Income Tax Expert Job Interview Questions And Answers

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Income Tax Expert Interview Questions And Answers Guide.

Question - 1:

Explain me what is alternative minimum tax (AMT)?

Ans:

The Alternative Minimum Tax (AMT) is a way to restrict wealthy taxpayers from tax evasion. AMT uses a separate set of rules to calculate taxable income after allowed deductions. This is generally for higher income group as AMT sets a limit on certain benefits that reduces a taxpayer's regular tax amount. As a result, if the benefits on tax reduce total tax below AMT limit, taxpayer has to pay the higher AMT amount.

View All Answers

Question - 2:

What is Previous Year?

Ans:

Previous Year is the year in which the income earned becomes taxable in the following assessment year. It can be stated as the Financial year preceding the Assessment year. For example- If the present assessment year is 2015-16 then the previous year will be 2014-2015.

View All Answers

Question - 3:

Do you know what is Taxation?

Ans:

Taxation is one of the mode used by the government to finance their expenditure by imposing charges on citizens and corporate entities. Government levy tax on citizens to encourage or discourage certain economic decisions.

View All Answers

Question - 4:

What is financial year?

Ans:

A twelve month period starting from 1 April and ending at 31 March which is used for calculating various annual financial statements in businesses and organization is known as financial year.

View All Answers

Question - 5:

Tell me what do you mean by fair rent?

Ans:

Fair rent is the rent charged for a private property that is fixed and registered by a rent officer. Fair rent is decided on the basis of size, condition, and usefulness of the property. Fair rent is calculated in place of mortgage interest, other financing costs and depreciation related to certain property, including land, buildings and non movable equipment. It is calculated only once; at the time the facility begins operation.

View All Answers

Question - 6:

What is the term person?

Ans:

A "person" means an individual, an ordinary partnership, a non-juristic body of person and an undivided estate. The term "person" under the Income Tax Act includes an individual, a Hindu Undivided Family, a Company, a Firm, an Association of Persons, a Local Authority and Artificial Juridical persons.

View All Answers

Question - 7:

Do you know what is reserves and surpluses?

Ans:

Reserves and Surpluses indicate that portion of the earnings, receipt or other surplus of the company appropriated by the management for a general or specific purpose other than provisions for depreciation or for a known liability. Reserves are classified as: Capital Reserve and Capital Redemption Reserve.

View All Answers

Question - 8:

Explain me which income is considered as accrued income?

Ans:

Income which has been earned but not yet received is known as accrued income. Income is recorded in the same accounting period in which it is earned rather than in the subsequent period in which it will be received.

View All Answers

Question - 9:

Do you know what is balanced Capitalization?

Ans:

Capitalization is a collection of share capital, loans, reserves and debentures. It represents permanent investment in companies and it also removes the need of long-term loan plans. It is used to show the reality of the industry by promoting competition, development, profit and investment between individuals, companies and businesses. Balance capitalization is part of this Capitalization only where it is compared to the relative importance, value and other things to make it proportionate in every sense. In balance capitalization debits and credits should be equal on both sides and the share should be shared among all in equal proportions.

View All Answers

Question - 10:

Please explain explain deferred tax asset?

Ans:

When a firm has overpaid on taxes then the amount is recorded in the balance sheet as deferred asset tax which is also known as provision for future taxation. Deferred tax asset arises when the firm, pays taxes early or have paid excess of tax and is entitled to get some money back from the tax authorities.

View All Answers

Question - 11:

Tell us who are resident but not ordinary resident?

Ans:

A resident but not ordinary resident is the one who is not the resident in India for 9 out of the 10 preceding previous years or he has during the 7 preceding years been in India for a period of, or period amounting to 729 days or less.

View All Answers

Question - 12:

Tell me do you know what is goodwill?

Ans:

Goodwill is an asset that captures excess of the purchase price over fair market value of an acquired business. Let's walk through the following example: Acquirer buys Target for $500m in cash. Target has 1 asset: PPE with book value of $100, debt of $50m, and equity of $50m = book value (A-L) of $50m.
* Acquirer records cash decline of $500 to finance acquisition
* Acquirer's PP&E increases by $100m
* Acquirer's debt increases by $50m
* Acquirer records goodwill of $450m

View All Answers

Question - 13:

Tell me at what rate firms are required to pay tax on their income?

Ans:

Income Tax is paid at 30% of taxable income. Surcharge is charged at 10% of the Income Tax, where taxable income is more than Rs. 1 crore. (Marginal Relief in Surcharge, if applicable) and Education Cess is 3% of the total of Income Tax and Surcharge.

View All Answers

Question - 14:

Do you know what is Permanent Account Number (PAN)?

Ans:

Permanent Account Number (PAN) is a ten-digit alphanumeric number, which is issued by the Income Tax Department in the form of laminated card as PAN enables the department to link all kinds of transactions of the person with the department. Transactions include tax payments, TDS/TCS credits, returns of income/wealth/gift/FBT, specified transactions, correspondence, etc. PAN helps the department in maintaining a fair record of every persons transactions through a ten digit number in order to avoid tax evasion in any case.

View All Answers

Question - 15:

Do you know what is deferred tax?

Ans:

A tax liability that a company has to pay but does not pay at that current point and it will be responsible for paying it in future is termed a deferred tax. Deferred tax occurs due to the difference in a company's balance sheet, due to the differences between accounting practices and tax regulations.

View All Answers

Question - 16:

Tell me what is opportunity Cost?

Ans:

Opportunity Cost is the cost incurred by the organisation when one alternative is selected over another. For example: A person has Rs. 100000 and he has two options to invest his money, either invests in fixed deposit scheme or buy a land with the money. If he decides to put is money to buy the land then the loss of interest which he could have received on fixed deposit would be an opportunity cost.

View All Answers

Question - 17:

Please explain us are you a team player?

Ans:

Almost everyone says yes to this question. But it is not just a yes/no question. You need to provide behavioral examples to back up your answer.
A sample answer: "Yes, I'm very much a team player. In fact, I've had opportunities in my work, school and athletics to develop my skills as a team player. For example, on a recent project..."
Emphasize teamwork behavioral examples and focus on your openness to diversity of backgrounds. Talk about the strength of the team above the individual. And note that this question may be used as a lead in to questions around how you handle conflict within a team, so be prepared.

View All Answers

Question - 18:

Please explain what is luxury tax?

Ans:

A tax imposed on goods and services that are non-essential or not included in the necessities. Luxury tax is included in the indirect tax and is incurred by those who purchase or use the product. Ad valorem tax or progressive tax are some luxury tax that is imposed on high priced goods such as cars above a certain value or engine size, villas etc.

View All Answers

Question - 19:

Differentiate between Financial Year, Assessment Year and Previous Year?

Ans:

Assessment year and previous year are the types of financial year which consists of twelve months starting from 1 April to 31 March. Previous financial year is the preceding year of assessment financial year.

View All Answers

Question - 20:

What is Assessment Year?

Ans:

Assessment year is the period that starts from 1 April and ends on 31 march. It is the year immediately succeeding the financial year wherein the income of the previous financial year is assessed. Government use assessment year for calculating tax on the previous year.
For example : If the current assessment year is 2015-16, which starts from I April 2015 and ends on 31 March 2016. To this assessment year financial year is 2014-15, starting from I April 2014 and ends on 31 March 2015. You will be calculating income tax for financial year in the assessment year.

View All Answers

Question - 21:

What is your greatest strength as Income Tax Expert?

Ans:

This is your time to shine. Just remember the interviewer is looking for work related strengths. Mention a number of them such as being a good motivator, problem solver, performing well under pressure, being loyal, having a positive attitude, eager to learn, taking initiative and attention to detail. Whichever you go for, be prepared to give examples that illustrate this particular skill.

View All Answers

Question - 22:

Explain me what is capitalization? What is its importance?

Ans:

Capitalization is a term which has different meanings in both financial and accounting context. Capitalization in accounting means the cost to buy an asset which is included in the price of the asset whereas in financial terms it is the cost which is required to buy an asset which includes price of a particular asset and it also include the retained earnings of a company with stock debt and long term debt. There are two kinds of capitalization which are called as Over-capitalization and another is called as Under-capitalization. Capitalization is very import aspect in determining the value of the company in the market which is based on the economic structure of the company. This aspect depends on the previous records and economics of the company. This also shows a particular behaviour of the companies structure and allows them to create a plan to do the marketing.

View All Answers

Question - 23:

Regarding salary, what are your expectations as Income Tax Expert?

Ans:

This question is always a tricky one and a dangerous game to play in an interview. It is a common mistake to discuss salary before you have sold yourself and like in any negotiation, knowledge is power. Do your homework and make sure you have an idea of what this job is offering. You can try asking them about the salary range. If you want to avoid the question altogether, you could say that at the moment, you are looking to advance in your career and money isn't your main motivator. If you do have a specific figure in mind and you are confident you can get it, then it may be worth going for.

View All Answers

Question - 24:

Tell me suppose if a NRI buys property in India, does he has to pay property tax?

Ans:

Any income or capital gain that the NRI generates from the sale/ rent or lease of a valued property or an asset based in India will be taxed as per the Income Tax rules. f the property is more than 3 years old, long term capital gains tax will be incurred on the sale of the property. On long term capital gains, tax is payable at 20%.

View All Answers

Question - 25:

Please explain what is tax audit?

Ans:

A tax audit is assessment of an organization's or individual's tax return by Internal Revenue Service (IRS) in order to find out that the income and deductions are recorded accurately.

View All Answers

Question - 26:

Please explain what is the difference between costing and cost accounting?

Ans:

Costing is the process of ascertaining costs whereas cost accounting is the process of recording various costs in a systematic manner, in order to prepare statistical date to ascertain cost.

View All Answers

Question - 27:

Do you know how is the income statement linked to the balance sheet?

Ans:

Net income flows into retained earnings.

View All Answers

Question - 28:

Tell me what is Entertainment Tax?

Ans:

Entertainment tax is imposed on every financial transaction that is related to entertainment such as movie tickets, major commercial shows and big private festivals, amusement parks, video games, exhibitions, celebrity stage shows, sports activities etc.
As per the Indian Constitution, entertainment is included in List 2. Revenue collected from entertainment tax is reserved primarily for the state governments.

View All Answers

Question - 29:

What is your biggest weakness as Income Tax Expert?

Ans:

This is a challenging question-as if you have no weaknesses you are obviously lying! Be realistic and mention a small work related flaw. Many people will suggest answering this using a positive trait disguised as a flaw such as "I'm a perfectionist" or "I expect others to be as committed as I am." I would advocate a certain degree of honesty and list a true weakness. Emphasize what you've done to overcome it and improve. This question is all about how you perceive and evaluate yourself.

View All Answers

Question - 30:

Do you know what is Excise & Service Tax? What is the difference?

Ans:

Excise tax is an indirect tax that is imposed on the manufacture, sale or use on certain types of goods and products. Excise taxes are generally imposed on goods such as cigarettes or alcohol, also in the price of an activity such as gambling. Excise taxes may be imposed by both Federal and state authorities.
Service tax is an indirect tax imposed by the government on service providers on certain service transactions, but is actually paid by the customers. Services provided by air-conditioned restaurants and short term accommodation provided by hotels, inns, etc are included in the taxable services.
The major difference between excise tax and service tax is that excise tax is charged on manufactured goods and sales tax is imposed on certain services provided.

View All Answers

Question - 31:

Tell us who are non resident?

Ans:

An individual who does not fulfill the below mentioned conditions in that previous year will be considered as Non Resident:
1. You have to be in India atleast 182 days in that year, OR
2. You have to atleast be in India for 365 days during 4 years preceding that year and atleast 60 days in that year.

View All Answers

Question - 32:

Please explain what is a deferred tax liability and why might one be created?

Ans:

Deferred tax liability is a tax expense amount reported on a company's income statement that is not actually paid to the IRS in that time period, but is expected to be paid in the future. It arises because when a company actually pays less in taxes to the IRS than they show as an expense on their income statement in a reporting period.
Differences in depreciation expense between book reporting (GAAP) and IRS reporting can lead to differences in income between the two, which ultimately leads to differences in tax expense reported in the financial statements and taxes payable to the IRS.

View All Answers

Question - 33:

Explain me how has your education prepared you for your career as Income Tax Expert?

Ans:

This is a broad question and you need to focus on the behavioral examples in your educational background which specifically align to the required competencies for the career.
An example: "My education has focused on not only the learning the fundamentals, but also on the practical application of the information learned within those classes. For example, I played a lead role in a class project where we gathered and analyzed best practice data from this industry. Let me tell you more about the results..."
Focus on behavioral examples supporting the key competencies for the career. Then ask if they would like to hear more examples.

View All Answers

Question - 34:

Please walk me through a cash flow statement?

Ans:

A. Start with net income, go line by line through major adjustments (depreciation, changes in working capital and deferred taxes) to arrive at cash flows from operating activities.
* Mention capital expenditures, asset sales, purchase of intangible assets, and purchase/sale of investment securities to arrive at cash flow from investing activities.
* Mention repurchase/issuance of debt and equity and paying out dividends to arrive at cash flow from financing activities.
* Adding cash flows from operations, cash flows from investments, and cash flows from financing gets you to total change of cash.
* Beginning-of-period cash balance plus change in cash allows you to arrive at end-of-period cash balance.

View All Answers

Question - 35:

Do you know what is cost accountancy? What are the objects of Cost Accountancy?

Ans:

Cost accountancy is the application of costing and cost accounting principles, methods and techniques to the science, art and practice of cost control and the ascertainment of profitability as well as the presentation of information for the purpose of managerial decision making.
Following are the objects of Cost Accountancy
* Ascertainment of Cost and Profitability
* Determining Selling Price
* Facilitating Cost Control
* Presentation of information for effective managerial decision
* Provide basis for operating policy
* Facilitating preparation of financial or other statements

View All Answers

Question - 36:

Tell me how many heads are there under total income?

Ans:

There are five heads under total income. They are
* Income from Salaries
* Income from house property
* Profits and gains of business or profession
* Capital gains
* Income from other sources

View All Answers

Question - 37:

What is Amortization & Impairment?

Ans:

When the assets of the company are written off over a number of years for the purpose of their replacement or renewal and not depending on the life of asset is termed as amortization. It is different from depreciation, which is periodic writing off of the asset based on its normal life expectancy.

Impairment can be termed as the fall in the value of the asset due to any physical damage to the asset, obsolescence, or due to technological innovation. Impairments can be written off. Simply you can say that impairment is the difference between the fair value and the carrying value of an asset.

View All Answers

Question - 38:

Tell me what is excise duty?

Ans:

Central Excise duty is an indirect tax levied on those goods which are manufactured in India and are meant for home consumption. The taxable event is 'manufacture' and the liability of central excise duty arises as soon as the goods are manufactured. It is a tax on manufacturing, which is paid by a manufacturer, who passes its incidence on to the customers.

View All Answers

Question - 39:

Explain me what is the difference between the excise duty and the sales tax?

Ans:

Excise Duty is an indirect tax imposed on goods that are manufactured and produced within the country. This is paid by the manufacturer on the finished good when it goes out of the factory. Excise Duty is levied on all goods, except certain goods that are exempted. There are three types of Central Excise duties collected in India namely: Basic Excise Duty, Additional Duty of Excise, Special Excise Duty.
Sales Tax is imposed on the finished product which is paid by the consumer. Sales tax is imposed on sale or purchase within the State. Different states levy different levels of sales tax, while there is a Central Sales Tax levied on sale or purchase in the course of interstate trade.

View All Answers

Question - 40:

Please explain what are the Streamlined Sales and Use Tax Agreement?

Ans:

The Streamlined Sales and Use Tax Agreement was introduced in 1999 by the National Governor's Association (NGA) and the National Conference of State Legislatures (NCSL) in order to simplify the collection of sales tax as sales tax is second largest source of state revenue after personal income taxes. It resulted in decveloping a simpler and business friendly sales tax system.
The Agreement decreases costs and administrative burdens of sales tax collection on retailers, especially those operating in multiple states.

View All Answers

Question - 41:

Do you know what is composite cost of capital? Explain the process to compute it?

Ans:

Composite cost of capital is also known as weighted average cost of capital which is a measurable unit for it. It also tells about the component costs of common stock, preferred stock, and debt. Each of these components is given a weight on the basis of the associated interest rate and other gains and losses with it. It shows the cost of each additional capital as against the average cost of total capital raised. The process to compute this is first computing the weighted average cost of capital which is the collection of weights of other costs summed together.
The formula is given as:
WACC= Wd (cost of debt) + Ws (cost of stock/RE) + Wp (cost of pf. Stock)
In this the cost of debt is calculated in the beginning and it is used to find out the cost of capital and other weights of cost is been calculated after the calculation each and every individual weight of the component is added and then it gives the final composite cost.

View All Answers

Question - 42:

Explain what are the disadvantages of proprietary firms?

Ans:

1. Unlimited Liability : In such firms the liability of the owner is unlimited as the owner takes more risk to earn more profits and increase the volume of his business by supplying his personal assets to the business.
2. Limited Financial Resources : Being the single owner of the business, the availability of funds from various sources is limited.
3. No Legal Status : The existence of business is due to the existence of sole proprietor. Death or insolvency of the sole proprietor brings an end to the business.
4. Limited Capacity of Individual : An individual has limited knowledge, set of skills due to which his capacity to undertake responsibilities, his capacity to take quick decisions and bear risks are also limited.
5.Transferring of business is not easy in the case of Proprietary Firm.
6. Higher Taxes: As the sole proprietor is the direct person enjoying the profits thus he needs to pay higher taxes.

View All Answers

Question - 43:

Please explain why are increases in accounts receivable a cash reduction on the cash flow statement?

Ans:

Since our cash flow statement starts with net income, an increase in accounts receivable is an adjustment to net income to reflect the fact that the company never actually received those funds.

View All Answers

Question - 44:

Tell me what are the types of Provident funds?

Ans:

Below listed are the 4 types of provident funds
Recognized Provident Fund (RPF)- RPF schemes must be approved by The Commissioner of Income Tax and pplicable to an organization which employs 20 or more employees.
Unrecognized Provident Fund (URPF)- URPF are not approved by The Commissioner of Income Tax and is started by employer and employees in an establishment.
Statutory Provident Fund (SPF)- This Fund is mainly meant for Government/University/Educational Institutes (affiliated to university) employees.
Public Provident Fund (PPF)- PPF involves minimum contribution of Rs.500 per annum and the maximum contribution is Rs. 100,000 per annum. The contribution made along with interest earned is repayable after 15 years, unless extended.

View All Answers

Question - 45:

Tell me what are the deductions under Salary Head?

Ans:

Deductions that are made under salary head are Entertainment allowance and Professional tax.
Entertainment Allowance- Entertainment allowance received is already included in the income of the employee and then a deduction is made only for government employees. A sum equal to 1/5th of salary (excluding all allowances, benefits and other perquisites) or Rs. 5,000, whichever is less is being deducted.
Professional Tax- Professional Tax is imposed by the government on employment by whatever name called, under Article 80C 276 of the Constitution and shall be allowed as a deduction. [Sec. 16(iii)]

View All Answers

Question - 46:

Tell me what items fall under the category of 'securities'?

Ans:

'Securities' are defined under Section 2(h) of the Securities Contracts (Regulation) Act, 1956 (SCRA) to include:
1. Shares, scrips, stocks, bonds, debentures, debenture stock or other marketable securities of a like nature in or of any incorporated company or other body corporate derivatives.
2. Units or any other instrument issued by any collective investment scheme to the investors in such schemes.
3. Security receipt as defined in Section 2(zg) of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.
4. Such other instruments as declared by the central government and Rights or interest in securities.
5. Equity-oriented mutual funds (not debt-oriented mutual funds).

View All Answers

Question - 47:

Explain me what is capital gain? Explain long term capital gains and how is it different from short term capital gains?

Ans:

1. Capital gains' means the profit earned from the sale of an asset. When the Capital Asset is being sold or transferred, the profit or gains arising out of it or you can term that as the difference between the actual price at which the asset was acquired and the price at which it is sold or transferred.
2. A long-term capital gain is the profit that arises with the sale of an asset that has been on hold for a definite period. This period ranges from one year to three years across different asset classes.
3. It is different from short term capital gains because short term capitals are kept for short period only that is less than a years.

View All Answers

Question - 48:

Tell me what do you understand by total income?

Ans:

Total Income is the amount on which the Income Tax is paid. Total income include all income that accrue, arise, earned or received in India (except those income which accrues or arises outside India). Total Income is the total amount earned by an individual or organization, including income from employment or providing services, revenue from sales, payments from pension plans, income from dividends, or other sources. Total income is generally calculated for the assessment of taxes, evaluating the net worth of a company, or determining an individual or organization's ability to make payments on a debt.

View All Answers

Question - 49:

Explain me what are the two most basics financial statements prepared by the companies?

Ans:

Financial statements are prepared in two forms:
Balance Sheet is a position statement as it refers to a particular date. It is also referred to as Statement of Sources and Application of Funds. It informs about the various sources used by the organization which are technically known as liabilities to raise the funds which are referred as assets.
Profitability Statement also known as Profit and Loss Account. It is a period statement as it refers to a particular period.

View All Answers

Question - 50:

Tell me suppose i buy a piece of equipment, walk me through the impact on the 3 financial statements?

Ans:

Initially, there is no impact (income statement); cash goes down, while PP&E goes up (balance sheet), and the purchase of PP&E is a cash outflow (cash flow statement)
Over the life of the asset: depreciation reduces net income (income statement); PP&E goes down by depreciation, while retained earnings go down (balance sheet); and depreciation is added back (because it is a non-cash expense that reduced net income) in the cash from operations section (cash flow statement).

View All Answers

Question - 51:

What are allowable and dis-allowable expenditure?

Ans:

Allowable expenditure
* 1. the cost of goods bought for the business
* 2. the prime costs of running a business asset
* 3. wages and salaries of employees
* 4. heat, light and cleaning of business premises
* 5. repairs to and maintenance of business premises
* 6. postage and stationery
* 7. business telephone and rental
* 8. bank charges and interest on business loans and overdrafts
* 9. travel and entertaining if the sole purpose is to retain or acquire business
* 10. legal costs of defending business rights and renewing leases of less than 50 years duration
* 11. bad debts and specific doubtful debts
* 12. protective clothes necessary for the business
Dis allowable expenditure
* 1. private expenditure
* 2. clothes bought for ordinary everyday wear
* 3. acquisition and depreciation of business assets
* 4. your own wages or salary
* 5. your business partner's wages or salary
* 6. payments to charities
* 7. travel expenses between your home and place of business
* 8. a general (non-specific) provision against doubtful debts
* 9. legal costs of acquiring land and buildings
* 10. fines for breaking the law
* 11. your own life, accident or sickness assurance
12. costs of alterations, additions or improvements to business premises

View All Answers

Question - 52:

Explain me what is form c & d in sales tax?

Ans:

Form C
The sales tax on inter-state sale is 4% or the applicable sales tax rate for sale within the State whichever is lower if the sale is to a dealer registered under CST and the goods are covered in the registration certificate of the purchasing dealer. The purchasing dealer is eligible to get these goods at concessional rate if a declaration in C form is submitted to the selling dealer.
Form D
Sale to government is taxable 4% or applicable sales tax rate for sale within the State whichever is lower. This concession on CST is applicable if Form D is issued by the government department which purchases the goods.

View All Answers

Question - 53:

Tell me can a person fill a NRI in an Income tax form if he has been out of India for six months though he is Indian citizen?

Ans:

He can fill NRI in an Income tax form only if he does not satisfy any of these two conditions:
1. He is in India in the previous year for a period of 182 days or more or
2. He is in India for a period of 60 days or more during the previous year and 365 days or more during the four years immediately preceding the previous year.

View All Answers

Question - 54:

Tell me what is the Securities Transaction Tax?

Ans:

1. Securities Transaction Tax (STT) was introduced in India at time of 2004 budget and is applicable from 1 October 2004. STT is the tax which is payable on the amount of taxable securities transaction.
2. STT is just levied on purchase and sale of those securities that are listed on the Indian Stock Exchanges.
3. Securities Transaction Tax was introduced by the Finance Minister, P. Chidambaram to restrict people from evading tax on capital gains.

View All Answers

Question - 55:

Explain me tax liability of an individual get affected due to his residential status?

Ans:

Yes, tax liability of an individual does gets affected due to his residential status as per Section % of the Income Tax Act 1961 and is also dependent on place and time of accrual or receipt of income. You must understand the difference between Indian income and Foreign income as Indian income is always taxable in India in accordance with the residential status of the taxpayer.

View All Answers

Question - 56:

Explain what are the advantages of proprietary firms?

Ans:

Advantages of proprietary firms:
1. Easy Formation : Proprietary firm is easiest and economic form to create and operate as it can be started by any person without any legal formalities. Also there is no set limit of minimum or maximum number of persons to start the business as it can be started by a single person.
2. Better Control : As the owner is the single person so he has full control over his business. His total authority over his business gives him the power to plan, organize, co-ordinate the various activities. The sizes of such firm are generally small which also makes it better to control.
3. Quick Decision Making : Being the only owner of the business the sole trader takes all the decisions himself. He evaluates all the opportunities available and finds the solution to problems which makes decision making quick.
4. Flexibility in Operations : One man ownership makes it possible to bring flexibility in the operations of the business.
5. Personal attention to customer needs : Due to the small geographical area it becomes easy for the sole proprietor deal with all its customers personally and knows their needs. Thus it makes easy for him to pay special attention to consumer needs.
6. Creation of Employment : Proprietor firm facilitates self employment and also employment for many others. It promotes entrepreneurial skill among the individuals.
7. Equal Distribution of Wealth : Proprietary firm is generally a small scale business. Hence there are many opportunities for individuals to start their own business enabling widespread dispersion of economic wealth.
8. No Legal Formalities required : A proprietary firm is not required to comply with all the legal and procedural formality.

View All Answers

Question - 57:

Explain how is it possible for a company to show positive net income but go bankrupt?

Ans:

Two examples include deterioration of working capital (i.e. increasing accounts receivable, lowering accounts payable), and financial shenanigans.

View All Answers

Question - 58:

Tell me what is your long-range objective as Income Tax Expert?

Ans:

The key is to focus on your achievable objectives and what you are doing to reach those objectives.
For example: "Within five years, I would like to become the very best accountant your company has on staff. I want to work toward becoming the expert that others rely upon. And in doing so, I feel I'll be fully prepared to take on any greater responsibilities which might be presented in the long term. For example, here is what I'm presently doing to prepare myself..."
Then go on to show by your examples what you are doing to reach your goals and objectives.

View All Answers

Question - 59:

Tell us why do capital expenditures increase assets (PP&E), while other cash outflows, like paying salary, taxes, etc., do not create any asset, and instead instantly create an expense on the income statement that reduces equity via retained earnings?

Ans:

Capital expenditures are capitalized because of the timing of their estimated benefits - the lemonade stand will benefit the firm for many years. The employees' work, on the other hand, benefits the period in which the wages are generated only and should be expensed then. This is what differentiates an asset from an expense.

View All Answers

Question - 60:

Tell me what are the different types of expenditures considered for the purpose of accounting?

Ans:

For the accounting purpose expenditures are classified in three types:
Capital Expenditure is an amount incurred for acquiring the long term assets such as land, building, equipments which are continually used for the purpose of earning revenue. These are not meant for sale. These costs are recorded in accounts namely Plant, Property, Equipment. Benefits from such expenditure are spread over several accounting years.
Example: Interest on capital paid, Expenditure on purchase or installation of an asset, brokerage and commission paid.
Revenue Expenditure is the expenditure incurred in one accounting year and the benefits from which is also enjoyed in the same period only. This expenditure does not increase the earning capacity of the business but maintains the existing earning capacity of the business. It included all the expenses which are incurred during day to day running of business. The benefits of this expenditure are for short period and are not forwarded to the next year. This expenditure is on recurring nature.
Example: Purchase of raw material, selling and distribution expenses, Salaries, wages etc.
Deferred Revenue Expenditure is a revenue expenditure which has been incurred during an accounting year but the benefit of which may be extended to a number of years. And these are charged to profit and loss account.
Example: Development expenditure, Advertisement etc.

View All Answers

Question - 61:

Please explain what is capital structure? What are the principles of capital structure management?

Ans:

Capital structure is a term which is referred to be the mix of sources from which the long term funds are required for business purposes which are raised to improve the capital of the company. To fund an organization plan this capital structure is required which is the combination of debt and equity. The management ensures the capital structure accesses which are needed to fund future growth and enhance financial performance.
The principles of capital structure management which are essentially required are as follows:
1) Cost Principle
2) Risk Principle
3) Control Principle
4) Flexibility Principle
5) Timing Principle

View All Answers

Question - 62:
Explain me what is income tax? How is it calculated?

Ans:
Income tax is an annual tax charged on income of a person by the government. It is charged for the corresponding assessment year at the rates laid down by the Finance Act for the assessment year in respect of the previous year.
Income of the person is categorized under the following five heads
* Salaries
* Income from house property
* Profits and gains of business or profession
* Capital gains
* Income from other sources.
Income is calculated under these heads separately and accordingly tax is calculated using the income tax slab issued by the government every financial year.

View All Answers

Question - 63:
Tell me do you know what is FBT?

Ans:
1. FBT stands for Fringe Benefit Tax which is a tax that an employer has to pay in respect of the benefits that are given to his/her employees.
2. Fringe benefits is something that an employer provides to his employees in addition to the cash salary. FBT is payable in lieu of the value of fringe benefits provided or deemed to have been provided by an employer to his employees during the previous year.

View All Answers

Question - 64:
Please explain when Deferred Tax Asset & Deferred tax liability arises?

Ans:
Deferred tax asset arises when the expenses are recorded in the income statement before they are required to be recognized by the taxing authority. Also when revenue is being taxed before it is taxable in the income statement.
Deferred tax liability arises from different depreciation methods being used for tax as depreciable assets are reported as non current.

View All Answers

Question - 65:
Tell me what do you understand by transfer income?

Ans:
Transfer of Income means when someone retains the ownership of an asset but makes an agreement to transfer its income, but still the income is considered as your income and it will be added to the total income.

View All Answers

Question - 66:
Tell me the procedure to calculate Provident Fund, ESI, VAT and Sales Tax?

Ans:
Provident Fund: Provident fund is calculated at 12% on the basic salary which is deducted from employee's salary plus 12% on the basic is contributed by the employer. So, the aggregate 12% + 12 % is remitted to the Provident Fund Department.
ESI: Stands for Employee State Insurance and is calculated at 1.75% on the gross salary of the employees whose salary is below Rs. 10000 per month and employer contributes 4.75% on the gross salary of the employee and aggregate 1.75% + 4.75% is remitted to the ESI Department
VAT: VAT percentage is 1, 4, 12.5%. It is a tax which is charged on the basic value of the product by the seller from the buyer and the same is remitted to the Sales Tax Department.
Sales tax: Same as VAT

View All Answers

Question - 67:
Explain me what is the difference between profit and gain?

Ans:
Profit is the amount that is left after deducting expenses from revenue that makes the receipt of revenue possible. There are two streams of earnings that is direct earnings and indirect earnings. Direct earnings are incurred from main activities and indirect earnings are incurred from other activities so the profits is calculated as gross profit and net profit.
Gross profit is the amount of revenue from which trading expenses has been deducted (expenses related to main activities of the business). Net profit is the amount of revenue that includes incomes from other activities.
Gain is the amount that is earned on selling assets which is not included in the inventory of the business. This sales activity is not the actual trading and these sales does not includes goods that are sold on regular basis.

View All Answers

Question - 68:
Explain me deferred tax Liability? What items come under deferred tax liability?

Ans:

A tax liability that a company owes and does not pay at that current point, although it will be responsible for paying it at some point in the future. Deferred tax liability (DTL) is a balance sheet item that accounts for the temporary difference between taxes that will come due in the future and taxes paid today.
The unrealized tax that is put into account comes under deferred tax liability. Depreciation is the main source or the type of an item of deferred tax liability.

View All Answers

Question - 69:

Tell me how will you decide the residential status of an individual?

Ans:

As per the provisions of Income Tax Act residential status of an individual is categorized as Resident and Non Resident.
Under Section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following basic conditions:
1. He is in India in the previous year for a period of at least 182 days.
2. He is in India for a period of at least 60 days during the relevant previous year and at least 365 days during the four years preceding that previous year.
The above provisions are applicable only to those who are residents of India irrespective of their nationality otherwise they are included in Non resident.

View All Answers

Question - 70:

Do you know what is Opportunity Cost and Differential Cost?

Ans:

Opportunity Cost is the cost incurred by the organisation when one alternative is selected over another. For example: A person has Rs. 100000 and he has two options to invest his money, either invests in fixed deposit scheme or buy a land with the money. If he decides to put is money to buy the land then the loss of interest which he could have received on fixed deposit would be an opportunity cost.
Differential Cost is the difference between the costs of two alternatives. It includes both cost increase and cost decrease. It can be either variable or fixed.
Example:
Cost of first alternative = 10000; Cost of second alternative = 5000; Differential Cost = 10000 - 5000 = 5000

View All Answers

Question - 71:

Explain what are the main duties and responsibilities of a finance executive?

Ans:

Recurring Duties:
* Deciding the financial needs
* Raising the funds required
* Allocation of funds
* 1. Fixed assets management
* 2. Working capital management
* Allocation of Income
* Control of Funds
* Evaluation of Performance
* Corporate Taxation
Other duties: To prepare annual accounts, carrying out internal audit, safeguarding securities, present financial reports to top management. Etc.
Non recurring Duties:
* Preparation of financial plan at the time of company promotion
* Financial adjustments in times of liquidity crisis
* Valuation of the firm at the time of acquisition and merger etc.

View All Answers

Question - 72:

Tell me what are the various systems of Accounting?

Ans:

There are two systems of Accounting:
* Cash System of Accounting: This system records only cash receipts and payments. This system assumes that there are no credit transactions. In this system of accounting, expenses are considered only when they are paid and incomes are considered when they are actually received. This system is used by the organizations which are established for non profit purpose. But this system is considered to be defective in nature as it does not show the actual profits earned and the current state of affairs of the organization.
* Mercantile or Accrual System of Accounting: In this system, expenses and incomes are considered during that period to which they pertain. This system of accounting is considered to be ideal but it may result into unrealized profits which might reflect in the books of the accounts on which the organization have to pay taxes too. All the company forms of organization are legally required to follow Mercantile or Accrual System of Accounting.

View All Answers

Question - 73:

Explain is it possible for a company to show positive cash flows but be in grave trouble?

Ans:

Absolutely. Two examples involve unsustainable improvements in working capital (a company is selling off inventory and delaying payables), and another example involves lack of revenues going forward.in the pipeline

View All Answers

Question - 74:

Why should we hire you as Income Tax Expert?

Ans:

This is an important question that you will need to answer carefully. It is your chance to stand out and draw attention to your skills, especially those that haven't already been addressed. Saying "because I need a job" or "I'm really good" just won't cut it. Don't speculate about other candidates and their possible strengths or flaws. Make sure you focus on you. Explain why you make a good employee, why you are a good fit for the job and the company and what you can offer. Keep it succinct and highlight your achievements.

View All Answers

Question - 75:

Why did you leave you last job as Income Tax Expert?

Ans:

This should be a straightforward question to answer, but it can trip you up. Presumably you are looking for a new job (or any job) because you want to advance your career and get a position that allows you to grow as a person and an employee. It's not a good idea to mention money here, it can make you sound mercenary. And if you are in the unfortunate situation of having been downsized, stay positive and be as brief as possible about it. If you were fired, you'll need a good explanation. But once again, stay positive.

View All Answers

Question - 76:

Tell me what do you understand by dissolution of firm?

Ans:

Dissolution of firm means assets of firm are realized and liabilities are paid off and the surplus, if any is distributed among the partners according to their right. It is to be noted that 'dissolution of Firm' involves dissolution of partnership but dissolution of partnership may not lead to dissolution of firm.

View All Answers

Question - 77:

Explain me how will you calculate House Rent Allowance (HRA)?

Ans:

Minimum of following three amounts is available as HRA exemption:
1. Actual House Rent Allowance provided by employer to employee.
2. House Rent paid in excess of 10% of Salary.
3. 50% of Salary in case House is located in Metro cities (Mumbai, Delhi, Kolkata, Chennai) or 40% in case of any other cities.
For all three conditions mentioned above relevant period is very important. Means if there is any change in Salary, HRA paid to employee, location of rented house and actual rent paid by employee HRA need to calculate from that relevant change Hence one should avoid calculating HRA on annual basis if there is any change in above factors.
Meaning of Salary for calculating HRA (Basic Salary + Dearness allowance if terms of employment so provide + fixed percentage of turnover achieved by employee)

View All Answers

Question - 78:

Tell us what do you mean by Commercial Tax?

Ans:

Commercial Tax is a tax imposed on the scheduled Commercial goods as indirectly collected by the seller or purchaser against his business transaction which now comprises of Sales Tax, Entertainment, Luxury Tax, Entry Tax and Profession Tax.

View All Answers

Question - 79:

Do you know what is the difference between Fund flow vs. Cash Flow?

Ans:

Fund Flow
1. Fund flow is based on working capital.
2. Fund flows tells about the various sources from where the funds are generated.
3. Fund flow is useful for understanding long term financial strategy.
4. Changes in current assets and current liabilities are shown through the schedule of changes in working capital.
Cash Flow
1. Cash flow is based on only one element of working capital that is cash.
2. Cash flow starts with the opening balance of cash and closes with the closing balance of cash.
3. Cash flow is useful for understanding short term strategies that affects liquidity of the business.
4. Changes in current assets and current liabilities are shown in the cash flow.

View All Answers

Question - 80:

Explain me what is Inter Company Reconciliation?

Ans:

Every year commonly controlled company prepares a combined or consolidated financial statement for tax and reporting purposes. Inter Company Reconciliation (ICR) is the process that helps parent company to split from its subsidiaries companies by location. Each year, commonly controlled business must prepare a combined or consolidated financial statement for tax and reporting purposes. The inter company accounting process is an important process for parent companies with subsidiaries or companies split by location. ICR helps in avoiding double counting of transactions as it also helps in maintaining accurate reports. Even it helps the companies to avoid misrepresentation of a firm's financial position.

View All Answers

Question - 81:

Tell me how can a taxpayer get a refund for an overpayment of taxes?

Ans:

There is a provision in India to get a refund for an overpayment of taxes along with interest. When you have to claim a refund you need to file the income tax return within a specified period. You can even track your refund status from the NSDL-TIN website by clicking in Status of Tax refunds and can track your refund by entering PAN and Assessment year for which the refund is to be claimed.

View All Answers

Question - 82:

Tell me what is Tax refund?

Ans:

The excess tax paid by an individual than the actual owed is returned by the government which is known as tax refund. After taking into consideration income tax, withholdings, tax deductions or credits and other factors; you file income tax for the year, after that you will receive a tax refund.

View All Answers

Question - 83:

Tell me what are the basic and additional conditions for Resident and ordinarily resident (ROR)?

Ans:

The basic conditions for being resident and ordinarily resident is the same condition that satisfies the residential status of an individual and additional conditions for Resident and ordinarily resident in India in a given previous year are mentioned below:
1. If you are resident in India in at least 9 out of 10 previous years as per the basic conditions that satisfies the residential status of an individual preceding the relevant previous year.
2. If you are in India for a period of at least 730 days during 7 years preceding the relevant previous year.
3. An individual or HUF becomes ROR in India if the individual fulfills at least one of the basic conditions that satisfies the residential status of an individual both the additional conditions.

View All Answers

Question - 84:

Do you know who is an assessee?

Ans:

An "Assessee" is a person who is liable to pay tax or any other sum of money under the Act.
It includes
1. Every person in respect of whom any proceeding under this Act has been taken for the assessment of his income or of the income of any other person in respect of whom he is assessable, or of the loss sustained by him or by such other person, or of the amount of refund due to him or to such other person;
2. Every person who is deemed to be an assessee under any provision of this Act;
3. Every person who is deemed to be an assessee in default under any provision of this Act.

View All Answers

Question - 85:

Tell me what is differential Cost?

Ans:

Differential Cost is the difference between the costs of two alternatives. It includes both cost increase and cost decrease. It can be either variable or fixed.

View All Answers

Question - 86:

Explain me what are adjustment entries? Why are they passed?

Ans:

Adjustment entries are the entries which are passed at the end of each accounting period to adjust the nominal and other accounts so that correct net profit or net loss is indicated in profit and loss account and balance sheet may also represent the true and fair view of the financial condition of the business.
It is essential to pass these adjustment entries before preparing final statements. Otherwise in the absence of these entries the profit and loss statement will be misleading and balance sheet will not show the true financial condition of the business.

View All Answers

Question - 87:

Do you know what are limited liability companies? What are its two types?

Ans:

The limited liability company (LLC) is a business structure combining both the characteristics of a corporate and of partnership. As a corporate entity it protects its owners against personal liability on the other hand for tax purposes it is treated as a non corporate business organization. A limited liability company enjoys various benefits like owners or members of the company have limited liability due to the company's separate legal existence, system of profit distribution is very flexible. Unlike a corporate organization it does not have to keep minutes or resolutions and is easier to operate. Tax advantage is the important benefit which a limited liability company enjoys as all the profits, losses and expenses are shared by the individual members. Thus the double taxation of paying corporate tax and individual tax is avoided. With all the above benefits limited Liability Company has few disadvantages also as the company comes to an end after the expiry or insolvency of its members.

View All Answers

Question - 88:

Do you know what is share capital?

Ans:

Share Capital is that portion of a company's equity that has been obtained by issuing share to a shareholder. The amount of share capital increases as new shares are sold to public in exchange for cash.

View All Answers

Question - 89:

Explain me what is a deferred tax asset and why might one be created?

Ans:

Deferred tax asset arises when a company actually pays more in taxes to the IRS than they show as an expense on their income statement in a reporting period. Differences in revenue recognition, expense recognition (such as warranty expense), and net operating losses (NOLs) can create deferred tax assets.

View All Answers

Question - 90:

Please explain what is working capital?

Ans:

Working capital is defined as current assets minus current liabilities; it tells the financial statement user how much cash is tied up in the business through items such as receivables and inventories and also how much cash is going to be needed to pay off short term obligations in the next 12 months.

View All Answers

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