

The Rankers' Way

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CA Final - May 2024 - Paper 4 - Direct Taxation - Question Paper

Duration - 75 mins

Marks - 35

Topics Covered - Basic Concepts (Rates of tax) and Profits and Gain from Business or Profession (PGBP)

All the questions are compulsory.

Question 1:

Marks - 4

A newly qualified Chartered Accountant, Mr. Dhaval commenced practice and has acquired the following assets in his office during F.Y. 2023-24 at the cost shown against each item. Calculate the amount of depreciation that can be claimed from his professional income for A.Y.2024-25. Assume that all the assets were purchased by way of account payee cheque.

Sl. No.	Description	Date of acquisition	Date when put to use	Amount ₹
1	Computer including computer software	27 Sept. 23	1 Oct.23	35,000
2	Computer UPS	2 Oct. 23	8 Oct., 23	8,500
3	Computer printer	1 Oct. 23	1 Oct. 23	12,500
4	Books (of which books being annual publications are of ₹ 12,000)	1 Apr. 23	1 Apr. 23	13,000
5	Office furniture (Acquired from a practicing C.A.)	1 Apr. 23	1 Apr. 23	3,00,000
6	Laptop	26 Sep. 23	8 Oct. 23	43,000

Question 2:

Marks - 6

Isac limited is a company engaged in the business of biotechnology. The net profit of the company for the financial year ended 31.03.2024 is ₹ 35,25,890 after debiting the following items:

	Particulars	₹
1	Purchase price of raw material used for the purpose of in-house research and development (including GST of ₹ 1,80,000 on which ITC is not admissible)	11,80,000

2	Purchase price of asset used for in-house research and development	
	(a) Land	5,00,000
	(b) Building	3,00,000
3	Expenditure incurred on notified agricultural extension project.	25,50,000
4	Expenditure on notified skill development project:	
	(a) Purchase of land	40,00,000
	(b) Expenditure on training for skill development	32,50,000
5	Expenditure incurred on advertisement in the souvenir published by a political party.	75,000
6	Expenditure incurred on issue of right shares.	80,000
7	Expenditure incurred on issue of debentures	50,000
8	Penalty paid under GST Act	35,000
9	Interest paid on loan taken from bank for payment of advance income-tax	60,000
10	Provision for loss of subsidiary	85,000

Compute the income under the head "Profits and gains of business or profession" for the A.Y. 2024-25 of Isac Ltd assuming that the company does not opt for the provisions of section 115BAA.

Question 3:

Marks - 6

(A) Examine the taxability and/ or allowability of the following receipts or expenditures under the provisions of the Income-tax Act, 1961, for the assessment year 2024-25:

- (i) Secret commission was paid during the previous year 2023-24.
- (ii) P Ltd. paid dollars equivalent to ₹ 50 lakhs as sales commission for the year ended 31.03.2024, without deducting tax at source, to Mr. Rodrigues, a citizen of UK and non-resident who acted as agent for booking orders, from various customers who are outside India.
- (iii) RS Ltd. receives a sum of Rs. 10 lakhs from KP Ltd. on 3rd January, 2024 for agreeing not to carry on any business relating to computer software in India for the next five years.

(B) Can the following transactions be covered under section 43B for disallowance?

- (i) A bank guarantee given by a company towards disputed tax liabilities.
- (ii) Interest payable to Goods and Services Tax Department but not paid before the due date specified in section 139(1).

Question 4:

Marks -14

The trading and profit and loss account of Pingu Trading Pvt. Ltd. having business of agricultural produce, consumer items and other products for the year ended 31.03.2024 is as under:

Trading Account

Particulars	₹	Particulars	₹
Opening Stock	3,75,000	Sales	1,55,50,000
Purchases	1,25,75,000	Closing Stock	4,50,000
Freight & Cartage	1,26,000		
Gross profit	29,24,000		
	1,60,00,000		1,60,00,000

Profit and Loss Account

Particulars	₹	Particulars	₹
Bonus to staff	47,500	Gross profit	29,24,000
Rent of premises	53,500	Income-tax refund	20,000
Advertisement	5,000	Warehousing charges	15,00,000
Bad Debts	75,000		
Interest on loans	1,67,500		
Depreciation	71,500		
Goods and Services tax demand paid	1,08,350		
Miscellaneous expenses	5,25,650		
Net profit of the year	33,90,000		
	44,44,000		44,44,000

On scrutiny of records, the following further information and details were extracted/ gathered:

- (i) There was a survey under section 133A on the business premises on 31.3.2024 in which it was revealed that the value of closing stocks of 31.3.2023 was ₹ 8,75,000 and a sale of ₹ 75,000 made on 13.3.2024 was not recorded in the books. The value of closing stocks after considering these facts and on the basis of inventory prepared by the department as on 31.3.2024 worked out at ₹ 12,50,000, which was accepted to be correct and not disputed.
- (ii) Income-tax refund includes amount of ₹ 4,570 of interest allowed thereon.
- (iii) Bonus to staff includes an amount of ₹ 7,500 paid in the month of December 2023 which was provided in the books on 31.03.2023.
- (iv) Rent of premises includes an amount of ₹ 5,500 incurred on repairs. The assessee was under no obligation to incur such expenses as per rent agreement.

- (v) Advertisement expenses include an amount of ₹ 2,500 paid for advertisement published in the souvenir issued by a political party. The payment is made by way of an account payee cheque.
- (vi) Miscellaneous expenses include:
- (a) amount of ₹ 15,000 paid towards penalty for non-fulfillment of delivery conditions of a contract of sale for the reasons beyond control,
 - (b) amount of ₹ 1,00,000 paid to the wife of a director, who is working as junior lawyer for taking an opinion on a disputed matter. The junior advocate of High Courts normally charge only ₹ 25,000 for the same opinion,
 - (c) amount of ₹ 1,00,000 paid to an Electoral Trust by cheque.
- (vii) Goods and Services Tax demand paid includes an amount of ₹ 5,300 charged as penalty for delayed filing of returns and ₹ 12,750 towards interest for delay in deposit of tax.
- (viii) The company had made an investment of ₹ 25 lakhs on the construction of a warehouse in rural area for the purpose of storage of agricultural produce. This was made available for use from 15.09.2023 and the income from this activity is credited in the Profit and Loss account under the head "Warehousing charges".
- (ix) Depreciation under the Income-tax Act, 1961 works out at ₹ 65,000.
- (x) Interest on loans includes an amount of ₹ 80,000 paid to Mr. X, a resident, on which tax was not deducted.

Compute the income chargeable to tax for assessment year 2024-25 of Pingu Trading Pvt. Ltd, ignoring MAT and provisions of section 115BAA. Support your answer with working notes.

Question 5:

Marks - 5

1. Whether Waiver of loan is in the form of cash/money can be taxed under income head "PGBP"? (2 Marks)
2. Calculate Marginal relief under new tax regime (u/s 115BAC).

(i) 7,00,000

(ii) 7,05,000

(3 Marks)