

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions

Question No. 1 (2 Marks)

Which of the following individuals would be entitled to opt for presumptive taxation schemes under the Income-tax Act, 1961 for A.Y.2020-21?

- i. A retail trader having turnover of Rs.2 crore during the previous year 2019-20
- ii. A practicing CA having gross receipts of Rs.92 lakhs during the previous year 2019-20.
- iii. A wholesale trader having turnover of Rs.1.96 crore during the previous year 2019-20.
- iv. A doctor having gross receipts of Rs.50 lakhs during the previous year 2019-20.
- v. Individual owning 8 goods carriages as on 01.04.2019. He sold 2 goods carriages on 01.05.2019 and purchased 4 goods carriages on 01.07.2019.

- (a) Only (iii)
- (b) (iii) & (v)
- (c) (i), (iii), (iv) & (v)
- (d) (i), (ii), (iii), (iv) & (v)

Question No. 2 (2 Marks)

Mr. Shahid, a wholesale supplier of dyes, provides you with the details of the following cash payments he made throughout the year –

- 12.06.2019: loan repayment of Rs.27,000 taken for business purpose from his friend Kunal. The repayment also includes interest of Rs.5,000.
- 19.08.2019: Portable dye machinery purchased for Rs.15,000. The payment was made in cash in three weekly installments.
- 26.01.2020: Payment of Rs.10,000 made to electrician due to unforeseen electric circuit at shop
- 28.02.2020: Purchases made from unregistered dealer for Rs.13,500 The total disallowance under 40A(3), if any, will be –

- a) Rs.23,500
- b) Rs.28,500
- c) Rs.13,500
- d) Nil

Question No. 3 (1 Mark)

X Ltd., a company engaged in the business of manufacturing, paid Rs.2 lakh to IISc, Bangalore (an approved and notified institution) for scientific research. It also incurred capital expenditure of Rs.12 lakh (including cost of acquisition of land Rs.5 lakh) on in-house research and development facility as approved by the prescribed authority. The deduction under section 35 for A.Y.2020-21 would be

- (a) Rs.9,00,000
- (b) Rs.13,50,000
- (c) Rs.14,00,000
- (d) Rs.10,00,000

Question No. 4 (1 Mark)

XYZ Ltd. incurred capital expenditure of Rs. 1,50,000 on 01.04.2019 for acquisition of patents and copyrights. Such expenditure is –

- (a) Eligible for deduction in 14 years from A.Y.2020-21
- (b) Eligible for deduction in 5 years from A.Y.2020-21
- (c) Subject to depreciation @ 25% under section 32
- (d) Subject to depreciation @ 15% under section 32

Division B – Descriptive Questions

Question 1 (10 Marks)

Organic Ltd., engaged in the business of manufacturing, shows a net profit of Rs. 450 lakhs from its profit and loss account for the year ended 31-03-2020 after debiting and crediting the following items:

- (i) Depreciation provided in accounts as per straight line basis Rs. 30 lakhs.
- (ii) The company has made cash payments for purchases and expenditure as below:
On 20-07-2019 Rs. 5.5 lakhs (for purchase of agricultural produce), On 17-01-2020 Rs. 6 lakhs (Due to cash demanded by the supplier) On 01-04-2019 Rs. 12 lakhs (a bank holiday)
Cash payments made to transport operator for hiring of lorry are as follows:
10-06-2019 Rs. 25,000; 25-08-2019 Rs. 70,000; 10-02-2020 Rs. 40,000.
- (iii) Rs. 10 lakhs paid to Kaira Ltd., towards feasibility study conducted for examining proposals for technological advancement relating to the existing business. The project was abandoned later.
- (iv) It incurred revenue expenditure of Rs. 7.5 lakhs towards scientific research on in-house approved research and development facility under section 35(2AB).
- (v) The company has also purchased goods of Rs. 55 lakhs from M/s. ABC Ltd. in which Directors have substantial interest. The market value of the goods is Rs. 50 lakhs.
- (vi) Employer's contribution of Rs. 3.5 lakhs and Employee's contribution of Rs. 3.5 lakhs to the Provident Fund for the month of March, 2020 were remitted on 14th August, 2020.
- (vii) It paid Rs. 75,000 to an electoral trust by cash and Rs. 1,25,000 by cheque to a registered political party. Both these are debited to Profit and Loss Account.

Additional information

- (1) Depreciation allowable as per the Income-tax Rules, 1962 is Rs. 48 lakhs.
- (2) Out of an amount of Rs. 3 lakhs written off in the F.Y. 2013-14 as irrevocable from a debtor; Rs. 1.5 lakhs was recovered on 19-09-2019 and credited to a reserve account.

Compute the gross total income of Organic Ltd. for the Assessment Year 2020-21 indicating in brief, the reason for treatment of each item. Ignore the provisions relating to minimum alternate tax.

Question No. 2 (2 Marks each)

Discuss the correctness or otherwise of the following statements with reference to the provisions of the Income-tax Act, 1961 –

- (a) Additional depreciation in respect of new plant and machinery installed can be claimed by assessee engaged in the business of generation or generation and distribution of power but not by assessee engaged in the business of transmission of power.
- (b) Banks, public financial institutions, state financial corporations and state industrial investment corporations are eligible for deduction under section 36 in respect of provision for bad and doubtful debts; Non-banking Financial Companies are not eligible for such deduction.