

MOCK TEST – 3
VOL. 2
ATTEMPT ALL QUESTIONS

Question 1.

(5 X 2 = 10 Marks)

The following are the details relating to four resident entities, AB & Co, LM & Co, PQ & Co and XY & Co. for P.Y.2020-21 –

	Particulars	AB & Co. (Firm)	LM & Co. (Firm)	PQ & Co. (Firm)	XY & Co. (Firm)
(1)	Nature of business/ profession	Retail trading	Business of plying, hiring or leasing goods carriages	Wholesale trading	Interior decoration
(2)	System of accounting	Mercantile	Cash	Mercantile	Cash
(3)	Turnover/Gross receipts	200 lakhs	101 lakhs	100 lakhs	50 lakhs
(4)	Amount received by way of RTGS/NEFT in the P.Y.2020-21 [included in (3) above]	150 lakhs	80 lakhs	70 lakhs	45 lakhs
(5)	Amount received by way of cash in the P.Y.2020-21 [included in (3) above]	30 lakhs	21 lakhs	10 lakhs	5 lakhs
(6)	Amount received by way of RTGS/NEFT between 1.4.2021 and 31.7.2021	20 lakhs	-	20 lakhs	-
(7)	Working partners' salary	5 lakhs	1.50 lakhs	3 lakhs	5 lakhs
(8)	Interest on capital@12% paid to partners	1 lakhs	0.50 lakhs	-	2 lakhs
(9)	Profit as per books of account maintained as per section 44AA [after deducting working partners' salary and interest on capital]	5.60 lakhs	4.1 lakhs	4.5 lakhs	20 lakhs
(10)	No. of vehicles owned		10 (see note 2 below for details)		

Notes –

(1) It may be assumed that partners' salary and interest are authorised by the partnership deed, relates to a period after the partnership deed and is within the permissible limits laid down under section 40(b).

(2) The details of vehicles owned by M/s. LM & Co. are as follows –

	Gross Vehicle Weight (in kgs)	Number	Date of purchase	Date when first put to use
(1)	8000	3	28.05.2020	01.06.2020
(2)	9000	2	31.07.2020	01.08.2020
(3)	10000	1	17.08.2020	20.08.2020
(4)	11000	1	30.09.2020	01.10.2020
(5)	12000	1	11.11.2020	13.11.2020
(6)	13000	2	31.12.2020	01.01.2021

From the details given above, choose the most appropriate option to the questions given below:

(i) Which of the four entities are eligible to declare income on presumptive basis under the Income-tax Act, 1961 for A.Y.2021-22?

- (a) Only AB & Co and LM & Co
 (b) Only AB & Co and XY & Co.
 (c) AB & Co, PQ & Co and XY & Co.

(d) AB & Co, LM & Co and XY & Co.

(ii) What is the business income to be declared by AB & Co. and PQ & Co. for A.Y.2021- 22, assuming that the entities wish to make maximum tax savings without getting their books of account audited?

- (a) ₹12.60 lakhs and ₹4.50 lakhs, respectively
- (b) ₹6.60 lakhs and ₹3.20 lakhs, respectively
- (c) ₹5.60 lakhs and ₹4.50 lakhs, respectively
- (d) ₹13 lakhs and ₹6.60 lakhs, respectively

(iii) What is the business income to be declared by LM & Co. for A.Y.2021-22, assuming that the firm wishes to make maximum tax savings without getting its books of account audited?

- (a) ₹4,48,000
- (b) ₹3,65,500
- (c) ₹4,36,500
- (d) ₹4,10,000

(iv) What is the income to be declared by XY & Co. under the head “Profits and gains of business or profession” for A.Y.2021-22, assuming that the firm wishes to make maximum tax savings, without getting its books of accounts audited?

- (a) ₹18 lakhs
- (b) ₹20 lakhs
- (c) ₹25 lakhs
- (d) ₹22.50 lakhs

(v) Would your answer to sub-parts (iii) and (iv) change, if the firms decide to get their books of accounts audited?

- (a) No, there would be no change in the answer to either sub-part (iii) or sub-part (iv)
- (b) Yes, there would be change in answer to both sub-parts (iii) and (iv)
- (c) There would be a change in the answer to sub-part (iii) but not in the answer to sub-part (iv)
- (d) There would be a change in the answer to sub-part (iv) but not in the answer to sub-part (iii)

Question 2.

(5X2 = 10 Marks)

Mr. A (aged 52 years), is a CEO of XYZ Enterprise Limited. During the previous year 2020-21, he earned salary of ₹ 1,65,00,000 and long-term capital gain on sale of listed equity shares amounting to ₹1,06,500. He earned interest of ₹ 4,82,778 on saving account.

Further, he has provided the following other information for filing his return of income:

He does not receive house rent allowance from his employer. Mr. A took a loan from State Bank of India on 27th October 2018 for repairing his house (self-occupied) at Delhi and paid interest on such borrowings of ₹ 80,000 and ₹ 1,50,000 towards principal amount during the previous year 2020-21.

Mr. A has made the following payments towards medical insurance premium for health policies taken for his family members:

Medical premium for his brother: ₹ 13,500 (by cheque)

Medical premium for his parents: ₹ 17,670 (by cheque)

Medical premium for self and his wife: ₹ 21,000 (by cheque).

He also incurred ₹ 6,400 towards preventive health check-up of his wife in cash. He deposited ₹1,00,000 towards PPF. He also deposited ₹ 50,000 and 2,50,000 towards Tier I and Tier II NPS A/c, respectively.

He has paid ₹ 5,30,000 as advance tax. His employer has deducted tax at source of ₹ 51,89,000. He is of the opinion the balance amount of tax, if any he will pay on 27 July 2020 (i.e. before the due date for filing of return of income).

From the details given above, choose the most appropriate option to the questions given below:

(i) Compute the amount of deduction available to Mr. A under Chapter VI-A for the assessment year 2021-22:

- (a) ₹ 2,04,070

- (b) ₹ 2,42,670
- (c) ₹ 2,52,670
- (d) ₹ 2,02,670

(ii) Assuming Mr. A pays rent of ₹ 65,000 per month for his rented house at Mumbai to Mr. C, a resident individual, is Mr. A liable to deduct TDS on such rent. If so, what would be the rate and amount of TDS?

- (a) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 3,250 every month i.e., at the time of payment of such rent
- (b) Yes, Mr. A is liable to deduct TDS @10% amounting to ₹ 6,500 every month i.e., at the time of payment of such rent
- (c) Yes, Mr. A is liable to deduct TDS @5% amounting to ₹ 39,000 in the month of March 2020
- (d) No, Mr. A is not liable to deduct TDS, since he is not required to get his books of accounts audited under section 44AB

(iii) What would be the amount of net tax payable for the assessment year 2021-22 in the hands of Mr. A?

- (a) Tax payable of ₹ 78,230
- (b) Tax payable of ₹ 60,290
- (c) Tax payable of ₹ 49,530
- (d) Tax payable of ₹ 67,470

(iv) Compute the amount of interest chargeable under section 234B on account of short payment of advance tax:

- (a) ₹ 1,980
- (b) Nil
- (c) ₹ 3,130
- (d) ₹ 2,410

Question 3.

(5X2 Marks)

Mr. Rajesh Sharma, aged 54 years, an Indian citizen, is working as Assistant Manager in ABC India Ltd. He is getting basic salary of ₹58,000 per month. He used to travel frequently out of India for his office work. He left India from Delhi Airport on 5th Oct, 2020 and returned to India on 2nd April, 2021.

For previous year 2020-21, following information are relevant;

- (a) Dearness Allowance - 10% of Basic Pay (considered for retirement purposes)
- (b) Bonus - ₹ 98,000
- (c) Medical allowance paid during P.Y. 2020-21 amounting to ₹60,000
- (d) He was also reimbursed medical bill of his mother amounting to ₹15,000.
- (e) He was also transferred a laptop by company for ₹15,000 on 31st Dec 2020. The laptop was acquired by company on 1st Oct,2017 for ₹1,00,000. Company was charging depreciation at 31.666% assuming useful life of laptop as 3 years.
- (f) He was also reimbursed salary of house servant of ₹ 4,000 per month during P.Y. 2020-21.
- (g) Professional Tax paid by employer during P.Y. 2020-21 amounting to ₹ 2,400.
- (h) 400 equity shares allotted by ABC India Ltd. during P.Y. 2020-21 at the rate of ₹250 per share against fair market value of share of ₹ 350 on the date of exercise of option.
- (i) Short-term capital gain on sale of shares of listed company on which STT is paid amounting to ₹94,000.
- (j) Mr. Rajesh was also found owner of ₹5 lakh worth jewellery, of which he could not provide any satisfactory explanation.

Based on the above information, choose the most appropriate option of the following Multiple Choice Questions (MCQs) for A.Y. 2021-22:

- (i) What is Mr. Rajesh Sharma's residential status for the A.Y. 2021 -22?

- (a) Resident but can't determine resident and ordinarily resident or resident but not ordinarily resident from the given information
- (b) Non-Resident
- (c) Resident but not ordinarily resident
- (d) Resident and ordinarily resident

(ii) What is his taxable perquisite for A.Y. 2021-22?

- (a) ₹ 55,000
- (b) ₹ 90,400
- (c) ₹ 1,05,400
- (d) ₹ 1,90,400

(iii) What is the income chargeable under the head "Salaries" in the hands of Mr. Rajesh Sharma for A.Y. 2021-22?

- (a) ₹ 9,76,600
- (b) ₹ 9,86,600
- (c) ₹ 9,71,600
- (d) ₹ 9,61,600

(iv) The tax liability (without considering surcharge and Health and education cess, if any) of Mr. Rajesh Sharma towards unexplained jewellery would be _____

- (a) ₹ 1,00,000
- (b) ₹ 1,50,000
- (c) ₹ 3,00,000
- (d) ₹ 2,50,000

(v) The total tax liability of Mr. Rajesh Sharma for A.Y. 2021-22 is _____

- (a) ₹ 5,16,800
- (b) ₹ 5,18,880
- (c) ₹ 4,38,800
- (d) ₹ 4,40,880

Question 4.

(6 Marks)

Mr. Rajan provides you the following details with regard to sale of certain securities by him during F.Y. 2020-21:

(i) Sold 10000 shares of A Ltd. on 05-04-2020 @ ₹ 650 per share

A Ltd. is a listed company. These shares were acquired by Mr. Rajan on 05-04-2016 @ ₹ 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares which was affected through a recognized stock exchange. On 31-01-2018, the shares of A Ltd. were traded on a recognized stock exchange as under:

Highest price - ₹ 300 per share
 Average price - ₹ 290 per share
 Lowest price - ₹ 280 per share

(ii) Sold 1000 units of B Mutual Fund on 20-04-2020 @ ₹ 50 unit

B Mutual Fund is an equity oriented fund. These units were acquired by Mr. Rajan on 15-04-2017 @ ₹ 10 per unit. STT was paid only at the time of transfer of such units. On 31-01-2018, the Net Asset Value of the units of B Mutual Fund was ₹ 55 per unit.

(iii) Sold 100 shares of C Ltd. on 25-04-2020 @ ₹ 200 per share

C Ltd. is an un-listed company. These shares were issued by the company as bonus shares on 30-09-1997. The Fair Value of these shares as on 01-04-2001 was ₹ 50 per share.

Cost Inflation Index for various financial year are as under:

2001-02 - 100

2016-17 - 264

2017-18 - 272

2020-21 - 301

Calculate the amount chargeable to tax under the head 'Capital Gains' and also calculate tax on such gains for A.Y. 2021-22 assuming that the other incomes of Mr. Rajan exceeds the maximum amount not chargeable to tax. (Ignore surcharges and cess).

Question 5.**(8 Marks)**

Mr. X, a resident individual, aged 55 years, purchased 10 Plots in the financial year 2003-04 for ₹12 Lakh. On 1st April 2004, he started a business of property dealing and converted all 10 plots as stock in trade of his business and recorded the cost at ₹40 Lakh in his books being the Fair market value on 1st April 2004.

On 31st March 2011, he sold all 10 Plots for ₹55 Lakh and purchased a residential house property for ₹50 Lakh. He has constructed 2 rooms in this residential house in June 2011 and has spent ₹8 Lakh.

He sold the above residential house on 5th Feb 2021, for ₹80 Lakh. The valuation adopted by Stamp valuation authority for the payment of stamp duty was ₹105 Lakh. On the request of Mr. X, A.O. made a reference to the valuation officer. The Valuation Officer determined the value at ₹108 Lakh. Mr. X paid brokerage 1% of sale consideration.

Compute the total Income and total Tax liability of Mr. X for the Assessment year 2021-22.

(Cost Inflation Index: 2003-04-109; 2004-05-113; 2010-11-167; 2011-12-184; 2020-21-301.)

Question 6. Explain provisions of section 44AD**(5 Marks)****Question 7.** Explain provision of section 35AD**(5 Marks)****Question 8.****(10 Marks)**

Mr. X furnishes the following trading, profit and loss account for the previous year ending on 31.03.2021.

Particulars (Debits)	Amount ₹	Particulars (Credits)	Amount ₹
To Stocks	14,000	By Sales	100,84,500
To Purchases	94,80,000	By Maturity proceeds of National Saving Certificate	19,500
To Freight and duty	5,000	By Maturity proceeds of Bank Fixed Deposit	24,000
To Manufacturing wages	25,000	By Maturity proceeds of Public provident fund	13,000
To Factory, rent, rates and taxes	30,000	By Rent of staff quarters built in 2014	19,000

To Office salaries	27,000	By Refund of income tax penalty	1,100
To Establishment expenses	6,100	By Sale of an old machinery	25,000
To Cost of computer	24,000	By Recovery of bad debts (Not allowed earlier)	6,000
To Interest on capital	3,300	By Income tax refund (it includes interest- ₹400)	2,400
To Donation to an orphan	1,000	By Gift from friends and relatives	3,600
To Fire insurance	200	By Sundry receipts	5,000
To Bad debts	6,000	By Maturity proceeds of LIC policy	24,000
To Income Tax	6,000	By Refund of deposit from a supplier who could not supply the machine in time	1,00,000
To National Urban Poverty Eradication Fund	2,000	By Closing stocks	26,400
To Employer's contribution to Recognised provident fund	8,000		
To Service charge for air-conditioner	11,000		
To Expenses on GST proceedings	12,000		
To Expenses on income tax proceedings	3,000		
To Diwali expenses	4,000		
To Legal Expenses	4,000		
To Medical expenses of proprietor	3,000		
To Staff welfare fund	2,000		
To Repairs of staff quarters	4,000		
To Bonus payable to employees	5,000		
To Provision for GST	25,000		
To Municipal taxes for staff quarters	4,000		
To General reserve	5,000		
To Entertainment expenses	6,000		
To Net Profit	6,27,900		
	103,53,500		103,53,500

Mr. X has not opted for presumptive taxation of Income u/s 44AD. You are required to compute Tax Liability after taking the following into consideration:

- Purchases include a purchase of ₹ 20,100. Its payment was made by a bearer cheque and also includes a purchase from a relative of ₹23,000 and the payment was made in cash and market price of the purchases is ₹22,000.
- Factory rent, rates and taxes includes municipal tax of the factory building, which was paid on 31.07.2021.
- Assessee has always valued the stocks at cost price but since 2020-21 he has valued it at market price, which was in excess of the cost price by 10%.
- Office salaries paid include ₹12,400 to the proprietor of the business.
- Diwali expenses include gifts of ₹1,000 made to the relatives.
- The written down value of the block consisting of machinery as on 01.04.2020 is ₹ 59,000
- The written down value of the block consisting of factory building as on 01.04.2020 is ₹ 85,000. An addition was made to building on 01.08.2020 at a cost of ₹12,000.
- Service charge for air-conditioner were paid in three instalment of ₹10,000 and ₹1,000 on 10.01.2021 and 11.01.2021 in cash.
- Employer's contribution was made through an account payee cheque on 10.04.2021 and the cheque realised on 20.04.2021 and the due date for the purpose of provident fund was 15.04.2021.
- Computer was purchased on 31.03.2020 and it was put to use on 31.03.2021.

Question 9. Explain provision of gratuity (5 Marks)

Question 10. Explain provision of Recognised provident fund (5 Marks)

Question 11. Explain provision of Rent free accommodation (5 Marks)

Question 12. (14 Marks)

Mrs. Mitul, a resident individual, aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs. Mitul for the year ending March 31st 2021 is as under:

Expenditure	₹	Income	₹
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Exp.	2,90,000	By Salary received from True Care Hospitals (P) Ltd.	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & Notified under Section 35	25,000		
To net profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

(i) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

Basic Pay	₹13,000 p.m.
Transport Allowance	₹ 2,000 p.m.
Total	₹15,000 p.m.

Further, during P.Y. 2020-21, her son had undergone a medical treatment in True Care Hospitals (P) Ltd. free of cost. The hospital would have charged a sum of ₹ 60,000 for a similar treatment to un-related patients.

(ii) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01/10/2020. The reconstruction of the house was started on 01-04-2020 and was completed on 30-09-2020. The monthly rent is ₹ 10,000. The tenant also pays ₹ 3,000 p.m. as power back-up charges. She took a housing loan of ₹ 12 lakhs on 01-04-2020. Interest on housing loan for the period 01-04-2020 to 30-09-2020 was 60,000 and for the period 01-10-2020 to 31-03-2021 was ₹40,000. During the year, she also paid municipal taxes for the F.Y. 2019-20 ₹5,000 and for F.Y. 2020-21 ₹5,000.

(iii) Other informations:

(a) Conveyance expenses include a sum of ₹12,000 incurred for conveyance from house to True Care Hospital (P) Ltd. and vice-versa in relation to her employment.

(b) Power & fuel expenses include a sum of ₹6,000 incurred for generator fuel for providing power back-up to the tenant.

(c) Administrative expenses include a sum of ₹10,000 paid as Municipal Taxes for her house.

(d) Clinic equipment' details are:

Opening W.D.V. of clinic equipments as on 01-04-2020 was ₹1,00,000 and fresh purchase made on 28-08-2020 is ₹25,000 which was paid in cash.

(e) She also paid tuition fee of ₹40,000 for her grand-daughter, which has been debited to her Capital A/c.

(f) She availed a loan of ₹8,00,000 from bank for higher education of her son. She repaid principal of ₹ 50,000 and interest of ₹ 26,000 during P.Y. 2020-21.

You are required to compute her net taxable income and net tax liability for the Assessment Year 2021-22.

Question 13.

(7 Marks)

From the following particulars of Shri Jagdish (Aged 59 Years) for the Assessment Year 2021-22, you are required to find out his taxable income and net tax liability:

- (i) Basic Salary @ ₹ 51,000 per month, Dearness allowance @ ₹ 10,000 per month (Part of salary for retirement benefits), House rent allowance ₹ 4,000 per month and rent paid for house in Mumbai is ₹ 7,000 per month.
- (ii) He owns a commercial building at New Delhi, which is let out on 1/7/2020 at a monthly rent of ₹ 46,000. He paid for municipal taxes of ₹ 27,000 and ₹ 25,000 for the financial year 2019-20 and 2020-21 on 31-3-2021 and 20-4-2021 respectively.
- (iii) He deals in shares. During financial year 2020-21 he earned ₹ 1,70,000 from his share business and paid ₹ 30,000 as security transaction tax.
- (iv) He purchased 4000 unlisted shares of Shyam Limited on 16-1-2010 for ₹ 80,000. Company declared bonus in the ratio of 1:1 on 1st February, 2010. Shri Jagdish sold 3000 Bonus Shares on 28/12/2020 for ₹ 2,00,000 to his friend Mr. Mehul through unrecognized stock exchange. (Cost Inflation Index: 2009-10: 148, **2020-21 : 301**)
- (v) He received dividend of ₹ 13,00,000 as dividend income from listed domestic company, Interest from saving bank account deposits with IDBI Bank ₹ 15,000 and lottery winnings (Net of TDS @ 30%) is ₹ 21,000.

He paid the following amount out of his taxable income :

- (a) Deposits in Public Provident Fund ₹ 2,00,000.
- (b) Medical insurance premium paid for health of his wife ₹ 19,000 and for health of dependent son ₹ 12,000 through cheque.