

MOCK TEST

PGBP

Time allowed: 3 hours

Maximum Marks: 100

DESCRIPTIVE TYPE QUESTION (70 Marks)

Question 1

(10 Marks)

Mr. Murari, a resident individual, age 48 years provides consultancy services in the field of accountancy. 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	3,00,000	By Consulting fees	8,00,000
To Motor car expenses	58,000	By Share of Profit from HUF	25,000
To Depreciation	47,500	By Interest on saving bank deposits	15,000
To Medical expenses	70,000	By Interest on income tax refund	8,000
To Purchase of computer	80,000		
To Bonus	10,000		
To General expenses	55,000		
To Office & administrative	75,000		
To Excess of income over expenditure	1,52,500		
	8,48,000		8,48,000

The following other information relates to the financial year 2019-2020:

(1) Salary includes a payment of ₹12,000 per month to his brother-in-law who is in-charge of the marketing department. However, in comparison to similar business, the reasonable salary of a marketing supervisor is ₹10,000 per month.

(2) Interest on saving bank deposit belongs to his wife who has deposited the money out of the pocket money given to her every month.

(3) Written down value of the assets as on 1st April, 2019 are as follows :

Motor Car (40% used for personal use) ₹2,00,000

Furniture and Fittings ₹50,000

(4) Medical expenses includes:

- Family planning expenditure ₹15,000 incurred for the employees which was revenue in nature.
- Medical expenses for his father ₹35,000. (Father's age is 65 years)

(5) 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.

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

(7) General expenses include commission payment of ₹22,000 to Mr. Sridhar for the promotion of business on 17th September, 2019 without deduction of tax at source.

(8) He also received gold coins from a family friend on the occasion of marriage anniversary on 5th December, 2019. The market value of the coins on the said date was ₹55,000.

Compute the total income and the tax liability of Mr. Murari for the assessment year 2020-2021

Question 2 (a)**(5 Marks)**

Mr. X has furnished the following particulars relating to payments made towards scientific research for the year ended 31.03.2020:

	(₹ in lacs)
(i) Payments made to K Research Ltd.	20
(ii) Payment made to LMN College	15
(iii) Payment made to OPQ College	10
Note: K Research Ltd. and LMN College are approved research institutions and these payments are to be used for the purposes of scientific research.	
(iv) Payment made to National Laboratory	8
(v) Machinery purchased for in-house scientific research	25
(vi) Salaries to research staff engaged in in-house scientific research	12

Compute the amount of deduction available under section 35 of the Income-tax Act, 1961 while arriving at the business income of the assessee.

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

State with reasons the allowability of the following expenses under Income-Tax Act, 1961 while computing income from business or profession for the Assessment Year 2020-21:

- (i) Provision made on the basis of actuarial valuation for payment of gratuity ₹5,00,000. However, no payment on account of gratuity was made before due date of filing return.
- (ii) Purchase of oil seeds of ₹50,000 in cash from a farmer on a banking day.
- (iii) Tax on non monetary perquisite provided to an employee ₹20,000.
- (iv) Payment of ₹50,000 by using credit card for fire insurance.
- (v) Salary payment of ₹2,00,000 by a company outside India without deduction of tax.
- (vi) GST deposited in cash ₹50,000 with State Bank of India.
- (vii) Payment made in cash ₹30,000 to a transporter in a day for carriage of goods.

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

M/s XY & Co., a sole proprietary concern is converted into a company, XY Co. Ltd. with effect from December 29, 2019. The written down value of assets as on April 1st, 2019 is as follows:

Items	Rate of Dep.	WDV as on 1st April, 2019
Building	10%	₹3,50,000
Furniture	10%	₹ 50,000
Plant and Machinery	15%	₹2,00,000

Further, on October 15, 2019, M/s XY & Co. purchased a plant for ₹1,00,000 (rate of depreciation 15%) and it was put to use on the same date. After conversion, the company added another plant worth ₹50,000 (rate of depreciation 15%) on 01.01.2020 and put to use on the same date.

Compute the depreciation available to (i) M/s XY & Co. and (ii) XY Co. Ltd. for Assessment Year 2020-21.

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

Write a note on specified business as specified under section 35AD.

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

M/s ABC Ltd., submits the following details of expenditures pertaining to the financial year 2019-20:

- (i) Payment of professional fees to Mr. M ₹50,000. Tax not deducted at source.
- (ii) Interior works done by Mr. H for ₹2,00,000 on a contract basis. Payment made in the month of March 2020. Tax deducted in March 2020, was paid on 30.06.2020.
- (iii) Factory Rent paid to Mrs. R ₹15,00,000. Tax deducted at source and paid on 01.10.2020.
- (iv) Interest paid on Fixed Deposits ₹2,00,000. Tax deducted on 31.12.2019 and paid on 28.09.2020.
- (v) Payment made to M/s G & Co. towards import of Raw Materials ₹25,00,000. No tax was deducted at source. The supplier G & Co. is located in London.

Examine the above with reference to allowability of the same in the Assessment Year 2020-21 under the Income Tax Act, 1961. Your answer must be with reference to Section 40(a) read with relevant tax deduction at source provisions.

Question 4 (b) (5 Marks)

Mr. X is engaged in a business with turnover ₹170,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred in connection with earning of income are ₹160,00,000. He has LTCG ₹5,00,000. He has donated ₹4,00,000 to Rajiv Gandhi Foundation by cheque. He has brought forward loss of business ₹1,00,000 of previous year 2015-16. Compute his Income and Tax Liability for previous year 2019-20, in two situations -

- (i) He has opted for section 44AD.
- (ii) He has not opted for section 44AD.

Question 5 (a) (5 Marks)

ABC Ltd. an Indian company has incurred expenditure before the commencement of business asunder:

1. Expenditure on advertisements ₹3 lakhs.
2. Expenditure on preparation of project report and the report was prepared by a concern which is approved by the Board ₹85,000.
3. Expenditure in connection with travelling and stay in hotels ₹45,000.
4. Expenditure on drafting and printing of memorandum and articles of associations ₹4 lakhs.

All the above expenditures have been debited to the profit and loss account and the company has computed income to be ₹ 7 lakh.

The company has commenced its business on 01.06.2019.

Company's project cost is ₹50 lakhs and capital employed is 57 lakhs.

Compute company's Tax Liability for Assessment Year 2020-21.

Question 5 (b) (5 Marks)

Write short note on Compulsory Tax Audit.

Question 6 (10 Marks)

XYZ are the partners in a firm with profit sharing ratio 5:3:2 and profit and loss account of the partnership firm is as given below:

Particulars	Amount ₹	Particulars	Amount ₹
Purchases	90,00,000	Sales	102,00,000
Salary and bonus to partners		Discount	10,000
X	3,00,000		
Y	2,50,000		
Z	1,50,000		
Municipal tax payable	30,000	Interest from Indian company	60,000
General expenses	1,00,000	Interest on drawings	10,000
Expenditure on technical know-how (purchased and put to use on 01.01.2020)	40,000	Income tax refund	5,000
Advance Income Tax	70,000		
Expenses on GST proceedings	10,000		
Expenses on income tax proceedings	8,000		
Advertisements	50,000		
Interest on capital to partners @ 13% p.a.			
X	65,000		
Y	39,000		
Z	26,000		
Rent of building owned by partnership firm	1,20,000		

Net Profit	27,000		
	102,85,000		102,85,000

Additional information:

1. Capital contributed by Mr. X is ₹5,00,000 and by Mr. Y ₹3,00,000 and by Mr. Z ₹2,00,000.
2. Salary paid to Mr. X is ₹3,00,000 and to Mr. Y ₹2,50,000 and to Mr. Z ₹1,50,000.
3. The partnership firm has brought forward business loss for assessment year 2017-18 amounting to ₹1,00,000.
4. Municipal tax was paid on 01.11.2020.

Personal incomes of partners:

- (i) Mr. X has income from house property ₹5,00,000 and amount invested in National Saving Certificate ₹80,000.
 - (ii) Mr. Y has income from house property ₹2,00,000 and amount invested in National Saving Certificate ₹1,00,000.
 - (iii) Mr. Z has loss from house property ₹2,00,000.
- Compute Tax Liability of the partnership firm and also that of its partners for the Assessment Year 2020-21.

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

M/s. Keshav Enterprises, a sole proprietorship own four machines, put in use for business in March, 2018. The depreciation on these machines is charged @ 15%. The written down value of these machines as on 1st April, 2019 was ₹ 7,70,000. Two of the old machines were sold on 15th July, 2019 for ₹ 10,00,000. A second hand plant was bought for ₹ 6,10,000 on 30th December, 2019. You are required to:

- (i) Determine the claim of depreciation for Assessment Year 2020-21.
- (ii) Compute the capital gains liable to tax for Assessment Year 2020-21.
- (iii) If Keshav Enterprises has sold the two machines in July, 2019 for ₹ 15,00,000, explain, will there be any difference in your above workings?

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

Mr. Prakash is in the business of operating goods vehicles. As on 1st April, 2019, he had the following vehicles:

Vehicle	Gross Vehicle Weighted (in Kgs.)	Date of Purchase	Put to use during F.Y. 2019-20
A	8500	2-4-2018	Yes
B	13000	15-5-2018	Yes
C	12000	4-8-2018	No (as under repairs)

During P.Y. 2018-19, he purchased the following vehicles:

Vehicle	Gross Vehicle Weight (in Kgs.)	Date of Purchase	Date on which put to use
D	11000	30-4-2019	10-5-2019
E	15000	15-5-2019	18-5-2019

Compute his income under Section 44AE of the Income Tax Act, 1961 for A.Y. 2020-21.

MULTIPLE CHOICE QUESTION

(MCQ) (30 MARKS)

EACH QUESTION CARRY 1 MARKS.

1. An assessee uses plant and machinery for the purpose of carrying on his business. Under section 31, he shall be eligible for deduction on account of-
 - (a) both capital and revenue expenditure on repairs
 - (b) current repairs
 - (c) current repairs plus $1/5^{\text{th}}$ of capital expenditure on repairs.
 - (d) both (a) & (b)
2. An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2019 at ₹1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2019 is ₹1,35,000. No new machinery was purchased during the year. The shortfall of ₹15,000 is treated as -
 - (a) Terminal depreciation
 - (b) Short-term capital loss
 - (c) Normal depreciation.
 - (d) Any of the above, at the option of the assessee
3. Mr. X, acquires an asset which was previously used for scientific research for ₹2,75,000. Deduction under section 35(1)(iv) was claimed in the previous year 2014-15. The asset was brought into use for the business of Mr. X, after the research was completed. The actual cost of the asset to be included in the block of assets is -
 - (a) Nil
 - (b) Market value of the asset on the date of transfer to business
 - (c) ₹2,75,000 less notional depreciation under section 32 upto the date of transfer.
 - (d) Actual cost of the asset i.e., ₹2,75,000
4. A Ltd. has unabsorbed depreciation of ₹4,50,000 for the P.Y.2019-20. This can be carried forward-
 - (a) for a maximum period of 8 years and set-off against business income.
 - (b) Indefinitely and set-off against business income.
 - (c) Indefinitely and set-off against any head of income
 - (d) Indefinitely and set-off against any head of income except salary.
5. Mr. X, a retailer acquired furniture on 10th May 2019 for ₹10,000 in cash and on 15th May 2019, for ₹15,000 and ₹20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2020-21 would be –
 - (a) ₹2,000
 - (b) ₹3,000
 - (c) ₹3,500
 - (d) ₹4,500
6. XYZ Ltd. incurred capital expenditure of ₹1,50,000 on 1.4.2019 for acquisition of patents and copyrights. Such expenditure is -
 - (a) Eligible for deduction in 14 years from A.Y.2020-21
 - (b) Eligible for deduction in 5 years from A.Y. 2020-21
 - (c) Subject to depreciation @ 25% under section 32
 - (d) Subject to depreciation @ 15% under section 32
7. Under section 44AE, presumptive taxation is applicable at a particular rate provided the assessee is the owner of a maximum of certain number of goods carriages. The rate per month or part of the month relevant for A.Y.2020- 21 and the maximum number specified under the section are -
 - (a) ₹7,500 for each goods carriage in the case of an assessee owning not more than 10 goods carriages at any time during the year

(b) ₹7,500 for each goods carriage in the case of an assessee owning less than 10 goods carriages at any time during the year

(c) ₹1,000 per ton of gross vehicle weight for per month or part of a month for a goods carriage for an assessee owning not more than 10 goods carriages at the end of the previous year

(d) ₹1,000 per ton of gross vehicle weight or unladen weight, as the case may be, for per month or part of a month for a heavy goods carriage and ₹7,500 per month or part of a month for other goods carriages in the case of an assessee owning not more than 10 goods carriages at any time during the previous year

8. Where the total turnover of an assessee, eligible for presumptive taxation u/s 44AD, is received entirely by account payee cheque during the previous year 2019-20, the specified rate of presumptive business income is -

(a) 5% of total turnover

(b) 6% of total turnover

(c) 7% of total turnover

(d) 8% of total turnover

9. The W.D.V. of a block (Plant and Machinery, rate of depreciation 15%) as on 1.4.2019 is ₹3,20,000. A second hand 'machinery costing ₹50,000 was acquired on 1.9.2019 but put to use on 1.11.2019. During Jan 2020, part of this block was sold for ₹2,00,000. The depreciation for A.Y.2020-21 would be -

(a) ₹21,750

(b) ₹25,500

(c) ₹21,125

(d) ₹12,750

10. Employer's contribution to provident fund/superannuation fund/gratuity fund is allowed as deduction in computing income under the head "Profits and gains of business or profession", provided it has been paid -

(a) before the end of the previous year

(b) on or before the due date by which the employer is required to credit an employee's contribution to the employee's account in the relevant fund.

(c) on or before the due date for filing the return of income under section 139(1).

(d) before the end of the relevant assessment year

11. The benefit of payment of advance tax in one installment on or before 15th March is available to assesses computing profits on presumptive basis -

(a) under section 44AD

(b) under section 44AD and 44ADA

(c) under section 44AD and 44AE

(d) under section 44AD, 44ADA and 44AE

12. M/S Thakural & Sons, paid ₹11,00,000 as remuneration to its partner. The same was in accordance with partnership deed. Partners are also entitled to interest on capital @ 11% as per partnership deed. Total interest paid during the year is ₹1,30,000. The book profit before interest on capital and remuneration is ₹37,00,000. The salary allowable as deduction to M/S Thakural & Sons is:

(a) ₹22,62,000

(b) ₹11,00,000

(c) ₹23,10,000

(d) ₹22,32,000

13. An interior decorator has opted for presumptive taxation scheme under section 44ADA for A.Y. 2020-21. He is liable to pay advance tax -

(a) In one instalment

(b) In two instalments

(c) In three instalments

(d) In four instalments

14. Any loss from the specified business referred to in section 35AD can be set off against -

(a) only profit and gains of same specified business of the assessee

(b) profits and gains of any business of the assessee

(c) profit and gains of any other specified business of the assessee

(d) income from any other head

15. According to section 80, no loss which has not been determined in pursuance of a return filed in accordance with the provisions of section 139(3), shall be carried forward. The exceptions to this are -

- (a) Loss from specified business under section 73A
- (b) Loss under the head "Capital Gains" and unabsorbed depreciation carried forward under section 32(2)
- (c) Loss from house property and unabsorbed depreciation carried forward under section 32(2)
- (d) Loss from speculation business under section 73

16. Section 70 enables set off of losses under one source of income against income from any other source under the same head. The exceptions to this section are -

- (a) Loss under the head "Capital Gains", Loss from speculative business, Loss from house property and loss from the activity of owning and maintaining race horses
- (b) Long-term capital loss, Loss from speculative business, Loss from specified business and loss from the activity of owning and maintaining race horses
- (c) Short-term capital loss and loss from speculative business
- (d) Loss from speculation business and short-term capital loss

17. The maximum period for which loss from specified business can be carried forward is-

- (a) 4 years
- (b) 8 years
- (c) indefinitely
- (d) not allowed to be carry forward

18. Which of the following is not taxable under the head business profession-

- (i) Income from Speculation Business
 - (ii) Payments for not pursuing any business activity or profession/non-compete fee
 - (iii) Gift in connection with business/profession
 - (iv) Gift received by member of HUF from HUF
- (a) all the above
 - (b) only (iii) & (iv)
 - (c) only (iii)
 - (d) None of the above
 - (e) only (ii), (iii) & (iv)
 - (f) only (iv)

19. Additional depreciation shall be allowed @ _____% to all the assessee in connection with plant and machinery for the purpose of manufacturing and also to the assessee engaged in generation, transmission or distribution of electricity.

- (a) 15%
- (b) 10%
- (c) 30%
- (d) 20%

20. If the asset is purchased and put to use for less than _____ days, additional depreciation shall be allowed at _____% and remaining additional depreciation shall be allowed in the subsequent year.

- (a) 180,15%
- (b) 180,10%
- (c) 182,10%
- (d) 180,20%

21. Additional depreciation is not allowed in the following cases:

- (i) Second hand plant and machinery i.e. plant and machinery should be brand new
 - (ii) Any **machinery or plant installed in any office premises or any residential accommodation**, including accommodation in the nature of a guest-house or
 - (iii) Any **office appliances** or **road transport vehicles** or **ships and aircraft**
 - (iv) Any **machinery** or **plant**, the **actual cost** of which has not been debited to profit and loss account.
- (a) all the above
 - (b) only (i),(ii) & (iv)
 - (c) only (i), (ii) & (iii)
 - (d) None of the above
 - (e) only (ii), (iii) & (iv)

- (f) only (i), (iii) & (iv)
- (g) only (iv)

22. Which of the following is correct

- (a) As per section 32, set off of depreciation or loss is compulsory and not voluntary.
- (b) As per section 32, set off of depreciation or loss is not compulsory but voluntary.
- (c) As per section 32, set off of depreciation or loss is compulsory and voluntary.
- (d) As per section 32, set off of depreciation or loss is not compulsory.
- (e) None of the above is correct

23. Which of the following is not covered under section 35AD

- (i) Cold chain facility for storing agricultural produce, meat and meat products, poultry and dairy products etc.
- (ii) Warehousing facility for storage of agricultural produce.
- (iii) Hospitals with at least one hundred beds for patients.
- (iv) Housing project under a scheme for affordable housing.
- (v) Warehousing facility for storage of non - agricultural produce.
- (vi) Hospitals with at least fifty beds for patients.
- (a) all the above
- (b) only (i),(ii) & (iv)
- (c) only (i), (ii) & (iii)
- (d) None of the above
- (e) only (ii), (iii) & (iv)
- (f) only (v) & (vi)
- (g) only (v)
- (h) only (vi)

24. Which Statement from the following is correct-

- (a) As per section 40(b), interest to the partner is allowed but maximum @ 12% p.a. simple interest.
- (b) As per section 40(b), interest to the partner is allowed but maximum @ 18% p.a. simple interest.
- (c) As per section 40(b), interest to the partner is allowed but maximum @ 12% per month simple interest.
- (d) As per section 40(b), interest to the partner is allowed but maximum @ 15% p.a. simple interest.

25. A partnership firm has book profits of ₹5 lakhs, in this case maximum amount of salary etc. allowed to all the partners shall be

- (a) 5,00,000
- (b) 3,00,000
- (c) 3,90,000
- (d) 4,50,000

26. Which Statement from the following is correct-

- (a) If any partner has received share out of the profits of the partnership firm, such share shall be exempt from income tax.
- (b) If any partner has received share out of the profits of the partnership firm, such share shall not be exempt from income tax.
- (c) interest or salary received by a partner shall be taxable under the head salary
- (d) There is a partnership firm engaged in business and its book profits are ₹1,35,000, in this case maximum amount of remuneration allowed to all the partners shall be ₹1,35,000.

27. Mr. X purchases goods worth ₹75,000 on 01.01.2020 and payment was made ₹60,000 on 03.01.2020 by account payee cheque and ₹8,000 in cash on 03.01.2020 and ₹7,000 in cash on 05.01.2020, in this case expenditure allowed shall be.

- (a) ₹75,000
- (b) ₹60,000
- (c) ₹68,000
- (d) Nil

28. Which Statement from the following is correct-

- (a) Where a stock in trade is converted into capital assets then fair market value of the stock shall be treated as actual cost of the asset.
- (b) Where a stock in trade is converted into capital assets then actual purchase cost of the stock shall be treated as actual cost of the asset.
- (c) Where a stock in trade is converted into capital assets then written down value of the stock shall be treated as actual cost of the asset on the date of conversion.
- (d) None of the above.

29. A car purchased by Dr. Ramesh on 10.08.2017 for ₹5,25,000 for the personal use is brought into professional use on 01.07.2019 by him, when its market value was ₹2,50,000. Depreciation for the assessment year 2020-21 shall be

- (a) ₹37,500
- (b) ₹78,750
- (c) Nil
- (d) 52,500

30. Mr. X is engaged in a business with turnover ₹150,00,000 (all payments received by account payee cheque, bank draft or through electronic clearing) and expenses incurred shall be ₹1,40,00,000, presumptive income shall be

- (a) ₹10,00,000
- (b) ₹9,00,000
- (c) ₹12,00,000
- (d) ₹11,00,000