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Question Paper	
Direct Tax Laws	Duration: 75
Details: Test – 2	Marks: 40

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Q-1: Mr. X has three houses, all of which are self occupied. The particulars of these are given below:

Particulars	(Value in Rs.)		
	House –I	House - II	House - II
Municipal Valuation per annum	1,20,000	1,15,000	2,00,000
Fair Rent per annum	1,50,000	1,75,000	2,50,000
Standard rent per annum	1,00,000	1,65,000	2,40,000
Date of completion	31-03-17	31-03-19	31-03-19
Municipal taxes payable during the year (paid for House II and III only)	12%	8%	10%
Interest on money borrowed for acquisition of house properties	1,80,000	80,000	75,000

Compute Nisha's income from the House Property for the Assessment Year 2022-23.

(7 Marks)

Q-2. Babu joined a company on 01-06-2021 and was paid the following emoluments and allowed perquisites as under –

Emoluments: Basic Pay Rs. 25,000 per month; DA Rs. 10,000 per month; Bonus Rs. 50,000 per month

Perquisites:

- a) Furnished accommodation owned by the employer and provided free of cost.
- b) Value of furniture therein Rs. 3, 00,000
- c) Motorcar owned by the Company (with engine cubic capacity less than 1.6 litres) along with chauffeur for official and personal use.
- d) Sweeper salary paid by Company Rs. 1,500 per month
- e) Watchman salary paid by company Rs. 1,500 per month
- f) Educational facility for 2 children provided free of cost.
- g) School is owned and maintained by company
- h) Interest free loan of Rs. 5, 00,000 given on 01-10-2021 for purchase of a house. No repayment was made during the year. (SBI Rate 12.25%)
- i) Interest free loan for purchase of computer Rs. 50,000 given on 01-01-2022. No repayment was made during the year (SBI rate 15.25%)
- j) Corporate membership of a club. The initial fee of Rs. 1,00,000 was paid by the company. Babu paid the bills for his use of club facilities.

You are required to compute the income of Babu under the Head "Salaries". Suitable assumptions may be made, wherever necessary.

(8 Marks)

Q-3: M/s. Sriram Enterprises, a proprietorship having 2 units. Unit 1 is transferred on 1-4-2021 by way of slump sale for a total consideration of Rs.14 lacs. Unit 1 was started in the year 2005-06. The expenses incurred for this transfer were Rs.38, 000. Balance Sheet as on 31-3-2021 is as under:

Liabilities	Total(Rs.)	Assets	Unit 1(Rs.)	Unit 2(Rs.)	Total (Rs.)

Own Capital	17,00,000	Building	13,00,000	3,00,000	16,00,000
Revaluation Reserve (for building of unit 1)	5,00,000	Machinery	4,00,000	2,00,000	6,00,000
Bank loan (70% for unit 1)	4,00,000	Debtors	2,00,000	1,40,000	3,40,000
Trade creditors (25% for unit 1)	3,50,000	Patents	2,50,000	1,60,000	4,10,000
Total	29,50,000	Total	21,50,000	8,00,000	29,50,000

Other information:

1. Revaluation reserve is created by revising upward the value of the building of Unit 1. The stamp duty value on 1-4-2021 is Rs.10 lakhs.
2. No individual value of any asset is considered in the transfer deed.
3. Patents were acquired on 1-7-2019 on which no depreciation has been charged.

Compute the capital gain for the assessment year 2022-23.

(8 Marks)

Q-4: Atlant Italy, a company incorporated in France, was engaged in manufacture, trade and supply equipment and service for GSM Cellular Radio Telephones Systems. It supplied hardware and software to various entities in India. Software licensed by assessee embodied the process which is required to control and manage the specific set of activities involved in the business use of its customers. Software was also made available to its customers, who used it to carry out their business activities. The Assessing officer contended that the consideration for supply

of software embedded in hardware is 'Royalty' under section 9(1)(vi). Examine the correctness of the action of the Assessing Officer.

(6 Marks)

Q-5: Mr. Raja, a resident individual died on 15-1-2021. Some reassessment proceedings in respect of his income chargeable to tax were pending on that date. Mr. Nitin is the legal heir of Late Raja. The Assessing Officer continued the reassessment proceedings without bringing the legal heir Mr. Nitin on record though Mr. Nitin informed the demise of Raja and also participated in the assessment. After the completion of assessment, Mr. Nitin contends that the order of assessment is bad in law. Decide the validity of the contentions of Mr. Nitin.

(6 Marks)

MCQ's

1. MNO Ltd., a company having registered head office in Country X, for the first time, carried out operations during the year of purchase of goods in India on three occasions. Immediately after purchase, the company exported the same to China. The total value of such exports was Rs. 85 lakhs, on which it earned profits of Rs. 15 lakhs, before the expenses of Rs. 8 lakhs, which were directly paid by H.O. The company does not carry on any other operation in India and its board meetings are held in Country X and key management and?? Commercial decisions for the conduct of the company's business as a whole are taken in such board meetings. The company wants to know its tax liability in India.

- A. Resident in India, since it has carried on the operation of purchase of goods in India
- B. Non-resident in India, since its registered head office is in Country X
- C. Non-resident in India, since key management decisions are taken in Country X
- D. Non-resident in India, due to reasons stated in (b) and (c) above.

2. Mr. M was granted an option on 1-7-2020 by the company to purchase 500 equity shares at a price of Rs 250 per share. The period during which the option can be exercised to purchase 500 shares at a pre-determined price of 250 per share commencing on 1-7-2020 and ending on 31-3-2022, Mr. M exercised the option on 15-3-2021 to purchase 500 shares. Fair market value on the said date was Rs 500 on the Bombay Stock Exchange and Rs 600 on the National Stock Exchange. The NSE has recorded the higher volume of trading in that share. The company has allotted him 500 shares on 24 April 2021. The fair market value on the date of allotment was Rs 800 per share on NSE and Rs 850 on the BSE that has recorded the higher volume of trading in that share. The taxable value of employee's stock option plan will be

- A. Rs 1,25,000/-
- B. Rs 1,75,000/-
- C. Rs 2,75,000/-
- D. Rs 3,00,000/-

3. What are the conditions to be fulfilled in order to claim deduction of unrealized rent?

- (i) The tenancy is bona fide
 - (ii) The defaulting tenant has vacated. or steps have been taken to compel him to vacate the property (iii) the defaulting tenant is not in occupation of any other property of the assessee
 - (iii) The assessee has taken all reasonable steps to Institute legal proceedings for the recovery of the unpaid rent or satisfies the Assessing Officer that legal proceedings would be useless.
- A. (i), (ii) and (iv)
 - B. (ii),(iii) and (iv)
 - C. (i), (iii) and (iv)
 - D. (i), (ii), (iii) and (iv)

4. In the case of a capital asset, being the right to subscribe to any financial asset, which is renounced in favour of any other person;—

- A.** The period of holding of the capital asset shall be reckoned from the date of the offer of such right by the company or institution, as the case may be, making such offer.
- B.** The period of holding of such capital asset shall be reckoned from the date of the allotment of such right by the company or institution, as the case may be, making such offer.
- C.** The period of such capital asset shall be reckoned from the date of the extinguishment of such right by the company or institution, as the case may be, making such offer.
- D.** The period of holding of such capital asset shall be reckoned from the date of allotment of original shares on basis of which right shares has been received by the shareholder.

5. Compute the net taxable capital gains on the basis of the following information:

A house was purchased on 01-05-2001 for Rs. 5,50,000 and was used as a residence by the owner. The owner had contracted to sell this property in June, 2021 for Rs. 10,00,000 and had received an advance of Rs. 70,000 towards sale. The intending purchaser did not proceed with the transaction and the advance was forfeited by the owner. The sum so forfeited has been included in the total income of the assessee as per the provisions of Section 56(2)(ix). The property was sold in December, 2021 for Rs. 20,00,000/-.

(Cost inflation index for F.Y. 2001-02 = 100 and 2021-22 = 317)

- A.** Rs. 14,50,000/-
- B.** Rs. 70,000/-
- C.** Rs. 2,56,500/-
- D.** Rs. 4,10,500/-

(1 × 5 = 5 Marks)