



CA Test Series.org (Since 2015)

CA Final | CA Inter | CA IPCC | CA Foundation Online Test Series

Question Paper	
Direct Tax Laws	Duration: 75
Details: Test – 3	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.

Legal: Material provided by catestseries.org is subject to copyright. No part of this publication may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods, without the prior written permission of the publisher. For permission requests, write to the publisher, addressed “Attention: Permissions Coordinator,” at **exam@catestseries.org**. If any person caught of copyright infringement, strong legal action will be taken. For more details check legal terms on the website: catestseries.org

Q-1: Hindustan Charitable Foundation was formed as a trust on 01-04-2006 .It applied for registration u/s 12AA of the Act and got the registration approved from prescribed authority from 01-14-2011. The trust got the exemption from payment of taxes satisfying the conditions laid down in Sections 11 to 13 from 01-04-2011. The trust got dissolved on 01-12-2020.

The Balance Sheet of the Trust on the date of dissolution was as under:

Liabilities	Rs.	Assets	Rs.
Corpus of the trust	8,00,000	Land and Building	20,00,000
Reserves (created out of accumulated amount of 15% each year)	4,00,000	Investment in Equity Shares – Quoted	6,00,000
Loan taken for purchase of Land and Building	17,00,000	Investment in Equity Shares - Unquoted (in X Ltd.)	4,00,000
Loan taken for purchase of unquoted shares (taken in year 2008-09)	2,00,000	Cash	50,000
		Bank Balance	50,000
Total	31,00,000	Total	31,00,000

Additional information:

- (1) FMV of Land and Building is of Rs.1,20,00,000;
- (2) 50% of the Un-Quoted shares are acquired during the year 2008-09;
- (3) Market Value of quoted shares on the date of dissolution is Rs. 30,00,000;
- (4) Land and Building is acquired out of the agricultural income;

(5) With respect to X Ltd. in which the trust invested in unquoted shares, the following additional information are available as on 01-12-2020 :

(i) 2,00,000 Equity Share with face value of 10 each;

(ii) Total Book Value of the assets (other than bullion, jewellery) is 1,00,00,000;

(iii) Market value of bullion and jewellery is 50,00,000; and

(iv) Liabilities amounting to 60,00,000.

(6) Upon dissolution, the trust distributed the assets valuing Rs.10,00,000 to another trust registered under section 12AA of the Act before 31-12-2021.

Compute the tax payable by the Hindustan Charitable Foundation for the A.Y.2022-23 under section 115TD.

(8 Marks)

Q-2: Godavari Ltd., an Indian Company engaged in manufacture and sale of electrical appliances in India and abroad, started adoption of Ind AS with effect from 1st April, 2017. The following particulars are furnished for the year ended 31st March, 2022:-

(a) The book profit after adjustment of all items specified in section 115JB(2) amounted to Rs.87.34 lakhs (except the adjustment for brought forward losses/ unabsorbed depreciation), for the year ended 31-3-2022.

(b) Brought forward losses as per books are as under: **(Rs.in lakhs)**

Financial Year	Business loss	Depreciation
2019-20	8.20	7.60

2020-21	7.30	9.50
---------	------	------

(c) The particulars of "Other Comprehensive Income" for the year ended 31.03.2022: (Rs. in lakhs)

S.No.	Other Comprehensive Income (OCI) that will not be re-classified to profit and loss:	Debit	Credit
1.	Deferred costs of hedging	3.80	
2.	Changes in fair values of equity instruments	8.00	
3.	Revaluation surplus for assets		8.20
4.	Deferred gains on cash flow hedges		6.70
5.	Re-measurement of post post-employment benefit obligations		5.20
6.	Share of other comprehensive income of other associates		2.80

S.No.	Other Comprehensive Income (OCI) that may be re-classified to profit and loss:	Debit	Credit
1.	Deferred gain on cash flow hedges		8.20
2.	Comprehensive income from discontinued operations		5.30
3.	Exchange Differences of foreign exchange operations	1.80	
4.	Deferred costs of hedging	0.80	

(d) The transition amount as on convergence date (01-04-2017) stood at Rs.48 lakhs (credit balance) including capital reserve of Rs.6 lakhs and adjustment of Rs.5 lakhs relating to translation difference in a foreign operation.

(e) The National Company Law Tribunal (NCLT), Mumbai Bench has admitted an application under section 7 of Insolvency and Bankruptcy Code, 2016 (IBC) made by financial creditor against the company for initiation of Corporate Insolvency Resolution Process on 30th March, 2022.

You are required to compute the MAT liability for the assessment year 2022-23, applying the provisions relating to Ind AS compliant companies. Assuming that the income tax under normal provisions of Income-tax Act, 1961 for the assessment year 2022-23 works out to Rs.10.20 lakhs, compute the tax credit, if any, to be carried forward by the company including the period up to which it will be available to be carried forward.

(8 Marks)

Q-3: Decide the following transactions in the context of Income- tax Act 1961:

- I. Mr. B transferred 500 shares of Reliance Industries Ltd. to M/s. B Co. (P) Ltd. on 10-10-2021 for Rs. 3,00,000/- when the market price was Rs. 5,00,000/-. The indexed cost of acquisition of shares for Mr. B was computed at Rs. 4,45,000/-. The transfer was not subjected to securities transaction tax. Determine the income chargeable to tax in hands of Mr. B and M/s. B Co (P) Ltd. because of the above said transaction.
- II. Ms. Chhaya transferred a vacant site to Ms. Dayama for Rs.4,25,000. The stamp valuation authority fixed the value of vacant site for stamp duty purpose at Rs. 6,00,000/-. The total income of Chhaya and Dayama before considering the transfer of vacant site are Rs. 50,000/- and Rs. 2,05,000/- respectively. The indexed cost of acquisition for Ms. Chhaya in respect of vacant site is Rs. 4,00,000/- (computed). Determine the total income of both Ms. Chhaya and Ms. Dayama taking into account the above said transaction.

III. Mr. Cheqian is employed in a company with taxable salary income of Rs. 5,00,000/-. He received a cash gift of Rs.1,00,000/- from Atma Charitable Trust (registered under section 12AA) in December 2020 for meeting his medical expenses. Is the cash gift so received from the trust chargeable to tax in the hands of Mr. Cheqian?

(5 Marks)

Q-4: During the previous year 2021-22, following transactions took place in respect of Mr. Raghav who is 56 years old.

(i) Mr. Raghav owns two house properties in Mumbai. The details in respect of these properties are as under-

Particulars	House – 1 Self-occupied	House - 2 Let-out
Rent received per month	Not applicable	Rs.60,000
Municipal taxes paid	Rs.7,500	Nil
Interest on loan (taken for purchase of property)	Rs.3,50,000	Rs.5,00,000
Principal repayment of loan (taken from HDFC Bank)	Rs.2,00,000	Rs.3,00,000

(ii) Mr. Raghav had a house in Delhi. During financial year 2012-13 he had transferred the house to Ms. Vamika daughter of his sister without any consideration. House would go back to Mr. Raghav after the life time of Ms. Vamika. The transfer was made with a condition that 10% of rental income from such house shall be paid to Mrs. Raghav. Rent received by Ms. Vamika during the previous year 2021-22 from such house property is Rs. 5,50,000/-

(iii) Mr. Raghav receives following income from M/s. M Pvt. Ltd. during P.Y.2021-22:

(a) Interest on Debentures of Rs. 750,000/- and

(b) Salary of Rs. 3,75,000/-. He does not possess the adequate professional qualification commensurate with the salary received by him.

Shareholding of M/s. M Pvt. Ltd. as on 31-03-2022 is as under-

	Equity shares	Preference shares
Mr. Raghav	Nil	Nil
Mrs. Raghav	2%	25%
Mr. Jai Kishan (brother of Mrs. Raghav)	98%	75%

(iv) Mr. and Mrs. Raghav forms a partnership firm with equal share in profits. Mr. Raghav transferred a fixed deposit of Rs. 1 crore to such firm. Firm had no income or expense other than the interest of Rs. 9,00,000/- received from such fixed deposit. Firm distributed the entire surplus to Mr. and Mrs. Raghav at the end of the year.

(v) Mr. Raghav holds preference shares in M/s K Pvt. Ltd. He instructed the company to pay dividends to Ms. Geetanshi, daughter of his servant. The transfer is irrevocable for the life time of Geetanshi. Dividend received by Ms. Geetanshi during the previous year 2021-22 is Rs. 13,00,000/-.

(vi) Other income of Mr. Raghav includes

(a) Interest from saving bank account of Rs. 2,00,000/-

(b) Cash gift of Rs. 75,000/- received from daughter of his sister on his birthday.

Compute the total income of Mr. Raghav for the Assessment Year 2022-23.

(8 Marks)

Q-5: XYZ Ltd. has an undertaking (Unit-X) in Special Economic Zone (SEZ) and another undertaking (Unit-Y) in Free Trade Zone (FTZ) for manufacturing of computer software. It furnishes the following particulars of its 2nd year of operations ended on 31st March, 2022

	Unit - X (Rs)	Unit - Y (Rs)
Total Sales	1,80,00,000	1,20,00,000
Export Sales (Inclusive of 10 lacs on site development of computer software outside India by Unit X)	1,20,00,000	10,00,000
Profit earned (After claim of bad debts under Section 36(1)(vii) in Unit X)	63,00,000	36,00,000

Plant and machinery used in the business has been depreciated at 15% on a straight line method (SLM) basis and depreciation of Rs 9 lacs was charged to Profit and Loss Account in the proportion of sales during the previous year. Rs 100 lacs were realized out of export sales in time and the balance of Rs 20 lacs becomes irrecoverable due to bankruptcy of one of the foreign buyers in Unit -X.

Compute the deduction under section 10AA of the Income tax Act, 1961 and taxable income of XYZ Ltd. for the assessment year 2022-23

(6 marks)

MCQ's

1. Identify the income(s) which is (are) exempt under the Income Tax Act?

- A. Dividend paid by an Indian company out of its surplus from agriculture operations
- B. Share of Profit of a Partner from a firm engaged in an agriculture operation
- C. Interest received by a money lender in the form of agricultural produce.
- D. (a) and (b) above

2. Mr. X has earned Long term capital gain on sale of equity shares listed in recognised stock exchange on which STT has been paid Rs. 7,20,000/-. Short term capital loss of Rs. 2,00,000/-. General business income of Rs. 5,00,000/- find out the gross total income.

- A. Rs. 5,00,000/-
- B. Rs. 10,20,000/-
- C. Rs. 9,20,000/-
- D. Rs. 5,20,000/-

3. Mr. Ghose has four minor children consisting 2 daughters and 2 sons. The annual income of 2 daughters was Rs. 7,500 and Rs. 5,000 and of sons were Rs. 5,500 and Rs. 1,250 respectively. The daughter who was having income of Rs. 5,000 was suffering from a disability specified u/s 80U. Work out the amount of income earned by minor children to be clubbed in the hands of Mr. Ghose.

- A. Rs. 19250/-
- B. Rs. 14,250/-
- C. Rs. 9,750/-
- D. Rs. 10,000/-

4. P is a salaried employee. On 01-06-2021, he gets a gift of house property situated in Mumbai (stamp duty value Rs. 80,00,000/-) from Q. On 02-08-2021, P gets a gift of house in Pune (Stamp Value Rs. 50,000) from R. On 03-09-2021 P also gets a gift of house property in Delhi from R. the

stamp duty value of which is Rs. 100,000. What will be the tax implications in the hands of P, Q and R.

- A. Rs. 81,00,000/- shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset.
- B. Rs. 81,50,000/- shall be chargeable to tax in the hands of P as income from other sources and capital gains shall arise in the hands of Q and R respectively on account of transfer of capital asset.
- C. Rs. 81,00,000/- shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute 'transfer'.
- D. Rs. 81,50,000/- shall be chargeable to tax in the hands of P as income from other sources and no capital gains shall arise in the hands of Q and R respectively as gift does not constitute "transfer".

5. In case of AOP whose members include a foreign company whose income is taxable @50%, and their shares are determinate, the tax shall be charged:

- A. at the rate applicable to Individuals
- B. at the maximum marginal rate i.e. 30% + surcharge @37%, if applicable + HEC @4%
- C. at the rate applicable to the foreign company i.e. 40% + surcharge @ 2% if applicable + HEC 4%
- D. on that portion or portions of income of AOP which is relatable to the share of the member which is a foreign company - at the rate applicable to the foreign company i.e. 50% + surcharge @ 2%/ 5% if applicable HEC 4% and on the balance income at the maximum marginal rate.

(1 × 5 = 5 Marks)