

Paper 7 – Direct Taxation

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Full Marks: 100

Time allowed: 3 hours

Section-A (25 Marks)

Answer question No. 1 a, b, c & d which is compulsory.

1. a) Multiple Choice Questions: [10 x 1=10]

- i) Deduction u/s 35AD is available in respect of expenditure on specified business, one of them is:
 - A. Setting up and operating a cold chain facility
 - B. Setting up and operating power plant
 - C. Setting up and operating an industrial unit
 - D. All of the above

- ii) Which of the following transaction is not regarded as transfer?
 - A. Conversion of asset into stock in trade
 - B. Maturity of a Zero Coupon Bond
 - C. Any distribution of capital asset of a HUF among its member at the time of partition
 - D. Exchange of land for gold

- iii) Interest relating to pre-construction period is allowable –
 - A. In 5 equal instalments from the year in which it was incurred
 - B. In the year in which it was incurred
 - C. In the year in which house property was constructed
 - D. In 5 equal instalments from the year of completion of construction

- iv) The normal rates of income tax are mentioned in :
 - A. Income tax Act 1961
 - B. Finance Act
 - C. Income-tax Rules
 - D. None of these

- v) Rebate under section 87A is available to an individual when the income doesn't exceeds-
 - A. ₹4,00,000
 - B. ₹5,00,000
 - C. ₹3,50,000
 - D. ₹3,00,000

- vi) Defective return need to be rectified within;
 - A. 10 days of receipt of notice
 - B. 15 days of receipt of notice
 - C. 20 days of receipt of notice
 - D. 25 days of receipt of notice

- vii) Marriage gift from a non-relative is _____.
 - A. Exempted from tax
 - B. Not exempted from tax
 - C. Taxable
 - D. None of these

- viii) In case of loss, a partnership firm may claim deduction in respect of remuneration to partner to the extent of:

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- A. ₹ 1,50,000
B. ₹ 1,50,000 or remuneration paid, whichever is lower
C. ₹ 1,50,000 or 90% of book profit, whichever is lower
D. Nil
- ix) Unabsorbed depreciation can be carried forward for
A. Any number of years
B. 8 years
C. 4 years
D. 7 years
- x) When assessment has not been completed, revised return can be filed within _____ from the end of the relevant previous year
A. One year
B. 6 months
C. 1 month
D. 2 years

b) State whether the following statements is true or false: [5x1=5]

- i. If expenditure is incurred for ensuring the regular supply of raw material, maybe for period extending over several years, it is on revenue account
- ii. Due date of filling of return u/s 139 is 30th September for resident individual.
- iii. Interest u/s 234A is levied @ 1% per month or part of the month.
- iv. Education cess is levied @ 2%.
- v. Any allowance or perquisite paid outside India by the Government to a citizen of India for rendering services outside India are exempt from tax.

c) Fill in the blanks [5x1=5]

- i. The due date for filing return of income u/s 139(1) in the case of individual assessee having turnover above 200 lakh is _____.
- ii. Compensation received from an insurer on account of damage to the crops is _____ income.
- iii. The excess of _____ paid over the regular income-tax payable of that year shall be allowed as tax credit.
- iv. Reimbursement of any medical bill for treatment in a private hospital is exempt up to _____.
- v. Failure to apply for PAN or to quote PAN in prescribed documents attracts penalty of _____ u/s 272B

d) Match the followings: [5x1=5]

	Column A		Column B
1	Return of income	A	5%
2	Sec. 194H	B	Sec.139
3	Sec.288B	C	Determination of Residential Status
4	Sec.6	D	Deductible as business expenditure
5	Securities Transaction Tax	E	Rounding off of tax

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Section-B (75 Marks)

Answer any five Questions from Question No. 2 and 8

2. a) Ram provides following details of income, calculate the income which is liable to be taxed in India for the A.Y.2019-20 assuming that –

(a) He is an ordinarily resident (b) He is not an ordinarily resident (c) He is a non-resident. [5]

Particulars	Amount (₹)
Salary received in India from a former employer of UK	1,40,000
Income from tea business in Nepal being controlled from India	10,000
Interest on company deposit in Canada (1/3rd received in India)	30,000
Profit from a business in Mumbai controlled from UK	1,00,000
Profit for the year 2002-03 from a business in Tokyo remitted to India	2,00,000
Income from a property in India but received in USA	45,000
Income from a property in London but received in Delhi	1,50,000
Income from a property in London but received in Canada	2,50,000
Income from a business in Jambia but controlled from Turkey	10,000

2. b) Distinguish between Capital Receipts and Revenue Receipts. [6]

2. c) Write a short note on Assessee as per section 2(7) of Income Tax Act 1961. [4]

3. a) Mr. Sunil is a practicing Chartered Accountant. He also runs a private coaching institute. His bank account for the year ended 31/3/2019 is given below: [7]

Receipts	(₹)	Payments	(₹)
To Balance b/f	20,000	By Office expenses	18,000
To Audit Fees	2,00,000	By Municipal tax on property	800
To Income from other professional work	1,00,000	By Coaching expense	800
To Coaching fees	1,200	By Personal expenses	5,000
To Interest on investment	2,000	By Membership fees	500
To Examiner's fees	1,000	By Life insurance premium	13,000
To Rent from property	5,000	By Income tax	5,000
		By Motor car purchased	1,80,000
		By motor car expenses	10,200
		By Insurance of property	1,600
		By Balance c/d	94,300
	3,29,200		3,29,200

Additional Information

(a) 20% of motor car expenses is in respect of profession.

(b) Depreciation allowance for motorcar is ₹ 27,000, if wholly used for profession.

(c) Outstanding fees on 31-3-2019 ₹ 2,000. Whereas ₹500 receivable from Mita is considered as bad.

(d) Outstanding fees of P.Y. 2015-16 ₹10,000 received during the year, which is included in the audit fees.

(e) Office expenses include payment of ₹2,000 incurred during the previous year 2017-18.

Compute his gross total income for the A.Y. 2019-20 assuming he maintains accounts on cash basis.

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3. b) X Ltd. has several undertakings carrying on several businesses. During the year 2018-19, the company sold one of its undertakings (as it was continuously generating loss since last 5 years) for a lump sum value of ₹ 300 lacs without assigning value to individual asset and liabilities. Book value of sundry assets and liabilities of the undertaking as on the date of sale is as under:

Items	Book Value	Market Value
Land	₹ 50 lacs (Value for the purpose of Stamp duty ₹ 70,00,000)	₹ 100 lacs
Machinery	₹ 70 lacs (WDV as per IT Act ₹60 lacs)	₹100 lacs
Furniture	₹ 50 lacs (WDV as per IT Act ₹ 90 lacs)	₹ 75 lacs
Stock	₹ 30 lacs	₹ 35 lacs
Debtors	₹ 40 lacs	₹ 40 lacs
Creditors	₹ 50 lacs	
Brokerage on transfer paid @ 5%. Compute capital gain.		[8]

4. a) Mr. Jadu has sold following assets on 31/03/2019: **[7]**

Assets transferred	Cost	Acquired on	Sold for	Expenses on transfer
Land	₹ 4,00,000	19/08/2009	₹15,00,000	₹ 40,000
Government securities	₹ 10,000	17/07/2006	₹ 1,00,000	₹ 5,000
Debentures (listed)	₹ 20,000	17/04/2010	₹ 1,00,000	₹ 2,000

Compute his tax liability.

4. b) A proprietary business was started by Smt. Rani in the year 2016. As on 1.4.2017 her capital in business was ₹3,00,000. Her husband gifted ₹ 2,00,000, on 10.04.2017, which amount Smt. Rani invested in her business on the same date. Smt. Rani earned profits from her proprietary business for the financial years 2017-2018, ₹ 1,50,000 and financial year ₹ 3,90,000. Compute the income, to be clubbed in the hands of Rani's husband for the assessment year 2019-2020 with reasons. **[8]**

5. a) From the particulars given below, compute taxable income of X for the assessment Year 2019- 2020: **[7]**

	₹
Net income from manufacturing business	1,30,000
Interest on Post Office Savings Bank Account	1,900
Share of profit from a partnership concern	22,000
Short-term capital gains on sale of land	24,000
Long-term capital gain on sale of house property	1,20,000
Share of income from HUF in which X is a member	8,200
Winning from camel race	10,000
Interest on bank fixed deposit:	
(i) Deposit in his own name	4,000
(ii) In the name of minor son	1,300
Expenditure incurred on medical treatment of 67 years old brother [Who being a person with disability, is dependent on X]	40,000
Repayment of loan (including interest 4,000) taken for part-time Studies for postgraduate course in Management	10,000
Donation to Prime Minister's National Relief Fund	20,000

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5. b) The income and related particulars of Mr. C, aged 56, for the year ended 31.03.2019 are given below:

- (a) Salary ₹ 24,000 per month.
- (b) He was provided with a rent free accommodation in Hyderabad for which rent of ₹ 6,000 per month was paid by the employer.
- (c) His wife was sick and treatment was taken in a private hospital, for which an amount of ₹ 32,000 was paid towards medical expenses by his employer in December 2018.
- (d) An allowance of ₹ 13,200 was paid by his employer towards his son's education.
- (e) The employer paid D.A. ₹10,000 per month (considered for retirement benefits), Professional tax of ₹2,400 and Income Tax liability of ₹ 15,000.
- (f) He encashed earned leave of his credit to the tune of ₹ 10,000.
- (g) Loss from speculative business ₹20,000.
- (h) Loss from sale of shares in ABC Pvt. Ltd. Held for 10 months ₹ 8,000.
- (i) Profit on sale of long term capital assets ₹ 10,000.

Compute the total income and tax liability of Mr. C for the Assessment Year 2019-20. **[8]**

6. a) H is the owner of a small scale industry. The following are the particulars of his business and other related matters during the accounting year 2018-2019.

- (a) Net Profit as per Profit and Loss Account ₹36,000.
- (b) The Profit and Loss Account was debited for ₹1,200 as his interest on capital and for ₹2,400 as remuneration to self.
- (c) H has taken goods for his personal consumption valued ₹8,000. On this account sales account was credited for ₹6,000 only.
- (d) Opening and closing stock of finished goods are valued for ₹4,500 and ₹7,200 respectively which were 10% below the cost of production.
- (e) Profit and Loss Account is debited for ₹1,500 as rent for godown owned by H.
- (f) Profit and Loss Account has been credited for ₹2,500 as interest on fixed deposit with Bank and for ₹5,000 (Gross) as dividend from Indian company.
- (g) Profit and Loss Account is excess debited by ₹2,500 on account of depreciation.
- (h) Profit and Loss Account is debited for ₹ 4,000 as donation to National Defence Fund.

From the above particulars, compute the taxable income of H for the assessment year 2019-2020. **[8]**

6. b) Mr. Ajnabi has a house property in Cochin. The house property has two equal dimension residential units. Unit 1 is self occupied throughout the year and unit 2 is let out for 9 months for ₹10,000 p.m. and for remaining 3 months it was self-occupied. Compute his taxable income from the following details:

Municipal value ₹ 2,00,000, Fair Rent ₹ 1,60,000, Standard rent ₹ 3,00,000, Municipal tax 10% (60% paid by assessee), Interest on loan ₹ 40,000, Expenditure on repairs ₹ 20,000. **[7]**

7. a) State the due dates of filing of return of Income. **[5]**

7. b) Discuss in brief report of the committee on taxation to examine the business model for e-commerce. **[5]**

7. c) Write a short note notes on ICDS-IX on "Borrowing Cost". **[5]**

8. a) Discuss the special provision for avoiding repetitive appeal. **[5]**

8. b) What is the procedure of rectification of mistake as per section 154. **[6]**

8. c) Write short note on Scrutiny Assessment U/S 143(3). **[4]**