

MOCK TEST PAPER 2
INTERMEDIATE (IPC) COURSE
PAPER – 4: TAXATION
SECTION – A: INCOME TAX
SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Sub-part	Most Appropriate Answer	MCQ No.	Most Appropriate Answer
1.	(i)	(d)	2.	(b)
	(ii)	(d)	3.	(b)
	(iii)	(a)	4.	(c)
	(iv)	(b)		
	(v)	(c)		

Division B – Descriptive Questions

1. **Computation of total income of Mr. Josh for the A.Y.2021-22**

Particulars	Rs.	Rs.
Salaries		
Basic Salary = Rs. 51,000 x 12	6,12,000	
Dearness Allowance (DA) = Rs. 10,000 x 12	1,20,000	
House Rent Allowance (HRA) = Rs. 4,000 x 12 Rs. 48,000		
Less: Least of the following exempt u/s 10(13A) <u>Rs. 10,800</u>	37,200	
(i) HRA actually received = Rs. 4,000 x 12 = Rs. 48,000		
(ii) Rent paid (-) 10% of salary [Rs. 84,000 (i.e., Rs. 7,000 x 12) (-) Rs. 73,200 (10% of salary i.e., 10% of Rs. 7,32,000 (Basic Salary + DA))] = Rs. 10,800		
(iii) 50% of salary [50% of Rs. 7,32,000 (Basic Salary + DA)] = Rs. 3,66,000		
Gross Salary	7,69,200	
Less: Standard deduction u/s 16(ia)	50,000	
		7,19,200
Income from house property		
Gross Annual Value [Rs. 46,000 x 9, being the higher of actual rent received and fair rent]	4,14,000	
Less: Municipal tax paid during the P.Y. 2020-21	<u>27,000</u>	
Net Annual Value	3,87,000	
Less: Deduction u/s 24 [30% of Net Annual Value]	<u>1,16,100</u>	
		2,70,900

Capital Gains		
Full value of consideration	2,00,000	
Less: Cost of acquisition of bonus shares allotted on or after 1.4.2001	<u>Nil</u>	
Long-term capital gains (since bonus shares are held for a period of more than 24 months)		2,00,000
Income from Other Sources		
Dividend received from ABC Ltd., an Indian company	9,00,000	
Less: Exempt under section 10(34), since dividend distribution tax has been paid on such dividend	<u>9,00,000</u>	
		Nil
Interest from saving bank account with SBI Bank	15,000	
Lottery winnings [21,000 x 100/70]	<u>30,000</u>	
		<u>45,000</u>
Gross Total Income		12,35,100
Less: Deduction under Chapter VI-A		
Section 80C		
Deposits in PPF	1,50,000	
Section 80D		
Medical insurance premium for wife and dependent son Rs. 31,000, restricted to	25,000	
Section 80TTA		
Interest on saving bank account with SBI	<u>10,000</u>	
		<u>1,85,000</u>
Total Income		10,50,100

Computation of tax liability of Mr. Josh for A.Y. 2021-22

Particulars	Rs.	Rs.
Tax on total income of Rs. 10,50,100		
Tax on long-term capital gains of Rs. 2,00,000@20% u/s 112	40,000	
Tax on lottery income of Rs. 30,000 @30% u/s 115BB	9,000	
Tax on other income of Rs. 8,20,100 [Rs. 10,50,100 – Rs. 2,00,000, capital gains – Rs. 30,000, lottery income]		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 [i.e., Rs. 2,50,000@5%]	12,500	
Rs. 5,00,001 – Rs. 8,20,100 [i.e., Rs. 3,20,100@20%]	<u>64,020</u>	
		1,25,520
Add: Health and education cess@4%		<u>5,021</u>
Tax liability		1,30,541
Less: Tax deducted at source		
TDS on lottery income	9,000	
TDS on rent u/s 194I [Rs. 4,14,000 x 7.5%]	<u>31,050</u>	
		<u>40,050</u>
Tax Payable		90,491
Tax Payable (rounded off)		90,490

2. (i) **Determination of residential status and computation of total income of Miss Bhanushali (if she returned to India on 20.2.2021)**

Particulars	Rs.
Under section 6(1), an individual is said to be resident in India in any previous year, if he/she satisfies any one of the following conditions:	
(i) He/she has been in India during the previous year for a total period of 182 days or more, or	
(ii) He/she has been in India during the 4 years immediately preceding the previous year for a total period of 365 days or more and has been in India for at least 60 days in the previous year.	
If an individual satisfies any one of the conditions mentioned above, he/she is a resident. If both the above conditions are not satisfied, the individual is a non-resident.	
Therefore, the residential status of Miss Bhanushali, an American National, for A.Y.2021-22 has to be determined on the basis of her stay in India during the previous year relevant to A.Y. 2021-22 i.e. P.Y.2020-21 and in the preceding four assessment years.	
Her stay in India during the previous year 2020-21 and in the preceding four years are as under:	
<u>P.Y. 2020-21</u>	
01.04.2020 to 11.08.2020	- 133 days
20.02.2021 to 31.03.2021	- <u>40 days</u>
Total	<u>173 days</u>
Four preceding previous years	
P.Y.2019-20 [14.2.2020 to 31.3.2020]	- 47 days
P.Y.2018-19	- Nil
P.Y.2017-18	- Nil
P.Y.2016-17	- <u>Nil</u>
Total	<u>47 days</u>
The total stay of Miss Bhanushali during the previous year in India was less than 182 days and during the four years preceding this year was for 47 days.	
Therefore, due to non-fulfillment of any of the two conditions for a resident, she would be treated as non-resident for the Assessment Year 2021-22.	
Computation of total income of Miss Bhanushali for the A.Y. 2021-22	
Income from other sources	
Gifts received from non-relatives is chargeable to tax as per section 56(2) (x) if the aggregate value of such gifts exceeds Rs. 50,000.	
- Rs. 71,000 received from parents of husband would be exempt, since parents of husband fall within the definition of 'relatives' and gifts from a relative are not chargeable to tax.	Nil
- Rs. 21,000 received from married sister-in-law is exempt, since sister of husband falls within the definition of relative and gifts from a relative are not chargeable to tax.	Nil
- Gift received from two friends of her husband Rs. 1,41,000 and Rs. 1,21,000 aggregating to Rs. 2,62,000 is taxable under section 56(2)(x) since the aggregate of Rs. 2,62,000 exceeds Rs. 50,000.	<u>2,62,000</u>
Total Income	<u>2,62,000</u>

(ii) **Determination of residential status of Miss Bhanushali (if she returned to India on 20.1.2021)**

Particulars	Rs.
Yes, the answer would change, if she had returned to India again on 20.1.2021 instead of 20.2.2021.	
In such case, her stay in India during the previous year 2020-21 would be:	
01.04.2020 to 11.08.2020 - 133 days	
20.01.2021 to 31.03.2021 - <u>71 days</u>	
Total <u>204 days</u>	
Since she satisfies the condition of stay in India for more than 182 days during the previous year 2020-21, she would become resident in India. She would be a resident but not ordinarily resident in India for A.Y. 2021-22, since her stay in India in the preceding seven years is less than 730 days (it is only 47 days) ¹ .	

3. (a) (i) **Computation of depreciation for A.Y.2021-22**

Particulars	Rs.
W.D.V. of the block as on 1.4.2020	7,70,000
Add: Purchase of second hand plant during the year [in December, 2020]	<u>6,10,000</u>
	13,80,000
Less: Sale consideration of old machinery during the year [in July, 2020]	<u>10,00,000</u>
W.D.V of the block as on 31.03.2021	<u>3,80,000</u>
Depreciation @ 15% but restricted to 50% thereon. Rs. 3,80,000 X 7.5% [Since the value of the block as on 31.3.2021 represents part of actual cost of second hand plant purchased in December, 2020, which has been put to use for less than 180 days, depreciation is restricted to 50% of the prescribed percentage of 15% i.e. depreciation is restricted to 7½%. Therefore, the depreciation allowable for the year is Rs. 28,500 being 7½% of Rs. 3,80,000]	28,500

(ii) In the given case, no capital gains would arise, since the block of asset continues to exist, and some of the assets are sold for a price which is lesser than the written down value of the block as increased by the actual cost of asset purchased during the year.

(iii) If the two machines are sold in July, 2020 for Rs. 15,00,000, then short term capital gains would arise, since the sale consideration is more than the aggregate of the written down value of the block at the beginning of the year and the additions made during the year.

Particulars	Rs.	Rs.
Sale consideration		15,00,000
Less: W.D.V. of the machines as on 1.4.2020	7,70,000	
Purchase of second plant during the year	6,10,000	
		13,80,000
Short term capital gains		1,20,000

¹ In the alternative, an individual can be treated as not ordinarily resident if she is non-resident in any 9 out of 10 preceding assessment years. In this case, Miss Bhanushali is a non-resident in all 10 preceding assessment years. She was in India for only 47 days in A.Y.2020-21 and never visited India earlier.

- (b) Since Mr. Yogesh does not own more than 10 vehicles at any time during the previous year 2020-21, he is eligible to opt for presumptive taxation scheme under section 44AE. As per section 44AE, Rs. 1,000 per ton of gross vehicle weight or unladen weight, as the case may be, per month or part of the month for each heavy goods vehicle and Rs. 7,500 per month or part of month for each goods carriage other than heavy goods vehicle, owned by him would be deemed as his profits and gains from such goods carriage.

Heavy goods vehicle means any goods carriage, the gross vehicle weight of which exceeds 12,000 kg.

Calculation of presumptive income as per section 44AE

Type of carriage	No. of months the vehicle is owned by Mr. Prakash	Rate per ton per month	Ton	Amount Rs.
(1)	(2)	(3)	(4)	(5) [(2) x (3) x (4)]
Heavy goods vehicle				
Vehicle B (15,000 kgs) held throughout the year	12	Rs. 1,000	15 (15,000/1,000)	1,80,000
Vehicle E (14,000 kgs) purchased on 15.5.2020	11	Rs. 1,000	14 (14,000/1,000)	1,54,000
Goods vehicles other than heavy goods vehicle		Rate per month		
Vehicle A held throughout the year	12	Rs. 7,500	-	90,000
Vehicle C held throughout the year	12	Rs. 7,500	-	90,000
Vehicle D purchased on 20.4.2020	12	Rs. 7,500	-	90,000
Total				6,04,000

The "put to use" date of the vehicle is not relevant for the purpose of computation of presumptive income under section 44AE, since the presumptive income has to be calculated per month or part of the month for which the vehicle is owned by Mr. Yogesh.

4. Computation of total income of Mr. Praveen for the A.Y.2021-22

Particulars	Rs.	Rs.
Salaries		
Income from salaries	2,20,000	
Less: Loss from house property set-off against salary as per section 71(1) & 71(3A)	<u>2,00,000</u>	20,000
Profits and gains of business or profession		
Income from speculation business	40,000	
Less: Loss from toy business set off	<u>40,000</u>	Nil
Capital gains		
Long-term capital gains from sale of urban land	2,50,000	
Less: Long term capital loss on sale of listed shares on which STT is paid can be set off as per section 74(1), since long-term capital gain arising on sale of such shares is taxable under section 112A	<u>1,10,000</u>	
	1,40,000	

Less: Loss from toy business set off	<u>90,000</u>	50,000
Income from other sources		
Income from betting		<u>45,000</u>
Gross total income		1,15,000
Less: Deduction under section 80C(life insurance premium paid)		<u>20,000</u>
Total income		<u>95,000</u>

Losses to be carried forward:

Particulars		Rs.
(1)	Loss from house property (Rs.2,50,000 – Rs.2,00,000)	50,000
(2)	Loss from toy business (Rs.1,30,000 - Rs.40,000 - Rs.90,000)	Nil
(3)	Loss from specified business covered by section 35AD	20,000

Notes:

- (i) As per section 71(3A), loss from house property can be set-off against any other head of income to the extent of Rs.2,00,000 only.
As per section 71B, balance loss not set-off can be carried forward to the next year for set-off against income from house property of that year. It can be carried forward for a maximum of eight assessment years i.e., upto A.Y. 2029-30, in this case.
- (ii) Loss from specified business covered by section 35AD can be set-off only against profits and gains of any other specified business. Therefore, such loss cannot be set off against any other income. If loss cannot be so set-off, the same has to be carried forward to the subsequent year for set-off against profits and gains of any specified business, if any, in that year. As per section 73A(2), such loss can be carried forward indefinitely for set-off against profits of any specified business.
- (iii) Business loss cannot be set off against salary income. However, business loss of Rs.90,000 (Rs.1,30,000 – Rs.40,000 set-off against income from speculation business) can be set-off against long-term capital gains from sale of urban land. Consequently, the taxable long-term capital gains would be Rs.50,000.
- (iv) Loss from card games can neither be set off against any other income, nor can it be carried forward.
- (v) For providing deduction under Chapter VI-A, gross total income has to be reduced by the amount of long-term capital gains and casual income. Therefore, the deduction under section 80C in respect of life insurance premium paid has to be restricted to Rs.20,000 [i.e., Gross Total Income of Rs.1,15,000 – Rs.50,000 (LTCG) – Rs.45,000 (Casual income)].
- (vi) Income from betting is chargeable at a flat rate of 30% under section 115BB and no expenditure or allowance can be allowed as deduction from such income, nor can any loss be set-off against such income.

5. (a)

- (i) **On payment of LIC maturity proceeds** - The annual premium exceeds 10% of sum assured in respect of a policy taken after 31.3.2012, and consequently, the maturity proceeds of Rs. 95,000 would not be exempt u/s 10(10D) in the hands of Ms. Sarla. However, tax deduction provisions u/s 194-DA are not attracted since the maturity proceeds are less than Rs. 1 lakh.
- (ii) **On payment for purchase of bag according to specifications** - As per section 194C, the definition of “work” does not include the manufacturing or supply of product according to the specification by customer in case the material is purchased from a person other than the customer or its associate, being a person related to the

customer in such manner as defined u/s 40A(2)(b).

Therefore, M/s Packaging Limited is not required to deduct tax at source in respect of payment of Rs. 1,75,000 to Mr. Ankit, for purchase of bag according to its specifications, since it did not supply the material for such bag and nor was the material supplied by any of its associates. Hence, the contract is a contract for 'sale' and not a works contract.

- (iii) **On payment of call centre service charges** - Since Rashi Limited is engaged only in the business of operation of call centre, Jigar Limited is required deduct tax at source@1.5% on the amount of Rs. 70,000 u/s 194J on 18.3.2021 i.e., at the time of credit of call centre service charges to the account of Rashi Limited, since the said date is earlier than the payment date i.e., 28.3.2021.

(b)

(i) Fee for default in furnishing return of income u/s 234F

Where a person, who is required to furnish a return of income under section 139, fails to do so within the prescribed time limit under section 139(1), he shall pay, by way of fee, a sum of –

Fee	Circumstances
Rs. 5,000	If the return is furnished on or before the 31 st December of the assessment year;
Rs. 10,000	In any other case
Note - However, if the total income of the person does not exceed Rs. 5 lakhs, the fees payable shall not exceed Rs. 1,000	

(ii) Persons to whom provisions of section 139AA relating to quoting of Aadhar Number does not apply

The provisions of section 139AA relating to quoting of Aadhar Number would not apply to an individual who does not possess the Aadhar number or Enrolment ID and is:

- (i) residing in the States of Assam, Jammu & Kashmir and Meghalaya;
- (ii) a non-resident as per Income-tax Act, 1961;
- (iii) of the age of 80 years or more at any time during the previous year;
- (iv) not a citizen of India.

SECTION B - INDIRECT TAXES (50 MARKS)

SUGGESTED ANSWERS

Division A - Multiple Choice Questions

Question No.	Answer
1.1	(d) Rs. 36,000 each
1.2	(b) Rs. 58,000
1.3	(c) Rs. 1,20,000
1.4	(b) 25 th July
1.5	(a) Mr. Pawan
2.	(d) (i), (ii) and (iii)
3.	(c) Both (a) and (b)
4.	(d) Within 30 days from the date of service of the cancellation order.

Division B - Descriptive Questions

1. Computation of GST payable on outward supplies

S.No.	Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)	Total (Rs.)
(i)	Intra-State supply of goods for Rs. 10,00,000	90,000	90,000		1,80,000
(ii)	Inter-State supply of goods for Rs. 8,00,000			1,44,000	1,44,000
	Total GST payable				3,24,000

Computation of total ITC

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)
Opening ITC	57,000	60,000	1,40,000
Add: ITC on Intra-State purchases of goods valuing Rs. 3,00,000	27,000	27,000	Nil
Add: ITC on Inter-State purchases of goods valuing Rs. 2,50,000	Nil	Nil	45,000
Total ITC	84,000	87,000	1,85,000

Computation of minimum GST payable from electronic cash ledger

Particulars	CGST @ 9% (Rs.)	SGST @ 9% (Rs.)	IGST @ 18% (Rs.)	Total (Rs.)
GST payable	90,000	90,000	1,44,000	3,24,000
Less: ITC [First ITC of IGST should be utilized in full - first against IGST liability and then against CGST and SGST liabilities in a manner to minimize cash outflow]	(38,000) IGST	(3,000) IGST	(1,44,000) IGST	1,85,000
	(52,000) CGST	(87,000) SGST		1,39,000
Minimum GST payable in cash	Nil	Nil	Nil	Nil
ITC balance to be carried forward next month	32,000	Nil	Nil	32,000

Note : The above computation is one of the many ways to set off the ITC of IGST (Rs. 41,000-after set off against IGST liability) against CGST and SGST liability to compute minimum GST payable in cash. To illustrate, IGST of Rs. 10,000 can be set off against SGST payable and IGST of Rs. 31,000 can be set off against CGST payable. In this situation also, the net GST payable will be nil but the ITC of CGST and SGST to be carried forward will be Rs. 25,000 and Rs. 7,000 (totalling to Rs. 32,000) respectively. However, if the entire ITC of Rs. 41,000 is set off against CGST payable, then SGST of Rs. 3,000 will be payable in cash thus, increasing the cash outflow. Therefore, such a set off would not be advisable for computing the minimum GST payable.

2. (a) **Computation of value of taxable supply made by Kavya Ltd. to Ayesha Ltd.**

Particulars	Amount (Rs.)
Price of machinery (exclusive of taxes and discounts)	5,50,000
Amount paid by Ayesha Ltd. directly to the supplier for the part fitted in the machinery [Any amount that the supplier is liable to pay in relation to a supply but which has been incurred by the recipient of the supply and not included in the price actually paid or payable for the goods is includible in the value of supply in terms of section 15(2)(b) of the CGST Act, 2017.]	20,000
Installation and testing charges [Any amount charged for anything done by the supplier in respect of the supply of goods at the time of/before delivery of goods is includible in the value of supply in terms of section 15(2)(c) of the CGST Act, 2017.]	25,000
Less: Discount @ 2% on the price of machinery [Rs.5,50,000 x 2%] [Since discount is given at the time of supply of machinery and recorded in the invoice, the same is deductible from the value of the supply in terms of section 15(3)(a) of the CGST Act, 2017.]	11,000
Less: Additional 1% discount at year end [Though the additional discount is established before/at the time of supply, it is not deductible from the value of supply in terms of section 15(3)(b) of the CGST Act, 2017 as the same is not linked to any specific transaction and is adjusted by the parties at the end of the financial year.]	Nil
Value of taxable supply	5,84,000

(b) No, the claim made by Kashi Enterprises that it is not required to pay GST is not correct. Services provided by an organiser to any person in respect of a business exhibition are exempt from GST only when such business exhibition is held outside India. However, since in the given case, the exhibition is being organized in India, the services of organization of event by Kashi Enterprises will not be exempt from GST.

3. (a) As per section 22 of the CGST Act, 2017 read with *Notification No. 10/2019 CT dated 07.03.2019*, a supplier is liable to be registered in the State/Union territory from where he makes a taxable supply of goods and/or services, if his aggregate turnover in a financial year exceeds the threshold limit. The threshold limit for a person making exclusive taxable supply of services or supply of both goods and services is as under:-

(a) Rs. 10 lakh for the Special Category States of Mizoram, Tripura, Manipur and Nagaland.

(b) Rs. 20 lakh for the rest of India.

(i) Though Aadi is dealing in Assam, he is not entitled for higher threshold limit for registration as the same is applicable only in case of exclusively supply of goods and he is exclusively engaged in providing services. Thus, the applicable threshold limit for registration in this case is Rs. 20 lakh and hence, Aadi is liable to get registered under GST.

- (ii) Since Atri is engaged in supply of both taxable goods and services, the applicable threshold limit for registration in his case is Rs. 20 lakh. Thus, Atri is liable to get registered under GST as his turnover is more than the threshold limit.

- (b) SBS Ltd., have accounted and paid Rs. 45,000/- as IGST to the supplier concerned. However, availment of input tax credit has been made for Rs. 54,000/-.

As per Section 49(2) of CGST Act, 2017 "The input tax credit as self-assessed in the return of a registered person shall be credited to his electronic credit ledger, in accordance with section 41, to be maintained in such manner as may be prescribed."

Accordingly, electronic credit ledger of SBS Ltd., shall be updated with a value of Rs. 54,000/- as per self- assessed return to be filed for February 2020, though the input tax credit shown by the supplier is only Rs. 45,000/-.

4. (a) If the exempt supply made by a **registered person** becomes a taxable supply, provisions of section 18(1)(d) of the CGST Act, 2017 become applicable. In the given case, since Prashank Trade Links is a registered person, section 18(1)(d) will be applicable.

As per section 18(1)(d) of the CGST Act, 2017, Prashank Trade Links will be entitled to take credit of input tax in respect of inputs held in stock and inputs contained in semi-finished or finished goods held in stock relating to such exempt supply and on capital goods exclusively used for such exempt supply on the day immediately preceding the date from which such supply becomes taxable, i.e. 30th September. ITC on capital goods will be reduced by 5% per quarter or part thereof from the date of invoice.

- (b) Cutiee Ltd. is required to issue a credit note in such a case.

As per section 34 of the CGST Act, 2017, where one or more tax invoices have been issued for supply of any goods or services or both and the goods supplied are returned by the recipient the registered person, who has supplied such goods or services or both, may issue to the recipient one or more credit notes for supplies made in a financial year containing such particulars as may be prescribed. Therefore, Cutiee Ltd. is required to issue a credit note to Baniya General Store for the good returned.

5. (a) GST is a simplified tax structure. The statement is justified. Simpler tax regime with fewer exemptions along with reduction in multiplicity of taxes under GST has led to simplification and uniformity in tax structure. The uniformity in laws, procedures and tax rates across the country makes doing business easier. Common system of classification of goods and services across the country ensures certainty in tax administration across India.

- (b) E-way bill is valid for movement of goods by road only when the information in Part-B is furnished in terms of explanation 2 to rule 138(3) of the CGST Rules, 2017. However, details of conveyance may not be furnished in Part-B of the e-way bill where the goods are transported **for a distance of upto 50 km** within the State/Union territory:

- ☐ from the place of business of the consignor to the place of business of the transporter for further transportation or
- ☐ from the place of business of the transporter finally to the place of business of the consignee.