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**SUGGESTED SOLUTION**

**Inter May 2019 EXAM**

**SUBJECT- Taxation**

**Test Code – PIN 5051**

**BRANCH - () (Date :)**

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**Answer 1:**

**(1 mark x 18 = 18 marks)**

- 1) B
- 2) A
- 3) A
- 4) C
- 5) C
- 6) B
- 7) B
- 8) B
- 9) A
- 10) D
- 11) B
- 12) H
- 13) B
- 14) B
- 15) D
- 16) D
- 17) A
- 18) C

**Answer 2:**

**Computation of total income and tax liability of Ms. Purvi for the A.Y. 2019-20**

Particulars	Rs.	Rs.
Income from house property (See Working Note 1)		57,820
Profit and gains of business or profession (See Working Note 2)		9,20,200
Income from other sources (See Working Note 3)		15,800
<b>Gross Total Income</b>		<b>9,93,820</b>
<i>Less:</i> Deductions under Chapter VI-A (See Working Note 4)		10,000
<b>Total Income</b>		<b>9,83,820</b>
<b>Tax on total income</b>		
Upto Rs. 2,50,000	Nil	
Rs. 2,50,001 – Rs. 5,00,000 @5%	12,500	
Rs. 5,00,001 - Rs. 9,83,820 @20%	96,764	1,09,264
<i>Add:</i> Health and Education cess @ 4%		4,371
<b>Total tax liability</b>		<b>1,13,635</b>
<b>Tax Payable</b>		<b>1,13,640</b>

**(3 marks)**

**Working Notes:**

**(1) Income from House Property**

Particulars	Rs.	Rs.
Gross Annual Value under section 23(1)	85,600	
<i>Less:</i> Municipal taxes paid	3,000	
Net Annual Value (NAV)	82,600	
<i>Less:</i> Deduction under section 24 @ 30% of NAV	24,780	57,820

**Note** - Rent received has been taken as the Gross Annual Value in the absence of other information relating to Municipal Value, Fair Rent and Standard Rent. (2 mark)

**(2) Income under the head “Profits & Gains of Business or Profession”**

Particulars	Rs.	Rs.
Net profit as per Income and Expenditure account		9,28,224
<i>Add:</i> Expenses debited but not allowable		
(i) Salary paid to computer specialist in cash disallowed under section 40A(3), since such cash payment exceeds Rs. 10,000	30,000	
(ii) Amount paid for purchase of car is not allowable under section 37(1) since it is a capital expenditure	80,000	
(ii) Municipal Taxes paid in respect of residential flat let out	3,000	1,13,000
		10,41,224
<i>Add:</i> Value of benefit received from clients during the course of profession [taxable as business income under section 28(iv)]		10,500
		10,51,724
<i>Less:</i> Income credited but not taxable under this head:		
(i) Dividend on shares of Indian companies	10,524	
(ii) Income from UTI	7,600	
(iii) Honorarium for valuation of answer papers	15,800	
(iv) Rent received from letting out of residential flat	85,600	1,19,524
		9,32,200
<i>Less:</i> Depreciation on motor car @15% <b>(See Note (i) below)</b>		12,000
		<b>9,20,200</b>

(2 marks)

**Notes :**

- (i) It has been assumed that the motor car was put to use for more than 180 days during the previous year and hence, full depreciation @ 15% has been provided for under section 32(1)(ii).

Note: Alternatively, the question can be solved by assuming that motor car has been put to use for less than 180 days and accordingly, only 50% of depreciation would be allowable as per the second proviso below section 32(1)(ii).

- (ii) Incentive to articled assistants for passing IPCC examination in their first attempt is deductible under section 37(1).
- (iii) Repairs and maintenance paid in advance for the period 1.4.2019 to 30.9.2019 i.e. for 6 months amounting to Rs. 1,000 is allowable since Ms. Purvi is following the cash system of accounting.
- (iv) 32,000 expended on foreign tour is allowable as deduction assuming that it was incurred in connection with her professional work. Since it has already been debited to income and expenditure account, no further adjustment is required. (2 marks)

**(3) Income from other sources****(1 mark)**

Particulars	Rs.	Rs.
Dividend on shares of Indian companies	10,524	
<i>Less: Exempt under section 10(34)</i>	10,524	Nil
Income from UTI	7,600	
<i>Less: Exempt under section 10(35)</i>	7,600	Nil
Honorarium for valuation of answer papers		15,800
		<b>15,800</b>

**(4) Deduction under Chapter VI-A :**

Particulars	Rs.
Deduction under section 80C (Investment in NSC)	10,000
Deduction under section 80D (See Notes (i) & (ii) below)	Nil
<b>Total deduction under Chapter VI-A</b>	<b>10,000</b>

**Notes:**

- (i) Premium paid to insure the health of brother is not eligible for deduction under section 80D, even though he is a dependent, since brother is not included in the definition of "family" under section 80D.
- (ii) Premium paid to insure the health of major son is not eligible for deduction, even though he is a dependent, since payment is made in cash. **(2 marks)**

**Answer 3:****(A)****Computation of Gross Salary of Mr. B for the A.Y.2019-20**

Particulars	Rs.	Rs.
Basic Salary [ Rs. 10,000 × 12]		1,20,000
Dearness Allowance [Rs. 8,000 × 12]		96,000
Commission on turnover [0.1% × Rs. 50,00,000]		5,000
Bonus		40,000
Gratuity [ <b>Note 1</b> ]		25,000
Employee's contribution to RPF [ <b>Note 2</b> ]		-
Employers contribution to RPF [20% of Rs. 1,20,000]	24,000	
<i>Less: Exempt [<b>Note 3</b>]</i>	20,760	3,240
Interest accrued in the RPF @ 13% p.a.	13,000	
<i>Less: Exempt @ 9.5% p.a.</i>	9,500	3,500
<b>Gross Salary</b>		<b>2,92,740</b>

**(5 marks)****Note 1:** Gratuity received during service is fully taxable.**(1 mark)**

**Note 2:** Employee's contribution to RPF is not taxable. It is eligible for deduction under section 80C. **(1 mark)**

**Note 3:** Employers contribution in the RPF is exempt up to 12% of the salary.

i.e., 12% of [Basic Salary + Dearness Allowance forming part of retirement benefits + Commission based on turnover] = 12% of [Rs. 1,20,000 + (50% × Rs. 96,000) + Rs. 5,000] = 12% of Rs. 1,73,000 = Rs. 20,760. **(1 mark)**

**(B)**

Tax is to be collected at source@1% on sale consideration of a motor vehicle exceeding Rs. 10 lakhs. It is applicable to each sale and not to aggregate value of sale made during the year. **(2 marks)**

**Answer 4:**

**(A)**

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

**(6 marks)**

Particulars	Rs.	Rs.
<b>Salaries</b>		
Income from Salary	3,00,000	
<b>Less:</b> Loss from house property set-off against salary income as per section 71(1) & 71(3A)	2,00,000	1,00,000
<b>Profits and gains of business or profession</b>		
Income from trading business	45,000	
<b>Less:</b> Brought forward loss from trading business of A.Y. 2014-15 can be set off against current year income from trading business as per section 72(1), since the eight year time limit as specified under section 72(3), within which set-off is permitted, has not expired.	5,000	40,000
<b>Income from speculative business B</b>	5,000	
<b>Less:</b> Loss from speculative business A set-off as per section 73(1)	25,000	
Loss from speculative business A to be carried forward to A.Y.2020-21 as per section 73(2)	20,000	
<b>Loss from specified business covered under section 35AD</b> to be carried forward for set-off against income from specified business as per section 73A.	20,000	
<b>Capital Gains</b>		
Long term capital gain on sale of urban land	2,00,000	
<b>Less:</b> Long term capital loss on sale of shares (STT not paid) set-off as per section 74(1)]	75,000	
<b>Less:</b> Long-term capital loss on sale of listed shares on which STT is paid can also be set-off as per section 74(1), since long-term capital arising on sale of such shares is taxable under section 112A	1,02,000	23,000
<b>Total Income</b>		<b>1,63,000</b>

(B)

A return of loss is a return which shows certain losses. Section 80 provides that the losses specified therein cannot be carried forward, unless such losses are determined in pursuance of return filed under the provisions of section 139(3).

Section 139(3) states that to carry forward the losses specified therein, the return should be filed within the time specified in section 139(1).

Following losses are covered by section 139(3):

- business loss to be carried forward under section 72(1),
- speculation business loss to be carried forward under section 73(2),
- loss from specified business to be carried forward under section 73A(2).
- loss under the head "Capital Gains" to be carried forward under section 74(1); and
- loss incurred in the activity of owning and maintaining race horses to be carried forward under section 74A(3)

However, loss from house property to be carried forward under section 71B and unabsorbed depreciation can be carried forward even if return of loss has not been filed as required under section 139(3). **(4 marks)**

**Answer 5:**

(A)

Mr. A is eligible for deduction under section 80JJAA since he is subject to tax audit under section 44AB for A.Y.2019-20, as his total turnover from business **exceeds Rs. 1 crore** and he has employed "additional employees" during the P.Y.2018-19.

**I If Mr. A is engaged in the business of manufacture of computers**

Additional employee cost = Rs. 24,000 × 12 × 75 [See Working Note below]

= Rs. 2,16,00,000

Deduction under section 80JJAA = 30% of Rs. 2,16,00,000 = Rs. 64,80,000.

**(1 mark)**

**Working Note:**

**Number of additional employees**

**(2 marks)**

Particulars	No. of workmen	
Total number of employees employed during the year		350
Less: Casual employees employed on 1.8.2018 who do not participate in recognized provident fund	50	
Regular employees employed on 1.5.2018, since their total monthly emoluments exceed Rs. 25,000	125	
Regular employees employed on 1.9.2018 since they have been employed for less than 240 days in the P.Y.2018-19.	100	275
Number of "additional employees"		75

**Notes –**

- (i) Since casual employees do not participate in recognized provident fund, they do not qualify as additional employees. Further, 125 regular employees employed on 1.5.2018 also do not qualify as additional employees since their monthly emoluments exceed Rs. 25,000. Also, 100 regular employees employed on 1.9.2018 do not qualify as additional employees for the P.Y.2018-19, since they are employed for less than 240 days in that year. **(1 mark)**

Therefore, only 75 employees employed on 1.4.2018 qualify as additional employees, and the total emoluments paid or payable to them during the P.Y.2018-19 is deemed to be the additional employee cost.

- (ii) As regards 100 regular employees employed on 1.9.2018, they would be treated as additional employees for previous year 2019-20, if they continue to be employees in that year for a minimum period of 240 days. Accordingly, 30% of additional employee cost in respect of such employees would be allowable as deduction under section 80JJAA in the hands of Mr. A for the A.Y. 2020-21. **(1 mark)**

**II If Mr. A is engaged in the business of manufacture of footwear**

If Mr. A is engaged in the business of manufacture of footwear, then, he would be entitled to deduction under section 80JJAA in respect of employee cost of regular employees employed on 1.9.2018, since they have been employed for more than 150 days in the previous year 2018-19.

Additional employee cost = Rs. 2,16,00,000 + Rs. 24,000 × 7 × 100 = Rs. 3,84,00,000

Deduction under section 80JJAA = 30% of Rs. 3,84,00,000 = Rs. 1,15,20,000 **(1 mark)**

**(B)**

1. **True:** Section 36(1)(xv) allows a deduction of the amount of securities transaction tax paid by the assessee in respect of taxable securities transactions entered into in the course of business during the previous year as deduction from the business income of a dealer in shares and securities.
2. **True:** As per section 40A(3A), in the case of an assessee following mercantile system of accounting, if an expenditure has been allowed as deduction in any previous year on due basis, and payment exceeding Rs. 10,000 has been made in the subsequent year otherwise than by an account payee cheque or an account payee bank draft or use of ECS through a bank account, then the payment so made shall be deemed to be the income of the subsequent year in which such payment has been made.
3. **False:** Expenditure incurred in making payment to the employee in connection with his voluntary retirement either in the year of retirement or in any subsequent year, will be entitled to deduction in 5 equal annual installments beginning from the year in which each payment is made to the employee.
4. **True:** Section 36(1)(ib) provides deduction in respect of premium paid by an employer to keep in force an insurance on the health of his employees under a scheme framed in this behalf by GIC or any other insurer. The medical insurance premium can be paid by any mode other than cash, to be eligible for deduction under section 36(1)(ib).

**(1 mark x 4 = 4 marks)**

**Answer 6:**

**(A)**

- (i) **Compensation towards loss of stock:** Any compensation received from the insurance company towards loss/damage to stock in trade is to be construed as a trading receipt. Hence, Rs. 4,80,000 received as insurance claim for loss of stock has to be assessed under the head "Profit and gains of business or profession".

**Note** - The assessee can claim the value of stock destroyed by fire as revenue loss, eligible for deduction while computing income under the head "Profits and gains of business or profession".

- (ii) **Compensation towards damage to machinery:** The question does not mention whether the salvaged machinery is taken over by the Insurance company or whether there was any replacement of machinery during the year. Assuming that the salvaged machinery is taken over by the Insurance company, and there was no fresh addition of machinery during the year, the block of machinery will cease to exist. Therefore, Rs. 4,80,000 being the excess **Note** – If new machinery

is purchased in the next year, it will constitute the new block of machinery, on which depreciation can be claimed for that year.

- (iii) Compensation towards loss of gold chain and diamond ring:** Gold chain and diamond ring are capital assets as envisaged by section 2(14). They are not “personal effects”, which alone are to be excluded. If any profit or gain arises in a previous year owing to receipt of insurance claim, the same shall be chargeable to tax as capital gains. The capital gains has to be computed by reducing the indexed cost of acquisition of jewellery from the insurance compensation of Rs. 1,80,000. of written down value (i.e. Rs. 10,80,000) over the insurance compensation (i.e. Rs. 6,00,000) will be assessable as a short-term capital loss. **(2 marks x 3 = 6 marks)**

**(B)**

Since the unrealised rent was recovered in the P.Y. 2018-19, the same would be taxable in the A.Y. 2019-20 under section 25A, irrespective of the fact that Mr. Anand was not the owner of the house in that year. Further, the arrears of rent was also received in the P.Y. 2018-19, and hence the same would be taxable in the A.Y. 2019-20 under section 25A, even though Mr. Anand 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. Anand for A.Y. 2019-20. **(2 marks)**

**Computation of income from house property of Mr. Anand for A.Y. 2019-20**

Particulars	Rs.
(i) Unrealised rent recovered	10,000
(ii) Arrears of rent received	69,000
	79,000
Less: Deduction@30%	23,700
<b>Income from house property</b>	<b>55,300</b>

**(2 marks)**



**PART B – Indirect Tax**

**Answer 7:**

**(1 mark x 12 = 12 marks)**

- (1) A
- (2) D
- (3) A
- (4) C
- (5) D
- (6) C
- (7) D
- (8) C
- (9) B
- (10) C
- (11) A
- (12) C

**Answer 8:**

**(A)**

**Determination of ITC of Fun Pharma Private Ltd. for the Month of September**

Particulars	Rs.	Reasoning
Purchase of Cabs used for transportation of Employees	Nil	ITC on motor vehicles has been specifically disallowed under section 17 (5)(a). However ITC on motor vehicles used for transportation of goods is (Vehicles used for transportation of Employees not allowed)
Inputs received in Lots	Nil	When inputs are received in instalments, ITC can be availed only on receipt of last instalment
Capital Goods (Fully Capitalized)	2,25,000	a) Input tax paid on capital goods cannot be availed as ITC, if depreciation has been claimed on such tax component. In the given case, it is assumed that Depreciation is not claimed on Tax Component. b) ITC cannot be taken on missing invoice. Registered person should have the invoice in its possession to claim ITC. Hence GST paid of Rs. 25,000 on missing invoice is not allowed.
Outdoor Catering (Food to Employees)	Nil	ITC on food or beverages is specifically disallowed unless the same is used for making outward taxable supply of the same category or as an element of the taxable composite or mixed supply – Section 17(5)(b) (i)] The fact that it is availed on Women’s day does not alter the provision.
<b>Input Credit for September</b>	<b>2,25,000</b>	

**(4 Marks)**

**(B)**

Sl. No.	Effective Date of Registration	Remarks
(i)	25 <sup>th</sup> August 2017	The registration shall be effective from the date on which the person becomes liable to registration, when the application for registration has been submitted within 30 days such date.
(ii)	5 <sup>th</sup> October 2017	Where an application for registration has been submitted by the applicant after expiry of 30 days from the date of his becoming liable to registration, the effective date of registration shall be the date of grant of registration under Rule 9(1)/(3)/(5).

**(4 Marks)**

**Answer 9:****(A)**

- (i) Transfer of right to use goods shall be treated as supply of service because there is no transfer of title in such supplies. Such transactions are specifically treated as supply of service in Schedule – II of CGST/SGST Act. **(2 marks)**
- (ii) Development, design, programming, customization, adaptation, upgradation, enhancement, implementation of information technology software shall be treated as supply of services as listed in Sl. No. 5(2)(d) of Schedule – II of the model GST law. **(2 marks)**

**(B)**

- (i) Prem being a supplier of consultancy services is not eligible for composition scheme under CGST Act.
- (ii) It is not possible to opt for composition Scheme for one type of supply and normal scheme for the other. Hence Prem is not eligible to opt for composition scheme only for fancy store.
- (iii) If Prem is running a restaurant with turnover of Rs. 65,00,000, he is eligible to opt for composition scheme. Since restaurant services is an eligible supply and the total turnover is less than Rs. 1.5 crore. **(2 marks x 3 = 6 marks)**

**Answer 10:****(A)**

**Non – Payment of Tax :** Every person who is liable to pay tax in accordance with the provisions of this Act or the rules made thereunder, but fails to pay the tax or any part thereof to the Government within the period prescribed, shall for the period for which the tax or any part thereof remains unpaid, pay, on his own, interest at such rate, not exceeding 18% as may be notified by the Government on the recommendations of the Council. W.e.f 01.07.2017, rate of interest has been notified as 18% p.a. **[Notification no. 13/2017, dt 28.06.2017]** **(2 marks)**

**Excess claim of Credit / reduction in Output tax liability :** A Taxable Person who makes an undue or excess claim of Input Tax Credit u/s 42(10) or undue or excess reduction in output tax liability u/s 43(10), shall pay interest on such undue or excess claim or on such undue or excess reduction, as the case may be, at such rate not exceeding 24% as may be notified by the Government on the recommendations of the Council.

W.e.f 01.07.2017, rate of interest has been notified as 24% p.a. **[Notification no. 13/2017, dt 28.06.2017].** **(2 marks)**

**(B)****Computation of value of taxable supply**

Particulars	Rs.	Reason
List price of the goods	1,00,000	Base Price exclusive of Taxes and Discounts
Tax levied by Municipal Authority	10,000	Includible in the value as Tax being other than GST Tax
CGST and SGST chargeable on the goods	-	GST Taxes not includible in the value
Packing charges	2,000	Includible in the value
Subsidy received from a non – Government body	4,000	Subsidy is received from a non – Government body,
<b>Total Value before Discount</b>	<b>1,16,000</b>	
Less : Discount @ 4% on Rs. 1,00,000	4,000	Since discount is known at the time of supply, it is deductible from the value
<b>Value of taxable supply</b>	<b>1,12,000</b>	

**(6 Marks)**

**Answer 11:**

**(A)**

**Determination of Time of Supply**

<b>Amount</b>	<b>TOS</b>	<b>Reasoning</b>
For Rs. 20,000	8 <sup>th</sup> September	TOS = Earlier of date of Payment or date of Invoice
For Rs. 1,00,000	2 <sup>nd</sup> November	TOS = Earlier of date of Payment or date of provision of supply if invoice not raised within 30 Days.

**(4 marks)**

**(B)**

A revised tax invoice/ credit or debit note shall contain the following particulars –

- (a) the word “Revised Invoice”, wherever applicable, indicated prominently,
- (b) name, address and GSTIN of the supplier,
- (c) nature of the document,
- (d) a consecutive serial number not exceeding 16 characters, in one or multiple series, containing alphabets or numerals or special characters – hyphen or dash and slash symbolized as “-“ and “/” respectively, and any combination thereof, unique for a financial year.
- (e) Date of issue of the document,
- (f) Name, address and GSTIN or UIN, if registered, of the recipient,
- (g) Name and address of the recipient and the address of delivery, along with the name of State and its code, if such recipient is un – registered,
- (h) Serial number and date of the corresponding tax invoice or, as the case may be, bill of supply,
- (i) Value of taxable supply of goods or services, rate of tax and the amount of the tax credited or, as the case may be, debited to the recipient, and
- (j) Signature or digital signature of the supplier or his authorized representative.

**(6 marks)**