

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

Division A – Multiple Choice Questions

1. (c)
2. (d)
3. (c)
4. (b)
5. (b)
6. (b)
7. (a)
8. (b)
9. (d)
10. (a)

Division B – Descriptive Questions

1. **Computation of total income of Mr. Ashwin for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Income from house property Arrears of rent received in respect of the Bangalore house taxable under section 25A [Note 1]	75,000	
Less: Deduction @ 30%	<u>22,500</u>	52,500
Profits and gains of business or profession		
(a) Own business [Note 3]		6,32,500
(b) Income from partnership firm [Note 2]		
Interest on capital [As per section 28(v), chargeable in the hands of the partner only to the extent allowable as deduction in the firm's hand i.e. @12%]	2,40,000	
Salary of working partner (Since the same has been fully allowed as deduction in the hands of the firm)	<u>90,000</u>	3,30,000
Income from other sources		
(a) LIC Jeevan Dhara pension	24,000	
(b) Interest from bank FD (gross)	<u>55,000</u>	<u>79,000</u>
Gross Total Income		10,94,000

Less: Deductions under Chapter VIA			
Section 80C			
Life insurance premium for policy in the name of major son qualifies for deduction even though he is not dependent on the assessee. However, the same has to be restricted to 10% of sum assured i.e. 10% of Rs.2,00,000.	20,000		
Contribution to PPF	<u>70,000</u>	90,000	
Section 80D			
Mediclaim premium for mother, a senior citizen (qualifies for deduction, even though the mother is not dependent on the assessee, subject to a maximum of Rs.50,000)	52,000	50,000	
Section 80TTB			
Interest on bank FD (subject to a maximum of Rs.50,000)	55,000	<u>50,000</u>	<u>1,90,000</u>
Total Income			<u>9,04,000</u>

Computation of tax liability of Mr. Ashwin for the A.Y. 2019-20

Particulars	Rs.
Tax on Agricultural income <i>plus</i> non-agricultural income i.e., Rs.9,64,000	1,02,800
Less: Tax on agricultural income plus basic exemption limit i.e., Rs.3,60,000	3,000
	99,800
Add: Health and education cess @4%	3,992
Tax liability	1,03,792
Less: TDS	5,000
Less: Advance Tax	70,000
Tax Payable	28,792
Tax Payable (rounded off)	28,790

Notes:

- (1) As per section 25A, any arrears of rent received will be chargeable to tax, after deducting a sum equal to 30% of such arrears, as income from house property in the year of receipt, whether or not the assessee is the owner of the house property.
- (2) The income by way of interest on capital and salary of Mr. Ashwin from the firm, ASC & Co., in which he is a working partner, to the extent allowed as deduction in the hands of the firm under section 40(b), has to be included in the business income of the partner as per section 28(v). Accordingly, Rs.3,30,000 [i.e., Rs.90,000 (salary) + Rs.2,40,000 (interest@12%)] should be included in his business income.
- (3) **Computation of income from own business**

Particulars	Rs.	Rs.
Net profit as per profit and loss account		4,32,000
Less: Items credited to profit and loss account not treated as business income		
Interest on bank FD (Net of TDS)	49,500	
Agricultural income	60,000	

Pension from LIC Jeevan Dhara	<u>24,000</u>	1,33,500
		2,98,500
Add: Items debited to profit and loss account to be disallowed/considered separately		
Advance tax	70,000	
Depreciation:		
- Car	3,00,000	
- Machinery	1,25,000	
Car expenses disallowed for personal use (Rs.50,000 x 1/5)	10,000	
Salary to manager disallowed under section 40A(3) since it is paid in cash and the same exceeds Rs.10,000	<u>15,000</u>	<u>5,20,000</u>
		8,18,500
Less: Depreciation (See Working Note below)		<u>1,86,000</u>
Income from business		6,32,500

Working Note:

Computation of depreciation allowable under the income-tax Act, 1961

Particulars	Rs.	Rs.
On Car:		
Depreciation @15% on Rs.3,00,000	45,000	
Less: 1/5 th for personal use	<u>9,000</u>	
Depreciation on Car allowable as deduction		36,000
On Machinery:		
Opening WDV	6,50,000	
Additions during the year (used for more than 180 days)		
- New Machinery purchased on 15.9.18	2,00,000	
- Second hand machinery purchased on 30.4.18	1,25,000	
Additions during the year (used for less than 180 days)	3,00,000	
Normal Depreciation		
Depreciation @15% on Rs.6,50,000	97,500	
[As per second proviso to section 43(1), the expenditure for acquisition of asset, in respect of which payment to a person in a day exceeds Rs.10,000 has to be ignored for computing actual cost, if such payment is made otherwise than by way of A/c payee cheque/ bank draft or ECS. Accordingly, depreciation on second hand machinery purchased on 30.4.2018 and on new machinery purchased on 15.9.2018 is not allowable since the payment is made otherwise than by A/c payee cheque/A/c payee draft/ ECS to a person in a day]		
Depreciation @ 7.5% on Rs.3,00,000	<u>22,500</u>	
Total normal depreciation on machinery (A)		1,20,000
Where an asset acquired during the year is put to use for less than 180 days, 50% of the rate of depreciation is allowable. This restriction does not apply to assets acquired in an earlier year.		

Additional depreciation (B)		
New machinery		
Used for less than 180 days = 10% of Rs.3,00,000	<u>30,000</u>	
Total permissible depreciation on machinery (A) + (B)		<u>1,50,000</u>
Depreciation allowable under section 32		<u>1,86,000</u>

2. Under section 6(1), an individual is said to be resident in India in any previous year if he satisfies any one of the following conditions -

- (i) He has been in India during the previous year for a total period of 182 days or more, or
- (ii) He 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.

In the case of Indian citizens leaving India for employment, the period of stay during the previous year must be 182 days instead of 60 days given in (ii) above.

During the previous year 2018-19, Mr. Rajesh, an Indian citizen, was in India for 175 days only (i.e., 30+31+30+31+31+22 days). Thereafter, he left India for employment purposes.

Since he does not satisfy the minimum criteria of 182 days, he is a non-resident for the A.Y. 2019-20.

Computation of total income of Mr. Rajesh for the A.Y. 2019-20

S. No.	Particulars	Non-Resident (Rs.)
1.	Interest on Canada Development Bond (See Note 1)	20,000
2.	Dividend from Canadian Company received in Canada (See Note 2)	-
3.	Short term capital gain on sale of shares of an Indian company received in India	90,000
4.	Interest on savings bank deposit in UCO Bank, Delhi	12,000
5.	Income from profession in Canada (set up in India) out of which Rs.10,000 is received in India (See Note 1)	10,000
6.	Agricultural income from a land in Gujarat (See Note 3)	-
7.	Income from house property at Canada (See Note 4)	-
	Gross Total income	1,32,000
	Less: Deduction under Chapter VI-A	
	Section 80TTA (See Note 5)	10,000
	Total Income	1,22,000

Notes:

- (1) As per section 5(2), in case of a non-resident, only the following incomes are chargeable to tax in India:
 - (i) Income received or deemed to be received in India; and
 - (ii) Income accruing or arising or deemed to accrue or arise in India.

Therefore, only that part of interest income and income from profession which is received in India would be taxable in his hands.
- (2) Dividend received in Canada from a Canadian based company would not be taxable in the hands of Mr. Rajesh since it has neither accrued nor arisen in India nor is it received in India.
- (3) Agricultural income from a land situated in India is exempt under section 10(1) in the case of both

non-residents and residents.

- (4) Rental income from property in Canada would not be taxable, since it is neither accrued or arisen in India nor it is received in India.
- (5) In case of an individual other than senior citizen, interest upto Rs.10,000 from savings account with, *inter alia*, a bank is allowable as deduction under section 80TTA, irrespective of the residential status.

3. **Computation of taxable income of Mr. Satish for the A.Y. 2019-20**

	Particulars	Rs.	Rs.
(a)	Income from salaries (See Working Note below)		7,62,800
(b)	Income from other sources		
	(i) Interest on fixed deposit with a company	5,000	
	(ii) Income from specified mutual fund exempt under section 10(35)	Nil	
	(iii) Interest on Fixed Deposit received by minor daughter (Rs.3,000 - Rs.1500)	1,500	<u>6,500</u>
	Gross total income		7,69,300
	Less: Deductions under Chapter VI-A		
	Section 80C – PPF	40,000	
	Section 80CCC	1,00,000	<u>1,40,000</u>
	Total Income		6,29,300

Working Note:

Computation of salary income of Mr. Satish for the A.Y. 2019-20

	Particulars	Rs.
	Income under the head "salaries"	
	Salary [Rs.46,000 x 12]	5,52,000
	Medical facility [in the hospital maintained by the company is exempt]	–
	Rent free accommodation	
	15% of salary is taxable (i.e. $Rs.5,52,000 \times 15\%$ as per Rule 3(1))	82,800
	Use of dining table for 4 months [Rs.60,000 x 10 /100 x 4 /12]	2,000
	Valuation of perquisite of interest on loan [Rule 3(7)(i)] – 10% is taxable which is to be reduced by actual rate of interest charged i.e. $[10\% - 6\% = 4\%]$	24,000
	Gift given on the occasion of wedding anniversary Rs.4,750 is exempt, since its value is less than Rs.5,000	–
	Perquisite on sale of dining table	
	Cost	60,000
	Less: Depreciation on straight line method @ 10% for 3 years	<u>18,000</u>
	Written Down Value	42,000
	Less: Amount paid by the assessee	<u>30,000</u>
	Purchase through credit card – not being a privilege but covered by	12,000
		10,000

section 17(2)(iv)		
Perquisite on sale of car		
Original cost of car	2,50,000	
Less: Depreciation from 16.7.2015 to 15.7.2016 @ 20%	<u>50,000</u>	
	2,00,000	
Less: Depreciation from 16.7.2016 to 15.7.2017 @ 20%	<u>40,000</u>	
Value as on 14.07.2018- being the date of sale to employee	1,60,000	
Less: Amount received from the assessee on 14.07.2018	<u>80,000</u>	<u>80,000</u>
Income from Salaries		7,62,800

Note: Under Rule 3(7)(viii), while calculating the perquisite value of benefit to the employee arising from the transfer of any movable asset, the normal wear and tear is to be calculated in respect of each completed year during which the asset was put to use by the employer. In the given case the third year of use of car is completed on 15.7.2018 whereas the car was sold to the employee on 14.7.2018. The solution worked out above provides for wear and tear for only two years.

4.

Computation of total income of Mr. Pratap for the A.Y.2019-20

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	1,10,000	
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		95,000

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. 2027-28, 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) Computation of interest payable under section 234B by Mr. Sailesh

Particulars	Rs.
Tax on total income of Rs.10,80,000 [Business income of Rs.8,10,000 + Income from other sources of Rs.2,70,000]	1,36,500
Add: Health and education cess@4%	<u>5,460</u>
Tax on total income	1,41,960
Less: Tax deducted at source	<u>25,000</u>
Assessed Tax	1,16,960
90% of assessed tax	1,05,264
Advance tax paid	1,03,000
Interest under section 234B is leviable since advance tax of Rs.1,03,000 paid is less than Rs.1,05,264, being 90% of assessed tax	
Number of months from 1 st April, 2019 to 11 th December, 2019, being the date of processing of return	9
Interest under section 234B@1% per month or part of a month for 9 months on Rs.13,900 [i.e., difference between assessed tax of Rs.1,16,960 and advance tax of Rs.1,03,000 paid, being Rs.13,960 which is rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962]	1,251

Consequences for delay in filing return of income on or before the due date

Interest under section 234A and fee under section 234F would be attracted for filing return of income beyond the due date specified under section 139(1).

Interest under section 234A

Since Mr. Sailesh's accounts are audited under section 44AB, the due date for filing of return for A.Y. 2019-20, in his case, is 30.09.2019. Mr. Sailesh has filed his return on 11.12.2019 i.e., interest under section 234A will be payable for 3 months (from 1.10.2019 to 11.12.2019) @ 1%

per month or part of month on the amount of tax payable on the total income, as reduced by TDS and advance tax paid i.e., Rs.13,960 rounded off to Rs.13,900 under Rule 119A of Income-tax Rules, 1962

Interest u/s 234A = Rs.13,900 x 1% x 3 = Rs.417

Fee for late filing of return under section 234F

Since Mr. Sailesh has furnished his return of income after the due date but before 31.12.2019 and his total income exceeds Rs.5 lakhs, a fee of Rs.5,000 will be payable by him.

(b) Return of income to be verified by whom

	Person	Return of income to be verified by
(i)	Local authority	The principal officer
(ii)	Firm, having no managing partner	Any partner of the firm, not being a minor

SECTION B - INDIRECT TAXES (50 MARKS)

SUGGESTED ANSWERS/HINTS

Division A - Multiple Choice Questions Answer

1. (c)
2. (a)
3. (c)
4. (d)
5. (d)
6. (d)
7. (c)
8. (c)
9. (c)
10. (d)
11. (b)
12. (d)
13. (a)

Division B - Descriptive Answer

1. Computation of value of taxable supply and amount of GST payable

S.No.	Particulars	Rs.
(1)	Running a boarding school [Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(2)	Fees from prospective employer for campus interview [Not exempt.]	1,70,000
(3)	Education services for obtaining the qualification recognised by law of foreign country [An institution providing education services for obtaining qualification recognized by a foreign country does not qualify as educational institution. Thus, said services are not exempt.]	3,10,000
(4)	Renting of furnished flats for temporary stay of different persons [Services by a hotel, inn, guest house, club or campsite, by whatever name called, for residential or lodging purposes, having Value of Supply of a unit of accommodation below Rs. 1,000 per day or equivalent are exempt]	Nil
(5)	Conducting Modular Employable Skill Course [An institution providing Modular Employable Skill Course qualifies as educational institution. Services provided by an educational institution to its students, faculty and staff are exempt.]	Nil
(6)	Conducting private tuitions [Not exempt.]	3,00,000
(7)	Running martial arts academy for young children [Not exempt under GST laws]	55,000
(8)	Conducting career counselling session [Not exempt under GST laws]	1,65,000
	Value of taxable supply	10,00,000
	GST payable @ 18%	1,80,000

2. (a) Computation of ITC available with Laxmi Pvt. Ltd. for the month of July, 2018

Particulars	Rs.
Raw Material [ITC not available as raw material is not received in July, 2018]	Nil
Membership of a club availed for employees working in the factory [Blocked credit in terms of section 17(5) of the CGST Act, 2017]	Nil
Inputs to be received in 5 lots, out of which 3rd lot was received during the month [In case of goods received in lots, ITC can be taken only upon receipt of the last lot]	Nil
Trucks used for transport of raw material [ITC of GST paid on motor vehicles is allowed only when used, <i>inter alia</i> , for transportation of goods in terms of section 17(5) of the CGST Act, 2017]	40,000
Capital goods [ITC of GST paid on items for which invoice is missing is not available. So, ITC of Rs. 80,000 is not available]	70,000
Total ITC available	1,10,000

(b) A registered person, whose aggregate turnover in the preceding financial year did not exceed Rs. 1 crore in a State/UT [Rs. 75 lakh in case of Special Category States except Jammu and Kashmir and Uttarakhand], may opt for composition scheme.

However, he shall not be eligible to opt for composition scheme if, *inter alia*, he is engaged in the supply of services other than restaurant services.

- (1) In the given case, since Mr. Guneet is engaged in the supply of consultancy service, he is not eligible to opt for composition scheme irrespective of its turnover in the preceding financial year.
- (2) No, it is not possible for Mr. Guneet to opt for composition scheme only for showroom as all the registrations under the same PAN have to opt for composition scheme and since the supply of consultancy service is ineligible for composition scheme, supply of readymade garments too becomes ineligible for composition scheme.

3. (a) As per section 25 read with CGST Rules, 2017, where an applicant submits application for registration within 30 days from the date he becomes liable to registration, effective date of registration is the date on which he becomes liable to registration. Since, Priyank Services Ltd.'s turnover exceeded Rs. 20 lakh on 12th August, it became liable to registration on same day. Further, it applied for registration within 30 days of so becoming liable to registration, the effective date of registration is the date on which he becomes liable to registration, i.e. 12th August.

As per section 31 read with CGST Rules, 2017, every registered person who has been granted registration with effect from a date earlier than the date of issuance of certificate of registration to him, may issue Revised Tax Invoices. Revised Tax Invoices shall be issued within 1 month from the date of issuance of certificate of registration. Revised Tax Invoices shall be issued within 1 month from the date of issuance of registration in respect of taxable supplies effected during the period starting from the effective date of registration till the date of issuance of certificate of registration.

Therefore, in the given case, Priyank Services Ltd. has to issue the Revised Tax Invoices in respect of taxable supplies effected during the period starting from the effective date of registration (12th August) till the date of issuance of certificate of registration (6th September) within 1 month from the date of issuance of certificate of registration, i.e. on or before 6th October.

(b) (i) Every supplier becomes liable to registration if his turnover exceeds Rs. 20 lakh [in a State/UT other than Special Category States except Jammu and Kashmir] in a financial year [Section 22 of CGST Act, 2017]. Since in the given case, the turnover of Grand Industries exceeded Rs. 20 lakh on 1st September, it becomes liable to registration on said date.

Further, since the application for registration has been submitted within 30 days from such date, the registration shall be effective from the date on which the person becomes liable to registration [Section 25 read with rule 10 of the Chapter III - Registration of CGST Rules, 2017]. Therefore, the effective date of registration is 1st September.

(ii) Since in the given case, the turnover of Mangal Teleservices exceeds Rs. 20 lakh on 25th October, it becomes liable to registration on said date.

Further, since the application for registration has been submitted after 30 days from the date such person becomes liable to registration, the registration shall be effective from the date of grant of registration. Therefore, the effective date of registration is 5th December.

4. (a) Time of supply will be:

(A) if the invoice is issued within 30 days of supply of service,

date of invoice

OR

date of receipt of payment,

whichever is earlier

(B) if the invoice is not issued within 30 days of supply of service,

date of provision of service

OR

date of receipt of payment,

whichever is earlier

In accordance with aforesaid provisions, time of supply is:

1. **01.08.2018** since the invoice is not issued within 30 days of supply of service.
2. **07.09.2018** since the invoice is issued within 30 days of supply of service.
3. **03.08.2018** viz. earlier of 07.09.2018 or 03.08.2018
4. **07.09.2018** viz. earlier of 07.09.2018 or 15.09.2018

(b) Composition tax payer is required to furnish return u/s 39 for every quarter even if no supplies have been effected during such period. In other words, filing of Nil return is also mandatory.

Therefore, Mr. P is required to file quarterly return even if he did not render any taxable supply during the quarter July-September.

5. (a) (i) Renting of immovable property would be treated as supply of services in terms of Schedule-II of CGST Act, 2017.

(ii) As per Schedule-II of CGST Act, 2017, transfer of right in goods without transfer of title in goods would be treated as supply of services.

(iii) As per Schedule-II of CGST Act, 2017, works contract services would be treated as supply of services.

(iv) As per Schedule-II of CGST Act, 2017, temporary transfer of permitting use or enjoyment of any intellectual property right would be treated as supply of services.

(b) As per provisions of Section 23 of CGST Act, 2017, the persons who are not liable for registration are as under-

- (a) Person engaged exclusively in supplying goods/services/both that are wholly exempt from tax.
- (b) Person engaged exclusively in supplying goods/services/both that are not liable to tax.
- (c) Agriculturist to the extent of supply of produce out of cultivation of land.
- (d) Persons only engaged in making supplies of taxable goods or services or both liable to reverse charge.
- (e) Persons making inter-State supplies of taxable services up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir).
- (f) Casual Taxable Persons making taxable supplies of specified handicraft goods up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (g) Persons making inter-State supplies of specified handicraft goods up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (h) Job workers making inter-State supply of services to a registered person up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir) subject to specified conditions.
- (i) Persons making supplies of services through an electronic commerce operator (other than supplies specified under section 9(5) of the CGST Act) up to an aggregate turnover of Rs. 20 lakh (Rs. 10 lakh in case of special category States except Jammu and Kashmir).

[Note Any 5 points may be mentioned]