

SUGGESTED ANSWERS TO QUESTIONS

INTERMEDIATE EXAMINATION

GROUP – I

(SYLLABUS 2016)

DECEMBER – 2021

Paper - 7 : DIRECT TAXATION

Time Allowed : 3 Hours

Full Marks : 100

Section : A MCQ

20X1= 20 Marks

Q.1 When Rs.4 lakh is paid by resident Mr. X (having PAN) towards overseas tour program, how much must be collected by the tour operator by way of TCS?

- Ans
1. @ 20% Rs.80,000
 2. @ 10% Rs.40,000
 3. @ 0.50% Rs.2,000
 4. @ 5% Rs.20,000

Q.2 When a member of AOP receives share income it is exempt from tax when

- Ans
1. When shares of members in the AOP is determinate.
 2. AOP paid tax at the maximum marginal rate
 3. When AOP does not pay tax.
 4. AOP paid tax at the regular rates

Q.3 When the resident individual has total income of Rs.60 lakhs, the rate of surcharge applicable is

- Ans 1. 10%
2. 15%
 3. 37%
 4. 25%

Q.4 When a company opts for section 115BAB for the assessment year 2021-22, the maximum rate of depreciation allowable for the eligible assets owned by it is

- Ans
1. NIL
 2. 40%
 3. 30%
 4. 15%

Q.5 R gifted his house property to his married minor daughter. The income from such house property shall be included in the hands of:

- Ans 1. it will be first computed as minor daughter's income and clubbed in the income of the R or Mrs R depending upon whose total income is higher.
2. income of married minor daughter
 3. R as deemed owner
 4. R. However, it will be first computed as minor daughter's income and then clubbed in the income of R

Q.6 When an employee receives Rs.18,700 from the employer by way of reimbursement of medical expenditure incurred by him for his family, the amount liable for inclusion by way of perquisite is:

- Ans
1. Rs.18,700
 2. Rs.15,000
 3. Rs. 3,700
 - ✓ 4. NIL

Q.7 Gift of money amounting to Rs.2,00,000 given in India by a resident on 16.08.2020 to a non-resident (non-relative) shall be:

- Ans
1. taxable to the extent of Rs.1,50,000
 2. exempt
 3. be fully taxable in the hands of the resident
 - ✓ 4. fully taxable in the hands of non-resident

Q.8 In the case of charitable trust registered under section 12AA when the amount of anonymous donation received is Rs.20 lakhs, the quantum of anonymous donation liable to tax would be:

- Ans
1. Rs.1 lakh
 - ✓ 2. Rs.19 lakhs
 3. Rs.20 lakhs
 4. Nil

Q.9 Where a part of the block of asset is sold for a price less than the opening W.D.V. plus cost of assets, if any, acquired during the year, the balance amount shall be treated as:

- Ans
1. Terminal/balancing depreciation
 2. None of the given options
 - ✓ 3. W.D.V for the purpose of charging current year depreciation
 4. short-term capital loss

Q.10 The following income shall be exempt under Section 10(23FC) of Income tax Act, 1961:

1. Interest received from special purpose vehicle
2. Dividend received or receivable from a special purpose vehicle

- Ans ✓
1. Both 1 and 2
 2. 2 only
 3. Neither 1 nor 2
 4. 1 only

Q.11 What is the monetary limit for transactions between eligible holding company and subsidiary company to trigger the provisions of specified domestic transactions?

- Ans
1. Rs.200 lakhs
 2. Rs.500 lakhs
 - ✓ 3. Rs.2000 lakhs
 4. Rs.100 lakhs

Q.12 A business loss can be carried forward and set off in the subsequent assessment year when the business on account of which this loss has arisen:

- Ans
1. None of the given options
 2. is continued for any part of the previous year
 3. is continued or not
 4. is continued in the assessment year in which the such loss is set off

Q.13 Alternate Minimum Tax is applicable in case of

- Ans
1. individual or HUF
 2. Firm and individual
 3. any person other than a company
 4. firm and a company

Q.14 Suresh incurred Rs.90,000 by way of salary paid to employees which has not been accounted for in the business. The amount of income-tax payable on such salary (Ignore HEC but consider surcharge) is:

- Ans
1. NIL
 2. None of the given options
 3. Rs.67,500
 4. Rs.54,000

Q.15 While computing the capital gains, an eligible assessee is allowed to opt for market value as on 1.4.2001 in case of:

- Ans
1. all capital assets other than depreciable assets, goodwill of a business, trademark or brand name, right to manufacture, right to carry on any business or profession tenancy rights, loom hours and route permits.
 2. all capital assets other than depreciable asset
 3. None of the given options
 4. all capital assets

Q.16 An undertaking was owned and operated for 28 months before it was sold on slump sale basis. Land and building form part of its assets. The resultant gain would be

- Ans
1. Short-term capital gain
 2. Exempted income
 3. Long-term capital gain
 4. Business income

Q.17 An award of Rs. 1,00,000 was announced for tracing a missing person. R traced the person and received the award amount. In the hands of R, such receipt shall be:

- Ans
1. exempt upto Rs. 50,000
 2. casual income
 3. fully taxable
 4. fully exempt

Q.18 Which of the following propositions are correct for availing deduction under section 80-IAC:

1. 80-IAC provide for a deduction of an amount equal to 100% of the profits or gains derived from an eligible start-up for 3 consecutive assessment years out of 10 years beginning from the year of incorporation.
2. The deduction shall be available to an eligible start-up, if the total turnover of its business does not exceed Rs. 25 crores in any of the previous years beginning from the year of incorporation

Ans 1. 1 only

2. Neither 1 nor 2

3. 2 only

4. Both 1 and 2

Q.19 Ram commenced construction of residential building on 01.04.2015. Interest on housing loan up to 31.03.2020 was Rs.4,40,000. Interest for the period from 01.04.2020 to 30.09.2020 (being the date of completion of construction of the residential house) was Rs.60,000. Interest for the period from 01.10.2020 to 31.03.2021 amounts to Rs.50,000. How much is the interest eligible for deduction under section 24 for the assessment year 2021-22 for this let out property?

Ans 1. Rs.1,50,000

2. Rs.1,98,000

3. Rs.5,00,000

4. Rs.1,00,000

Q.20 A company makes regular payment of brokerage to a person for purchase of raw material. When does the company become liable to deduct tax at source on such brokerage?

Ans 1. When the aggregate brokerage paid or payable exceeds Rs.50,000

2. When the aggregate brokerage paid or payable exceeds Rs.15,000

3. When the brokerage payable exceeds Rs.10,000

4. When the aggregate brokerage paid exceeds Rs.30,000

Q.1 Maintenance of specified books of accounts compulsory if gross receipts in all three preceding PY exceeds _____ in case of persons carrying on the profession of technical consultancy.

Answer: Rs.1,50,000

Q.2 Compensation received under Voluntary Retirement Scheme by an individual shall be regarded as _____ while computing the income under the head "Salaries".

Answer: Profit in lieu of salary

Q.3 The rate (excluding surcharge and Cess) of tax applicable on the total income of local authority is _____.

Answer: 30%

Q.4 A surgeon (doctor) has aggregate annual receipt of Rs.48 lakhs (Rs 20 lakhs through cash and rest through bank) for the year ended 31.03.2021. His presumptive income under section 44ADA is Rs.____.

Answer: Rs. 24 lakhs

Q.5 When a partnership firm pays salary to working partners of Rs.6 lakhs when the partnership deed permits payment of Rs.5,40,000. The Book profit of the firm is Rs. 6,00,000. The quantum of remuneration allowable in the hands of firm will be ____.

Answer: Rs. 4,50,000

Q.6 An agricultural land situated beyond _____ from the limits of municipality is not regarded as a capital asset, even though the population of municipality as per the last preceding census exceeds 1 lakh but less than Rs.10 lakhs.

Answer: 6 Kms

Q.7 When the assessment under section 143(3) is made on 10th December, 2020 by the National Faceless Assessment Centre (NFAC), the time limit for filing petition for rectification of mistake under section 154 would expire by _____ (date).

Answer: 31.3.2025

Q.8 When a senior resident individual incurs medical expenditure of Rs.60,000 towards cataract surgery to his mother (super senior citizen) the amount eligible for deduction under section 80-D is _____ if there is no health insurance policy coverage for her.

Answer: Rs. 50,000

Q.9 In case of a capital asset, being land or building or both, the fair market value of such asset on 1-04-2001 shall not exceed the _____ of such asset as on 1-04-2001 where such stamp duty value is available.

Answer: Stamp duty value

Q.10 Royalty of Rs.100 lakhs was paid outside India to Andrew, a non-resident for sale of his cinematographic films; if such films are to be telecasted in Indian TV channels then the said amount shall be _____ (taxable/exempt/ partially taxable) in the hands of Andrew

Answer: Taxable

Q.11 Mr. Veer, a salaried employee made own contribution to the National Pension scheme of Rs.50,000 when his basic salary and DA in the previous year is Rs.480,000. Where the employer contribution is Nil, then he is eligible for a maximum deduction of Rs. _____ under section 80CCD (1).

Answer: Rs.48,000

Q.12 Loss from speculation business is eligible for carry forward and set off for subsequent _____ assessment years

Answer: 4

Q.13 When an Indian company earns Rs.20 lakhs by way of income from transfer of carbon credits, the rate of tax applicable on such income would be _____%(ignore surcharge and cess)

Answer: 10

Q.14 Person authorized to verify the Return of Income [Section 140] for Political party is _____ of such party

Answer: The chief executive officer

Q.15 Mr. A, a resident individual has sold his vacant site to his friend Mr. B, for Rs. 60,00,000. The stamp duty valuation of the house is Rs. 62,00,000. The amount assessable as income in the hands of Mr. B is _____ as per section 56(2)(viib) of Income tax Act, 1961.

Answer: Nil

Q.16 Mr. A, a senior citizen (Resident), having total income of 8 lacs, earned by way of interest from secured debentures. The advance tax payable by him is Rs. _____

Answer: Nil

Q.17 When the actual rent is (per annum) Rs.72,000, fair rent is Rs.96,000 and standard rent is Rs.84,000 and no property tax has been paid, the chargeable income from house property is Rs. _____

Answer: Rs. 58,800

Q.18 In case of assessee who has securities partly in physical form and partly in dematerialized form, FIFO method will be applied in respect of the _____.

Answer: Dematerialized holding

Q.19 When a domestic company deriving business income pays Rs.30,000 to an approved institution engaged in scientific research it is eligible for deduction of _____% under section 35 of Income tax Act, 1961.

Answer: 100%

Q.20 When fees for cost audit paid to a resident was Rs.40,000, the amount of income-tax deductible at source on the said amount would be _____

Answer: Rs.4,000

Section : C
(4X12 = 48 Marks)
One LAQ

Q.1 M/s. Sridhar & Co, a sole proprietary concern (owned by Mr. P) is converted into a company, Sridhar Co Ltd w.e.f. November 29, 2020. The written down value of assets as on April 1, 2020 are as follows:

8 Marks

Items	Rate of Depreciation	WDV as on 1 April, 2020
Building	10%	Rs.3,50,000
Furniture	10%	Rs.50,000
Plant & machinery	15%	Rs.2,00,000

Further, on 15.10.2020, M/s. Sridhar & Co, purchased a plant for Rs.5,00,000 (rate of depreciation 15%). After conversion, the company added another plant worth Rs.2,50,000 (rate of depreciation 15%). The payments in all cases were through account payee cheques.

Compute the depreciation available to (i) Mr. P and (ii) Sridhar & Co Ltd for the A.Y.2021-22. Assume that the assessee's are not eligible for additional depreciation.

Answer:

Depreciation allowable to Mr. P :

Building = Rs. 23,205

Furniture = Rs. 3,315

Plant & Machinery = Rs. 29,934

Depreciation allowable to successor company, Sridhar & company Ltd :

Building = Rs. 11,795

Furniture = Rs. 1,685

Plant & Machinery = Rs. 56,316

Q.2 Mr. X gifts Rs. 1 Lakh to his wife Mrs. X on 1st April, 2020 which she lends to a firm at interest rate of 14% p.a. On 1st Jan 2021, Mrs. X withdraws the money and gifts it to her son's wife D. She claims that interest which has accrued to D, her daughter-in-law, from January 1, 2021 to March 31, 2021 on investment made by D is not assessable in her hands but in the hands of Mr. X. Is this correct?

What would be the position, if Mrs. X has gifted the money to minor grandson, instead of the daughter-in-law?

Answer:

Applicability of clubbing provisions

- (i) Yes, the statement of Mrs. X is correct.
Section 64(1) provides that in computing the total income of any individual, there shall be clubbed all such income as arises directly or indirectly to the son's wife, of such individual, from assets transferred directly or indirectly to the son's wife by such individual otherwise than for adequate consideration.
- (ii) There is an indirect transfer by Mr. X to the daughter-in-law & therefore, the interest income shall be clubbed with income of Mr. X.
- (iii) If Mrs. X had gifted the money to her minor grandson, then the interest income arising to the minor shall be clubbed u/s 64(1A) in the total income of that parent (son/daughter-in-law) whose total income (before including such income) is higher.

Two LAQ

Q.1 The total income of Mr. M is Rs. 10 lakhs. In this income, Rs. 50,000 was earned by way of Interest on which the payer of Interest deducted tax at source @ 10% (Rs. 5,000). He paid Advance Tax of Rs. 25,000 in different installments. TCS collected at source was Rs. 10,000.

3 Marks

Calculate the self-assessment tax to be paid under section 140A at the time of filing the Return of income.

[Note: Compute the tax as per old regime.]

Answer:

Self-assessment tax payable u/s 140A = Rs. 72,500.

Q.2

Shri. Charan, a resident, has sold some assets during the previous year 2020-21 and furnishes the following details:

5 Marks

Items	Cost of acquisition	Sale consideration	Year of acquisition
Land	Rs.20 lakhs	Rs.100 lakhs	2008-09
Jewellery	Rs.40 lakhs	Rs.180 lakhs	2002-03

Note: Cost Inflation Index FY 2002-03=105; FY: 2008-09=137; and FY 2020-21=301

In March, 2021, he purchased a residential house at Delhi for Rs.80,00,000 for self-occupation, even though he already owned one residential house (self-occupied) since 1st April, 2014. Compute capital gain including exemption, if any.

Answer:

Capital gain :

Exemption under section 54F = Rs. 34,68,335

Taxable long-term capital gain = Rs. 86,70,839

Q.3 Track the importance of furnishing the Return of Loss with special reference to the provisions of section 80 read with section 139(3).

4 Marks

Answer:

Importance of Return of income as per section 139(3)

1. ROI is required to be furnished if a person wants to carry forward his losses.

2. If any person has sustained any loss in PY & he wants to carry forward following losses:

- Normal business loss u/s 72(1);
- Speculation business loss u/s 73(2);
- Loss from specified business u/s 73A(2);
- Loss u/h "Capital Gains" u/s 74(1);
- Loss from the activity of owning & maintaining race horses u/s 74A(3); he shall mandatorily furnish a ROL within the time prescribed u/s 139(1) to carry forward loss.

3. Section 139(3) r/w sec. 80 require the assessee to file ROL in same manner as that of ROI within the time allowed u/s 139(1) & all the provisions of this Act shall apply to ROL as if it is a ROI u/s 139(1).

Note: It is not mandatory to file ROI (Except in case of Company/Firm) as there is No Income.

Q.1 Mr. Santhosh sold his residential house property at Vadodara in Dec, 2019. In June,2020, he recovered rent of Rs.25,000 from Mr. Ramesh, to whom he had let out his house for two years from May 2015 to April 2017. He could not realise two months rent of Rs.50,000 from him and to that extent his actual rent was reduced while computing income from house property for A.Y.2016-17.

Further, he had let out his property from June 2017 to Oct 2019, 2020 to Mr. Satish. In April, 2018, he had increased the rent from Rs.12,000 to Rs.15,000 per month and the same was a subject matter of dispute. In November, 2020, the matter was finally settled and Mr. Santhosh received Rs.99,000 as arrears of rent for the period June 17 to October 2019.

Would the recovery of unrealised rent and arrears of rent be taxable in the hands of Mr. Santhosh, and if so, in which year? He spent Rs.19,000 towards lawyer fees for collecting the arrears of rent.

4 Marks

Answer:

Taxability of unrealised rent recovered and arrears of rent

Since the unrealised rent was recovered in the P.Y. 2020-21, the same would be taxable in the A.Y. 2021-22 under section 25A, irrespective of the fact that Mr.Santhosh was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2020-21, and hence the same would be taxable as income from house property in the A.Y. 2021-22 under section 25A, even though Mr.Santhosh was not the owner of the house in that year. A deduction of 30% of unrealised rent recovered and arrears of rent would be allowed while computing income from house property of Mr.Santhosh for A.Y. 2021-22.

Computation of income from house property of Mr. Santhosh for A.Y. 2021-22

Particulars	Rs.
(i) Unrealised rent recovered	25,000
(ii) Arrears of rent received	99,000
	1,24,000
Less: Deduction @ 30%	37,200
Income from house property	86,800

Note: Any other charge other than standard deduction is not allowed as deduction. Lawyer fees paid is hence not deductible.

Q.2 Rahman provides following details of income:.

8 Marks

	Particulars	Amount
(i)	Salary received in India from a former employer of UK	2,30,000
(ii)	Interest on company deposit in Canada: Total amount of interest 66,000. 1/3 rd received in India and the balance were credited to his bank account held outside India.	
(iii)	Profit from a business in Mumbai controlled from Singapore	5,00,000
(iv)	Profit for the year 2018-19 from a business in Australia (income tax paid in Australia in that year itself) remitted to India	6,00,000
(v)	Income from a property in India but received in UK	80,000
(vi)	Income from a property in Malaysia but received in Delhi	3,60,000
(vii)	Income from a property in UK but received in Australia	7,60,000
(viii)	Income from a business in Nigeria but controlled from USA	96,000

Calculate the total income for the A.Y.2021-22 assuming that -

- (1) He is an ordinary resident;
- (2) He is not an ordinary resident; (3) He is a non-resident.

Answer:

Total income if the assessee is ordinary resident = Rs. 20,92,000

Total income if he is not an ordinary resident = Rs. 11,92,000

Total income if he is non-resident = Rs. 11,92,000

Q.1 What are the conditions to be satisfied for issuing notice of demand u/s 156 requiring the assessee to pay advance tax and when can it be passed by the Assessing Officer? 4 Marks

Answer:

Conditions for seeking advance tax from taxpayer by the AO

The A.O. may pass an order and issue a notice of demand u/s 156 requiring the assessee to pay advance tax.

Conditions to be satisfied for issuing such order

- The assessee has already been assessed by way of a regular assessment in any previous year.
- The Assessing Officer is of opinion that such person is liable to pay advance tax.
- Such order can be passed at any time during the financial year but not after last day of February.
- Such order must be made in writing.
- Such order also specifies the amount of advance tax and the installments thereof to be paid by the assessee.

Note: Such order can be issued even if assessee has paid any installment of advance tax during the year, which is, in the opinion of the Assessing Officer, not as per the provision of sec. 211.

Q.2 Mr. Madavan (aged 35 years), a resident individual, is a dealer of garments. During the previous year 2020-21, total turnover of his business was Rs. 135 lakhs (out of which Rs. 22.5 lakhs were received by way of account payee cheques and balance in cash). Mr. Madavan does not opt to pay tax as per the provisions of section 115BAC. What would be your advice to Mr. Madavan relating to the provisions of advance tax with its due date, along with the amount payable, assuming that he wishes to make maximum tax savings without getting his books of account audited. 5 Marks

Answer:

Computation of advance tax of Mr. Madavan under Presumptive Income scheme as per section 44AD

The total turnover of Mr. Madavan, a dealer of garments, is Rs. 135 lakhs. Since his total turnover from such business is less than Rs. 200 lakhs and he does not wish to get his books of account audited, he can opt for presumptive tax scheme under section 44AD.

Profits and gains from business under section 44AD = Rs. 10,35,000

An eligible assessee opting for computation of profits and gains of business on presumptive basis under section 44AD in respect of eligible business is required to pay advance tax of the whole amount on or before 15th March of the financial year.

Tax liability of Mr. Madavan as per normal provisions of Income-tax Act, 1961 = Rs. 1,27,920

Accordingly, he is required to pay advance tax of Rs. 1,27,920 on or before 15th March of the financial year. However, any amount by way of advance tax on or before 31st March of the financial year shall also be treated as advance tax paid during the financial year ending on that day for all the purposes of the Act.

(i) A listed equity share is acquired on 1st of March, 2017 for Rs.150, its fair marketvalue is Rs.270 on 31st March, 2018 and it is sold on 31st of August, 2020 in a recognised stock exchange for Rs. 70.

(ii) A listed equity share is acquired on 1st of May, 2018 for Rs.230, its fair marketvalue is Rs.450 on 31st of March, 2019 and it is sold on 1st of April, 2021 in a recognised stock exchange for Rs.400.

Answer:

Computation of capital gains

- (i) In this case, the actual cost of acquisition is less than the fair market value as on 31st March, 2018. The sale value is less than the fair market value as on 31st of March, 2018 and also the actual cost of acquisition. Therefore, the actual cost of Rs.150 will be taken as the cost of acquisition in this case. Hence, the loss under the head long-term capital gain will be Rs.80 (Rs.70 – Rs.150) per share in this case
- (ii) In this case, the actual cost of acquisition is less than the fair market value as on 31st of March, 2019. However, the sale value is also less than the fair market value as on 31st of March, 2019. Accordingly, the sale value of Rs. 400 will be taken as the cost of acquisition and the long-term capital gain will be NIL (Rs.400 – Rs.400).

Q.1 State the income-tax consequence of the following transactions:

3 Marks

Mr. A wrote off Rs.3 lakhs due from a customer G as bad debt in the previous year 2018-19. He died on 23rd June, 2019. His son, doing some other business, received Rs.1, 40,000 as final settlement from G in March, 2021 in the capacity of being the only legal heir of late Mr. A.

Answer:

Recovery against any deduction [section 41(1)]:

- Where an allowance or deduction is allowed in any assessment year in respect of loss, expenditure or trading liability incurred by the assessee.
- Subsequently during any previous year such assessee has obtained, whether in cash or in any other manner any amount in respect of such loss, expenditure, or any benefit in respect of such trading liability by way or remission or cessation thereof.
- **Treatment:** The amount obtained or benefit accrued shall be deemed to be the income from profits and gains of business or profession and chargeable to tax.
- The amount received by the son of late Mr. A is chargeable to tax under section 41(1) under the head "Profits and gains of business or profession".

Q.2

X Ltd grows sugarcane to manufacture sugar. Details for the previous year 2020-21 are as follows:

3 Marks

Particulars	Rs. In lakhs
Cost of cultivation of sugarcane (8,000 tonnes)	140
Sugarcane sold in market (2,000 tonnes)	40
Sugarcane used to sugar manufacturing (6,000 tonnes)	-
Cost of conversion	100
Sugar produced & sold in market	400

Compute Income of X Ltd for the Assessment Year 2021-22.

Answer:

Income from manufacturing operation = Rs. 180 lakhs

Income from agricultural operation = Rs. 20 lakhs

Q.3 State the income-tax consequence of the following transactions:

Charlie & Co is a partnership firm consisting of 4 equal partners. The firm took Keyman insurance policy and paid premium of Rs.1, 50,000 annually. Upon the death of one partner in January, 2021, the firm received Rs.50 lakhs from the insurance company in respect of keyman insurance policy.

Answer:

Keyman insurance policy:

- As per section 10(10D), any sum received under a keyman insurance policy would not be exempt from tax. In other words, it is chargeable to tax as income.
- The firm while paying premium on keyman insurance policy would have claimed the same as expenditure under section 37.
- When the amount is received from the policy, the amount so received becomes chargeable to tax as income of the firm. Therefore, the sum of Rs.50 lakhs received upon the death of one partner of the firm is chargeable to tax.

Q.4 State the income-tax consequence of the following transactions:

A charitable trust registered under section 12AA sold in August 2020 its vacant land for Rs.25 lakhs. The land was acquired in the year 1999 for Rs.5 lakhs. The entire sale proceeds were kept in 3 year fixed deposit with SBI for construction of community hall by the trust.

Answer:

Sale of capital asset by Trust [Section 11(1A)]:

- When a capital asset held by a trust is transferred and the whole of the sale consideration is utilized for acquiring another capital asset, The entire capital gain would be exempt from tax.
- In this case, the charitable trust has capital gain on sale of land. The entire sale consideration has been kept in fixed deposit which is one of the specified investments under section 11(5) of the Act. Therefore, the entire capital gain is not chargeable to tax as the sale consideration is kept in the form of approved investment.

Six LAQ
(3X4 = 12 Marks)

Q.1 Write short note on Disclosures to be made as per ICDS IV – Revenue recognition

3 Marks

Answer:

Following disclosures shall be made in respect of revenue recognition:

- a) in a transaction involving sale of goods, total amount not recognised as revenue during the previous year due to lack of reasonably certainty of its ultimate collection along with nature of uncertainty;
- b) the amount of revenue from service transactions recognised as revenue during the previous year;
- c) the method used to determine the stage of completion of service transactions in progress; and
- d) for service transactions in progress at the end of previous year:
 - i. amount of costs incurred and recognised profits (less recognised losses) up to end of previous year;
 - ii. the amount of advances received; and
 - iii. the amount of retentions.

Q.2 Write short note on Difference between unrealized rent and arrears of rent, realised in a subsequent year

3 Marks

Answer: Difference between Subsequent collection of unrealized rent and arrears of rent

Unrealized Rent	Arrears of rent
Rent which could not be realized from the tenant, if subsequently realized, gets taxed in the PY of receipt. However, deduction shall be allowed @ 30% of such unrealized rent. Taxable @ 70% of amount received	If the assessee has increased the rent payable by the tenant retrospectively & there is dispute over such increase and later on, the assessee receives the increased rent as arrears, is called arrears of rent. It is taxable in the PY of Receipt Deduction of 30% is allowed on such arrears. Taxable at 70% of amount received.

Q.3 Write short note on Explain the term “tax planning and tax evasion”

3 Marks

Answer:

Tax planning: Tax planning is a way to reduce tax liability by taking full advantages provided by the Act through various exemptions, deductions, rebates & relief. In other words, it is a way to reduce tax liability by applying script & moral of law. It is the scientific planning so as to attract minimum tax liability or postponement of tax liability for the subsequent period by availing various incentives, concessions, allowance, rebates and relief provided in the Act.

Tax evasion: Tax evasion is the illegal way to reduce tax liability by deliberately suppressing income or sale or by increasing expenses, etc., which results in reduction of total income of the assessee. Tax evasion is illegal, both in script & moral. It is the cancer of modern society and work as a clog in the development of the nation.

Q.4 Write short note on Intimation or Assessment by income tax department?

3 Marks

Answer:

Intimation and Assessment by income tax department

After submission of return of income or on non-submission of return of income by the assessee, assessment is made by the Income tax department.

The Assessing Officer can assess the income of the assessee in any of the following manner:

1. Intimation u/s 143(1);
2. Scrutiny Assessment u/s 143(3);
3. Best Judgment Assessment u/s 144;
4. Income Escaping Assessment u/s 147 for making assessment;

Q.5 Write short note on Tax audit requirement in the case of notified professions.

3 Marks

Answer:

In the case of persons carrying on notified profession, the provisions of tax audit contained in section 44AB would be attracted when the gross receipt exceeds Rs.50 lakhs in the previous year.

However, where the gross receipt does not exceed Rs.50 lakhs, the assessee must admit income @ 50% or more of the gross receipt in order to be eligible for exemption from tax audit. Thus, by default the provisions of section 44ADA would apply.

Where the assessee has gross receipt below Rs.50 lakhs and does not want to admit income of 50% or more of the gross receipts, then the books of account have to be maintained under section 44AA and have to be audited under section 44AB. In such case, the presumptive provision contained in section 44ADA would not be applicable.

Section : D Case Study Question

Q.1 Shri Varun is employed in ABC & Co at Kolkata during the previous year 2020-21. His basic salary per month is Rs. 50,000 and dearness allowance which forms part of salary for retirement benefits is 40% of basic salary. ABC & Co also provided an education allowance of Rs. 3,000 per month for the updation of knowledge by employee.

An accommodation was provided by the ABC & Co. at Kolkata for which rent is paid by the ABC & Co. The rent paid by the ABC & Co. is Rs. 10,000 per month. Along with the accommodation at Kolkata he was also provided with furniture items which was taken on hire and the hire charges was paid by ABC & Co. A television set was hired per annum for Rs. 6000 and furniture were hired for Rs. 12,000 per annum. He was provided Refrigerator and washing machine for which the original cost borne by ABC & Co. was Rs. 1,00,000

Shri. Varun was given a fixed medical allowance of Rs. 5,000 per month and fixed tiffin allowance of Rs. 2,000 per month. The telephone bill including mobile bill paid by the ABC & Co. which costed them Rs. 15,000 per month. Further a laptop costing Rs. 70,000 was provided to him to perform his job from home by ABC & Co on 1.01.2021.

The contribution in Recognised provident fund by ABC & Co was @ 15% of basic salary; along with this the contribution of Shri. Varun also contributed Rs. 7,500 per month to Recognised provident fund. Shri. Varun paid medical insurance premium by bearer cheque for Rs. 20,000. He received an interest of Rs. 24,000 from the bank account with UCO Bank for his savings account. He also paid interest on educational loan taken for his son's education in an Indian college for Rs. 1,00,000 a year.

12 Marks

Shri. Varun wants your advice in computing the following for tax planning purposes:

State taxable allowances paid by ABC & Co to Shri Varun.

Compute perquisite value of rent-free accommodation provided by ABC & Co.

Calculate the tax-free and taxable perquisites provided by the employer ABC & Co and compute the gross total income of Shri. Varun

Compute the quantum of deduction under Chapter VI-A and the total income of Shri. Varun.

You are required to make the computations and assist him.

Answer:

	Rs
Perquisite value of rent-free accommodation	1,48,000
Tax-free perquisites: Telephone bill reimbursed Laptop	Nil Nil
Taxable perquisite	1,48,000
Gross total income	11,50,000
Deduction under Chapter VI A	2,20,000
Total Income	9,30,000