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# **Direct Tax Laws & International Taxation**

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- ▶ Coverage of Past Exam Questions Including Nov. 2023 Exam (Solved)
- ▶ Chapter-wise Marks Distribution & Trend Analysis of Past Exams
- ▶ More than 600 Practical Questions & Solutions

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# 1

## CHAPTER

# PROFITS AND GAINS OF BUSINESS OR PROFESSION

**Q1.** Explain in brief, the treatment as to the taxability and/or allowability, under the provisions of Income-tax Act, 1961:

'C' Ltd., which did not have any active business carried on by it incurred capital expenditure on scientific research amounting to ₹ 5,00,000 that related to its subsidiary companies. [CA Final May 2010] [3 Marks]

**Ans.** As per section 35(1)(iv), deduction in respect of capital expenditure on scientific research shall be allowed only if the scientific research relates to the business carried on by the assessee.

However, in the given case, 'C' Ltd., did not have any active business carried on by it to which the said scientific research related to. The capital expenditure incurred by 'C' Ltd. related to its subsidiary companies and therefore, 'C' Ltd. is not eligible for deduction.

**Q2.** Indian Gas Limited commenced its operation of the business of laying and operating a cross country natural gas pipeline network for distribution on 1<sup>st</sup> July, 2023. The company incurred capital expenditure of ₹ 300 lakhs (including cost of land ₹ 45 lakhs and cost of financial instrument ₹ 5 lakhs) during the period from 1<sup>st</sup> April, 2022 to 30<sup>th</sup> June, 2023. The entire expenditure was capitalised on 1<sup>st</sup> July, 2023. Further, during the previous year 2023-24, the company incurred capital expenditure of ₹ 200 lakhs exclusively for the said business.

- (i) Compute the deduction allowable u/s 35AD assuming that the company has fulfilled all the conditions specified in section 35AD.
- (ii) If the company has loss from such business in the A.Y. 2024-25, how the same is to be set off and carried forward?

[CA Final May 2010] [6 Marks]

**Ans.**

- (i) As per Sec. 35AD, where the assessee commences the business of laying and operating a cross-country natural gas or crude or petroleum pipeline network for distribution, including storage facilities, he shall



be eligible for, if it has opted, 100% of the capital expenditure incurred during the previous year, wholly and exclusively for the above business as deduction from the business income. However, expenditure incurred on acquisition of any land, goodwill or financial instrument would not be eligible for deduction.

If the capital expenditure is incurred before the commencement of such specified business, then deduction shall be allowed in the year of commencement provided such expenditure is capitalized in books of account on the date of commencement.

Therefore, deduction admissible u/s 35AD for A.Y. 2024-25 would be:

	₹ in lakhs
Capital expenditure incurred during the P.Y. 2023-24	200
Capital expenditure incurred prior to commencement of business and capitalized in the books of account on 1-07-2023 (₹ 300 lakhs - ₹ 50 lakhs i.e. cost of land and financial instrument)	250
Total deduction u/s 35AD for A.Y. 2024-25	450

- (ii) As per Sec. 73A, loss in respect of the specified business shall be set off only against profits and gains of any specified business and the unabsorbed loss can be carried forward indefinitely and restriction of carry forward of loss for 8 assessment years is not applicable.

**Q3. Aditya, Avirup and Avigyan carried on business of running hotels in partnership from 1<sup>st</sup> April, 2014 to 31<sup>st</sup> March, 2021. In order to increase its scale of operation and meet its fund requirement, the firm decided to carry on its business through corporate route. For that purpose, a company under the name and style "Triple A Hospitality Private Limited" was formed on 1<sup>st</sup> April, 2022 and the business of the partnership firm as a whole was succeeded to by the company with effect from 1<sup>st</sup> June, 2022. The company's statement of profit and loss for the year ended 31<sup>st</sup> March, 2024 shows a net profit of ₹ 450 lakhs after debit/credit of the following items:**

- (i) Interest of ₹ 3 lakhs paid to Allahabad Bank on a term loan taken for the purpose of acquiring a land at Bhubaneswar for a new hotel to be set up.
- (ii) Depreciation charged ₹ 40 lakhs.
- (iii) ₹ 2 lakhs credited on account of waiver of dues obtained from a supplier of the erstwhile firm against supply of certain materials.
- (iv) ₹ 1.18 lakhs being the aggregate of amounts paid in cash to Rajaram, a transport contractor as follows:



Date of Payment	₹
5th June, 2023	15,000
20th July, 2023	21,000
20th September, 2023	22,000
3rd November, 2023	26,000
5th November, 2023	36,000

Tax was not deducted at source as Rajaram submitted a certificate u/s 197(1) which he had obtained from the TDS circle of the Income-tax Department.

- (v) ₹ 0.50 lakh, being proportionate part of the cost of animals (purchased and kept for entertainment of the guests of hotel) amortised as per the accounting policy of the company.
- (vi) ₹ 0.10 lakhs credited on account of sale proceeds of carcass of animal which died during the year.
- (vii) Provision for bad and doubtful debts ₹ 12 lakhs.
- (viii) Payment of ₹ 25 lakhs to some employees as compensation for voluntary retirement, as per scheme.

**Other Information:**

- (i) Depreciation as per the Income-tax Act, 1961 ₹ 65 lakhs.
- (ii) Cost of animal died as referred to in (vi) above was ₹ 2 lakhs.
- (iii) Debt of ₹ 4 lakhs due from one corporate customer for three months has been written off during the year after giving few reminders by debiting provision for bad and doubtful debts account.
- (iv) The erstwhile firm was allowed exemption of ₹ 50 lakhs u/s 47(xiii) in respect of long-term capital assets transferred to the company.
- (v) The company's voting rights till 31<sup>st</sup> March, 2023 were held as follows:
 

Aditya	40%
Avirup	30%
Avigyan	15%
Others	15%

During the year, shares constituting 36% voting rights were sold by Aditya to his son-in-law, Avishek.

- (vi) Unabsorbed business loss and unabsorbed depreciation of ₹ 10 lakhs each have been carried forward from A.Y. 2022-23.
- (vii) The company has a subsidiary company, Tours & Travels Private Limited (a closely held company). During the year, the company obtained a temporary loan of ₹ 12 lakhs from its subsidiary company.



Accumulated profit of the subsidiary company was ₹ 30 lakhs at the time of payment of the loan. The loan was repaid by the company before the end of the year.

Compute total income of Triple A Hospitality Private Limited for the A.Y. 2024-25. Ignore the provisions relating to minimum alternate tax.

[CA Final May 2010] [20 Marks]

Ans. Computation of Total Income of Triple A Hospitality (P) Ltd.  
for the A.Y. 2024-25

	₹	₹
Net Profit as per Statement of Profit & Loss		4,50,00,000
<b>Add: Items debited but to be considered separately or to be disallowed</b>		
Interest on loan taken for acquiring land [Interest paid on capital borrowed for acquisition of an asset shall not be allowed as deduction till the date on which such asset is put to use. Since, the land is yet to be put to use, deduction for interest is not allowable]	3,00,000	
Depreciation debited in accounts	40,00,000	
Payment to transport contractor [Payment made to Rajaram on 5-11-2023 in cash of ₹ 36,000 will be disallowed u/s 40A(3) since it exceeds ₹ 35,000. Since, Rajaram has submitted a certificate u/s 197(1), no tax is required to be deducted and sec. 40(a)(ia) shall not be attracted]	36,000	
Amortisation of cost of animals to be treated separately	50,000	
Provisions for bad and doubtful debts [Provision for bad and doubtful debts is allowable as deduction u/s 36(1)(viii) only in the case of specified banks and financial institutions]	12,00,000	
Compensation for voluntary retirement [Expenditure on voluntary retirement of any employee shall be allowed as deduction u/s 35DDA only for 1/5th of the amount so paid and balance shall be deducted in four equal instalments in the immediately succeeding four previous years. Therefore, out of ₹ 25,00,000, ₹ 5,00,000 is deductible in A.Y. 2024-25 and the balance of ₹ 20 lakhs shall be added back]	20,00,000	75,86,000
		5,25,86,000



<b>Less: Items credited but to be considered separately or to be allowed</b>		
Waiver of Dues by supplier [Waiver of ₹ 2,00,000 obtained from the supplier of predecessor firm shall be deemed as business income u/s 41(1) of the assessee company. Since the amount is already credited, no adjustment is necessary]	-	
Sale proceeds of carcass of animal to be treated separately	10,000	
Depreciation allowable under the Income-tax Act, 1961	65,00,000	
Deduction in respect of dead animal [Where animals have been used in the business, otherwise than as stock-in-trade, the difference between the actual cost of the animals and amount realized for animals or carcasses shall be allowed as deduction u/s 36(1)(vi) in the year when they die or become permanently useless. Therefore, ₹ 1,90,000 (₹ 2,00,000 - ₹ 10,000) will be allowed as deduction]	1,90,000	
Bad debts written off [It is allowed as deduction u/s 36(1)(vii) since it is written off as irrecoverable in the books of account by debiting the provision for bad and doubtful debts]	4,00,000	71,00,000
<b>Profits and Gains from Business and Profession</b>		4,54,86,000
<b>Capital Gains</b> Deemed long-term capital gain u/s 47A(3) [Since, before the expiry of 5 years from the date of succession, Aditya sold shares carrying 36% voting rights to his son-in-law which reduces the aggregate of shareholding of the partners in the company to below 50%, the long-term capital gain which was not charged to tax in the hands of the firm in the year of succession shall be deemed to be long-term capital gain of the assessee company in the A.Y. 2024-25 as per Sec. 47A(3)]		50,00,000
<b>Income from Other Sources</b>		
Deemed dividend u/s 2(22)(e) [Temporary loan obtained from subsidiary company Tours & Travels Private Ltd., which is a closely held company, will be treated as deemed dividends u/s 2(22)(e) in the hands of Triple A Hospitality Pvt. Ltd. under the head 'Income from Other Sources']		12,00,000
<b>Total Income</b>		<b>5,16,86,000</b>



**Note:** As per Sec. 72A(6), accumulated loss and depreciation of the predecessor firm would become the loss and depreciation of the successor company provided the conditions laid down in section 47(xiii) are fulfilled. In this case, in the P.Y. 2023-24, one of the conditions as per the proviso to Sec. 47(xiii) is not satisfied i.e. aggregate shareholding of erstwhile partners falls below 50%, and therefore, the business loss and unabsorbed depreciation cannot be set-off.

**Q4.** Della Limited is engaged in manufacturing pipes and tubes. The Statement of Profit and Loss of the company for the year ended on 31<sup>st</sup> March, 2024 shows a net profit of ₹ 405 lakhs. The following information and particulars are furnished to you. Compute the total income of the company for A.Y. 2024-25 indicating reasons for treatment of each item:

- (i) A group free air ticket was provided by a supplier for reaching a certain volume of purchase during the financial year 2023-24. The same is encashed by the company for ₹ 10 lakhs in April 2024. The supplier had deducted tax u/s 194R on such free air ticket provided to the company and paid to the Government.
- (ii) A regular supplier of raw materials agreed for settlement of ₹ 8 lakhs instead of ₹ 10 lakhs for poor quality of material supplied during the previous year which was not given effect in the running account of the supplier.
- (iii) Andhra Bank sanctioned and disbursed a term loan in the financial year 2020-21 for a sum of ₹ 50 lakhs. Interest of ₹ 8 lakhs were in arrears. The bank has converted the arrear interest into a new loan repayable in ten equal instalments. During the year, the company has paid two instalments and the amount so paid has been reduced from Funded Interest in the Balance Sheet.
- (iv) The company remitted ₹ 5 lakhs as interest to a company incorporated in USA on a loan taken two years ago. Tax deducted u/s 195 from such interest has been deposited by the company on 15th July, 2024. The said interest was debited to statement of profit and loss.
- (v) Liquidated damage of ₹ 3 lakhs received from KS Limited for delay in supply of plant and machinery has been shown under the head "Other income" in statement of profit and loss.
- (vi) Sandeep, a sales executive stationed at HO at Delhi, was on official tour in Bangalore from 31<sup>st</sup> May, 2023 to 18th June, 2023 and 28th September, 2023 to 15th October, 2023 for the business development. The company has paid Sandeep's salary in cash, from its local office at Bangalore for the month of May, 2023 (payable on 1<sup>st</sup> June) and September 2023 (payable on 1<sup>st</sup> October), amounting to ₹ 25,000 and ₹ 27,000 respectively (net of TDS and other deduction), as Sandeep



has no bank account at Bangalore. These were included in the amount of "salary" debited to statement of profit and loss.

(vii) The company has taken up initiative to restructure its debt and paid ₹ 20,000 to a finance company, M/s ABC Ltd., towards pre-payment premium. As per the scheme, ₹ 50,000 loans was waived against its loan and Della Limited directly credited it to its reserve account, considering loan waiver amount as capital receipt.

(viii) The company has contributed ₹ 50,000 by cheque to an electoral trust and the same stands included under the head "General Expenses".

[CA Final Nov. 2010] [10 Marks]

**Ans. Computation of total income of Della Ltd. for the A.Y. 2024-25**

	₹ (in lakhs)	
<b>Profits and gains from business or profession</b>		
Net profit as per Statement of Profit and Loss		405.00
<b>Add: Items debited but to be disallowed and items not considered in accounts but to be taxed [See Note below]</b>		
Value of group free air ticket provided by a supplier is taxable as business income u/s 28(iv), as the value of any benefit, whether convertible into money or not, arising from business is business income.	10	
Amount waived by the raw materials supplier is deemed income u/s 41(1), as the expenditure was earlier allowed as deduction and now there is a benefit by way of remission or cessation of a trading liability.	2	
Interest remitted to company incorporated in USA will not be disallowed u/s 40(a)(i) since tax is deducted by the assessee on interest and deposited within the time limit u/s 139(1) is not disallowed.	-	
Salary paid to sales executive in cash shall not be disallowed u/s 40A(3) as he was temporarily posted for a continuous period of more than 15 days in Bangalore, not being the place of his normal duty, tax was deducted from such salary u/s 192 and he does not maintain any bank account in Bangalore]	-	
Contribution to electoral trust is not an allowable expenditure while computing business income. Hence, the same has to be added back, since it is included in general expenses.	0.50	12.50
		<b>417.50</b>



	₹ (In lakhs)	
<b>Less: Amount of deduction allowable or amount credited but not taxable [See Note below]</b>		
Conversion of arrear of interest into a new loan by a bank cannot be considered as actual payment of interest for claiming deduction u/s 43B. However, to the extent the amount of funded interest (i.e. converted loan) is actually paid, deduction shall be allowed. Hence, ₹ 1,60,000, being two instalments of ₹ 80,000 each, actually paid is deductible.	1.60	
Liquidated damages received due to delay in supply of plant and machinery by the supplier relates to supply of capital asset. So it is in the nature of capital receipt and not revenue receipt. Since, it has been credited to the profit and loss statement, the same should be deducted.	3.00	
Remission of principal amount of loan does not amount to income u/s 41(1) or u/s 28(iv), where there is a waiver of loan taken from a bank or financial institution, unless the loan is taken for a trading activity. It is assumed that such loan is not taken for a trading activity and therefore, waiver of loan cannot be treated as income.	-	
Pre-payment premium is deductible as business expenditure in one lump-sum on actual payment	0.20	(4.80)
Business Income		412.70
<b>Gross total income</b>		412.70
Less: Deduction under Chapter VI-A		
Deduction u/s 80GGB for contribution by the assessee company to electoral trust.		0.50
<b>Total Income</b>		<b>412.20</b>

**Note:** Since the question is silent as to whether the net profit of ₹ 405 lakhs is after taking into account the adjustments in (i) to (viii), the problem has been worked out on the assumption that except for items (iv), (v) (vi) and (viii) in respect of which there is a specific mention about inclusion, all other adjustments i.e. (i), (ii), (iii) and (vii) have not been given effect to in the profit and loss account.

**Q5. ITP Limited is engaged in growing and manufacturing tea in India. It commenced its operation from 1<sup>st</sup> April, 2023. It acquired plant and machinery, factory building and furniture at cost of ₹ 40 lakhs, ₹ 25 lakhs**



and ₹ 10 lakhs, respectively, in the P.Y. 2022-23. All the assets were put to use for more than 180 days during 2023-24. Compute the WDV of each block of assets as on 1<sup>st</sup> April, 2024. [CA Final Nov 2010] [3 Marks]

**Ans.** As per Rule 8 of the Income-tax Rules, 1962, only 40% of income from business of growing and manufacturing of tea in India is deemed to be income liable to tax. The balance 60% would be agricultural income, which is not chargeable to tax.

As per *Explanation 7* to section 43(6), in cases of composite income, for the purpose of computing WDV of assets acquired before the previous year, the total amount of depreciation shall be computed as if the entire composite income of the assessee is chargeable to tax under the head "Profits and gains of business or profession". The depreciation so computed shall be deemed to have been "actually allowed" to the assessee.

Therefore, even if only 40% of ITP Ltd.'s income from sale of tea grown and manufactured in India is taxable, full depreciation (and not 40%) should be taken as "actually allowed" for the purpose of computing WDV. Accordingly, the WDV of each block as on 1<sup>st</sup> April 2024 will be as follows:

Plant & Machinery = ₹ 40 lakhs - ₹ 6 lakhs (15% of 40 lakhs) = ₹ 34 lakhs;  
 Building (Factory) = ₹ 25 lakhs - ₹ 2.50 lakhs (10% of 25 lakhs) = ₹ 22.50 lakhs;  
 Furniture = ₹ 10 lakhs - ₹ 1 lakh (10% of 10 lakhs) = ₹ 9 lakhs.

**Q6. Can brought forward losses and unabsorbed depreciation be set off against the profit determined u/s 44B? [CA Final May 2011] [4 Marks]**

**Ans.** Sec. 44B provides that notwithstanding anything contained in Secs. 28 to 43A, in case of a non-resident engaged in the business of operation of ships, a sum equal to 7.5% of:

- (a) The amounts paid or payable whether in or out of India to the assessee, on account of carriage of passengers, livestock, mail or goods shipped at any port in India, and
- (b) Any amount received or deemed to be received in India by or on behalf of the assessee, on account of carriage of passengers, livestock, mail or goods shipped at any port outside India,

shall be deemed to be the profit of such business.

Sec. 44B overrides Secs. 28 to 43A and therefore it overrides sec. 32 which deals with the unabsorbed depreciation. So, the unabsorbed depreciation cannot be set-off against the income deemed u/s 44B.

However, it does not override Chapter VI which relates to carry forward and set off of brought forward losses and therefore, the brought forward business losses can be set off against the income determined u/s 44B.



**Q7. X Co. Ltd. was amalgamated with Y Co. Ltd. on 30.04.2023. X Co. Ltd. was engaged in real estate whereas Y Co. Ltd. was engaged in manufacture of textile articles. Y Co. Ltd. on amalgamation altered its objects clause of Memorandum of Association, to carry on real estate business.**

**The stock in trade of X Co. Ltd. (being vacant lands) was taken over at ₹ 140 lakhs by Y Co. Ltd. as against their original cost of ₹ 125 lakhs to X Co. Ltd. for the purpose of amalgamation.**

**Y Co. Ltd. incurred ₹ 25 lakhs towards development of those lands obtained on amalgamation. It sold the entire land for ₹ 160 lakhs during the year ended on 31-03-2024. Determine the tax implication of the transaction in hands of Y Co. Ltd. for the assessment year 2024-25.**

**[CA Final May 2011] [4 Marks]**

**Ans.** In this case, since the stock-in-trade of X Co. Ltd. is taken over by Y Co. Ltd. on amalgamation, the provisions of section 43C are attracted and the cost of acquisition of vacant lands to Y Co. Ltd. (the amalgamated company) will be ₹ 125 lakhs, being the original cost of such lands to X Co. Ltd., the amalgamating company.

Since the amalgamated company i.e. Y Ltd. has altered its object clause so as to include real estate business, it is clear that the vacant land which were hitherto stock-in-trade for the amalgamating company continues to be in the nature of stock-in-trade for Y Ltd. Thereby, the provisions of section 45(2) i.e. conversion of capital asset into stock-in-trade is not attracted in this case.

Business income of Y Co. Ltd. on sale of such lands would be calculated as under:

	₹ (in lakhs)	
Sale price (in the hands of Y Co. Ltd.)		160
Less: Cost of acquisition under section 43C, being the original cost to the amalgamating company, X Co. Ltd.	125	
Cost of improvement (incurred by Y Co. Ltd.)	25	150
Taxable business income chargeable to Y Co. Ltd		10

**Q8. XYZ Pvt. Ltd. is engaged in manufacturing and selling ceramic tiles. The net profit of the company as per its statement of profit and loss for the year ended on 31.03.2024 is ₹ 150 lakh after debiting/crediting the following items:**

- (i) One-time license fee of ₹ 20 lakh paid to a foreign company for obtaining franchise on 1<sup>st</sup> June, 2023.
- (ii) ₹ 29,000 paid to A & Co., a goods transport operator, in cash on 31.01.2024 for distribution of the company's products to its warehouse.



- (iii) Rent of ₹ 6 lakh received from letting out a part of its office premises. Municipal tax in respect of the said part of the building amounting to ₹ 15,000 remains unpaid.
- (iv) ₹ 2 lakh, being contribution to a University notified u/s 35(1)(ii).
- (v) ₹ 3 lakh, being loss due to destruction of a machinery caused by a fire due to short circuit. The Insurance Company did not admit the claim of the company.
- (vi) ₹ 4 lakh and ₹ 1 lakh, being amounts waived by a bank out of principal and arrear interest, respectively, in an one-time settlement. The loan was obtained for meeting working capital requirement four years back.
- (vii) ₹ 1 lakh, being amount payable to a contractor (who does not have Permanent Account Number) for repair work at the company's factory. Tax of ₹ 2,000 was deducted and paid in time.
- (viii) Depreciation on tangible fixed assets ₹ 1 lakh.

**Additional Information:**

- (i) Depreciation on tangible fixed assets as per Income-tax Rules ₹ 1.75 lakh.
- (ii) The company has obtained a loan of ₹ 2 lakh from ABC Private Limited in which it holds 16% voting rights. The accumulated profits of ABC Private Limited on the date of receipt of loan was ₹ 0.50 lakh.

Compute total income of XYZ Private Limited for the A.Y. 2024-25 indicating reasons for treatment of each item. Ignore the provisions relating to minimum alternate tax. [CA Final Nov. 2011] [16 Marks]

**Ans.**

**Computation of total income of XYZ Pvt. Ltd. for the A.Y. 2024-25**

	₹	₹
<b>Income from House Property (Note 1)</b>		
Annual Rent	6,00,000	
Less: Municipal Taxes (not deductible since it has not been paid)	Nil	
Net Annual Value (NAV)	6,00,000	
Less: Deduction under section 24 (30% of NAV)	1,80,000	4,20,000
<b>Profits and gains of business or profession</b>		
Net profit as per statement of profit and loss	1,50,00,000	
Add: Licence fee for obtaining franchise [One-time licence fees paid to a foreign company for obtaining franchise will be treated as intangible asset eligible for depreciation @ 25%. Since, it has been		



debited to profit and loss statement, the same has to be added back]	20,00,000	
Payment to Goods Transport Operator in cash [₹ 29,000 paid to A & Co., a goods transport operator in cash will not be disallowed u/s 40A(3) since it does not exceed the limit of ₹ 35,000]	-	
Contribution to a university notified u/s 35(1)(ii) is eligible for deduction of 100%. Since, it has been already debited to profit and loss statement, no adjustment is required.	-	
Municipal taxes in respect of let-out part of office premises will be considered in calculating 'Income from House Property	15,000	
Loss due to destruction of machinery by fire [Not deductible since it is capital in nature]	3,00,000	
Amount payable to contractor not having PAN [Non-furnishing of PAN to deductor results in attracting provisions of section 206AA, which require tax to be deducted at a higher rate of 20%. Since, the company has deducted tax @ 2% and not @ 20%, disallowance u/s 40(a)(ia) would be attracted @ 30% in respect of payment of ₹ 1 lakh made to contractor i.e. ₹ 30,000]		
<b>Alternate:</b> It is possible to take a view that only proportional disallowance u/s 40(a)(ia) would be attracted in such a case. Another view is that disallowance u/s 40(a)(ia) is only for non-deduction of tax at source and not for short-deduction of tax and therefore, no disallowance should be made. The computation of total income would, accordingly, change.	30,000	
Depreciation on tangible fixed assets as per books.	1,00,000	
	1,74,45,000	



Less: Depreciation u/s 32		
Tangible fixed assets ₹ 1,75,000		
Intangible asset (Franchise) (25% of ₹ 20,00,000) ₹ 5,00,000	6,75,000	
Rental income to be taxed under 'Income from house property'	6,00,000	
Waiver of loan obtained for working capital requirement [Since, the loan is for meeting working capital requirement, the waiver is a benefit in respect of a trading-liability by way of remission or cessation thereof and is, hence, taxable u/s 41(1). Since, it has already been credited to profit and loss statement, no adjustment is required]	-	
Waiver of interest on bank loan [Since, interest on loan would have not been allowed as deduction in the earlier years as per section 43B due to non-payment of such interest, waiver of interest will not be taxable u/s 41(1)]	1,00,000	1,60,70,000
<b>Income from Other Sources</b>		
Deemed Dividend u/s 2(22)(e) [Since XYZ Pvt. Ltd. holds 16% voting rights in ABC Pvt. Ltd., out of the advance of ₹ 2,00,000 obtained from ABC Pvt. Ltd, ₹ 50,000 being the amount upto the accumulated profits of ABC Pvt. Ltd., shall be treated as deemed dividend u/s 2(22)(e) in the hands of XYZ Pvt. Ltd. ]		50,000
<b>Total Income</b>		<b>1,65,40,000</b>

**Q9. S Ltd. engaged in the business of manufacturing, having turnover of ₹ 244 crores for the previous year 2021-22 and net profit of ₹ 115 crores for the financial year ended on 31.3.2024, after debiting/crediting following items:**

- (i) On EPABX and mobile phones (exclusively used for the business purpose) purchased during the year, depreciation amounting to ₹ 18 crores was claimed at higher rate of 40% treating them at par with computer.
- (ii) Payment of ₹ 29 crores towards purchase of software from a non-resident, meant for subsequent resale in the Indian market (no tax deducted at source), was ultimately sold at a profit during the year 2023-24.



- (iii) Dividend of ₹ 10 crores received from a foreign company in which this company holds 28% in nominal value of the equity share capital of the company, ₹ 0.25 crore expended as interest on earning this income.
- (iv) A machine in use since past 7 financial years having WDV amounting to ₹ 1.50 crores on 1-04-2022 was discarded on 3-9-2023. The depreciation on the block at 15% has been provided and charged to profit and loss account for the previous year ended on 31-3-2023. The entire block is used for the purpose of business.
- (v) ₹ 45 crores were paid on 3-6-2023 to a National Laboratory with a stipulation that the said contribution shall be used for the purpose of an approved scientific research programme only.
- (vi) Secret commission of ₹ 13 crores was paid and debited under commission account.

**Additional Information:**

A debt of ₹ 10 crores was claimed as bad debt in the P.Y. 2022-23. Assessing Officer allowed only a sum of ₹ 5 crores as bad debts. In 2023-24, a sum of ₹ 4 crores is recovered ultimately in respect of the debt.

Compute total income of S Ltd. for the A.Y. 2024-25 and work out tax payable on such income, indicating reasons for treatment of each item.

[CA Final May 2012] [16 Marks]

**Ans. Computation of total income of S Ltd. for the A.Y. 2024-25**

(₹ in crores)

	₹	₹
Net profit as per statement of profit and loss		115.00
<b>Add:</b>		
Depreciation in excess of 15% provided on EPABX & Mobile phones [EPABX and mobile phones are not computers and therefore, are not entitled to higher depreciation @ 40%. Hence, normal depreciation @ 15% shall be allowed. It was so held in case of <i>Federal Bank Ltd. v. ACIT</i> (Ker)]	11.25	
Payment for higher studies of director's son abroad [Since there is no evidence of existence of any "apprentice training scheme", the expenditure of ₹ 35 lakhs incurred in respect of higher studies abroad for the director's son is not allowable as deduction as there is no nexus between the education expenditure incurred abroad for the director's son and the business of S Ltd. It was so held in <i>Echjay Forgings Ltd. v. ACIT</i> (2010)]	35	



	₹	₹
Payment to N Ltd. for feasibility study [Payment towards feasibility study conducted for examining proposals for technological advancement relating to the existing business, where the project was abandoned without creating a new asset, is allowable as revenue expenditure as per the Delhi high court ruling in Priya Village Roadshows Ltd. (2011). Therefore, ₹ 50 crores paid to N Ltd. towards feasibility study is an allowable expenditure. Since, such expenditure has already been debited to profit and loss account, no further adjustment is required. ]	-	
Expenditure on earning dividend from foreign company [Allowed from 'Income from Other Sources']	0.25	
Payment towards purchase of computer software [Section 9(1)(vi) provides that the consideration for use or right to use of computer software is royalty and consequently tax has to be deducted at source in respect of such payments. Since no TDS was deducted, ₹ 29 crores is to be disallowed u/s 40(a)(i)]	29.00	
Machine discarded [With regard to the discarded machine, no amount has been adjusted in block of asset as no money is receivable in respect of discarded machine. Thus, depreciation would be allowed assuming that there are other assets in the block]	-	
Contribution to a National Laboratory [It is eligible for 100% deduction. Since, it has already been debited to profit and loss account, no further adjustment is required.]	-	
Secret commission paid not allowable [Secret commission being in the nature of bribe is not allowable as expenditure as per Sec. 37(1)]	13.00	88.50
		203.50
<b>Less:</b> Dividend received from foreign company taxable under the head "Income from other sources"	10.00	
Bad debts allowable as deduction [₹ 5 crores - ₹ 4 crores]	1.00	11.00
<b>Profits and gains of business or profession</b>		<b>192.50</b>
<b>Income from Other Sources</b>		
Dividend from foreign company [Dividend received from foreign company will be taxable as normal dividend income in the hands of S Ltd.]	10.00	