

- NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.  
(2) NEW QUESTION SHOULD BE ON NEW PAGE

**Division A – Multiple Choice Questions**

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions in this division are compulsory.

1. M/s. MNO is a firm liable to tax@30%. The following are the particulars furnished by the firm for A.Y.2021-22:

	Particulars of total income	Rs.
(1)	As per the return of income furnished u/s 139(1)	40,00,000
(2)	Determined under section 143(1)(a)	50,00,000
(3)	Assessed under section 143(3)	65,00,000
(4)	Reassessed under section 147	85,00,000

Mr. N, a resident individual of the age of 58 years and a partner of the above firm, has not furnished his return of income for A.Y.2021-22. However, his total income assessed in respect of such year under section 144 is Rs. 15 lakh.

- (i) M/s. MNO is deemed to have under-reported its income since:
- (1) Income determined under section 143(1)(a) exceeds income declared as per return of income furnished u/s 139(1)
  - (2) Income assessed under section 143(3) exceeds income determined under section 143(1)(a)
  - (3) Income reassessed under section 147 exceeds income assessed under section 143(3)

The correct answer is -

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

- (ii) Mr. N is deemed to have under-reported his income since:

- (1) He is a partner of a firm which has under-reported its income
- (2) He has not filed his return of income
- (3) His assessed income exceeds Rs. 2,50,000

The correct answer is -

- (a) (1) and (2) above
- (b) (1) and (3) above
- (c) (2) and (3) above
- (d) (1), (2) and (3) above

- (iii) Assuming that the underreporting of income is not on account of misreporting and none of the additions or disallowances made in assessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of assessment would be:
- (a) Rs. 3,12,000
  - (b) Rs. 1,56,000
  - (c) Rs. 4,68,000
  - (d) Rs. 2,34,000
- (iv) Assuming that the underreporting of income is on account of misreporting and all the additions or disallowances made in reassessment qualifies under section 270A(6), penalty leviable on M/s. MNO under section 270A at the time of reassessment would be:
- (a) Rs. 3,12,000
  - (b) Rs. 2,34,000
  - (c) Rs. 12,48,000
  - (d) Rs. 6,24,000
- (v) Assuming that the under-reporting of income is not on account of misreporting, the under-reported income of Mr. N and penalty leviable on Mr. N under section 270A would be:
- (a) Under-reported income Rs. 15,00,000; penalty u/s 270A Rs. 2,34,000
  - (b) Under-reported income Rs. 12,50,000; penalty u/s 270A Rs. 97,500
  - (c) Under-reported income Rs. 15,00,000; penalty u/s 270A Rs. 1,36,500
  - (d) Under-reported income Rs. 12,50,000; penalty u/s 270A Rs. 1,36,500

**(1x5 Marks=5 Marks)**

2. Secondary adjustment under section 92CE is not required to be done where a primary adjustment to the transfer price,
- (a) has been made suo motu by the assessee
  - (b) made by the Assessing Officer has been accepted by the assessee
  - (c) made by the Assessing Officer has been contested by the assessee
  - (d) is made as per the safe harbour rules
- (1 Mark)**
3. Any transfer of a capital asset, being \_\_\_\_\_, made by a non-resident to another non-resident is not treated as transfer provided that transfer is made outside India.
- (a) Bonds or Global Depository Receipts referred to in section 115AC(1)
  - (b) Rupee denominated bond of an Indian company
  - (c) Government Security carrying a periodic payment of interest
  - (d) All of the above
- (1 Mark)**
4. Mr. D derived short term capital gain on sale of one asset Rs. 1,26,000 while long term capital loss on sale of another asset Rs. 1,28,000. What shall be the net capital gain in the hands of Mr. D while computing his total income?
- (a) Short term gain of Rs. 1,26,000 and long term capital loss to be carried forward Rs. 1,28,000

- (b) Long term capital loss to be carried forward Rs. 2,000
- (c) Short term capital gain Rs. 1,28,000
- (d) None of the above

**(1 Mark)**

5. Identify the person who may not be regarded as agent of non-resident as defined under section 163 of the Act.

- (a) Employee of non-resident
- (b) Person having business connection with the non-resident
- (c) Trustee of non-resident
- (d) Relative of non-resident

**(1 Mark)**

6. Income from shipping business of a non-resident is charged to tax in the previous year itself. In such a case, prescribed percentage of the amount paid or payable on account of such carriage to the non-resident shall be deemed to be income accruing in India to the non resident and tax on such income is payable at the rates applicable to a \_\_\_\_\_ .

- (a) Foreign company
- (b) Domestic company
- (c) Partnership firm
- (d) Limited Liability Partnership

**(1 Mark)**

7. Out of the followings, which is not a condition enumerated under section 40(b) of the Income tax Act?

- (a) Remuneration to a working partner or interest to any partner is in accordance with the terms of the partnership deed
- (b) Remuneration to a working partner or interest to any partner shall not pertain to a period prior to the date of earlier partnership deed where such remuneration or interest was not authorized
- (c) Remuneration to a working partner or interest to any partner shall not exceed permissible limit.
- (d) None of the above

**(2 Marks)**

8. Work out from the following particulars, the amount of capital gain which shall be deemed to have been applied for charitable or religious purpose arising out of sale of a capital asset utilized for the purposes of trust.

Particulars	Rs.
Cost of transferred asset	2,40,000
Sale consideration	3,80,000
Cost of new asset purchased	3,00,000
Expenses in connection with transfer	20,000

(a) Rs. 2,40,000

(b) Rs.3,00,000

(c) Rs. 60,000

(d) Rs.3,60,000

**(2 Marks)**

9. Mr. X filed return of income for assessment year 2019-20 claiming a refund of Rs.50,000. The said refund was granted and paid to the assessee on March 1, 2020 after processing the return under section 143(1). Later on, the case was taken up for regular assessment by issue of notice under section 143(2) and the said assessment was completed on August 17, 2020 resulting in demand of Rs.2,500. Is the assessee liable to interest on the amount of refund already granted to him and if so, what is the amount of such interest?

(a) Yes, u/s. 234 D, Rs. 3000

(b) Yes, 234 D, Rs. 1350

(c) Yes, u/s. 234D, Rs.1500

(d) Assessee not liable to any such interest

**(2 Marks)**

10. As per the powers conferred under second proviso to section 132(1) of the Act, where, it is not possible or practicable to take physical possession of any valuable article or thing and remove it to a safe place due to its volume weight or other physical characteristics or due to its being of a dangerous nature, the Authorised Officer may serve an order on the owner or the person who is in immediate possession thereof that he shall not remove, part with or otherwise deal with it except with the previous permission of such Authorised Officer and such action of the Authorised Officer shall be \_\_\_\_\_ of such valuable article or thing.

(a) deemed to be seizure

(b) seizure

(c) confiscation

(d) All of the above

**(2 Marks)**

11. As per section 221 of the Act, when an assessee is in default or is deemed to be in default in making a payment of tax, he shall, in addition to the amount of the arrears and the amount of interest payable Section 220(2), be liable, by way of penalty, to pay such amount as the Assessing Officer may direct, and in the case of a continuing default, such further amount or amounts as the Assessing Officer may, from time to time, direct, so however, that the total amount of penalty does not exceed

(a) The amount of tax in arrears

(b) 50% of tax in arrears

(c) 150% of tax in arrears

(d) 200% of tax in arrears

**(2 Marks)**

12. As per section 164A of the Act, if a statement containing purpose, particulars and details of trust, beneficiaries & property is forwarded, within 3 months from the date of declaration of the trust to the Assessing Officer and if such statement indicates the share of beneficiaries, then such trust shall be assessable

(a) At maximum marginal rate

(b) At the rates applicable to each beneficiary

(c) At the rates applicable to an AOP

(d) At special rate at the discretion of assessing officer

**(2 Marks)**

**13.** Mr. Madhukant is an employee of M/s. PQR Ltd. He had taken property on rent from Mr. Suresh, resident, for his residential purpose for the monthly rent of Rs. 70,000 w.e.f. 1st February, 2020. He claims that he is not required to deduct tax at source since (i) he is not an assessee covered by tax audit under section 44AB(a)/(b) (ii) rent for the financial year 2019-20 does not exceed Rs. 1,80,000 (limit prescribed under section 194-I). Advise him with suitably.

- (a) Mr. Madhukant shall not deduct TDS
- (b) Mr. Madhukant shall not deduct TDS under section 194-I but shall deduct TDS under section 194 IA @10%
- (c) Mr. Madhukant shall not deduct TDS under section 194-I but shall deduct TDS under section 194 IB @10%
- (d) Mr. Madhukant shall not deduct TDS under section 194-I but shall deduct TDS under section 194 IB @5%

**(2 Marks)**

**14.** The assessing officer has made an addition of Rs. 50 lakh due to application of arm's length price in the hands of Jamuna Cleaning Services Ltd. (JCSL) Against such addition, -

- (a) Appeal can be filed to High Court
- (b) Deduction cannot be claimed under chapter VI A in respect of such enhanced income
- (c) Set-off cannot be claimed even if JCSL has brought forward business losses
- (d) Rectification application can be filed under section 154 alleging that the interpretation done by the Assessing officer is debatable point of law.

**(2 Marks)**

**15.** Interest of Rs. 80,000 on debenture is paid by Y Ltd. on January 10, 2020 to the account of resident payee. Tax is deducted on the same day. Tax is deposited on August 10, 2020. Due date of filing return for Y Ltd. is September 30, 2020. Tax consequence of such transaction while computing income under the head "PGBP" is:

- (a) Interest expense of Rs. 80,000 shall be disallowed for the previous year 2019-20 and same shall be allowed as deduction in the previous year 2020-21
- (b) Interest expense of Rs. 24,000 shall be disallowed for the previous year 2019-20 and same shall be allowed as deduction in the previous year 2020-21
- (c) Interest expense of Rs. 80,000 shall be disallowed for the previous year 2020-21 and same shall be allowed as deduction in the previous year 2021-22

- (d) Interest expense of Rs. 80,000 shall be allowed for the previous year 2019-20.

**(2 Marks)**

16. Mr. X is liable for clubbing of income in respect of his three minor sons namely X1, X2, and X3. Incomes of X1, X2 and X3 for the particular previous year were Rs. 1200, Rs.1500/- and Rs.1800 respectively. Find out the net income to be clubbed in the Hands of Mr. X after claiming exemption u/s. 10(32).

- (a) Rs. Nil (b) Rs. 300  
(c) Rs. 1500 (d) None of the above

**(2 Marks)**

### Division B – Descriptive Questions

#### Question No. 1 is compulsory

Attempt any four questions from the remaining five questions

#### QUESTION : 1

PQR Ltd. is engaged in manufacturing of goods. It provides following information for the P.Y. 2020 – 21.

#### Profit & Loss

Particulars	Rs.	Particulars	Rs.
Cost of Goods sold	7,02,52,000	Sales	7,36,19,350
Entertainment Expenses	19,500	Interest on Fixed Deposits	1,54,900
Travelling expenses	31,500	Profit on buy back of shares of	1,00,000
Salary & Wages	1,75,000	closely held Indian company	
Salary to Directors	4,50,000	Deferred Tax	25,000
Professional fees	29,000	Share from AOP (where AOP	41,100
Depreciation	5,17,000	had paid tax at Maximum	
Provision for Bad and doubtful	16,000	Rate)	
Debts			
Penalty under Income Tax Act	10,000		
Interest for late filing of return	2,000		
Wealth – Tax (P.Y. 2014 – 15)	15,000		
Outstanding custom duty	21,000		
Provision for unascertained	75,000		
liabilities			
Loss of subsidiary company	39,000		
Provision for Income – tax	2,25,000		
Proposed Dividend	64,350		
<b>Net Profit</b>	<b>19,99,000</b>		
	<b>7,39,40,350</b>		<b>7,39,40,350</b>

#### Additional Information :

- (1) Depreciation of Rs. 5,17,000 includes depreciation of Rs. 17,000 on account of upward revaluation of fixed asset.

- (2) Brought forward loss and unabsorbed depreciation as per books of accounts is Rs. 2,10,000 and Rs. 6,000 respectively.
- (3) Depreciation allowable under section 32 of income tax Act was Rs. 5,36,000.
- (4) Brought forward business loss for tax purpose Rs. 13,52,000.
- (5) Brought forward unabsorbed depreciation for tax purpose Rs. 13,000.
- (6) Company is eligible for deduction under section 80 – IC @ 30%.
- (7) Total turnover of the company for the previous year 2018 – 19 was Rs. 6.05 Cr.

Compute tax liability.

**(14 MARKS)**

**QUESTION : 2(A)**

During previous year, a public charitable trust registered under section 12AA of I.T. Act derived gross income of Rs. 26 lakhs, which consists of the following :

No.	Particulars	Amt. (Rs.)
1.	Income from properties held under trust	9,00,000
2.	Voluntary contributions from public	8,00,000
3.	Corpus donations	4,00,000
4.	LTCG on buy back of unlisted shares	3,00,000
5.	Income from agriculture operations	2,00,000

During the previous year under consideration, the trust had spent Rs. 11,60,000 towards charitable purposes. Further, trust has purchased small office on the beginning of the previous year for Rs. 5,00,000. (Rate of depreciation is 10%). Determine the taxable income of the trust.

**(8 MARKS)**

**QUESTION : 2(B)**

Discuss whether tax has to be deducted at source under the provisions of the Income – tax Act, 1961 in the following situations, which have taken place during the previous year.

- (i) M/s. Jiva & Co., a partnership firm, pays a sum of Rs. 43,000 as interest on loan borrowed from an State Bank of India.
- (ii) Above firm has paid Rs. 12,000 as interest on capital to partner Mr. A, a resident in India, and Rs. 24,000 as interest on capital to partner Mr. B a non – resident.
- (iii) The above firm paid Rs. 50,000 being share of profit of partner Mr. B, a non – resident.

**(6 MARKS)**

**QUESTION : 3(A)**

From the following information of Ding Dong LLP, compute tax liability.

No.	Particulars	Rs.
1.	Income from business A under head PGBP (Eligible for 100% deduction u/s 80IC)	22,20,300
2.	Loss from business B (Set up on 10 <sup>th</sup> April of previous year) under head PGBP (After claiming deduction of Rs. 50 lac for building under section 35AD)	(18,18,000)
3.	Income from business C under the head PGBP	12,15,000
4.	Loss under the head "Income from other sources"	(10,000)
5.	Contribution to Prime Minister National Relief Fund by cheque	10,000

**(8 MARKS)**

**QUESTION : 3(B)**

MNO Ltd. and Roxy Inc. of U.S.A are associated enterprises. MNO Ltd. imports 3,000 motors bikes from Roxy Inc. at Rs. 50,000 per bike. These are sold in India at Rs. 55,000 per bike. Also, MNO Ltd. imported exactly similar motor bikes from Hold Inc. of Japan (unrelated party) and sold outside at a Gross Profit of 20% on Sales.

Roxy Ltd. offered a quantity discount of Rs. 1,500 per motor vehicle. Hold Inc., however, offered only Rs. 500 per bike as quantity discount. The freight and insurance from Roxy USA cost MNO Ltd. Rs. 1,500 per bike whereas in respect of purchase from Hold Inc. MNO Ltd. had to pay Rs. 500 as freight charges and there was no insurance cost to the assessee.

Determine the Arm's Length Price and the amount of increase in Total Income of Rani Ltd.

**(6 MARKS)**

**QUESTION : 4(A)**

Mr. Gopal is a retail trader and his total income for the last few years ranged between Rs. 2 lakh to Rs. 2.5 lakh. He decided to become developer of the land under Joint Development Agreement with the Land Holder. He incurred Rs. 30 Lakh inauguration expenses for such project during the P.Y. **2020 – 21** and same were not accounted for. The Assessing Officer, in the course of scrutiny assessment of Mr. Gopal, asked him to explain the source of such expenditure. The explanation offered by Mr. Gopal that the same was out of his savings for the last few years, was not found satisfactory by the Assessing Officer, looking to his past total income. You are required to examine the impact of above transaction while computing the assessed income of Mr. Gopal.

**(4 MARKS)**

**QUESTION : 4(B)**

Mr. Krishna owned vast area of agricultural land in Tamil Nadu. The State Government acquired the property for development of a techno park. Mr. Krishna was awarded compensation of Rs. 15 lakhs. Aggrieved by the amount, he initiated negotiations with the Collector, further to which compensation was fixed at Rs. 35 lakhs. Mr. Krishna claimed exemption from capital gains under section 10 (37) since the transfer of agricultural land was on account of compulsory acquisition. The Assessing Officer denied exemption on the ground that it was not a compulsory acquisition but a voluntary sale, since he had received higher compensation consequent to negotiation with the Collector. Examine the validity of denial of exemption by the Assesseing officer in the eyes of law.

**(4 MARKS)**



**QUESTION : 4(C)**

Mr. Rackson, a non – resident foreign citizen, remits US \$ 85,000 to India on November 28,2004. The amount is partly utilized on December 02, 2004 for purchasing 82,000 shares in Tech – Ex Pvt. Ltd., an Indian company, at the rate of Rs. 42 per share. These shares are sold for Rs. 79 per share on July 25, 2020. Brokerage expenses Rs. 0.90 per share which was paid on July 30, 2020. He re – invested Rs. 32,02,100 in the shares of ABC Educare Private Ltd. an Indian Company on August 18, 2020.

Find out the capital gains chargeable to tax on the assumption that telegraphic transfer, buying and selling rates of US dollars adopted by the State Bank of Indian are as follows :

Particulars	Buying (1 US \$) Rs.	Selling (1 US \$) Rs.
November 28, 2004	47.15	47.25
December 02, 2004	46.95	47.05
July 25, 2020	73.65	75.15
July 30, 2020	74.05	74.95

**(6 MARKS)****QUESTION : 5(A)**

Arjun Ltd. commenced the chain of medical stores on 1.4.2020. it employed 200 employees during the P.Y. 2020 – 21, the details of whom are as follows :

No.	No. of employee	Date of Employment	Whether they participate in RPF :	Total monthly emoluments per employee (Rs.)
(i)	25	1.4.2020	Yes	20,000
(ii)	75	1.5.2020	Yes	30,000
(iii)	50	1.8.2020	No	17,000
(iv)	50	1.9.2020	Yes	22,000

Compute the deduction available to Arjun Ltd. under section 80JJAA for **A.Y. 2021 – 22**, assuming that its total turnover is 20.21 crores and all the salary payments were made by an account payee cheques.

All the 50 employees joined on 1.9.2020 continue to be employed for the financial year **2021 – 22**.

**(6 MARKS)****QUESTION : 5(B)**

ABC Ltd. has approached the Supreme Court under a special leave petition. There has been a delay of 439 days in filing the appeal u/s 260A for which reasons ABC Ltd. requested for a condonation of delay under section 14 of Limitation Act, 1963. The company submitted that the delay was on account of pursuing an alternate remedy of filing a miscellaneous application before the income – tax Appellate Tribunal (ITAT) u/s 254(2).

From the above facts, examine whether delay in filing appeal under section 260A can be condoned under section 14 of Limitation Act, 1963 where the stated reason for delay is the pursuance of an alternate remedy by way of filing an application before the ITAT under section 254(2) for rectification of mistake apparent on record.

**(4 MARKS)**

**QUESTION : 5(C)**

The assessment for assessment year 2020 – 21 was completed by the Assessing Officer on 15.5.2021 in which he made an addition of Rs. 1,00,000 on account of under reported income. Penalty preceding were initiated under section 270A on the same date. Determine the limit for imposing the penalty if :

- (a) No appeal is filed by the assessee;
- (b) The assessee file an appeal and the appellate order was passed on 24.3.2022 which was received by the Commissioner on 3.4.2022.

**(4 MARKS)**

**QUESTION : 6(A)**

X & Co. Ltd. had made an application to the Settlement Commission. The issue in the said application related to cash credits in the books of account. The Commission passed an order making addition to the income on the basis of difference in gross profit rate adopted, which was neither an issue in the application nor in the report of the Commissioner of Income – tax. Discuss the validity of the order of the Settlement Commission.

**(4 MARKS)**

**QUESTION 6(B)**

A foreign company entered into contracts with several Indian companies for installation of mobile telephone system and made an application to the Authority for Advance Rulings for advance ruling on the rate of withholding tax on receipts from Indian companies. One of the Indian companies had also made an application to the Assessing Officer under section 195(2) of the Act, for determination of the rate at which tax is deductible on payment to the said foreign company. The Authority for Advance Rulings rejected the application of the foreign company on the ground that the question raised in the application is already pending before an income tax authority. Is the rejection of the application of the foreign company justified in law ?

**(4 MARKS)**

**QUESTION : 6(C)**

For the A.Y. 2021 – 22, the return filed by Mr. P.T. Patel was subject to scrutiny. The assessing officer passed the order under section 143(3) on 31.3.2023 and determined total income at Rs. 10,80,000. The order was served to Mr. P.T. Patel 03.04.2023 without notice of demand under section 156. Later on, authorized representative of Mr. P.T. Patel approached the assessing officer of notice of demand. The assessing officer prepared demand notice dated 07.04.2023 and handed over the same to the authorized representative on 08.04.2023. Discuss the validity of order.

**(4 MARKS)**

**QUESTION : 6(D)**

Cosmos Limited, a company incorporated in Mauritius, has a branch office in Hyderabad opened in April, 2019. The Indian branch has filed return of income for assessment year 2021 – 22 disclosing income of Rs. 50 lacs. It paid tax at the rate applicable to domestic company i.e. 30% plus education cess on the basis of paragraph 2 or Article 24 (Non – Discrimination) of the Double Taxation Avoidance Agreement between India and Mauritius, which reads as follows :

“The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances.”

However, the Assessing Officer computed tax on the Indian branch at the rate applicable to a foreign company i.e. 40% plus education cess.

Is the action of the Assessing Officer in accordance with law ?

**(2 MARKS)**