered suppliers	261.0
Imports	40.0
<b>Supplies</b>	
To registered persons	104.5
To unregistered persons	80.0
Exports of manufactured furniture to USA	52.0

**Additional information:**

- (i) Purchases from registered suppliers comprise the following:
- Hardwood worth Rs. 80 million.
  - Bulk packaging for wood polish at Rs. 38 million (net of a 10% trade discount and a 5% cash discount). The retail price of the polish is Rs. 50 million.
  - Milling machine under a hire purchase agreement, signed during the month. The fair market value of the machine on the date of the agreement was Rs. 85 million, and CC is to make payments in 20 equal monthly instalments of Rs. 5 million. The machine will be delivered to CC in December 2023.
  - Artificial leather worth Rs. 38 million for use as tapestry for sofa sets, sourced from a local manufacturer cum retailer. The retailer is integrated with the Board's computerized system for real-time reporting of sales and maintains a 10% value addition on its sales.
  - Hand carved wooden doors worth Rs. 20 million from a local carpenter located in FATA.
- (ii) Imports comprise the following:
- Specialized foam worth Rs. 28 million for use in executive chairs for office use. The retail price of this type of foam is Rs. 30 million.
  - Ready to assemble (RTA) furniture worth Rs. 12 million.
- (iii) Supplies to registered persons comprise the following:
- Household furniture worth Rs. 78 million to an interior design firm. 60% of the furniture was delivered during the month, and the remaining will be delivered after two months.
  - Furniture worth Rs. 1.5 million as donation to a welfare organization.
  - Office furniture worth Rs. 25 million to Shehzor Limited, which was blacklisted during the last month.
- (iv) Supplies to unregistered persons comprise furniture worth Rs. 80 million sold to end consumers through CC's retail outlets.
- (v) An amount of Rs. 4.5 million was paid to a digital marketing agency in Singapore for advertisement services.

**All the payments were made through cross cheque / pay order. All the above figures are exclusive of sales tax, unless specified otherwise.**

**Required:**

In light of the provisions of the Sales Tax Act, 1990 and the Rules made thereunder, compute the amount of sales tax payable by or refundable to CC and the amount of input tax to be carried forward, if any, for the tax period November 2023. *(Show all relevant exemptions, exclusions and disallowances)*

(18)

(THE END)