

MOCK TEST

INCOME TAX VOLUME 2

Time allowed: 3 hours

Maximum Marks: 100

DESCRIPTIVE TYPE QUESTION (70 Marks)

Question 1

(10 Marks)

From the following information furnished by Mr. Raj, aged 50 years, a resident individual and practicing Chartered Accountant, you are required to compute his total and tax liability for the A.Y. 2020-21.

Receipts and payments account for F.Y. 2019-20

Receipts	Rs.	Payments	Rs.
Opening Balance (01.04.2019) Cash & Bank	50,000	Staff salary, bonus and stipend to article clerks	25,13,500
Fee from professional service	51,36,000	Other general and administrative expenses	13,00,000
Motor car loan from BOB @10% interest per annum	1,00,000	Office rent	45,000
Interest on Saving bank account maintained with SBI	15,000	Life Insurance Premium	25,000
		Motor Car (Acquired in January, 2020 by way of account payee cheque)	8,00,000
		Books (annual publication bought by way of account payee draft in May 2019)	20,000
		Computer acquired on 1.12.2019 for professional use by way of crossed cheque	30,000
		Drawings	2,75,000
		Motor car maintenance	15,000
		Public Provident Fund subscription	1,40,000
		Closing balance (31.03.2020) Cash & Bank	1,37,500
	53,01,000		53,01,000

Other Information:

- (i) Motor car was put to use for both official and personal purposes. 1/3rd of the motor car is for personal purpose. No interest on car loan was paid during the year.
- (ii) Mr. Raj purchased a flat in Gwalior for ₹ 20,00,000 in July, 2015 cost of which was partly financed by a loan from State Bank of India of ₹ 15,00,000 @10% interest, his own savings ₹ 1,00,000 and a deposit from Bank of Baroda for Rs. 4,00,000. The flat was given to SBI on lease for 10 years @ ₹ 42,000 per month. The following particulars are relevant:
 - (a) Municipal taxes paid by Mr. Raj ₹ 5,500 per annum
 - (b) House Insurance ₹ 2,000
 The loan is still unpaid till 31.03.2020.

- (iii) He earned ₹1,00,000 in share speculation business and lost ₹1,50,000 in commodity speculation business.
- (iv) Mr. Raj received a gift of ₹ 30,000 each from four of his family friends.
- (v) He contributed ₹ 1,10,000 to Prime Minister's Draught Relief Fund by way of bank draft.
- (vi) He donated to a registered political party ₹3,00,000 by way of cheque.

Question 2**(10 Marks)**

Mr. Neeraj, aged 45 years, working in Ashiyana Pvt. Ltd. provides the following details pertaining to the financial year 2019-20:

Particulars	₹
Basic salary	7,20,000
Dearness allowance (40% of basic pay) (50% of D.A. forms part of retirement benefits)	-
Commission	50,000
Entertainment allowance	7,500
Medical expenses reimbursed by the employer	10,000
Profession tax (of this, 50% paid by employer)	3,000
Health insurance premium paid by employer	9,000
Gift voucher given by employer on his birthday	15,000
Life insurance premium of Neeraj paid by employer	40,000
Laptop provided for use at home. Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home]	45,000
Employer company owns a motor car, which was provided to the assessee, both for official and personal use. All repair and maintenance expenses are fully reimbursed by the employer. No driver was provided. (Engine cubic capacity less than 1.6 litres).	
Annual credit card fees paid by employer [Credit card is not exclusively used for official purposes]	5,000

You are required to compute the income chargeable under the head Salaries in the hands of Mr. Neeraj for the assessment year 2020-21

Question 3 (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 3 (b)**(5 Marks)**

Mr. Shridhar (age 45 years), a citizen of India, serving in the Ministry of Finance in India, was transferred to Indian Embassy in Australia on 15th March 2019. His income during the financial year 2019-20 is given hereunder:

Particulars	₹
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Rent from a house situated at Australia, received in Australia. Thereafter, remitted to Indian bank account.	5,25,000
Interest on Post office savings bank account in India	4,500
Salary from Government of India	9,25,000
Foreign Allowances from Government of India	8,00,000

Mr. Shridhar did not come to India during the financial year 2019-20. Compute his Gross Total Income for the Assessment year 2020-21.

Question 4 (a) (5 Marks)

Dr. Arjun runs a clinic in Delhi. As per new rule in the city, private cars can be plied in the city only on alternate days. He has purchased a car on 25-09-2019, for the purpose of his medical profession, as per following details:

Cost of car (excluding GST)	15,00,000
Add: Delhi GST at 14%	2,10,000
Add: Central GST at 14%	<u>2,10,000</u>
Total price of car	<u>19,20,000</u>

He put his car to use from 25.9.2019 itself. He estimates the usage of the car for personal purposes will be 25%. He is advised by his friends that since the car has run only on alternate days, half the depreciation, which is otherwise allowable, will be actually allowed. He has started using the car immediately after purchase.

Determine the depreciation allowable on car for the A.Y. 2020-21, if this is the only asset in the block. If this car would also be used in the subsequent Assessment Year 2021-22 on the same terms and conditions above, what will be the depreciation allowable? Assume that there is no change in the legal position under the Income-tax Act, 1961.

Question 4 (b) (5 Marks)

Rayaan gifted ₹ 15 lakhs to his wife, Sargam on her birthday on, 23rd February, 2019. Sargam lent ₹8,00,000 out of the gifted amount to Karuna on 1st April, 2019 for six months on which she received interest of ₹ 80,000. The said sum of ₹ 80,000 was invested in shares of a listed company on 5th October, 2019, which were sold for ₹ 96,000 on 28th March, 2020. Securities transactions tax was paid on purchase and sale of such shares. The balance amount of gift was invested on 1st April 2019, as capital by Sargam in her new business. She suffered loss of ₹ 52,000 in the business in Financial Year 2019-20.

In whose hands the above income and loss shall be included in Assessment Year 2020-21, assuming that capital invested in the business was entirely out of the funds gifted by her husband. Support your answer with brief reasons.

Question 5 (a) (5 Marks)

Compute total income of Mr. Mathur for the assessment year 2020-21 from the following information furnished by him for the financial year 2019-20.

Particulars	₹
Salary income (computed)	4,70,000
Loss from self-occupied house property	2,00,000
Loss from let out house property	60,000
Loss from speculation business-X	80,000
Profit from speculation business-Y	40,000
Income from trading and manufacturing business @ 8%	3,50,000
Interest on PPF deposit	95,000

Long term capital gain on sale of Vacant site (Computed)	2,10,000
Short term capital loss on sale of Jewellery	1,50,000
Investment in tax saver deposit on 31-03-2020	60,000
Brought forward loss of business of assessment year 2014-15	5,50,000
Donation to a charitable trust recognized under section 12AA and approved under section 80G paid by cheque	1,10,000
Enhanced compensation received from government for compulsory acquisition of land (held for a period of 5 years) in the year 2006	3,00,000

Question 5 (b)**(5 Marks)**

Examine with brief reasons, whether the following are chargeable to income-tax and the amount liable to tax with reference to the provisions of the Income-tax Act, 1961:

(i) Allowance of ₹ 18,000 p.m. received by an employee, Mr. Uttam Prakash, working in a transport system granted to meet his personal expenditure while on duty. He is not in receipt of any daily allowance from his employer.

(ii) During the previous year 2019-20, Mrs. Aadhya, a resident in India, received a sum of ₹ 9,63,000 as dividend from Indian companies and ₹ 4,34,000 as dividend from units of equity oriented mutual fund.

Question 6**(10 Marks)**

Mr. Manohar, a resident individual, age 53 years provides consultancy services in the field of Taxation. His Income and Expenditure account for the year ended 31st March, 2020 is as follows:

Income and Expenditure account for the year ending 31st March, 2020

Expenditure	Amount(₹)	Income	Amount(₹)
To Salary	4,00,000	By Consulting fees	58,00,000
To Motor car expenses	88,000	By share of profit from HUF	55,000
To Depreciation	87,500	By Interest on saving bank deposits	25,000
To Medical expenses	70,000	By Interest on income tax refund	26,000
To Purchase of computer	90,000		
To Bonus	25,000		
To General expenses	1,05,000		
To Office & administrative	1,15,000		
To Excess of income over Expenditure	49,25,500		
	59,06,000		59,06,000

The following other information relates to the financial year 2019-20:

- (1) Salary includes a payment of ₹ 22,000 per month to his sister-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹ 18,000 per month.
- (2) Written down value of the assets as on 1st April, 2019 are as follows:

Motor Car (25% used for personal use)	₹ 3,50,000
Furniture and Fittings	₹ 80,000
- (3) Medical expenses includes:
 - Family planning expenditure ₹ 15,000 incurred for the employees which was revenue in nature.
 - Medical expenses for his father ₹ 55,000. (Father's age is 65 years and he is not covered under any medical insurance policy). ₹ 2,500 incurred in cash and remaining by credit card.

(4) The computer was purchased on 5th June, 2019 on credit. The total invoice was paid in the following manner:

- ₹ 18,000 paid in cash as down payment on the date of purchase.
- Remaining amount was paid through account payee cheque on 10th August, 2019.

(5) Bonus was paid on 30th September, 2020.

(6) General expenses include commission payment of ₹ 42,000 to Mr. Mahesh for the promotion of business on 17th September, 2019 without deduction of tax at source.

(7) He also received gold coins from a family friend on the occasion of marriage anniversary on 15th November, 2019. The market value of the coins on the said date was ₹ 85,000.

The consultancy fees for the previous year 2018-19 was ₹ 52,50,300.

Compute the total income and the tax liability of Mr. Manohar for the assessment year 2020-21.

Question 7 (a)

(5 Marks)

Ms. Suhaani, a resident individual, aged 33 years, is an assistant manager of Daily Needs Ltd. She is getting a salary of ₹ 48,000 per month. During the previous year 2019-20, she received the following amounts from her employer.

(i) Dearness allowance (10% of basic pay which forms part of salary for retirement benefits).

(ii) Bonus for the previous year 2018-19 amounting to ₹ 52,000 was received on 30th November, 2019.

(iii) Fixed Medical allowance of ₹ 48,000 for meeting medical expenditure.

(iv) She was also reimbursed the medical bill of her father dependent on her amounting to ₹ 4,900.

(v) Ms. Suhaani was provided;

- a laptop both for official and personal use. Laptop was acquired by the company on 1st June, 2017 at ₹ 35,000.

- a domestic servant at a monthly salary of ₹ 5,000 which was reimbursed by her employer.

(vi) Daily Needs Ltd. allotted 700 equity shares in the month of October 2019 @ ₹ 170 per share against the fair market value of ₹ 280 per share on the date of exercise of option by Ms. Suhaani. The fair market value was computed in accordance with the method prescribed under the Act.

(vii) Professional tax ₹ 2,200 (out of which ₹ 1,400 was paid by the employer).

Compute the Income under the head "Salaries" of Ms. Suhaani for the assessment year 2020-21.

Question 7 (b)

(5 Marks)

Mr. Chirag, set up a manufacturing unit of Baking Soda in notified backward area of the State of Andhra Pradesh on 18th May, 2019. The following machineries (falling under 15% block) purchased by him during the previous year 2019-20.

Amount

(₹ lakhs)

(i) Machinery X, Machinery Y and Machinery Z from Sahaj Limited on credit

(installed and usage started on 18th July, 2019, 25th July 2019 and 1st August 2019, respectively).

Payment is made on 15th April 2020 to Sahaj Limited by net banking.

58

(ii) Machinery L from Swayam Limited (installed on 8th August, 2019).

The Invoice was paid through a cash payment on the same day.

35

(iii) Machinery M (a second-hand machine) from Sunshine Limited on 18th December, 2019

(The payment for the purchase invoice was made through NEFT on 5th January, 2020)

15

Compute the depreciation allowance under section 32 of the Income-tax Act, 1961 for the assessment year 2020-21.

MULTIPLE CHOICE QUESTION

(MCQ) (30 MARKS)

Question 1**(4X2 = 8 Marks)**

Mr. Sarthak (age 37 years) a share broker, sold a building to his friend Anay, who is a dealer in automobile spare parts, for ₹ 120 lakh on 10.11.2019, when the stamp duty value was ₹ 150 lakh. The agreement was, however, entered into on 1.9.2019 when the stamp duty value was ₹ 140 lakh. Mr. Sarthak had received a down payment of ₹ 15 lakh by a crossed cheque from Anay on the date of agreement. Mr. Sarthak purchased the building for ₹ 95 lakh on 10.5.2017. Further, Mr. Sarthak also sold an agricultural land (situated in a village which has a population of 5,800) for ₹ 60 lakhs to Mr. Vivek on 01.03.2020, which he acquired on 15.06.2014 for ₹ 45 lakhs. Stamp duty value of agricultural land as on 1.3.2020 is ₹ 75 lakhs
CII for F.Y. 2014-15: 240; F.Y. 2017-18: 272; F.Y. 2019-20: 289.

In the light of the above facts, you are required to answer the following:

- (i) Is there any requirement to deduct tax at source on consideration paid or payable on transfer of building and agricultural land?
- No; no tax is required to be deducted at source on transfer of any capital asset
 - Yes; Mr. Anay is required to deduct tax at source under section 194-IA.
 - Yes; Mr. Vivek is required to deduct tax at source under section 194-IA.
 - Yes; Mr. Sarthak is required to deduct tax at source under section 194-IA.
- (ii) In respect of transfer of building, capital gains chargeable to tax in the hands of Mr. Sarthak would be-
- long-term capital gains of ₹ 49,06,250
 - long-term capital gains of ₹ 39,06,250
 - short-term capital gains of ₹ 45,00,000
 - short-term capital gains of ₹ 55,00,000
- (iii) Assuming that Mr. Sarthak has other income exceeding basic exemption limit, the tax payable (excluding surcharge and health and education cess) on transfer of building and agricultural land, would be –
- ₹ 7,81,250
 - ₹ 13,97,500
 - ₹ 9,81,250
 - ₹ 10,97,500
- (iv) In respect of purchase of building from Mr. Sarthak, income chargeable to tax in the hands of Mr. Anay would be –
- ₹ 20 lakh
 - ₹ 30 lakhs
 - ₹ 15 lakhs
 - Nil

Question 2**(4X2 = 8 Marks)**

Mr. Hardik (age 45 years) is appointed as senior executive officer in Sky India Limited, Mumbai on 01.02.2019 in the scale of ₹ 35,000-3500-65,000. He is paid dearness allowance @40% of salary forming part of retirement benefits.

He is given rent free unfurnished accommodation on 01.5.2019 which he occupied only from 01.10.2019. The company pays lease rent of ₹ 5,000 p.m.

He has been provided a car of 2000 cc capacity which is used by him for private purposes only. The actual cost of the car is ₹ 8,00,000. The monthly expenditure of car is ₹ 5,000, which is fully met by the employer. He pays lumpsum premium of ₹ 1,50,000 towards health insurance for self and his wife for 48 months on 01.10.2019 by account payee cheque. He also contributes ₹ 1,50,000 towards PPF.

In the light of above facts, you are required to answer the following:

- (i) Value of rent-free accommodation chargeable to tax in the hands of Mr. Hardik, would be –
- (a) ₹ 44,835
 (b) ₹ 44,100
 (c) ₹ 45,570
 (d) ₹ 30,000
- (ii) Mr. Hardik would be eligible for deduction in respect of health insurance premium paid during the previous year 2019-20, for –
- (a) ₹ 30,000
 (b) ₹ 18,750
 (c) ₹ 25,000
 (d) ₹ 37,500
- (iii) Perquisite value of car chargeable to tax in the hands of Mr. Hardik would be –
- (a) ₹ 28,800
 (b) ₹ 21,600
 (c) ₹ 60,000
 (d) ₹ 1,40,000

3.

(Marks 2)

Mr. Jagat is an employee in accounts department of Bharat Ltd., a cellular company operating in the regions of eastern India. It is engaged in manufacturing of cellular devices. During F.Y. 2019-20, following transactions were undertaken by Mr. Jagat:

- (i) He attended a seminar on “Perquisite Valuation”. Seminar fees of ₹ 12,500 was paid by Bharat Ltd.
 (ii) Tuition fees of Mr. Himanshu (son of Mr. Jagat) was reimbursed by Bharat Ltd. Amount of fees is ₹ 25,000.
 (iii) Ms. Sapna (daughter of Mr. Jagat) studies in DPS Public School (owned and maintained by Bharat Ltd.) Tuition fees paid for Ms. Sapna was ₹ 750 per month. Cost of education in similar institution is ₹ 5,250 per month.

Compute the amount which is chargeable to tax under the head “Salaries” in hands of Mr. Jagat for A.Y. 2020-21.

- (a) ₹ 25,000
 (b) ₹ 37,500
 (c) ₹ 66,500
 (d) ₹ 67,000

4.

(Marks 2)

The details of income/loss of Mr. Kumar for A.Y. 2020-21 are as follows:

Particulars

Income from Salary (Computed)

Amt. (in ₹)

5,20,000

Loss from self-occupied house property	95,000
Loss from let-out house property	2,25,000
Loss from specified business u/s 35AD	2,80,000
Loss from medical business	1,20,000
Long term capital gain	1,60,000
Income from other sources	80,000

Compute gross total income of Mr. Kumar for A.Y. 2020-21:

- (a) ₹ 4,40,000
- (b) ₹ 3,20,000
- (c) ₹ 1,60,000
- (d) ₹ 4,80,000

5.

(Marks 1)

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

6.

(1 Mark)

Neha sold her residential house for ₹85 lakh on 11.08.2018. Value adopted by the Stamp Valuation Authority on the date of registration of the Conveyance Deed i.e., 17.08.2018 was ₹150 lakh. Neha disputed the valuation done by the said authority before the Assessing Officer and filed an application before him to refer her case to the Valuation Officer. The Valuation Officer determined the value of the house on date of registration of Conveyance Deed at ₹160 lakh. In light of these facts, compute the full value of consideration to be taken in case of Neha for the purpose of calculation of capital gains in her hands.

- (a) ₹85 lakh
- (b) ₹150 lakh
- (c) ₹160 lakh
- (d) ₹89.25 lakh

7.

(1 Mark)

Which of the following incomes are exempt incomes as per the provisions of Income-tax Act, 1961?

- (i) Allowance paid by Government to a citizen of India for rendering services outside India
 - (ii) Death-cum-retirement gratuity received by a government employee
 - (iii) Any sum received under a life insurance policy taken on 01.05.2016, if the premium payable for any of the years exceeds 10% of the actual capital sum assured.
 - (iv) Any payment from National Pension System Trust to an employee on account of closure of his NPS account.
- (a) (i), (ii), (iii), (iv)
 - (b) (i) & (ii)

(c) (i), (ii) & (iv)

(d) (ii) & (iv)

8.

(1 Mark)

Match the following to their respective rate of depreciation -

L.	Pollution control equipment	1.	10%
M.	Commercial building	2.	40%
N.	Oil Wells	3.	100%
		4.	15%

Select the correct answer from the options given below:

	L.	M.	N.
(a)	2	1	4
(b)	4	2	1
(c)	2	4	1
(d)	3	1	4

9.

(1 Mark)

Suman is a Chartered Accountant practicing in Mumbai since September, 1994. She transfers her practice to another Chartered Accountant Smita on 19.06.2019 and charges ₹14,50,000 towards goodwill. Determine the tax implications that may arise in the hands of Neha on account of transfer of her practice to Smita.

- (a) ₹14,50,000 shall be charged to tax as capital gains
- (b) ₹14,50,000 shall be charged to tax as income from other sources
- (c) ₹14,50,000 shall be charged to tax as income from profession
- (d) No tax implications shall arise

10.

(1 Mark)

Mr. Kunal is a doctor by profession engaged in his medical practice from last 15 years. His gross receipts from the profession in FY 2016-17, 2017-18, 2018-19 were ₹2,00,000, ₹16,00,000 and ₹18,50,000 respectively. Further, Kunal follows cash system of accounting. Determine which of the following books of accounts and documents are required to be kept and maintained by Kunal.

- (i) Cash Book
- (ii) Journal
- (iii) Inventory of the stock of drugs, medicines, etc.
- (iv) A daily cash register

- (a) (i) and (ii)
- (b) (i), (ii), (iii) & (iv)
- (c) (i), (iii) & (iv)
- (d) None of the above

11.

(1 Marks)

Which of the following statements is/are correct in respect of deduction allowed to an assessee in respect of certain donations for scientific research or rural development u/s 80GGA?

- (i) Deduction is not allowed to an assessee having income from business.
 - (ii) The maximum amount of deduction allowed is ₹10,000.
 - (iii) 100% deduction is allowed if amount in excess of ₹10,000 donated is paid by any mode other than cash.
 - (iv) Deduction is not allowed to an assessee having income from salaries.
 - (v) Any sum paid to a University to be used for scientific research is allowed if such University is approved u/s 35(1)(ii).
 - (vi) Any sum paid to a notified Urban Development Fund is allowed.
- (a) (i), (iii), (iv), (v), (vi)
 (b) (ii), (iii), (v)
 (c) (i), (ii)
 (d) (i), (iii), (v)

12.

(1 Marks)

Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year –

- 12.06.2019: loan repayment of ₹ 27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of ₹5,000.
- 19.08.2019: Portable dye machinery purchased for ₹ 15,000. The payment was made in cash in three weekly instalments.
- 26.01.2020: Payment of ₹ 10,000 made to electrician due to unforeseen electric circuit at shop
- 28.02.2020: Purchases made from unregistered dealer for ₹ 13,500

What will be disallowance under 40A(3), if any, if Mr. Shahid opts to declare his income as per the provisions of section 44AD?

- (a) ₹ 18,500
- (b) ₹28,500
- (c) ₹13,500
- (d) NIL

13.

(1 Marks)

X Ltd. files its return of loss for the A.Y. 2020-21 on 01.12.2020. The following data is taken from return submitted by the company:

Business Loss for P.Y. 2019-20 (before depreciation)	₹1,70,000
Depreciation	₹30,000
Short term capital loss	₹45,000
Long term capital gain	₹10,000
Income from other sources	₹23,000

Unabsorbed depreciation pertaining to A.Y. 2018-19 and A.Y. 2019-20 which has been determined in pursuance of return filed	₹75,000
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Compute the amount of loss that can be carried forward by X Ltd.

- (a) ₹1,05,000
- (b) ₹30,000
- (c) ₹2,87,000
- (d) Nil

14.

(1 Marks)

Which of the following details/evidences are required to be furnished by an employee to his/her employer in respect of deduction of interest under the head "Income from house property", when the employer is estimating the total income of the employee for the purpose of tax deduction at source u/s 192?

- (i) Amount of Interest payable or paid
 - (ii) Rate of interest payable or paid
 - (iii) Name of the lender
 - (iv) Address of the lender
 - (v) PAN of the lender
 - (vi) TAN of the lender
- (a) (i), (iii), (v)
 - (b) (i), (iii), (iv), (v)
 - (c) (ii), (iv), (v), (vi)
 - (d) (i), (ii)