

# MOCK TEST

## CAPITAL GAINS

**Time allowed: 3 hours**

**Maximum Marks: 100**

### **DESCRIPTIVE TYPE QUESTION (70 Marks)**

**Question 1**

**(10 Marks)**

Mr. X purchased 100 equity shares in ABC Ltd. on 01.10.1995 @ ₹10 per share. The company has issued 100 bonus shares on 01.10.1998 and market value of the shares on 01.04.2001 was ₹7 per share. The company has again issued 100 bonus shares on 01.10.2012.

The company has offered 100 right shares on 01.04.2019 @ ₹140 per share though the market value is ₹250 per share. Mr. X purchased half of the shares and remaining half were renounced by him in favour of his friend Mr. Y. He has charged ₹20 per share from Mr. Y for renouncing the right.

All the shares were sold by Mr. X and Mr. Y @ ₹300 per share on 01.01.2020 and securities transaction tax has been paid. (market value on 31-01-2018 is ₹200 per share)

Mr. X has income under the head house property ₹2,20,000 and has causal income ₹50,000 and has invested ₹1,00,000 in NSC.

Mr. Y has income under the head house property ₹3,50,000 and has invested ₹30,000 in NSC.

Compute tax liability of Mr. X and Mr. Y.

**Question 2 (a)**

**(5 Marks)**

Mr. Ramesh sold a house plot to Mr. Vikas for ₹ 45 lakhs on 10-9-2019. The valuation determined by the stamp valuation authority was ₹ 53 lakhs.

Mr. Vikas has sold this plot to Ms. Babli on 21-3-2020 for ₹ 55 lakhs.

The valuation as per stamp valuation authority was ₹ 54 lakhs on 21-3-2020.

Discuss the tax consequences of above, in the hands of each one of them, viz, Mr. Ramesh, Mr. Vikas & compute the capital gain in the hands of Mr. Vikas.

Note: None of the parties viz Mr. Ramesh, Mr. Vikas & Ms. Babli are related to each other; the transactions are between outsiders.

**Question 2 (b)**

**(5 Marks)**

Explain Reverse Mortgage.

**Question 3 (a)**

**(5 Marks)**

Mr. A is a proprietor of ABC Enterprises having 2 units started on 01.04.2012. He transferred on 01.04.2019 his unit 1 by way of slump sale for a total consideration of ₹45 Lacs. The expenses is incurred for this transfer were ₹65,000/-. His Balance Sheet as on 31.03.2019 is as under:

Liabilities	Total ₹	Assets	Unit 1 ₹	Unit 2 ₹	Total ₹
Own Capital	21,00,000	Building	15,00,000	4,00,000	19,00,000
Revaluation Reserve (for building of unit 1)	6,00,000	Machinery	5,00,000	2,00,000	7,00,000
Bank Loan (70% for unit 1)	4,00,000	Debtors	3,00,000	70,000	3,70,000
Trade creditors (25% for unit 1)	3,10,000	Other assets	3,50,000	90,000	4,40,000
<b>Total</b>	<b>34,10,000</b>	<b>Total</b>	<b>26,50,000</b>	<b>7,60,000</b>	<b>34,10,000</b>

Other information:

- (i) Revaluation reserve is created by revising upward the value of the building of unit 1.
- (ii) No individual value of any asset is considered in the transfer deed.

Compute the capital gain for the assessment year 2020-21.

**Question 3 (b)**

**(5 Marks)**

Write a note on exemption under section 54.

**Question 4 (a)**

**(5 Marks)**

ABC Ltd. purchased one commercial building on 01.07.1995 ₹2,00,000 and paid brokerage ₹20,000 and its market value as on 01.04.2001 ₹2,10,000. The company sold the building on 01.07.2019 for ₹500,00,000 and invested ₹60,00,000 in bond of NHAI redeemable after five years.

Compute tax liability of the company for Assessment Year 2020-21.

(b) Presume building was sold for ₹11,72,00,000.

**Question 4 (b)**

**(5 Marks)**

Mr. A is an individual carrying on business. His stock and machinery were damaged and destroyed in a fire accident. The value of stock lost (total damaged) was ₹ 6,50,000. Certain portion of the machinery could be salvaged. The opening WDV of the block as on 1-4-2019 was ₹10,80,000. During the process of safeguarding machinery and in the firefighting operations, Mr. A lost his gold chain and a diamond ring, which he had purchased in April, 2004 for ₹1,20,000. The market value of these two items as on the date of fire accident was ₹1,80,000.

Mr. A received the following amounts from the insurance company:

- (i) Towards loss of stock ₹4,80,000
- (ii) Towards damage of machinery ₹6,00,000
- (iii) Towards gold chain and diamond ring ₹1,80,000

You are requested to briefly comment on the tax treatment of the above three items under the provisions of the Income-tax Act, 1961.

**Question 5 (a)**

**(5 Marks)**

Mr. X sold his residential house property on 08.06.2019 for ₹70 lakhs which was purchased by him for ₹20 lakhs on 05.05.2006.

He paid ₹1 lakh as brokerage for the sale of said property. The stamp duty valuation assessed by sub registrar was ₹80 lakhs.

He bought another house property on 25.12.2019 for 11 lakhs.

He deposited ₹8 lakhs on 10.11.2019 in the capital gain bond of National Highway Authority of India (NHAI).

He deposited another ₹10 lakhs on 10.07.2020 in the capital gain deposit scheme with SBI for construction of additional floor of house property.

Compute income under the head "Capital Gains" for A.Y. 2020-21 as per Income Tax Act 1961 and also Income tax payable on the assumption that he has no other income chargeable to tax.

Cost inflation index for Financial Year 2006-07 = 122 and 2019-20 = 289

**Question 5 (b)**

**(5 Marks)**

Write a note on exemption under section 54EC.

**Question 6 (a)**

**(5 Marks)**

Mr. Madhav made a gift of ₹2,50,000 to his handicapped son, Master Tapan who was aged 12 years as on 31<sup>st</sup> March 2017, which he deposited in a fixed deposit account in a Nationalised bank at 10% interest p.a. compounded annually. The balance in this account as on 1<sup>st</sup> April, 2019 was ₹2,75,000 and the bank credited a sum of ₹27,500 as interest on 31<sup>st</sup> March, 2020.

Madhav's father gifted equity shares worth ₹50,000 of an Indian company to Master Manan, another son of Mr. Madhav (Date of birth 10<sup>th</sup> April, 2010) in July 2010 which were purchased by him on 8<sup>th</sup> December,

2004 for ₹80,000 Manan received a dividend of ₹5,000 on these shares in October 2018. He sold these shares on 1<sup>st</sup> November, 2019 for ₹5,00,000 and deposited ₹3,00,000 in a company at 15% interest per annum.

**Cost Inflation Index:**

Financial Year	Cost Inflation Index
2004-05	113
2010-11	167
2019-20	289

Mr. Madhav has a taxable income of ₹3,50,000 from his profession during the financial year 2019-20. Compute his Gross Total Income for the A.Y. 2020-21.

**Question 6 (b)**

**(5 Marks)**

Mrs. Mahalakshmi an individual, aged 68 years, mortgaged her Residential Property, purchased for ₹3 lakhs on 01-10-2002, with a bank, under a notified reverse mortgage scheme and was sanctioned a loan of ₹20 lakh. As per the said scheme she was receiving the loan amount in equal monthly installments of ₹30 thousand per month from the bank. Mrs. Mahalakshmi was not able to repay the loan on maturity and in lieu of settlement of the loan surrenders the residential property to the bank. Bank sold the property for ₹25 lakhs on 22-02-2020. She had no other income during the year.

Discuss the Tax consequences and compute tax for the Asst. Year 2020-21.

Cost inflation index

2002-03 - 105

2019-20 - 289

**Question 7 (a)**

**(5 Marks)**

In which of the following situations capital gains tax liability does not arise?

- Mr. A purchased gold in 2004 for ₹ 25,000. In the P.Y. 2019-20, he gifted it to his son at the time of marriage. Fair market value (FMV) of the gold on the day the gift was made was ₹ 1,00,000.
- A house property is purchased by a Hindu undivided family in 1985 for ₹ 20,000. It is given to one of the family members in the P.Y. 2019-20 at the time of partition of the family. FMV on the day of partition was ₹ 12,00,000.
- Mr. B purchased 50 convertible debentures for ₹ 40,000 in 2005 which are converted into 500 shares worth ₹ 85,000 in November 2019 by the company.

**Question 7 (b)**

**(5 Marks)**

Mr. X purchased Gold on 01.10.1991 for ₹2,00,000 and its fair market value on 01.04.2001 is ₹3,00,000 and he converted it into stock-in-trade on 01.10.2008 and market value of the gold on the date of conversion was ₹11,00,000 and subsequently half of the stock-in-trade was sold on 01.10.2019 for ₹6,50,000 and balance half was sold on 01.10.2020 for ₹7,50,000.

Compute his total income for various years.

# MULTIPLE CHOICE QUESTION

## (MCQ) (30 MARKS)

EACH QUESTION CARRY 1 MARKS.

**1. Which of the following would be regarded as transfer -**

- (a) transfer of a capital asset in a scheme of reverse mortgage
- (b) transfer of a capital asset under a gift or will or an irrevocable trust
- (c) transfer by way of conversion of equity shares from preference shares
- (d) Redemption of Zero coupon bond

**2. Short-term capital gains arising on transfer of listed shares on which STT is paid at the time of transfer, would be chargeable to tax –**

- (a) at the rate of 10%
- (b) at the rate of 20%
- (c) at the rate of 15%
- (d) at the rate of 5%

**3. Distribution of assets at the time of liquidation of a company-**

- (a) is not a transfer in the hands of the company or the shareholders
- (b) is not a transfer in the hands of the company but capital gains is chargeable to tax on such distribution in the hands of the shareholders
- (c) is not a transfer in the hands of the shareholders but capital gains is chargeable to tax on such distribution in the hands of the company
- (d) is a transfer both in the hands of shareholders and company

**4. Land or building would be long term capital asset only if it is**

- (a) held for more than 12 months immediately preceding the date of transfer
- (b) held for more than 24 months immediately preceding the date of transfer
- (c) held for more than 30 months immediately preceding the date of transfer
- (d) held for more than 36 months immediately preceding the date of transfer

**5. Capital gain on transfer of depreciable asset would be-**

- (a) long term capital gain, if held for more than 36 months
- (b) long term capital gain, if held for more than 24 months
- (c) long term capital gain, if held for more than 12 months
- (d) short term capital gain, irrespective of the period of holding

**6. For an assessee, who is a salaried employee who invests in equity shares, what is the benefit available in respect of securities transaction tax paid by him on sale and acquisition of 100 listed shares of X Ltd. which has been held by him for 14 months before sale?**

- (a) Rebate under section 88E is allowable in respect of securities transaction tax paid
- (b) Securities transaction tax paid is treated as expenses of transfer and deducted from sale consideration.
- (c) Capital gains is taxable at a concessional rate of 10% on such capital gains exceeding ₹1 lakh
- (d) Capital gains is taxable at concessional rate of 15%.

**7. Under section 50C, the guideline value (Stamp duty value) for stamp duty is taken as the full value of consideration only if -**

- (a) the asset transferred is building and the actual consideration is less than the guideline value
- (b) the asset transferred is either land or building or both and guideline value exceeds the actual consideration
- (c) the asset transferred is either land or building or both and the guideline value exceeds 105% of the actual consideration.
- (d) the asset transferred is land and the actual consideration is less than the guideline value

**8. Where there is a transfer of a capital asset by a partner to the firm by way of capital contribution or otherwise, the consideration would be taken as -**

- (a) The market value of the capital asset on the date of transfer
- (b) The cost less notional depreciation of the capital asset
- (c) The value of the asset recorded in the books of the firm.
- (d) Any of the above, at the option of the assessee

**9. Under section 54F, capital gains are exempted if**

- (a) long-term capital gain arising on transfer of residential house is invested in acquisition of one residential house situated in or outside India
- (b) long-term capital gain arising on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in or outside India
- (c) net sale consideration on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India
- (d) short term or long-term capital gain arising on transfer of a capital asset other than a residential house is invested in acquisition of one residential house situated in India

**10. Under section 54EC, capital gains on transfer of land or building or both are exempted if invested in the bonds issued by NHAI & RECL or other notified bond-**

- (a) within a period of 6 months from the date of transfer of the asset
- (b) within a period of 6 months from the end of the relevant previous year
- (c) within a period of 6 months from the end of the previous year or the due date for filing the return of income under section 139(1), whichever is earlier
- (d) At any time before the end of the relevant previous year.

**11. Non listed equity shares shall be long term after**

- (a) One year
- (b) Two year
- (c) Three year
- (d) None of these

**12. Which of the following is not correct for long term capital gains under section 112A**

- (a) rebate u/s 87A is not allowed
- (b) deductions u/s 80C to 80U not allowed
- (c) it is taxable in excess of ₹ 2,00,000
- (d) while computing capital gains indexation is not applicable
- (e) none of these

**13. Mr. X purchased one motor car for ₹3,00,000 and it was sold for ₹5,00,000 after one year, in this case**

- (a) there is short term capital gains of ₹ 2,00,000
- (b) there is long term capital gains of ₹ 2,00,000
- (c) income under the head other sources ₹ 2,00,000
- (d) none of these

**14. Mr. X purchased agricultural land in Delhi and it was sold after 2 years and there is a profit of ₹10,00,000, in this case**

- (a) it will be considered to be short term capital gains
- (b) it will be considered to be long term capital gains
- (c) it will be exempt from income tax
- (d) it will be considered to be income under the head other sources
- (e) none of these

**15. In case of conversion of capital asset into stock in trade, capital gains shall be computed**

- (a) in the year of conversion
- (b) in the year of sale of stock in trade
- (c) subsequent to be year of conversion
- (d) none of these

**16. In case of compulsory acquisition of land or building by the Govt.,**

- (a) capital gains shall be taxable in the year of acquisition
- (b) capital gains shall be taxable in the year in which Govt. has made full payment
- (c) capital gains shall be taxable in the year in which Govt. has made the first payment
- (d) none of these

**17. If any person has received any capital asset as gift and it was not taxable as gift, in that case**

- (a) cost of acquisition for such person shall be nil
- (b) cost of acquisition for such person shall be the market value on the date on which such gift has been received
- (c) cost of acquisition of the previous owner shall be considered to be the cost of acquisition of the assessee
- (d) none of these

**18. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 73,00,000, in this case FVC shall be taken to be**

- (a) ₹ 70,00,000      (b) ₹ 73,00,000      (c) ₹ 73,50,000      (d) none of these

**19. Mr. X sold one house property for ₹ 70,00,000 and its stamp duty value is ₹ 74,00,000, in this case FVC shall be taken to be**

- (a) ₹ 70,00,000      (b) ₹ 74,00,000      (c) ₹ 73,50,000      (d) none of these

**20. Exemption under section 54**

- (a) is allowed to an individual for short term capital gains on transfer of residential house  
 (b) is allowed to an individual for long term capital gains on transfer of any house property  
 (c) is allowed to a company for long term capital gains on transfer of residential house  
 (d) none of these

**21. Exemption under section 54B is allowed**

- (a) to an individual if he has invested within 3 years in agricultural land in rural area  
 (b) to an individual if he has invested within 1 year in agricultural land in rural area  
 (c) to an individual if he has invested within 2 year in agricultural land in rural area or urban area  
 (d) none of these

**22. Exemption under section 54D is allowed**

- (a) only to a company in case of compulsory acquisition of land or building of an industrial undertaking  
 (b) to any assessee in case of compulsory acquisition of land or building of an industrial undertaking  
 (c) to any assessee in case of sale of land or building of an industrial undertaking  
 (d) none of these

**23. Exemption under section 54EC is allowed to**

- (a) any assessee on the transfer of any land or building which is long term  
 (b) any assessee on the transfer of any asset which is long term  
 (c) any assessee on the transfer of any asset which is long term or short term  
 (d) none of these

**24. Under section 54EE**

- (a) exemption allowed to all the assessee but maximum ₹ 50,00,000 in a particular previous year  
 (b) exemption allowed to an individual only but maximum ₹ 60,00,000 in a particular previous year  
 (c) exemption allowed to an individual or HUF only but maximum ₹ 70,00,000 in a particular previous year  
 (d) none of these

**25. Under section 54F**

- (a) investment should be made within 2 years after the date of transfer of original asset  
 (b) investment should be made within 1 years before and 4 years after the date of transfer of original asset for construction of house  
 (c) investment should be made within 1 years before and 2 years after the date of transfer of original asset for purchase of house  
 (d) none of these

**26. Mr. Rana is a resident of India residing in Meerut. During F.Y. 2011-12 he purchased an agricultural land situated in Bahadurpur for ₹ 10 lacs. This land is situated in an area which has aerial distance of 3 km from the local limits of Municipality of Bahadurpur. Total population of this area is 80,000 as per the last preceding census. During F.Y. 2019-20, Mr. Rana sold this land to Mr. Jeet for ₹ 25 lacs on 29.1.2020. Mr. Rana invested ₹ 5 lakhs in bonds of NHAI on 31.7.2020. Cost inflation index for F.Y. 2011-12 and F.Y. 2019-20 is 167 and 289 respectively. Compute the amount of capital gain taxable in the hands of Mr. Rana for A.Y. 2020-21:**

- (a) ₹ 3,23,353  
 (b) ₹ 8,23,353  
 (c) ₹ 10,00,000  
 (d) None of the above

**27. Exemption u/s 54F shall not be allowed if the assessee, on the date of transfer, owns**

- (a) self - occupied house  
 (b) residential house  
 (c) more than one residential house  
 (d) let out house

**28. Short term capital gains on transfer of non - listed shares shall be taxable @**

- (a) 10%

- (b) 15%
- (c) 20%
- (d) normal rate

**29. Long term capital gains under section 112A shall be taxable @**

- (a) 10%
- (b) 15%
- (c) 20%
- (d) normal rate

**30. Which of the following is not a capital asset as per section 2(14)**

- (a) Personal car
- (b) Personal house
- (c) Land and Building
- (d) Personal Jewellery