

Division A – Multiple Choice Questions

Write the most appropriate answer to each of the following multiple choice questions by choosing one of the four options given. All questions in this division are compulsory.

Question No. 1 (2 Marks)

Mr. X, set up a manufacturing unit in Warangal in the state of Telangana on 01.06.2019. It invested Rs.30 crore in new plant and machinery on 01.06.2019. Further, it invested Rs. 25 crore in the plant and machinery on 01.11.2019, out of which Rs. 5 crore was second hand plant and machinery. The depreciation allowable under section 32 for A.Y.2020-21 is

- (a) Rs.15.375 crore
- (b) Rs.20.375 crore
- (c) Rs.14.875 crore
- (d) Rs.11.375 crore

Question No. 2 (2 Marks)

Delta Limited is engaged in growing and manufacturing rubber in India. It commenced its operations from 1st April, 2019. It acquired plant and machinery (second hand), factory building and furniture at a cost of Rs.62 lakhs, Rs.37 lakhs and Rs.8 lakhs, respectively, in the P.Y. 2019-20 by way of ECS through bank account. Assuming that all the assets were put to use for more than 180 days during the P.Y. 2019-20, you are required to compute the written down value of each block as on 1st April, 2020.

- (a) Rs.52.70 lakhs; Rs.33.30 lakhs & Rs.7.20 lakhs
- (b) Rs.58.75 lakhs; Rs.35.71 lakhs & Rs.7.72 lakhs
- (c) Rs.58.28 lakhs;Rs.35.52 lakhs & Rs.7.68 lakhs
- (d) Rs.59.675 lakhs; Rs.36.075 lakhs & Rs.7.8 lakhs

Question No. 3 (1 Marks)

An electricity company charging depreciation on straight line method on each asset separately, sells one of its machinery in April, 2019 at Rs. 1,20,000. The WDV of the machinery at the beginning of the year i.e. on 1st April, 2019 is Rs. 1,35,000. No new machinery was purchased during the year. The shortfall of Rs. 15,000 is treated as –

- (a) Terminal depreciation
- (b) Short-term capital loss
- (c) Normal depreciation.
- (d) Any of the above, at the option of the assessee

Question No. 4 (1 Marks)

Mr. X, a retailer acquired furniture on 10th May 2019 for Rs. 10,000 in cash and on 15th May 2019, for Rs. 15,000 and Rs. 20,000 by a bearer cheque and account payee cheque, respectively. Depreciation allowable for A.Y. 2020-21 would be –

- (a) Rs. 2,000
- (b) Rs. 3,000
- (c) Rs. 3,500
- (d) Rs. 4,500

Division B – Descriptive Questions

Question No. 1 (3 Marks each)

- (a) A car purchased by Dr. Soman on 10.08.2015 for Rs. 5,25,000 for personal use is brought into professional use on 1.07.2019 by him, when its market value was Rs. 2,50,000. Compute the actual cost of the car and the amount of depreciation for the assessment year 2020 -21 assuming the rate of depreciation to be 15%.
- (b) Mr. Arnav is a proprietor having two units – Unit A carries on specified business of setting up and operating a warehousing facility for storage of sugar; Unit B carries on non-specified business of operating a warehousing facility for storage of edible oil. Unit A commenced operations on 01.04.2018 and it claimed deduction of Rs. 100 lacs incurred on purchase of two buildings for Rs. 50 lacs each (for operating a warehousing facility for storage of sugar) under section 35AD for A.Y.2019-20. However, in February, 2020, Unit A transferred one of its buildings to Unit B. Examine the tax implications of such transfer in the hands of Mr. Arnav.
- (c) X Ltd. contributes 20% of basic salary to the account of each employee under a pension scheme referred to in section 80CCD. Dearness Allowance is 40% of basic salary and it forms part of pay of the employees. Compute the amount of deduction allowable under section 36, if the basic salary of the employees aggregate to Rs. 10 lakh. Would disallowance be attracted, and if so, to what extent?

Question 2 (3 Marks)

X Ltd transferred its fertilizer business to a new company Y Ltd by way of demerger with effect from appointed date of 01.04.2019 after satisfying the conditions of demerger. Further information given;

- 1) WDV of the entire block of plant and machinery held by X Ltd as on 01.04.2019 is Rs. 100 crores;
- 2) Out of the above, WDV of block of plant and machinery of fertilizer division is Rs. 70 crore;

Explain the provisions of the income tax as to the allowability of depreciation, post merger, in the hands of X Ltd and Y Ltd as at 31.03.2020 duly calculating the depreciation.

Question No. 3 (2 Marks)

XYZ Ltd. is a company engaged in the manufacture of paints. The company incurred preliminary expenses of Rs. 42 lakhs. The cost of the project was Rs. 400 lakhs and the capital employed in the business of the company was Rs. 700 lakhs. For the purpose of claiming deduction under section 35D, the company restricted the said expenditure to Rs. 35 lakhs, i.e., 5% of Rs. 700 lakhs, being the capital employed in the business of the company. For this purpose, the company treated share premium of Rs. 100 lakhs as part of the capital employed. For the A.Y.2020-21, it claimed deduction of Rs. 7 lakhs, being 1/5th of Rs. 35 lakhs, under section 35D. The Assessing Officer disallowed Rs. 1 lakh, being the portion relating to share premium (1/5th of 5% of Rs. 100 lakhs), contending that the same was not part of capital employed. Whether "premium" on subscribed share capital is "capital employed in the business of the company" under section 35D to be eligible for a deduction? Examine the correctness of contention of the Assessing Officer.