

MOCK TEST PAPER 2
INTERMEDIATE (NEW) COURSE
PAPER – 4: TAXATION

Time Allowed – 3 Hours

Maximum Marks – 100

SECTION – A: INCOME TAX LAW (60 MARKS)

Working Notes should form part of the answer. Wherever necessary, suitable assumptions may be made by the candidates and disclosed by way of a note. However, in answers to Questions in Division A, working notes are not required.

The relevant assessment year is A.Y.2021-22.

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

1. Mr. Akash had bought a residential house worth Rs. 2.5 crores at South Extension, Delhi in 2018 and let out the house on rent to Mr. Riyaz. The property was funded through loan from PNB. The interest due for F.Y.2020-21 to PNB is Rs. 25 lakhs, out of which he paid only Rs. 20 lakhs during the year. Mr. Akash then took a loan of Rs. 1.5 crores from SBI on 1.7.2020 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2021. Mr. Akash started repaying EMIs due to SBI. During the P.Y. 2020-21, he repaid principal amount of Rs. 25 lakhs and Rs. 5 lakhs to PNB and SBI, respectively. He also paid interest of Rs. 8 lakhs to SBI out of Rs. 10 lakhs, being interest due for the period from 1.7.2020 to 31.3.2021.

Mr. Akash owns another house in Haryana. He transferred that house to his minor daughter Miss Sia on her birthday as her birthday gift. Miss Sia gave the said house to the local Panchayat from September, 2020 at a rent of Rs. 5,000 per month. Mrs. Akash's total income for A.Y.2021-22 is higher than that of Mr. Akash. This is the first year when Miss Sia has any source of income.

Mr. Akash bought electric vehicle worth Rs. 50 lakhs on loan from BSM Bank which it sanctioned on 1.4.2020. BSM Bank charged interest of Rs. 7 lakhs on electric vehicle for the P.Y.2020-21. Mr. Akash has also taken loan from ABC Bank for his daughter's higher education. He paid Rs. 50,000 as interest to ABC Bank. He also paid mediclaim of Rs. 20,000 to New India Assurance Scheme for insuring his health.

Mrs. Akash owns a shop of 200 square feet area in Gurgaon. She rented it to Mr. Vishal from October, 2020 at Rs. 60,000 per month, who gave her an interest-free deposit of Rs. 1,50,000.

From the information given above, choose the **most appropriate answer** to the following questions -

- (i) What is the amount of interest allowable as deduction u/s 24 to Mr. Akash for A.Y.2021-22?
- (a) Rs. 2 lakhs
(b) Rs. 25 lakhs
(c) Rs. 28 lakhs
(d) Rs. 35 lakhs
- (2 Marks)**
- (ii) What is the amount of deduction permissible to Mr. Akash under Chapter VI-A of Income-tax Act, 1961 for A.Y. 2021-22?
- (a) Rs. 1,70,000

(b) Rs. 2,20,000

(c) Rs. 3,70,000

(d) Rs. 9,20,000

(2 Marks)

(iii) Is notional interest on interest free deposit received in respect of shop let out on rent chargeable to income-tax? If so, under which head of income would the same be taxable?

(a) No, it is not chargeable to tax

(b) Yes, it is chargeable to tax as profits and gains from business, since a commercial property has been let out.

(c) Yes, it is chargeable to tax as "Income from Other Sources", being the residuary head of income.

(d) Yes, it is chargeable to tax as "Income from house property", since section 22 does not distinguish between a residential house property and commercial house property. **(2 Marks)**

(iv) In whose hands would Sia's rental income from house property at Haryana be taxable and how much income would be taxable?

(a) In Sia's hands; Rs.24,500

(b) In Mr. Akash's hands; Rs.24,500

(c) In Mrs. Akash's hands; Rs.23,000

(d) It would change every year depending on the parent whose income is higher in that year.

(2 Marks)

2. Miss Nisha (68 years) is a resident individual. For the Assessment Year 2021-22, she has following income:

Long-term capital gain on transfer of equity shares Rs.1,80,000

(Securities Transaction Tax has been paid on acquisition and transfer of the said shares)

Other income Rs.2,75,000

Calculate the tax liability of Miss Nisha for Assessment Year 2021-22.

(a) Nil

(b) Rs.5,670

(c) Rs.5,720

(d) Rs.8,320

(2 Marks)

3. K is a working partner in a firm on behalf of his HUF and the HUF has contributed Rs.3,00,000 as its capital contribution. Apart from this, K has given a loan of Rs.50,000 to the firm in his individual capacity. The firm pays interest as per market rate of 15% per annum on capital as well as loan. Compute the amount of interest that shall be allowed to the firm while calculating its business income assuming that the interest is authorized by the partnership deed.

(a) Rs.42,000

(b) Rs.51,000

- (c) Rs.52,500
(d) Rs.43,500 **(2 Marks)**
4. Mr. Prakash is employed with XYZ Ltd. from 05.11.2017. He resigned on 31.03.2022 and also withdrew a sum of Rs. 55,000, being the accumulated balance of employer's contribution in his EPF Account, on the same date. The tax would be deducted -
(a) Rs. 500 u/s 192
(b) Rs. 5,500 u/s 192
(c) Rs. 4,125 u/s 192A
(d) Rs. 5,500 u/s 192A **(2 Marks)**
5. Determine residential status of Sundaram (HUF) which carries out its transactions in Malaysia. Its affairs are partly controlled from India. The Karta of HUF, Mr. Sundaram who is from Chennai visits India on 01.06.2019 and leaves to Malaysia on 10.02.2020. He has not visited India for the past 11 years.
(a) Non-resident
(b) Resident but not ordinarily resident
(c) Deemed resident
(d) Resident and ordinarily resident **(2 Marks)**
6. Ms. Shalini received interest on enhanced compensation of Rs. 5,00,000. Out of this interest, Rs. 1,50,000 relates to the previous year 2018-19, Rs. 1,90,000 relates to previous year 2019-20 and Rs. 1,60,000 relates to previous year 2020-21. She paid Rs. 1 lakh to her advocate for his efforts in the matter. What amount would be taxable in P.Y. 2020-21 and taxable, if any, under which head of income.
(a) Rs.2,50,000 under the head "income from other sources"
(b) Rs. 4,00,000 under the head "income from other sources"
(c) Rs.1,60,000 under the head "income from other sources"
(d) Rs.1,60,000 under the head "Capital gains" **(2 Marks)**

Division B – Descriptive Questions

Question No. 1 is compulsory

Attempt any **two** questions from the remaining **three** questions

1. From the following information provided by Mr. Suresh, aged 43 years and a wholesale dealer, for the A.Y. 2021-22, you are required to compute the tax payable by him.

Trading and Profit and Loss Account of Mr. Suresh

Particulars	Amount in Rs.	Particulars	Amount in Rs.
To Opening Stock	24,21,000	By Sales	2,62,50,100
To Purchases	2,06,00,500	By Closing stock	52,00,100
To Direct expenses	4,12,040		
To Freight inward	2,65,000		
To Gross Profit c/d	77,51,660		
	3,14,50,200		3,14,50,200

To Salaries and wages	17,15,000	By Gross Profit b/d	77,51,660
To General expenses	3,65,000	By dividend from Indian companies (gross)	17,20,000
To Rates and taxes	2,40,000	By Interest received on FDs (Net of tax) [FD made on 1.8.2020]	1,11,000
To Interest paid on late filing of GST	3,845	By Rent received	7,20,000
To Income-tax paid for FY 2019-20	3,45,000	By Income-tax Refund	19,000
To Interest paid to NBFC	1,15,000		
To Depreciation	1,82,000		
To Net Profit	73,55,815		
	1,03,21,660		1,03,21,660

The following additional information is provided by him:

- (a) Closing stock of previous year 2020-21 was undervalued by Rs. 55,000.
 - (b) Rates and taxes include Rs. 1,000 paid towards late filing of his Income-tax return for Assessment Year 2020-21 under section 234F of Income-tax Act.
 - (c) Salaries include Rs. 30,000 paid on single day by way of cash to his accountant.
 - (d) Interest paid on loan of Rs. 10,00,000 taken from a Non-Banking Finance company. Out of the loan, amount of Rs. 2 lakhs was used for personal purpose and the balance was used for business purpose. No TDS was deducted while paying the interest on loan.
 - (e) An amount of Rs. 35,000 was paid by cheque during the year towards health insurance policy covering himself, his spouse and his children.
 - (f) General expenses include Advertisement expense of Rs. 25,000 paid by cheque towards an advertisement in a souvenir published by local political party.
 - (g) Income-tax refund includes Rs. 2,500 towards interest.
 - (h) Depreciation charged is as per Income-tax Rules is Rs. 2,20,000
 - (i) Advance Tax paid during the year is Rs. 9 lakhs.
 - (j) TDS has been deducted on interest received on FD.
 - (k) Turnover for the year ending 31.03.2020 was Rs. 2.58 crores. **(14 Marks)**
2. (a) Mr. Thomas, a citizen of Japan, comes to India for the first time during the P.Y. 2016-17. During the financial years 2016-17, 2017-18, 2018-19 2019-20 and 2020-21, he was in India for 50 days, 65 days, 95 days, 150 days and 75 days, respectively. Determine his residential status for the A.Y. 2021-22. Examine the tax implications in the hands of Mr. Thomas for the Assessment Year 2021-22 of the following transactions entered by him.
- (1) Interest received from Mr. Michel, a non-resident outside India (The borrowed fund is used by Mr. Michel for investing in Indian company's debt fund for earning interest).
 - (2) He is also engaged in the business of running news agency and earned income of Rs. 5 lakhs from collection of news and views in India for transmission outside India.
 - (3) He entered into an agreement with ABC & Co., a partnership firm for transfer of technical documents and design and for providing services relating thereto, to set up a Steel manufacturing plant, in India. He charged Rs. 15 lakhs for these services from ABC & Co. **(7 Marks)**

- (b) Mr. Naksh has undertaken certain transactions during the F.Y.2020-21, which are listed below. You are required to identify the transactions in respect of which quoting of PAN is mandatory in the related documents –

S.No.	Transaction
1.	Payment of life insurance premium of Rs. 40,000 in the F.Y.2020-21 by account payee cheque to LIC for insuring life of self and spouse
2.	Payment of Rs. 1,10,000 to RBI for acquiring its bonds
3.	Applied for issue of credit card to SBI
4.	Payment of Rs. 1,00,000 by account payee cheque to travel agent for travel to Singapore for 3 days to visit

(4 Marks)

- (c) Ms. Soha (aged 35 years), a resident individual, is a dealer of scooters. During the previous year 2020-21, total turnover of her business was Rs. 110 lakhs (out of which Rs. 25 lakhs was received by way of account payee cheques and balance in cash). Ms. Soha does not opt to pay tax as per the provisions of section 115BAC.

What would be your advice to Ms. Soha relating to the provisions of advance tax with its due date along with the amount payable, assuming that she wishes to make maximum tax savings.

(3 Marks)

3. (a) Mr. Kashyap, aged 38 years, is entitled to a salary of Rs. 40,000 per month. He is given an option by his employer either to take house rent allowance or a rent free accommodation which is owned by the company. The HRA amount payable was Rs. 8,000 per month. The rent for the hired accommodation was Rs. 6,500 per month at New Delhi. Advise Mr. Kashyap whether it would be beneficial for him to avail HRA or Rent Free Accommodation. Give your advice on the basis of "Net Take Home Cash benefits". Assume Mr. Kashyap does not opt for the provisions of section 115BAC.

(7 Marks)

- (b) Compute the total income of Mr. Veer for the assessment year 2021-22 under proper heads from the following information furnished by him for the financial year 2020-21:

Particulars	Rs.
Income from let out house property (computed)	3,50,000
Interest paid on housing loan for self-occupied property	2,00,000
Income from Textile business	5,75,000
Brought forward business loss of Assessment Year 2017-18	1,05,000
Short-term capital loss	70,000
Brought forward long-term loss from Assessment Year 2019-20	90,000
Long-term capital gain on sale of house	75,000
Interest on enhanced compensation from Government for acquisition of land in 2016	5,00,000
Dividend from ABC Ltd., Andhra Pradesh	15,000
Deposit made on 15.02.2021 in his Public Provident fund account	75,000
Loss from owning and maintaining race horse of Assessment Year 2020-21	20,000
Loss from Gambling	8,000

Also state the loss that can be carried forward to A.Y. 2022-23. Mr. Veer filed the return of income for assessment year 2017-18 after the expiry of due date for filing the return. **(7 Marks)**

4. (a) Mr. Raj is carrying on business of manufacture and sale of art-silk cloth. He purchased machinery worth Rs. 4 lacs on 1.5.2017 and insured it with United India Assurance Ltd against fire, flood, earthquake etc., The written down value of the asset as on 01.04.2020 was Rs. 1,87,850. The insurance policy contained a reinstatement clause requiring the insurance company to pay the value of the machinery, as on the date of fire etc., in case of destruction of loss. A fire broke out in August, 2020 causing extensive damage to the machinery of the assessee rendering them totally useless. The assessee company received a sum of Rs. 4 lacs from the insurance company on 15th March, 2021. Examine the issues arising on account on the transactions and their tax treatment. (Cost inflation index for financial year 2008-09 and 2020-21 are 137 and 301 respectively) **(4 Marks)**
- (b) Compute the amount of TDS on the following payments made:
- (i) Payment of royalty of Rs. 20,000 & fee for technical services of Rs. 24,000 to Mr. A, who is having PAN, were made during the Previous Year 2020-21 by M/s. Zen Ltd.
 - (ii) Kiara Ltd., paid Rs. 18,000 to one of its directors as sitting fees on 02.02.2021.
 - (iii) Rs. 2,35,000 paid to Mr. Sumit, a resident Individual on 26.12.2021 by State of Tamil Nadu on Compulsory Acquisition of his urban land. **(3 Marks)**
- (c) (i) Mrs. Neha transferred 100 shares of ABC (P) Ltd. to M/s. XYZ Co. (P) Ltd. on 10.9.2020 for Rs. 3,00,000 when the market price was Rs. 5,00,000. The indexed cost of acquisition of shares for Mrs. Neha was computed at Rs. 4,30,000. The transfer was not subjected to securities transaction tax.
- Determine the income chargeable to tax in the hands of Mrs. Neha and M/s. XYZ Co. (P) Ltd. because of the above said transaction. **(2 Marks)**
- (ii) Mr. Chetan is employed in a company with taxable salary income of Rs. 5,50,000. He received a cash gift of Rs. 1,00,000 from Atma Charitable Trust (registered under section 12AA) in December 2020 for meeting his medical expenses.
- Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Chetan? **(1 Mark)**
- (d) Mr. Vikas holds shares carrying 33% voting power in Kaya Ltd. Mrs. Rinky is working as accountant in Kaya Ltd. getting income from salary (computed) of Rs. 4,60,000 without any qualification in accountancy. Mr. Vikas also receives Rs. 35,000 as interest on securities. Mrs. Rinky owns a house property which she has let out. Rent received from tenants is Rs. 6,000 p.m. Compute the gross total income of Mr. Vikas and Mrs. Rinky for the A.Y. 2021-22. **(4 Marks)**

SECTION B - INDIRECT TAXES (40 MARKS)

QUESTIONS

- (i) Working Notes should form part of the answers. However, in answers to Question in Division A, working notes are not required.
- (ii) Wherever necessary, suitable assumptions may be made by the candidates, and disclosed by way of note.
- (iii) All questions should be answered on the basis of the position of GST law as amended up to 30th April, 2021.
- (iv) The GST rates for goods and services mentioned in various questions are hypothetical and may not necessarily be the actual rates leviable on those goods and services. Further, GST compensation cess should be ignored in all the questions, wherever applicable.

Division A - Multiple Choice Questions (MCQs)

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions are compulsory.

Total Marks: 12 Marks

Each MCQ under Question No. 1 carries 2 Marks each

1. Mr. Kumar started interior designing practice from the month of January. His turnover up to the month of March was ₹ 12,50,000. On 30th June, his turnover exceeded ₹ 20,00,000 & reached to ₹ 20,05,000. Mr. Kumar applied for GST registration (as regular taxpayer) on 15th July and registration was granted to him on 25th July.

On 16th July, he entered into a contract for designing the flat of Mr. Shyam. The service was completed on 22nd July and Mr. Kumar issued invoice on the same day for ₹ 6,00,000. On 5th July, Mr. Kumar purchased capital goods amounting to ₹ 4,50,000 and from 25th July to 31st July, he availed services amounting to ₹ 1,75,000 for the purpose of completing the service.

On 1st August, Mr. Kumar got another contract for interior designing from Mr. Ram, which he accepted on 2nd August. The service was completed on 6th August and invoice was issued on 7th August for ₹ 5,00,000. Payment was received on 29th August.

All values are excluding taxes, unless specifically mentioned. Mr. Kumar makes only intra-State outward supplies and all purchases are also intra-State. Rates of tax are CGST - 9% and SGST – 9%.

In relation to the above, answer the following questions:

- 1.1 The effective date of registration for Mr. Kumar is-

- (a) 30th June
- (b) 15th July
- (c) 25th July
- (d) 16th July

- 1.2 Mr. Kumar can issue a revised tax invoice till-

- (a) 23rd October
- (b) 8th September
- (c) 25th September
- (d) 25th August

- 1.3 Eligible input tax credit available with Mr. Kumar for the month of July is-
- (a) CGST ₹ 40,500 & SGST ₹ 40,500
 (b) CGST ₹ 15,750 & SGST ₹ 15,750
 (c) CGST ₹ 56,250 & SGST ₹ 56,250
 (d) CGST ₹ 36,000 & SGST ₹ 36,000
- 1.4 The time of supply of services provided by Mr. Kumar to Mr. Ram is-
- (a) 7th August
 (b) 1st August
 (c) 29th August
 (d) 6th August
- 1.5 If instead of opting for regular scheme, Mr. Kumar opts to pay tax under section 10(2A) of the CGST Act, 2017, the tax liability for the month of July will be-
- (a) CGST Nil and SGST Nil
 (b) CGST ₹ 54,000 & SGST ₹ 54,000
 (c) CGST ₹ 18,000 & SGST ₹ 18,000
 (d) CGST ₹ 78,150 & SGST ₹ 78,150

(5 x 2 Marks = 10 Marks)

2. Rama Ltd. has provided following information for the month of September:

Intra-State outward supply	₹ 8,00,000
Inter-State exempt outward supply	₹ 5,00,000
Turnover of exported goods	₹ 10,00,000
Payment made for availing GTA services	₹ 80,000

Calculate the aggregate turnover of Rama Ltd.

- (a) ₹ 8,00,000
 (b) ₹ 23,80,000
 (c) ₹ 23,00,000
 (d) ₹ 18,00,000

(2 Marks)

Division B - Descriptive Questions

Question No. 1 is compulsory.

Attempt any two questions out of remaining three questions.

Total Marks: 28 Marks

1. Paritosh & Co., a supplier of goods, pays GST under regular scheme. It has made the following outward taxable supplies in a tax period:

Particulars	Amount (₹)
Intra-State supply of goods	10,00,000
Inter-State supply of goods	8,00,000

It has also furnished the following information in respect of purchases made by it in that tax period:

Particulars	Amount (₹)
Intra-State purchases of goods	3,00,000
Inter-State purchases of goods	2,50,000

Paritosh & Co. has following ITCs with it at the beginning of the tax period:

Particulars	Amount (₹)
CGST	57,000
SGST	60,000
IGST	1,40,000

Note:

- (i) Rates of CGST, SGST and IGST are 9%, 9% and 18% respectively.
- (ii) Both inward and outward supplies are exclusive of taxes, wherever applicable.
- (iii) All the conditions necessary for availing ITC have been fulfilled.

Compute the minimum GST, payable in cash, by Paritosh & Co. for the tax period and the ITC to be carried forward to the next month. Make suitable assumptions as required. **(8 Marks)**

2. (a) Shri Krishna Pvt. Ltd., a registered supplier, furnishes the following information relating to goods sold by it to Shri Balram Pvt. Ltd. -

S. No.	Particulars	Amount (₹)
(i)	Price of the goods [excluding taxes and other charges mentioned at S. Nos. (iii), (v) and (vi)]	1,00,000
(ii)	Municipal tax	2,000
(iii)	Inspection charges	15,000
(iv)	Subsidy received from Shri Ram Trust [Subsidy is directly linked to the goods supplied]	50,000
(v)	Late fees for delayed payment inclusive of GST [Shri Balram Pvt. Ltd. paid the late fees. However, these charges were ultimately waived by Shri Krishna Pvt. Ltd. and the amount was refunded to Shri Balram Pvt. Ltd. during the same month]	1,000
(vi)	Weighment charges [Such charges were paid by Shri Balram Pvt. Ltd. to Radhe Pvt. Ltd. on behalf of Shri Krishna Pvt. Ltd.]	2,000

Note: Price of the goods is net of the subsidy received.

Determine the value of taxable supply made by Shri Krishna Pvt. Ltd. to Shri Balram Pvt. Ltd.

(6 Marks)

- (b) Subramanian Enterprises has two registered places of business in Delhi. Its aggregate turnover for the preceding year for both the places of business was ₹ 120 lakh. It wishes to pay tax under composition levy, under section 10(1) & 10(2), for one of the places of business in the current year while under normal levy for other. You are required to advise Subramanian Enterprises whether he can do so? **(4 Marks)**

3. (a) Examine whether the supplier of goods is liable to get registered in the following independent cases:-
- (i) Raghav of Assam is exclusively engaged in intra-State taxable supply of readymade garments. His turnover in the current financial year (FY) from Assam showroom is ₹ 33 lakh. He has another showroom in Tripura with a turnover of ₹ 11 lakh in the current FY.
 - (ii) Pulkit of Panjim, Goa is exclusively engaged in intra-State taxable supply of shoes. His aggregate turnover in the current financial year is ₹ 22 lakh.
 - (iii) Harshit of Himachal Pradesh is exclusively engaged in intra-State supply of pan masala. His aggregate turnover in the current financial year is ₹ 24 lakh. **(6 Marks)**
- (b) Mr. A has deposited a sum of ₹ 30,000 under minor head of "Interest" column for the major head "IGST". At the time of filing GSTR-3B for a particular tax period, he noticed that there is no sufficient amount under the minor head 'Tax' towards payment of ₹ 30,000. When approached with the Jurisdictional Tax officer, Mr. A was guided to deposit the tax amount under proper head of account and claim a refund for the remittance of amount deposited under head "interest". Examine the relevant provisions of CGST Act, 2017 towards payment of tax and compliance with the law. **(4 Marks)**
4. (a) GST is a simplified tax structure. Justify the statement. **(4 Marks)**
- (b) What are the cases where a registered person is debarred from furnishing details of outward supplies in GSTR-1/IFF? **(6 Marks)**