

Income Tax Comprehensive Questions

ICAI Examination Question {Dec 2021 Attempt - 14 Marks}:

Mr Shivansh, a resident and ordinarily resident aged 61 years, is engaged in the business of manufacturing of motor parts. He is subject to tax audit u/s 44AB of Income Tax Act, 1961. He has provided following information:

Profit & Loss A/c for the year ended 31st March 2023:

Particulars	(Rs)	Particulars	(Rs)
To Administrative expenses	4,30,000	By Gross Profit	58,30,000
To Salaries & wages	20,00,000	By Profit on sale of asset of scientific research	2,00,000
To Interest on loans	7,50,000	By Winning from lottery (Net of TDS @ 30%)	31,500
To Depreciation	6,17,000		
To Professional fees	2,70,000		
To Rent, rates & taxes	2,80,000		
To Travelling & conveyance	1,40,000		
To Net Profit	15,74,500		
Total	60,61,500	Total	60,61,500

Explanatory Information:

- (i) Opening and closing stock of finished goods were undervalued by 10%. Opening stock of Rs 4,50,000 and Closing stock of Rs 5,58,000 was shown.
- (ii) Salaries & wages include following items :
 - a. Contributed 20% of basic salary in National Pension Scheme referred to section 80CCD regarding salary paid to an employee Mr Ganesh who has withdrawn basic salary of Rs 3,00,000, and Dearness allowance is 40% of basic salary. 50% of Dearness allowance forms part of the salary.
 - b. Some of the employees opted for retirement under the voluntary retirement scheme; a sum of Rs 2,40,000 was paid to them on 1st January, 2023.
- (iii) Interest on loan includes interest paid @ 15% per annum on loan of Rs 12,00,000 which was taken from State Bank of India on 01.05.2022 for purchase of new electric car of Rs 15,00,000. The car is used for personal purpose.
- (iv) Depreciation allowable as per Income Tax Rules, 1962 is Rs 4,50,000 but during the calculation of such depreciation following addition was not considered:
Motor car purchased for Rs 3,00,000 for supply of finished goods to dealers on 25-08-2022.
- (v) An asset was purchased for Rs 6,00,000 on 17-11-21 for conducting scientific research and the deduction was claimed u/s 35 of the Income Tax Act, 1961. This asset was sold on 05-09-2022 for a consideration of Rs 8,00,000.

Other Information :

A plot of Industrial land which was used by Mr Shivansh for business purpose for last 10 years was compulsorily acquired by Central Government on 07.05.2022. The compensation of Rs 12,00,000 was received on 27.02.2023. Such property was purchased by him on 08.08.2005 for Rs 2,00,000. He has purchased another plot of industrial land on 21.04.2023 for Rs 6,00,000. Government has also paid Rs 54,000 as interest on such compensation on 28.03.2023.

Cost Inflation Indices: FY 2022-23: 331, FY 2005-06: 117

Compute the total income and tax liability of Mr Shivansh for AY 2023-24 assuming that he has not opted provisions of Section 115BAC. Ignore provisions relating to AMT.

ICAI Examination Question {Nov 2019 Attempt - 14 Marks}:

Mrs Mitul, a resident individual aged 63 years, is a qualified medical practitioner. She runs her own clinic. Income & Expenditure A/c of Mrs Mitul for the year ending 31st March 2023 is as under:

Expenditure	Amount (Rs)	Income	Amount (Rs)
To Salary to Staff	1,20,000	By Consultation Fees	12,00,000
To Administrative Expenses	2,90,000	By Salary received from True Care Hospitals (P) Ltd	1,80,000
To Conveyance Expenses	24,000	By Rental Income from House Property	78,000
To Power & Fuel	24,000	By Dividend from Foreign Companies	10,000
To Interest on Housing Loan	1,00,000		
To Interest on Education Loan for son	26,000		
To Amount paid to scientific research association approved & notified u/s 35	25,000		
To Net Profit	8,59,000		
Total	14,68,000	Total	14,68,000

Explanatory Information:

a) She is working part-time with True Care Hospitals (P) Ltd. Her salary details are as under:

- Basic Pay - Rs 13,000 p.m.
- Transport Allowance - Rs 2,000 p.m.
- Total - Rs 15,000 p.m.

Further, during PY 2022-23, her son had undergone a medical treatment in True Care Hospitals (P) Ltd free of cost. The hospital would have charged a sum of Rs 60,000 for a similar treatment to un-related patients.

b) She owns a residential house. Ground floor of the house is self-occupied by her while first floor has been rented out since 01/10/2022. The reconstruction of the house was started on 01-04-2022 and was completed on 30-09-2022. The monthly rent is Rs 10,000.

c) The tenant also pays Rs 3,000 p.m. as power back-up charges. She took a housing loan of Rs 12 lakhs on 01-04-2022. Interest on housing loan for the period 01-04-2022 to 30-09-2022 was Rs 60,000 and for the period 01-10-2022 to 31-03-2023 was Rs 40,000. During the year, she also paid municipal taxes for the FY 2021-22 Rs 5,000 and for FY 2022-23 Rs 5,000.

Other Information:

- a) Conveyance expenses include a sum of Rs 12,000 incurred for conveyance from house to True Care Hospitals (P) Ltd and vice-versa in relation to her employment.
- b) Power & fuel expenses include a sum of Rs 6,000 incurred for generator fuel for providing power back-up to the tenant.
- c) Administrative expenses include a sum of Rs 10,000 paid as municipal taxes for her house.
- d) Details of clinic equipments: Opening WDV of clinic equipments as on 01-04-2021 was Rs 1,00,000 and fresh purchase made on 28-08-2022 is Rs 25,000 which was paid in cash.
- e) She also paid tuition fee of Rs 40,000 for her grand-daughter, which has been debited to her Capital A/c.
- f) She availed a loan of Rs 8,00,000 from bank for higher education of her son. She repaid principal of Rs 50,000 and interest of Rs 26,000 during PY 2022-23.

You are required to compute her net taxable income and net tax liability for the Assessment Year 2023-24.

ICAI Examination Question {July 2021 Attempt - 14 Marks}:

Mr Ashish, a resident individual, aged 43 years, provides professional services in the field of interior decoration. His Income & Expenditure A/c for the year ended 31st March, 2023 is as under :

Expenditure	Rs.	Income	Rs.
To Employees' Remuneration & Benefits	13,66,000	By Consultancy Charges	58,80,000
To Office & Administrative Exp	3,14,000	By Interest on PPF A/c	60,000
To General Expenses	75,000	By Interest on Savings Bank A/c	20,000
To Electricity Expenses	65,000	By Interest on NSC VIII Issue (for 3 rd year)	21,000
To Medical Expenses	80,000		
To Purchase of Furniture	48,000		
To Depreciation	90,000		
To Excess of income over exp.	39,43,000		
	59,81,000		59,81,000

The following other information relates to FY 2022-23:

- (i) The expenses on Employee's Remuneration & Benefits includes :
 - a) Family Planning expenditure of Rs 20,000 incurred for the employees which was revenue in nature. The same was paid through account payee cheque.
 - b) Payment of salary of Rs 25,000 per month to sister-in-law of Mr Ashish, who was in-charge of the Accounts & Receivables department. However, in comparison to similar work profile, the reasonable salary at market rates is Rs 20,000 per month.
- (ii) Amount received by Mr Ashish as Employees' Contribution to EPF for the month of February 2023 - Rs 10,000 was also deposited after the due date under the relevant Act relating to EPF.
- (iii) Medical Expenses of Rs 80,000 as appearing in the Income & Expenditure A/c was expensed for the treatment of father of Mr Ashish. His father was 72 years old and was not covered by any health insurance policy. The said payment of Rs 80,000 was made through account payee cheque.
- (iv) General expenses as appearing in the Income & Expenditure A/c, includes a sum of Rs 25,000 paid to Ms Anjaleen on 5th January, 2023 as commission for securing work from new clients. This payment was made to her without deduction of tax at source.
- (v) Written down value of the depreciable assets as on 1st April, 2022 were as follows:

→ Professional Books	Rs 90,000
→ Computers	Rs 35,000
- (vi) The new Furniture as appearing in the Income & Expenditure A/c was purchased on 31st August, 2022 and was put to use on the same day. The payment was made as under:
 - Rs 18,000 paid in cash at the time of purchase of new furniture on 31/08/22.
 - Rs 19,000 paid by account payee cheque on 05/09/2022 as balance cost of new furniture and
 - Rs 11,000 paid in cash on 31/08/22 to the transporter as freight charges for the new furniture.
- (vii) Mr Ashish purchased a car on 02/04/2021 for Rs 3,35,000 for personal use. However, on 30/04/2022 he brought the said car for use in his profession. The fair market value of the car as on 30/04/2022 was Rs 2,50,000.
- (viii) Mr Ashish made a contribution of Rs 1,00,000 in his PPF A/c on 31/01/2023.
- (ix) The Gross Professional Receipts of Mr Ashish for PY 2021-22 was Rs 52,00,000.

Compute the total income and tax liability of Mr Ashish for AY 2023-24, assuming that he has not opted for payment of tax u/s 115BAC.

Ignore provisions relating to AMT and under section 14A relating to disallowance of expenditure incurred in relation to income not includible in total income.

ICAI Examination Question {May 2022 Attempt - 14 Marks}:

Mrs Nisha, a resident individual aged 54 years, is carrying on business of manufacturing of textile fabrics, as a proprietor. The turnover in PY 2021-22 was Rs 250 lakhs and in the current previous year PY 2022-23, it is Rs 600 lakhs. The net profit as per P&L A/c as on 31-03-2023 is Rs 5,61,000. She provides the following additional information those were not considered while making the P&L A/c for PY 2022-23:

- (i) Depreciation has not been debited to P&L A/c. The details of P&M employed in the business are given as under:

Date	PARTICULARS	AMOUNT
01-04-2022	Opening WDV of P&M used for manufacturing purpose	4,75,000
03-07-2022	New P&M purchased during the year, payment made by an account payee cheque	7,25,000
10-03-2023	Sold one of the old machine	75,000

She does not have any other fixed assets employed in the business.

- (ii) Received subsidy of 20% on new machine purchased on 03-07-2022 during the previous year under technology upgradation fund Scheme from the central Government.
- (iii) She paid a job charges for the value addition on the fabrics Rs 90,000 without deduction of tax to job worker by an account payee cheque.
- (iv) Commission paid to one agent allowed as deduction in earlier assessment year amounting Rs 50,000, has now been received back during PY 2022-23, from the agent due to settlement with commission agent.
- (v) Rs 25,000 paid to creditor for goods in cash.
- (vi) Interest received amounting Rs 2,00,000, duly authorised by partnership deed of M/s Ramji textiles, @ 15% p.a. on the capital employed. She is sleeping partner in the Ramji textiles.
- (vii) She received Rs 60,000 by pre-mature withdrawals from deposit including interest Rs 5,000, in post office time deposit, eligible for deduction u/s 80C.
- (viii) She sold her gold bracelet (jewellery), used by her for personal purposes, on 01-05-2022 for 5,00,000, which was acquired for 40,000 on 01-03-2005. A diamond was embedded onto bracelet on 01-05-2007 of Rs 50,000. (Cost Inflation Index for FY 2004-05 is 113, for FY 2007-08 is 129 and for FY 2022-23 is 331).
- (ix) She received a gold coin (bullion) worth Rs 55,000 (FMV) from her cousin (daughter of uncle) during PY 2022-23.
- (x) She incurred long term loss from sale of share of the Indian company. (The STT is paid on the sale and purchase of the shares) Rs 75,000.
- (xi) She deposited a sum of Rs 50,000 with life insurance Corporation of India every year for the maintenance of her mother aged 70 years depended upon him and suffering from severe disability.
- (xii) She purchased the new residential house during the previous year and paid stamp duty and registration fee Rs 1,55,000 to get transfer the property in her name.

You are required to compute the total income and tax payable by Mrs Nisha for AY 2023-24. (Ignore the provisions of Section 115BAC). Give brief note wherever necessary.

ICAI Examination Question {Nov 2022 Attempt - 14 Marks}:

Dr Rohan, 82 years old resident surgeon, having his Nursing Home in Mumbai, gives the following particulars for the year ended on 31.03.2023.

Receipts	Amount (Rs)	Payments	Amount (Rs)
Opening Balance b/d	1,25,000	Salary to Staff	3,50,000
Fees from visits to other hospitals (net)	5,85,000	Taxes & Insurance	26,000
Fees for March 2022 received in April 2022	85,000	Entertainment Expenses	1,10,000
IPD 40,000		Purchase of Television	48,000
OPD 45,000			
Dividend from shares (net)	18,900	Gift to daughter-in law	60,000
Fees received during the year	10,25,000	Interest on loan for repairs to property	65,000
Gifts received from relatives of patients	45,000	Personal medical expenses	70,000
Honorarium for painting services in Jai Hind Art School (net)	22,500	Deposits in PPF A/c	55,000
Income tax refund (Including interest Rs 1,500)	12,100	Nursing Home expenses	3,75,000
		Prof. fees paid for consulting services	1,20,000
		Purchase of furniture at home	1,35,000
		Personal Expenses	3,00,000
		Balance c/f	2,04,500
	19,18,500		19,18,500

Other Information:

- He keeps his books of accounts on cash basis and has not opted for the provisions of section 44ADA.
- Salary includes Rs 60,000 paid to his sister who is a qualified nurse paid in cash.
- Entertainment expenses include Rs 25,000 for dinner to doctors in a five star hotel.
- Interest on loan for repairs to property includes Rs 40,000 for his residential property.
- His daughter in law earned income of Rs 10,000 from the amount received as gift.
- Fixed Assets values as on 01.04.2022 are as under :
 - Nursing Home Equipment's - Rs 2,20,000;
 - Medical Books (including annual publications Rs 10,000) - Rs 35,000; and
 - Laptop - Rs 40,000.
- Television purchased for nursing home purpose on 21.09.2022 is put to use on 03.10.2022.
- He has donated Rs 10,000 towards PM CARES Fund on 15.08.2022.

You are required to:

- Compute the total income and tax payable by him for AY 2023-24 as per the regular provisions of the Income Tax Act, 1961. Assume that he has not opted for Section 115BAC.
- What will be his total income and tax payable, if he opts for the provisions of Section 44ADA? Will it be more beneficial for him to adopt Section 44ADA?

MCQs CASE STUDY 1:

Mr Animesh, an Indian citizen, aged 61 years, has set-up his business in Canada and is residing in Canada since 2009. He owns a house property in Canada, half of which is used by him for his residence and half is given on rent (converted into INR is Rs 12,00,000 p.a.).

He purchased a flat in Delhi on 13.10.2020 for Rs 42,00,000. SDV of the flat was Rs 35,00,000. He has taken a loan from Canara Bank in India of Rs 34,00,000 for purchase of this flat. The interest on such loan for FY 2022-23 was Rs 3,14,000 and principal repayment was Rs 80,000. Mr Animesh has given this flat on monthly rent of Rs 32,500 since April 2022. The annual property tax of Delhi flat is Rs 40,000 which is paid by Mr Animesh, whenever he comes to India to meet his parents.

Mr Animesh visited India for 124 days during PY 2022-23. Before that he visited India in total for 366 days during the period 1.4.2018 to 31.3.2022.

He had a house in Ranchi which was sold in May 2019. In respect of this house, he received arrears of rent of Rs 2,96,000 in February 2023 (not taxed earlier).

He also derived some other incomes during FY 2022-23 which are as follows:

- Profit from business in Canada Rs 2,75,000
- Interest on bonds of a Canadian Co Rs 6,20,000 out of which 50% was received in India.
- Income from Apple Orchid in Nepal given on contract and the yearly contract fee of Rs 5,00,000 for FY 2022-23 was received by Animesh in Nepal.

Mr Animesh has sold 10,000 listed shares @ Rs 480 per share of A Ltd, an Indian company, on 15.9.2022, which he acquired on 05-04-2016 @ Rs 100 per share. STT was paid both at the time of acquisition as well as at the time of transfer of such shares. On 31-01-2018, the shares of A Ltd were traded on a recognized stock exchange as under:

- Highest price - Rs 300 per share
- Average price - Rs 290 per share
- Lowest price - Rs 280 per share

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

1. What would be the residential status of Mr Animesh for AY 2023-24?
 - a) Resident and ordinarily resident in India
 - b) Resident but not ordinarily resident in India
 - c) Non-resident
 - d) Deemed resident
2. What amount would be taxable u/h "Income from house property" in the hands of Mr Animesh for AY 2023-24?
 - a) Rs 2,52,200
 - b) Rs 1,38,200
 - c) Rs 9,78,200
 - d) Rs 10,92,200
3. What amount of capital gain would arise in the hands of Mr Animesh on transfer of shares of A Ltd?
 - a) Rs 18,00,000
 - b) Rs 19,00,000
 - c) Rs 20,00,000
 - d) Rs 38,00,000
4. What would be total income of Mr Animesh for AY 2023-24, if he does not opt to pay tax u/s 115BAC?
 - a) Rs 22,82,200
 - b) Rs 22,68,200
 - c) Rs 22,48,200
 - d) Rs 21,68,200
5. What would be the tax liability (computed in the manner so as to minimise his tax liability) of Mr Animesh for AY 2023-24?
 - a) Rs 1,82,950
 - b) Rs 1,87,110
 - c) Rs 1,80,350
 - d) Rs 1,84,510

Answer Key

1.	(b) Resident but not ordinarily resident in India
2.	(b) Rs 1,38,200
3.	(a) Rs 18,00,000
4.	(d) Rs 21,68,200
5.	(c) Rs 1,80,350

MCQs CASE STUDY 2:

Mr Kashyap, a manufacturer, has disclosed a net profit of Rs 40 lakhs for the year ended 31st March 2023. He claimed depreciation of Rs 12,20,000 in his books of account. Expenditure in P&L A/c includes interest paid to Mr Raj, a resident, without deduction of tax at source Rs 1,50,000. Such tax was, however, deducted on 15.4.2023 and remitted on 17.5.2023.

Mr Kashyap is engaged in in-house scientific research and development. He incurred expenditure of Rs 1,50,000 on purchase of research equipments and Rs 1,00,000 as remuneration paid to scientists. The said sums are also debited in P&L A/c.

Mr Kashyap purchased a new plant and machinery for Rs 45L on 2nd August 2022 and put the same to use on 1st November 2022. For this purpose, he borrowed Rs 25L on 1st August 2022 and paid interest @ 10% p.a. which is debited in P&L A/c. Mr Kashyap also purchased a motor car for Rs 8L on 2nd October 2021, which was put to use on the same date. WDV of block of P&M (15%) as on 1st April 2022 is Rs 95L. Turnover for PY 2021-22 and PY 2022-23 is Rs 2.5 Cr and Rs 3 Cr respectively.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

- What would be the depreciation allowable u/s 32 in respect of block of plant and machinery (15%) and motor car for AY 2023-24? Assume that motor car is the only asset in the block.
 - Rs 22,23,438 and Rs 1,68,000, respectively
 - Rs 17,67,188 and Rs 1,02,000, respectively
 - Rs 22,12,500 and Rs 1,02,000, respectively
 - Rs 22,23,438 and Rs 1,02,000, respectively
- What is the amount of disallowance, if any, attracted for non-deduction of tax at source on interest paid to Mr Raj during PY 2022-23?
 - Nil, since the tax was deducted and deposited on or before the due date of filing of return of income
 - Rs 30,000
 - Rs 45,000
 - Rs 1,50,000
- What would be the income under the head "Profits and gains of business and profession" of Mr Kashyap for AY 2023-24 under the normal provisions of the Act?
 - Rs 30,02,062
 - Rs 28,73,562
 - Rs 28,01,562
 - Rs 33,95,812
- What would be the income chargeable under the head "Profits and gains of business and profession" of Mr Kashyap for AY 2023-24, if he opts for section 115BAC?
 - Rs 29,50,500
 - Rs 32,00,500
 - Rs 34,58,312
 - Rs 36,42,312
- What would be the tax liability of Mr Kashyap for AY 2023-24 in a manner most beneficial to him?
 - Rs 7,25,560
 - Rs 7,41,640
 - Rs 7,01,550
 - Rs 6,47,560

Answer Key

1.	(d) Rs 22,23,438 and Rs 1,02,000, respectively
2.	(c) Rs 45,000
3.	(a) Rs 30,02,062
4.	(c) Rs 34,58,312
5.	(b) Rs 7,41,640

MCQs CASE STUDY 3:

Mr Akash had bought a residential house worth Rs 2.5 crores at South Extension, Delhi in 2020 and let out the house on rent to Mr Riyaz. The property was funded through loan from PNB. Interest due for FY 2022-23 to PNB is Rs 25 lakhs, out of which he paid only Rs 20 lakhs during the year. Mr Akash then took a loan of Rs. 1.5 crores from SBI on 1.7.2022 for construction of first floor in that house for self-occupation. The construction is in progress as on 31.3.2023. Mr Akash started repaying EMIs due to SBI. During PY 2022-23, he repaid principal amount of Rs 25 lakhs and Rs 5 lakhs to PNB and SBI, respectively. He also paid interest of Rs 8 lakhs to SBI out of Rs 10 lakhs, being interest due for the period from 1.7.2022 to 31.3.2023.

Mr Akash owns another house in Haryana. He transferred that house to his minor daughter Miss Sia on her birthday as her birthday gift. Miss Sia gave the said house to the local Panchayat from September 2022 at a rent of Rs 5,000 per month. Mrs Akash's total income for AY 2023-24 is higher than that of Mr Akash. This is the first year when Miss Sia has any source of income.

Mr Akash bought electric vehicle worth Rs 50 lakhs on loan from BSM Bank which it sanctioned on 1.4.2022. BSM Bank charged interest of Rs 7 lakhs on electric vehicle for PY 2022-23. Mr Akash has also taken loan from ABC Bank for his daughter's higher education. He paid Rs 50,000 as interest to ABC Bank. He also paid mediclaim of Rs 20,000 to New India Assurance Scheme for insuring his health.

Mrs Akash owns a shop of 200 square feet area in Gurgaon. She rented it to Mr Vishal from October 2022 at Rs 60,000 per month, who gave her an interest-free deposit of Rs 1,50,000.

Based on the facts of the case scenario given above, choose the most appropriate answer to the following questions:

- What is the amount of interest allowable as deduction u/s 24 to Mr Akash for AY 2023-24?
 - Rs 2 lakhs
 - Rs 25 lakhs
 - Rs 28 lakhs
 - Rs 35 lakhs
- What is the amount of deduction permissible to Mr Akash under Chapter VI-A of Income Tax Act, 1961 for AY 2023-24?
 - Rs 1,70,000
 - Rs 2,20,000
 - Rs 3,70,000
 - Rs 9,20,000
- Is notional interest on interest free deposit received in respect of shop let out on rent chargeable to income-tax? If so, under which head of income would the same be taxable?
 - No, it is not chargeable to tax
 - Yes, it is chargeable to tax as profits and gains from business, since a commercial property has been let out.
 - Yes, it is chargeable to tax as "Income from Other Sources", being the residuary head of income.
 - Yes, it is chargeable to tax as "Income from house property", since Section 22 does not distinguish between a residential house property and commercial house property.
- In whose hands would Sia's rental income from house property at Haryana be taxable and how much income would be taxable?
 - In Sia's hands; Rs 24,500
 - In Mr Akash's hands; Rs 24,500
 - In Mrs Akash's hands; Rs 23,000
 - It would change every year depending on the parent whose income is higher in that year.

Answer Key

1.	(b) Rs 25 lakhs
2.	(c) Rs 3,70,000
3.	(a) No, it is not chargeable to tax
4.	(b) In Mr Akash's hands; Rs 24,500