

MOCK TEST

SALARY

Time allowed: 3 hours

Maximum Marks: 100

DESCRIPTIVE TYPE QUESTION (70 Marks)

Question 1

(10 Marks)

Mrs. Babu, working as journalist with ABC Limited provides the following information for the year ended 31-03-2020.

| | |
|---|---------------------|
| Basic salary | ₹25,000 p.m. |
| DA (50% of it is meant for retirement benefits) | 50% Basic Pay |
| Own contribution to Recognized Provident fund (R.P.F.) | ₹30,000 |
| Employer's contribution to R.P.F | 20% of Basic Salary |
| Interest credited in the R.P.F. @ 15% | ₹15,000 |
| Arrears of rent received from ABC Limited | ₹69,000 |
| Received interest ₹10,000 from Axis Bank Savings account during the year, and interest of ₹12,040 from the debentures of M/s. Coal India ltd. | |
| She made payment through cheque ₹12,500 for Mediclaim Insurance Policy for her major daughter. | |

She had contributed ₹1,196 pm towards Atal Pension Yojana and ₹5,000 pm towards Sukanya Samridhi account.

M/s. ABC Limited has taken residential house of Mrs. Babu as Company's guest house and later purchased from her in the 2017 at market value for ₹75 lakhs. Purchased cost was only ₹10 lakhs in April, 2005.

During August, 2019 Mrs. Babu had lost her gold chain and a diamond ring which she had purchased in April, 2005 for ₹1,17,000 and market value of these two items were ₹2,50,000 and she has received insurance compensation of ₹2,92,000 during Feb.,2020

Compute Total Income for the Asst. year 2020-21.

(CII FOR 2005- 06 = 117, 2017 -18 = 272, and 2019-20=289)

Question 2 (a)

(5 Marks)

Mr. Nambi, a salaried employee, furnishes the following details for the financial year 2019-20:

| Particulars | ₹ |
|---|----------|
| Basic salary | 6,00,000 |
| Dearness allowance | 3,20,000 |
| Commission | 50,000 |
| Entertainment allowance | 7,500 |
| Profession Tax (of this, 50% paid by employer) | 7,000 |
| Health insurance premium paid by employer | 9,000 |
| Gift voucher given by employer on his birthday | 12,000 |
| Life insurance premium of Nambi Paid by employer | 34,000 |
| Laptop provided for use at home . Actual cost of Laptop to employer [Children of the assessee are also using the Laptop at home] | 30,000 |
| Employer -Company owns a Tata Nano car, which was provided to the assessee, Both for official and personal use. 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; details of usage are not available] | 2,000 |

You are required to compute the income chargeable under the head "Salaries" for the assessment year 2020-21.

Question 2 (b)**(5 Marks)**

Compute the amount of LTC Exemption in the following cases with reference to the provision under Income Tax Act, 1961:

- (a) Mr. X went on a holiday on 09.09.2019 to Mysore with his wife and 3 children - one daughter born on 02.02.2013 and twin sons born on 05.05.2015. The total cost of travel was ₹80,000. The ticket cost for Mr. X and his wife was ₹50,000 and for all three children was ₹30,000. The Employer reimbursed total ticket cost ₹80,000.
- (b) In the above case (a), if among his 3 children the twin sons born on 02.02.2013 and the daughter was born on 05.05.2015, what shall be the exemption?

Question 3 (a)**(5 Marks)**

Compute tax liability in the following situations:

| Name of the Employee | Mr. A | Mr. B | Mr. C | Mr. D |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Basic Pay | 25,000 p.m. | 25,000 p.m. | 25,000 p.m. | 25,000 p.m. |
| Accommodation provided by the employer | Owned by the employer | Owned by the employer | Owned by the employer | Hired by the employer |
| Rent paid by the employer | Nil | Nil | Nil | 4,000 p.m. |
| Population of the place | 10 lakhs | 25 lakhs | 35 lakhs | 10 lakhs |
| Rent recovered from the employee | 500 p.m. | 500 p.m. | 500 p.m. | 500 p.m. |

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

Mr. X was employed in ABC Ltd. getting basic pay ₹18,000 p.m. but it was increased to ₹ 24,000 p.m. w.e.f. 01-07-2019, dearness allowance ₹6,000 p.m. but it was increased to ₹9,000 p.m. w.e.f. 01-07-2019 (50% of DA forms part of salary). The employee was retired on 10.01.2020 after serving the employer for 20 years and 10 months. The employer has paid him gratuity of ₹9,10,000 and the employee was covered under Payment of Gratuity Act, 1972.

Compute taxable portion of gratuity and also Tax Liability.

- (ii) Presume Mr. X is not covered in Payment of Gratuity Act 1972.

Question 4 (a)**(5 Marks)**

Mr. X is employed in ABC Ltd. getting basic pay ₹22,000 p.m., dearness allowance ₹5,000 p.m. He was retired on 21.12.2019. The employer has allowed him pension of ₹9,000 p.m. and the employee has requested for commutation of 52% of his pension. The employer has allowed him such commutation on 01.02.2020 and has paid ₹5,61,600. The employer has paid him gratuity of ₹6,95,000 and employee has completed service of 20 years and 11 months.

Compute Tax Liability for the Assessment Year 2020-21.

Question 4 (b)**(5 Marks)**

Are receipts in the nature of retrenchment compensation received by a person at the time of retrenchment of his service taxable? Discuss.

Question 5**(10 Marks)**

Define the followings as per Rule 3(7)

- (i) Facility of travelling, touring, accommodation (holiday home) etc.
- (ii) Free food or refreshment
- (iii) Gifts to the employees
- (iv) Credit card facility

(v) Club facilities

Question 6**(10 Marks)**

Mr. Vinod Kumar, resident, aged 62, furnishes the following information pertaining to the year ended 31.03.2020:

| | (₹) |
|--|-----------|
| (i) Pension receives (Net of TDS) | 6,27,000 |
| (ii) Short-term capital gains (from sale of listed shares) | 65,000 |
| (iii) Long-term capital gains (from sale of listed shares) | 1,24,000 |
| (iv) Interest on fixed deposit from bank | 1,60,000 |
| (v) Pertaining to consultancy services provided by him : | |
| Gross receipts | 12,60,000 |
| Expenses: | |
| Rent for premises | 1,44,000 |
| Salary of P.A. | 1,20,000 |
| Stenographer's salary | 1,00,000 |
| Business Development expenditure | 91,000 |
| Conveyance | 3,00,000 |
| (vi) Contribution to PPF | 1,10,000 |
| (vii) Premium on life insurance policy taken on 10.01.2020 (sum assured ₹5,00,000) | 60,000 |
| (viii) Mediciam Insurance Premium for self (paid otherwise than by cash) | 27,000 |
| Preventive health checkup expenses (in cash) | 6,000 |
| (ix) Donation given in cash to a charitable trust registered under Section 12AA (eligible for deduction u/s 80G) of the Income-Tax Act, 1961 | 14,000 |
| (x) Interest received from Post Office Savings A/c. | 18,000 |

Additional information:

- TDS from pension 25,000
- 1/4th of conveyance expenses is estimated for personal use.

Compute the total income of the assessee for the assessment year 2020-21, under proper heads of income. Listed share were sold in recognized stock exchange.

Question 7 (a)**(5 Marks)**

Write a note on taxability of educational facility.

Question 7 (b)**(5 Marks)**

| Asset | Furniture | Microwave oven | Motor car | Washing machine | Computer |
|---------------------------------------|------------|----------------------|------------|-----------------|------------|
| Original cost | 75,000 | 25,000 | 2,40,000 | 20,000 | 55,000 |
| Date of purchase by the employer | 07.03.2015 | 01.06.2017 | 10.07.2016 | 01.10.2009 | 01.01.2017 |
| Date of putting to use | 31.03.2015 | 01.06.2017 | 11.07.2016 | 01.11.2009 | 10.01.2017 |
| Date of sale of asset to the employee | 01.07.2019 | 01.04.2019 | 01.07.2019 | 31.12.2019 | 09.01.2020 |
| Payment made by the employee | 25,000 | Gift to the employee | 95,000 | 1,000 | 30,000 |

Compute Perquisite value in each of the above case.

MULTIPLE CHOICE QUESTION

(MCQ) (30 MARKS)

EACH QUESTION CARRY 1 MARKS.

1. **The maximum ceiling limit for exemption under section 10(10) in respect of gratuity for employees covered by the Payment of Gratuity Act, 1972 is -**
 - (a) ₹10,00,000
 - (b) ₹5,00,000
 - (c) ₹3,50,000
 - (d) ₹20,00,000
2. **The maximum ceiling limit for exemption under section 10(10C) with respect to compensation received on voluntary retirement is -**
 - (a) ₹2,50,000
 - (b) ₹3,00,000
 - (c) ₹3,50,000
 - (d) ₹5,00,000
3. **The HRA paid to an employee residing in Patna is exempt up to the lower of actual HRA, excess of rent paid over 10% of salary and -**
 - (a) 30% of salary
 - (b) 40% of salary
 - (c) 50% of salary
 - (d) 60% of salary
4. **Anirudh stays in New Delhi. His basic salary is ₹10,000 p.m., D.A. (60% of which forms part of pay) is ₹6,000 p.m., HRA is ₹5,000 p.m. and he is entitled to a commission of 1% on the turnover achieved by him. Anirudh pays a rent of ₹5,500 p.m. The turnover achieved by him during the current year is ₹12 lakhs. The amount of HRA exempt under section 10(13A) is –**
 - (a) ₹48,480
 - (b) ₹45,600
 - (c) ₹49,680
 - (d) ₹46,800
5. **Where there is a decision to increase the D.A. in March, 2020 with retrospective effect from 1.4.2018, and the increased D.A. is received in April, 2020, the increase is taxable -**
 - (a) in the previous year 2018-19
 - (b) in the previous year 2019-20
 - (c) in the previous year 2020-21
 - (d) in the respective years to which they relate
6. **Rajesh is provided with a rent free unfurnished accommodation, which is owned by his employer, XY Pvt. Ltd., in New Delhi. The value of perquisite in the hands of Rajesh is -**
 - (a) 20% of salary
 - (b) 15% of salary
 - (c) 10% of salary
 - (d) 7.5% of salary
7. **Anand is provided with furniture to the value of ₹70,000 along with house from February, 2019. The actual hire charges paid by his employer for hire of furniture is ₹5,000 p.a.. The value of furniture to be included along with value of unfurnished house for A.Y.2020- 21 is-**
 - (a) ₹5,000
 - (b) ₹7,000
 - (c) ₹10,500
 - (d) ₹14,000

8. For the purpose of determining the perquisite value of loan at concessional rate given to the employee, the lending rate of State Bank of India as on _____ is required;

- (a) 1st day of the relevant previous year
- (b) Last day of the relevant previous year
- (c) the day the loan is given
- (d) 1st day of the relevant assessment year

9. Mr. Kashyap received basic salary of ₹20,000 p.m. from his employer. He also received children education allowance of ₹3,000 for three children and transport allowance of ₹1,800 p.m. The amount of salary chargeable to tax for P.Y. 2019-20 is -

- (a) ₹2,62,600
- (b) ₹2,12,600
- (c) ₹2,22,200
- (d) ₹2,07,800

10. The entertainment allowance received by a Government employee is exempt up to the lower of the actual entertainment allowance received, 1/5th of basic salary and-

- (a) ₹4,000
- (b) ₹6,000
- (c) ₹5,000
- (d) ₹10,000.

11. For the purposes of computing exemption under section 10(10), in case of Mr. Anand, an employee of ABC Ltd., who is covered by the Payment of Gratuity Act, 1972, "salary" includes –

- (a) only basic pay
- (b) basic pay and dearness allowance, if provided in the terms of employment
- (c) basic pay and dearness allowance
- (d) basic pay, dearness allowance and commission as a fixed percentage of turnover

12. Provision of rent free accommodation and motor car owned by Beta Ltd. to its employee Mr. Anand, where motor car is allowed to be used by Mr. Anand both for official and personal purposes, is a –

- (a) perquisite taxable in case of all employees
- (b) perquisite taxable only in case of specified employees
- (c) perquisite of rent free accommodation is taxable in case of all employees whereas perquisite of motor car is taxable only in case of specified employees
- (d) perquisite of rent free accommodation is taxable only in case of specified employees whereas perquisite of motor car is taxable in case of all employees

13. Retirement Benefit Salary shall include:

- (a) Basic pay plus commission
- (b) Basic pay plus Dearness allowance
- (c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
- (d) Basic pay plus Dearness allowance plus any commission
- (e) taxable salary

14. Payments received from recognised provident fund shall be exempt from income tax if the

- (a) If the employee has rendered continuous service for a period of 10 years or more
- (b) If the employee has rendered service for a period of 5 years or more
- (c) If the employee has rendered continuous service for a period of 5 years or more
- (d) If the employee has rendered service for a period of 10 years or more

15. Any gratuity received by the employees covered under payment of Gratuity Act 1972, shall be exempt

- (a) Lower of Gratuity received or ₹ 20,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
- (b) Lower of Gratuity received or ₹ 10,00,000 or 15 days salary for each completed year of service or part thereof in excess of six month.
- (c) Lower of Gratuity received or ₹ 5,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.
- (d) Lower of Gratuity received or ₹ 20,00,000 or 30 days salary for each completed year of service or part thereof in excess of six month.

thereof in excess of six month.

16. Salary for the purpose of Gratuity (employees not covered under gratuity act) means

- (a) Basic pay plus commission
- (b) Basic pay plus Dearness allowance
- (c) Basic pay plus Dearness allowance (forming part of salary) plus commission (fixed on turnover)
- (d) Basic pay plus any Dearness allowance plus any commission
- (e) taxable salary

17. Mr. X retired on 15.06.2019 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

| | |
|---------------------------|--|
| Basic Salary | : ₹ 5,000 p.m. |
| Dearness Allowance | : ₹ 3,000 p.m. (60% of which is for retirement benefits) |
| Commission | : 1% of turnover (turnover in the last 12 months was ₹ 12,00,000) |
| Bonus | : ₹ 12,000 p.a. |

Taxable Gratuity shall be if he is non-government employee and covered by the Payment of Gratuity Act 1972.

- (a) 6,00,000
- (b) 3,75,385
- (c) 4,75,385
- (d) 4,55,385

18. Mr. X retired on 15.06.2019 after completion of 26 years 8 months of service and received gratuity of ₹6,00,000. At the time of retirement his salary was:

| | |
|---------------------------|--|
| Basic Salary | : ₹ 5,000 p.m. |
| Dearness Allowance | : ₹ 3,000 p.m. (60% of which is for retirement benefits) |
| Commission | : 1% of turnover (turnover in the last 12 months was ₹ 12,00,000) |
| Bonus | : ₹ 12,000 p.a. |

Taxable Gratuity shall be if he is non-government employee and not covered by the Payment of Gratuity Act 1972.

- (a) 6,00,000
- (b) 4,98,600
- (c) 4,75,600
- (d) 4,55,600

19. Which of the statements is correct

- (a) If the employee has not received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
- (b) If the employee has not received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
- (c) If the employee has not received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
- (d) If the employee has not received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

20. Which of the statements is correct

- (a) If the employee has received gratuity, the commuted value of 1/2 of such pension is exempt from tax.
- (b) If the employee has received gratuity, the commuted value of 1/3 of such pension is exempt from tax.
- (c) If the employee has received gratuity, the commuted value of 2/3 of such pension is exempt from tax.
- (d) If the employee has received gratuity, the commuted value of 1/4 of such pension is exempt from tax.

21. Which of the statements is correct

- (a) If the employee has received pension from Local Authority, the commuted value of 100% of such pension is exempt from tax.
- (b) If the employee has received pension from Local Authority, the commuted value of 50% of such pension is exempt from tax.
- (c) If the employee has received pension from Local Authority, the commuted value of 33.33% of such pension is exempt from tax.
- (d) If the employee has received pension from Local Authority, the commuted value of 60% of such pension is exempt from tax.

22. Which of the statements is correct

- (a) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of retirement benefit salary

- (b) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of taxable salary
- (c) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of retirement benefit salary
- (d) If the employee has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of salary.

23. Which of the statements is correct

- (a) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of contribution
- (b) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 10% of gross total income
- (c) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of contribution
- (d) Mr. X engaged in business has contributed to the pension scheme, deduction u/s 80CCD shall be allowed for such contribution but maximum to the extent of 20% of gross total income.

24. Mr. X (Non- Govt. Employee) retired w.e.f 01.12.2019 after 20 years 10 months of service, receiving leave salary of ₹ 5,00,000. Other details of his salary income are:

| | |
|-------------------------------------|--|
| Basic Salary | : ₹ 5,000 p.m. (₹ 1,000 was increased w.e.f. 01.04.2019) |
| Dearness Allowance | : ₹ 3,000 p.m. (60% of which is for retirement benefits) |
| Commission | : ₹ 500 p.m. |
| Bonus | : ₹ 1,000 p.m. |
| Leave availed during service | : 480 days |

He was entitled to 30 days leave every year. Taxable leave salary shall be

- (a) 5,00,000
- (b) Nil
- (c) 4,73,600
- (d) 4,55,600

25. Mr. X received retrenchment compensation of ₹10,00,000 after 30 years 4 months of service. At the time of retrenchment, he was receiving basic salary of ₹20,000 p.m.; dearness allowance of ₹ 5,000 p.m., taxable retrenchment compensation shall be

- (a) 5,67,308
- (b) Nil
- (c) 6,25,000
- (d) 7,00,000
- (e) 10,00,000

26. Standard deduction u/s section 16(ia) from gross salary shall be allowed maximum

- (a) 50,000
- (b) 50% of gross salary
- (c) 40,000
- (d) 1,00,000
- (e) no deduction shall be allowed

27. which of the statement is correct from the following

- (a) Children education allowance is exempt upto ₹100 p.m. per child upto two child.
- (b) Children education allowance is exempt upto ₹100 p.m. per child upto three child.
- (c) Children education allowance is exempt upto ₹100 per child upto two child.
- (d) Children education allowance is exempt upto ₹100 per child for many child.

28. which of the statement is correct from the following

- (a) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹300 p.m. per child upto two children.
- (b) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹300 per child upto two children.
- (c) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹100

p.m. per child upto two children.

(d) Any allowance granted to an employee to meet the hostel expenditure on his child is exempt upto ₹400 p.m. per child upto two children.

29. Mr. X is employed in central Government getting basic pay ₹30,000 p.m., dearness allowance ₹7,000 p.m., servant allowance ₹2,000 p.m., entertainment allowance ₹1,000 p.m., In this case entertainment allowance exempt u/s 16(ii) for the F.Y. 2019-20 shall be

- (a) Nil
- (b) 5,000
- (c) 12,000
- (d) 7,000

30. which of the statement is not correct from the following

- (a) If the population is upto 10 lakhs, taxable amount shall be 7.5% of rent free accommodation salary
- (b) If the population is more than 10 lakhs but upto 25 lakhs, taxable amount shall be 10% of rent free accommodation salary
- (c) If the population is more than 25 lakhs, taxable amount shall be 15% of rent free accommodation salary
- (d) If the population is more than 10 lakhs, taxable amount shall be 15% of rent free accommodation salary