PGBP TEST PAPER -1- QUESTION: (30 MARKS) 1 HOUR 15 MINS

MULTIPLE CHOICE QUESTIONS:

Q1. X Ltd. is engaged in the business of letting out of properties. As per the memorandum of association of X Ltd., letting out of properties is its main objective. The total income of X Ltd. comprises only of rental income from the business of letting out of properties. Y Ltd. is engaged in the construction and sale of properties, which is also its main objective as per its memorandum of association. Incidentally, it lets out some properties which are held as stock-in-trade and earns rental income therefrom. Which of the following statements are correct?

(a) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head “Income from house property”
(b) Rental income from letting out of properties by X Ltd. and Y Ltd. is taxable under the head “Profits and gains of business or profession”
(c) Rental income from letting out of properties by X Ltd. is taxable under the head “Income from house property” and by Y Ltd is taxable under the head “Profits and gains of business or profession”
(d) Rental income from letting out of properties by Y Ltd. is taxable under the head “Income from house property” and X Ltd is taxable under the head “Profits and gains of business or profession”

(2 MARKS)

Q2. PQ Ltd. is a company having two units – Unit P carries on specified business of setting up and operating warehousing facility for storage of agricultural produce and Unit Q carries on specified business of setting up and operating warehousing facility for storage of edible oil. Unit P commenced operations on 1.4.2019 and claimed deduction of Rs. 120 lakhs incurred in April 2019 on purchase of two buildings for Rs. 70 lakhs and Rs. 50 lakhs (for operating warehousing facility for storage of agricultural produce) under section 35AD for A.Y.2020-21. However, in March 2021, Unit P transferred its building costing Rs. 70 lakhs to Unit Q. What are the tax implications of such transfer in the hands of PQ Ltd.?

(i) Rs. 70 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2021-22
(ii) Rs. 63 lakhs would be deemed as business income in the hands of PQ Ltd. for A.Y.2021-22
(iii) Actual cost of building for computing depreciation for P.Y.2020-21 would be Rs. 70 lakhs
(iv) Actual cost of building for computing depreciation for P.Y.2021-21 would be Rs. 63 lakhs

Which of the above statements are correct?

(a) (i) and (iii) above
(b) (i) and (iv) above
(c) (ii) and (iii) above
(d) (ii) and (iv) above.

(2 MARKS)
DESCRIPTIVE QUESTIONS:

Q3. Ms. Janani reports to you that her gross receipt from interior decoration profession carried on by her during the year ended 31-03-2021 is Rs. 47,80,000. Her net income as per income and expenditure account is Rs. 25,00,000 before adjustment of depreciation of Rs. 1,50,000. She did not pay any amount by way of advance tax during the financial year 2020-21. She has two residential house properties, of which one is self-occupied for residence and another is let out for the monthly rent of Rs. 15,000 during the financial year 2020-21.

Is Janani eligible to opt for presumptive tax provisions, if any, under the Income-tax Act, 1961? If so, is it beneficial for her to opt for such provisions? Advise, assuming that she approached you for consulting on this matter in April, 2021. (10 MARKS)

Question 4

XYZ Ltd. is engaged in the manufacture of textile since 01-04-2009. Its Statement of Profit & Loss shows a profit of Rs. 700 lakhs after debit/credit of the following items:

1) Depreciation calculated on the basis of useful life of assets as per provisions of the Companies Act, 2013 is Rs. 50 lakhs.

2) Employer's contribution to EPF of Rs. 2 lakhs and Employees' contribution of Rs. 2 lakhs for the month of March, 2021 were remitted on 8th May 2021.

3) The company appended a note to its Income Statement that industrial power tariff concession of Rs. 2.5 lakhs was received from the State Government and credited the same to Statement of P & L.

4) The company had provided an amount of Rs. 25 lakhs being sum estimated as payable to workers based on agreement to be entered with the workers union towards periodical wage revision once in 3 years. The provision is based on a fair estimation on wage and reasonable certainty of revision once in 3 years.

5) The company had made a provision of 10% of its debtors towards bad and doubtful debts. Total sundry debtors of the company as on 31-03-2021 was Rs. 200 lakhs.

6) A debtor who owed the company an amount of Rs. 40 lakhs was declared insolvent and hence, was written off by debit to Statement of Profit and loss.

7) Sundry creditors include an amount of Rs. 50 lakhs payable to A & Co, towards supply of raw materials, which remained unpaid due to quality issues. An agreement has been made on 31-03-2021, to settle the amount at a discount of 75% of the outstanding. The amount waived is credited to Statement of Profit and Loss.

8) The opening and closing stock for the year were Rs. 200 lakhs and Rs. 255 lakhs, respectively. They were overvalued by 10%.

9) Provision for gratuity based on actuarial valuation was Rs. 500 lakhs. Actual gratuity paid debited to gratuity provision account was Rs. 300 lakhs.

10) Commission of Rs. 1 lakh paid to a recovery agent for realization of a debt. Tax has been deducted and remitted as per Chapter XVIIB of the Act.

11) The company has purchased 500 tons of industrial paper as packing material at a price of Rs. 30,000/ton from PQR, a firm in which majority of the directors are partners. PQR's normal selling price in the market for the same material is Rs. 28,000/ton.
Additional Information:

(1) There was an addition to Plant & Machinery amounting to Rs. 50 lakhs on 10-06-2020, which was used for more than 180 days during the year. Additional depreciation has not been adjusted in the books.

(2) Normal depreciation calculated as per income-tax rules is Rs. 80 lakhs.

(3) The company had credited a sub-contractor an amount of Rs. 10 lakhs on 31-03-2020 towards repairing a machinery component. The tax so deducted was remitted on 31-12-2020.

(4) The company has collected Rs. 7 lakhs as sales tax from its customers and paid the same on the due dates. However, on an appeal made, the High Court directed the Sales Tax Department to refund Rs. 3 lakhs to the company. The company in turn refunded Rs. 2 lakhs to the customers from whom the amount was collected and the balance of Rs. 1 lakh is still lying under the head “Current Liabilities”.

Compute total income and tax payable for A.Y. 2021-22. Ignore MAT provisions.

Note - The turnover of XYZ Ltd. for the P.Y.2018-19 was Rs. 405 crores. (10 MARKS)