



**J.K. SHAH**<sup>®</sup>  
TEST SERIES

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**SUGGESTED ANSWERS**

**CA FINAL**

**Test Code – JK-DT-21**

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## Answers

### Multiple Choice Questions

MCQ No.	Sub Part	Most Appropriate Answer
1.	(i)	(c)
	(ii)	(a)
	(iii)	(d)
	(iv)	(b)
	(v)	(b)

MCQ No.	Most Appropriate Answer
2	(d)
3	(b)
4	(a)
5	(c)
6	(c)
7	(a)
8	(d)
9	(d)
10	(c)
11	(b)
12	(a)

### Q.1

<b>Computation of Income of Varun Co Ltd. for the Assessment Year 2020 -21</b>		
Net Profit as per Statement of Profit and Loss		35,60,000
<b>Add:</b>		
Depreciation debited	19,40,000	
Interest payable to financial institutions is disallowed to the extent it is not paid up to the date of filing the return u/s 139(1)	1,30,000	
Provision for doubtful debts	8,00,000	
Expenditure towards issue of bonus shares is allowed as there is no fresh inflow of funds or increase in capital employed. [CIT v. General Insurance Corpn. (2006) 286 ITR 232 (SC)]	Nil	
Expenditure towards increasing the authorized capital is a capital expenditure to be disallowed (Punjab State Industrial Development Corpn Ltd. v. CIT (1997) 225 ITR 792 (SC)].	1,00,000	
Purchase of raw material on independence day and Republic Day are allowable and no disallowance u/s	Nil	

40A(3)		
Cash payment made for purchases/expenditures claimed in the earlier year is liable for disallowance u/s 40A(3A)	50,000	
Contract payments without deduction of tax at source liable for disallowance @ 30% of Rs. 1,50,000	45,000	
Provision for taxation and proposed dividend debited to Statement of Profit and Loss	2,80,000	33,45,000
<b>Less:</b>		
Depreciation allowable as per Income tax rules	13,15,000	
Dividend from subsidiary company credited to profit and loss account – Exempt u/s 10(34)	90,000	(14,05,000)
<b>Total Income</b>		<b>55,00,000</b>
Basic Tax @ 25% ( Turnover of Company during PY 2017-18 is < 400Cr)		13,75,000
Add : Health & Education Cess		55,000
<b>Total Tax Payable</b>		<b>14,30,000</b>

Net Profit as per Statement of Profit and Loss		35,60,000
<b>Add:</b>		
Depreciation debited in the books	19,14,000	
Interest payable to financial institutions is not to be adjusted while computing book profit.	NIL	
Provision for doubtful debts liable for add back u/s 115JB	8,00,000	
Expenditure towards issue of bonus shares is not liable for any adjustment u/s 115JB	Nil	
Expenditure towards increasing the authorized capital though a capital expenditure is not liable for any adjustment u/s 115 JB.	Nil	
Purchase of raw material on independence day and Republic Day – on adjustment u/s 115 JB	Nil	
Cash payment made for purchases / expenditures claimed in the earlier year – not liable for any adjustment u/s 115JB	Nil	
Contract payments without deduction of tax at source liable for disallowance @ 30% of ₹ 1,50,000 u/s	Nil	

40(a)(ia) but no adjustment u/s 115JB		
Provision for taxation and proposed dividend debited to Statement of Profit and Loss	2,80,000	29,94,000
<b>Less:</b>		
Depreciation excluding depreciation on account of revaluation	16,14,000	
Dividend from subsidiary company credited to profit and loss account is exempt u/s 10(34) and hence to be excluded while computing book profit u/s 115JB	90,000	17,04,000
Book Profit u/s 115JB		48,50,000
Tax thereon @ 15%		7,27,500
Add: Health and Education cess @ 4%		29,100
<b>Total Tax on Book Profit</b>		<b>7,56,600</b>

**Note:**

Since 15% of book profit is less than the tax payable as per the Income-tax Act, 1961, the Total Income of the assessee will be 55,00,000 & tax payable will be 14,30,000.

(7 Marks for normal computation)

(7 marks for mat computation)

## Q.2

(a)

Computation of Total Income of Deepika for PY 2019-2020		
Particulars	₹	₹
Full value of Consideration (Since the value determined by valuation officer is less than stamp duty value, it is considered as FVOC as per section 50C)	2,25,00,000	
Less : Indexed Cost of acquisition		
(i) Cost to Previous owner (₹ 40,00,000 * 289 / 254 )	(45,51,181)	
(ii) Loan amount paid by Deepika (14,00,000 * 289/254)	(15,92,913)	
Long term capital gains		1,63,55,906
Gross total Income		1,63,55,906
Less : Deduction under Chapter VIA		Nil
Net Total Income		1,63,55,906
<b>Net Total Income (ROUNDED OFF)</b>		<b>1,63,55,910</b>

(3 Marks)

Computation of Tax liability	
Particulars	₹
Basic Tax on Long term capital gains after adjusting unexhausted Basic exemption limit (1,63,55,910 – 2,50,000 = 1,61,05,910 * 20%)	32,21,182
Add : Surcharge @ 15%	4,83,177
Basic Tax + Surcharge	37,04,359
Add : Health & Education Cess	1,48,174
Total tax payable	38,52,533
<b>Total tax payable (rounded off)</b>	<b>38,52,530</b>

(1 Mark)

**Notes forming part of solution**

- The property was acquired by Deepika through will , the cost of acquisition will be cost to the previous owner. As per the definition of indexation, cost of acquisition under clause (iii) of *Explanation* below section 48, indexation benefit will be available only from the previous year in which Deepika first held the asset i.e. P.Y. 2015-16.

However, as per the view expressed by Bombay High Court, in the case of *CIT v. Manjula J. Shah (2013) 355 ITR 474*, in case the cost of acquisition of the capital asset in the hands of the assessee is taken to be cost of such asset in the hands of the previous owner, the indexation benefit would be available from the year in which the capital asset is acquired by the previous owner. If this view is considered, the indexed cost of acquisition would be (₹ 1,06,05,504 + 15,92,913).

2. Payment of outstanding loan of the predecessor by the successor for obtaining a clear title of the property by release of Mortgage Deed shall be the cost of acquisition of the successor under section 48 read with section 55(2) of the Act as held by the Apex Court in case of *RM. Arunachalam v. CIT [1997] 227 ITR 222*.
  3. Mediclaim paid is not allowed as deduction against long term capital gains
- (2 Marks)**

**(b)**

**The statement is incorrect.**

As per section 139(1), every person, being a resident other than not ordinarily resident in India who holds, as a beneficial owner or otherwise, any asset located outside India or is a beneficiary of any asset located outside India or has a signing authority in any account located outside India is required to file a return of income in the prescribed form compulsorily, whether or not he has income chargeable to tax.

Therefore, Mahesh has to file a return of income in the prescribed form compulsorily for A.Y.2020-21, even if his total income is below the maximum amount not liable to tax, since he is a resident and ordinarily resident in India and has a house property and a bank account outside India.

**(2 Marks)**

**(c)**

The issue under consideration is whether the Assessing Officer can make an assessment on the basis of an issue which came to his notice during the course of assessment, when the issues, which originally formed the basis of issue of notice under section 148, were dropped in its entirety.

There are two views in this regard.

**First view**

**[Based on Delhi High Court ruling in *Ranbaxy Laboratories Ltd. v. CIT (2011) 336 ITR 136*]**

As per section 147, the Assessing Officer may assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice in the course of proceedings under that section. The High Court, in *Ranbaxy*

*Laboratories Ltd. v. CIT (2011) 336 ITR 136 (Delhi)*, observed that the words “and also” used in section 147 are of wide amplitude.

The language of the section is indicative of the position that the assessment or reassessment must be of the income, in respect of which the Assessing Officer has formed a ‘reason to believe’ for the issue of notice under section 148 and also in respect of any other income which comes to his notice subsequently during the course of the proceedings as having escaped assessment. The correct interpretation, therefore, would be to regard the words ‘and also’ as being “conjunctive and cumulative with” and not “in alternative to” the first part of the sentence, namely, “the Assessing Officer may assess and reassess such income”.

If the income, the escapement of which was the basis of the formation of the “reason to believe”, is not assessed or reassessed, it would not be open to the Assessing Officer to independently assess only that income which comes to his notice subsequently in the course of the proceedings under the section as having escaped assessment. If he intends to do so, a fresh notice under section 148 would be necessary.

Applying the rationale of the Delhi High Court ruling, the action of the Assessing Officer in passing a reassessment order under section 147 by making additions on account of disallowances under section 14A and section 40(a)(ia) in respect of other expenses, when the original “reasons to believe” ceased to exist, is not valid.

(3 Marks)

### Second View

*[Based on Punjab & Haryana High Court ruling in CIT v. Mehak Finvest P Ltd (2014) 367 ITR 769]*

The issue under consideration is whether an addition can be made in reassessment when the original reasons on the basis of which notice for reassessment was issued did not survive.

On this issue, the Punjab & Haryana High Court noted that *Explanation 3 to section 147* nowhere postulates or contemplates that the Assessing Officer cannot make any additions on any other ground unless some addition is made on the basis of the original ground for which reassessment proceeding was initiated.

The High Court, accordingly, held that even though no addition is made on the original grounds which formed the basis of initiation of reassessment proceedings, the Assessing Officer is empowered to make additions on another ground for which reassessment notice might not have been issued but which came to his notice subsequently during the course of proceedings for reassessment

Applying the rationale of the Punjab & Haryana High Court ruling, the action of the Assessing Officer in passing a reassessment order under section 147 by making additions on account of disallowances under section 14A and section 40(a)(ia) in

respect of other expenses, when the original “reasons to believe” ceased to exist, is valid.

(3 Marks)

### Q.3

(a)

Computation of Total Income		
Particulars	₹	₹
Income from Profession		5,00,000
Rent from house property in country X let out from 01.07.2019	90000	
Less : Municipal Taxes paid	(12000)	
Net Annual Value	78,000	
Less Standard Deduction	(23,400)	
Income from House property		54,600
Royalty on books from Country Y	10,00,000	
Less : Expenses incurred to earn Royalty Income	(2,00,000)	
Net Income		8,00,000
Income from Country Z		40,000
Less : Deduction		
Section 80QCB : Royalty on Books		(3,00,000)
<b>Net Total Income</b>		<b>10,94,600</b>

(3 Marks)

Computation of Total Income		
Particulars	₹	₹
Basic Tax on Total Income		1,40,880
<b>Add : Health &amp; Education Cess</b>		<b>5,635</b>
Total tax payable		1,46,515
<b>Less : Deduction u/s 91 (Working Note)</b>		<b>(44,887)</b>
Tax Payable		1,01,628
<b>Tax payable (Rounded off)</b>		<b>1,01,630</b>

(1 Mark)



<b>Computation of Relief</b>		
<b>Particulars</b>	<b>₹</b>	<b>₹</b>
Average Rate of tax in India (1,46,515/10,94,600*100)	13.385%	
Average rate of tax in Country X = (7800/90,000*100)	8.666%	
Doubly taxed income pertaining to Country X	54,600	
Deduction under section 91 on ₹ 54,600 @ 8.666% [being the lower of average Indian tax rate and foreign tax rate]		4,732
Average Rate of tax in country Y	30%	
Doubly taxed income pertaining to Country X	5,00,000	
Deduction under section 91 on ₹3,00,000 @ 13.337% [being the lower of average Indian tax rate and foreign tax rate]		40,155
<b>Total Relief</b>		<b>44,887</b>

(2 Mark)

**Notes forming part of solution**

1. Mr. S shall not be allowed deduction u/s 91 on income earned from country Z, since Income is not taxable outside India.
2. Mr. S shall be allowed deduction u/s 91 on income earned from country X & Y, since the following conditions are fulfilled:-
  - (a) He is a resident in India during the relevant previous year (i.e., P.Y.2019-20).
  - (b) The income in question accrues or arises to him outside India in foreign countries X and Y during that previous year and such income is not deemed to accrue or arise in India during the previous year.
  - (c) The income in question has been subjected to income-tax in the foreign countries X and Y in his hands and it is presumed that he has paid tax on such income in those countries.
  - (d) There is no agreement under section 90 for the relief or avoidance of double taxation between India and Countries X and Y where the income has accrued or arisen.
3. It is assumed that the royalty earned outside India has been brought into India in convertible foreign exchange within a period of six months from the end of the previous year.

(2 Mark)

**(b)****Meaning of “Specified Service”**

- (1) Online advertisement;
- (2) Any provision for digital advertising space or any other facility or service for the purpose of online advertisement;
- (3) Specified Service also includes any other service as may be notified by the Central Government. **(2 Marks)**

Further, in order to reduce burden of small players in the digital domain, it is also provided that no such levy shall be made if the aggregate amount of consideration for specified services received or receivable by a non-resident from a person resident in India or from a non-resident having a permanent establishment in India does not exceed ₹ 1 lakh in any previous year.

**(1 Mark)****(c)**

The Authority **shall not allow** an application where the question raised in the application is:

Pending with income-tax authorities / tribunal / court	is already pending before any income-tax authority, or Appellate Tribunal or any court. However, a resident falling within any class or category of persons as notified by the Central Government i.e., a public sector undertaking can seek for advance ruling even if question raised is pending before any income-tax authority or Appellate.
Determination of Fair Market Value	involves the determination of the fair market value of any property;
Transaction designed for avoidance of income-tax	relates to a transaction or issue which is designed prima facie for avoidance of income-tax (except in case of a resident applicant falling within any class or category of persons as notified by the Central Government i.e., a public sector undertaking or in the case of resident or a non-resident for determination of whether an arrangement, which is proposed to be undertaken is an impermissible avoidance arrangement).

**(1 Mark for each point)**

**Q.4****(a)**

- (i) As per the third proviso to section 147, the Assessing Officer may assess or reassess such income, other than the income involving matters which are the subject matters of any appeal, reference or revision, which is chargeable to tax and has escaped assessment. The doctrine of partial merger would apply in this case.

Therefore, even when an appeal is pending before Commissioner (Appeals), the Assessing Officer can initiate reassessment proceedings in respect of income chargeable to tax which has escaped assessment, provided such income is not the subject matter of the appeal before the Commissioner (Appeals) i.e., such income which has escaped assessment does not form part of the additions of ₹ 15 lakhs to the returned income, which is the subject matter of appeal. **(2 Marks)**

- (ii) As per section 154(1A), the Assessing Officer can pass an order under 154(1) to rectify a mistake apparent from the record, provided the rectification is in relation to a matter, other than the matter which has been considered and decided in the appeal before Commissioner (Appeals). The doctrine of partial merger holds good for section 154 also.

Since the issue under consideration in this case relates to rectification of a mistake in respect of a matter which is not the subject matter of appeal, the Assessing Officer can pass an order under section 154 for rectification of the same provided the same is a mistake apparent from the record. **(2 Marks)**

- (iii) As per section 264(4), the Commissioner shall not revise any order under section 264, where such order has been made the subject of an appeal to the Commissioner (Appeals). Thus, the concept of total merger would apply in the case of section 264.

Therefore, under section 264, the Commissioner cannot revise an order which is pending before the Commissioner (Appeals), even if the revision pertains to a matter, other than the matter(s) covered in the appeal. **(2 Marks)**

- (iv) As per section 263, the Commissioner has the power to revise an order prejudicial to revenue, even if the order is the subject matter of appeal before Commissioner (Appeals). However, the power of the Commissioner under section 263 shall extend to only such matters as had not been considered and decided in such appeal. Here again, the doctrine of partial merger would apply.

In a case where the appeal is pending but not yet decided, the Commissioner cannot exercise his revisionary jurisdiction in respect of those issues which are the subject matter of appeal

[*CWT v. Sampathmal Chordia (2002) 256 ITR 440 (Mad.)*]. **(2 Marks)**

**(b)**

Section 10(10CC) provides that in the case of an employee deriving income in the nature of non-monetary perquisites, the amount of tax on such income paid by the employer, is exempt from tax in the hands of the employee. In view of this, by virtue of exemption provided in section 10(10CC), the tax borne by the employer on behalf of employees in respect of provision of non-monetary perquisites is exempt in the hands of the employee. **(1 Mark)**

As regards tax implications of such payment in the hands of employer, section 40(a)(v) provides for disallowance of the tax actually paid by employer under section 10(10CC) while computing the income chargeable under the head “Profit and gains of business or profession”. **(1 Mark)**

**(c)**

	<b>Particulars</b>	<b>€</b>
A	Share of each of the Associates in the Value of the Order	3,00,000
	Share of BIL [Given]	1,00,000
	Share of PCI [Given]	90,000
	Share of NBR [Amount Retained = 3,00,000 – 1,00,000 - 90,000]	1,10,000
B	Share of each of the Associates in the Profit of the Order	
	Combined Total Profits	1,00,000
	Share of BIL [Contribution of 40% x Total Profit € 1,00,000]	40,000
	Share of PCI [Contribution of 30% x Total Profit € 1,00,000]	30,000
C	Share of NBR [Contribution of 30% x Total Profit € 1,00,000]	30,000
	Computation of Incremental Total Income of BIL	
	Total Cost to BIL Ltd	80,000
	Add: Share in the Profit to BIL (from B above)	40,000
	Revenue of BIL on the basis of Arm’s Length Price	1,20,000
	Less: Revenue Actually received by BIL	(1,00,000)
	Increase in Total Income of BIL	20,000

**(3 Marks)**

**Note**

1. Most appropriate method is profit split method.
2. Details of conversion rate is not given therefore answer is calculated in foreign currency i.e. Euros

**(1 Mark)**

**Q.5****(a)****Computation of business income of M/s. Harilal Industries for the A.Y 2020-21**

Particulars	₹	₹
Net Profit as per Profit & Loss Account		1,00,000
Add: Remuneration to partners (considered separately)		2,50,000
		3,50,000
Add: Inadmissible expenses :		
Interest [₹ 54,000 – ₹ 36,000 (calculated @ 12%)]	18,000	
Provident fund payment outstanding as on due date of filing of return - disallowed under section 43B	10,000	
Cash purchases [disallowed under section 40A(3)]	80,000	1,08,000
		4,58,000
Less : Amount credited but exempt :		
Dividend from UTI [exempt u/s 10(35)]		8,000
Book Profit		4,50,000
Less : Remuneration to partners deductible (See Note below)		2,50,000
Taxable business income		2,00,000

**(6 Marks)****Note:****Computation of remuneration allowable as deduction as per 40(b)(v)**

Particulars	Percentage allowable	₹
On first 3,00,000 of book profit	90%	2,70,000
On the balance book profit of ₹ 1,50,000	60%	90,000
Remuneration allowable as per 40(b)(v)		<b>3,60,000</b>

Since the actual remuneration of ₹ 2,50,000 is less than the allowable limit of ₹ 3,60,000, the entire remuneration of ₹ 2,50,000 is deductible.

**(2 Marks)**

**(b)**

As per section 206C, every person being a seller of, inter alia, scrap, shall, at the time of debiting of the amount payable by the buyer to the account of the buyer or at the time of receipt of such amount from the buyer, whichever is earlier, collect tax at source @ 1% of the said amount from the buyer. If the seller does not collect tax at source on sale of scrap, then, the following would be the consequences:

- (i) He shall be deemed to be an assessee in default in respect of the tax not collected.
- (ii) He shall be liable to pay the tax, which he ought to have collected, to the credit of the Central Government, even if he has not actually collected the tax.
- (iii) He shall be liable to pay simple interest at the rate of 1% per month or part thereof on the amount of such tax from the date on which such tax was collectible to the date on which the tax was actually paid and such interest shall be paid before furnishing the quarterly statement for each quarter.
- (iv) Penalty equal to the amount of tax which is not collected can be levied under section 271CA. **(2 Marks)**

**Note:** However, the seller who does not collect tax at source shall not be deemed to be an assessee in default in respect of such tax if the buyer –

- (i) has furnished his return of income under section 139;
- (ii) has taken into account such sum for computing income in such return of income; and
- (iii) has paid the tax due on the income declared by him in such return of income, and the payer furnishes a certificate to this effect from an accountant in such form as may be prescribed.

In such cases, the buyer shall be liable to pay interest from the date on which such tax was collectible to the date of furnishing of return of income by such buyer.

**(2 Marks)**

**The seller, however, would not be liable to collect tax at source in the following cases:**

- (i) If the buyer is a resident and he furnishes to the person responsible for collecting tax, a declaration in the prescribed form to the effect that scrap is to be utilized for the purpose of manufacturing, processing or producing articles or things or for the purposes of generation of power and not for trading purposes.
- (ii) If scrap is sold to a public sector company, the Central Government, a State Government, an embassy, a High Commission, legation, commission, consulate and the trade representation of a foreign State or a club.
- (iii) If the buyer, in the retail sale of scrap, has purchased the scrap for his personal consumption. **(2 Marks)**

**Q.6****(a)**

The issue under consideration is whether the Settlement Commission can pass 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.

Section 245D(4) provides that the Settlement Commission, after examination of records and the report of the Commissioner and after examining such further evidence as may be placed before it or obtained by it, may, in accordance with the provisions of the Act, pass such order as it thinks fit.

Further, section 245D(5) provides that the materials brought on record before the Settlement Commission shall be considered by the Members of the concerned Bench before passing any order under section 245D(4).

“Consideration” means independent examination of the evidence and material brought on record before the Settlement Commission by the members and application of mind thereto with a view to independently assess the materials and evidence, whether adduced by the applicant or by the Commissioner, and come to a conclusion by themselves.

This view has been upheld in case of Supreme Agro Foods P Ltd. v. Income-tax Settlement Commission (2013) 353 ITR 385 (P&H)

The Settlement Commission, therefore, has to consider the material brought on record before it and “consideration” means independent examination of the evidence and material on record.

In this case, since the material was available before the Settlement Commission and such material has been taken into consideration for returning a finding which is relevant for determining the undisclosed income of the applicant, the addition made on the basis of difference in gross profit rate adopted is justified.

Therefore, the order of the Settlement Commission is valid.

**(7 Marks)**

**(b)**

The issue under consideration is whether interest under sections 234B and 234C can be levied where a company is assessed on the basis of its book profit under section 115JB. The Supreme Court, in Joint CIT v. Rolta India Ltd. (2011) 330 ITR 470, observed that there is a specific provision in section 115JB(5) providing that all other provisions

of the Income tax Act, 1961 shall apply to every assessee, being a company, mentioned in that section.

Section 115JB is a self-contained code pertaining to MAT, and by virtue of sub-section (5) thereof, the liability for payment of advance tax would be attracted.

According to section 207, tax shall be payable in advance during any financial year, in accordance with the provisions of sections 208 to 219 (both inclusive), in respect of the total income of the assessee which would be chargeable to tax for the assessment year immediately following that financial year.

Under section 115JB(1), where the tax payable on total income is less than 15% of "book profit" of a company, the "book profit" would be deemed to be the total income and tax would be payable at the rate of 15%.

Since in such cases, the book profit is deemed to be the total income, therefore, as per the provisions of section 207, tax shall be payable in advance in respect of such book profit (which is deemed to be the total income) also.

Therefore, if a company defaults in payment of advance tax in respect of tax payable under section 115JB, it would be liable to pay interest under sections 234B and 234C.

Therefore, even though Maitri Jeans (P) Ltd. is assessed on the basis of its book profit under section 115JB for A.Y.2020-21, it is liable to pay advance tax. Since Maitri Jeans (P) Ltd. Has not paid any advance tax during the financial year 2019-20, the levy of interest under section 234B and 234C is valid.

**(7 Marks)**