

ATTEMPT ALL QUESTIONS

Q.1 (a) In the Previous Year 2023-2024, Mr Ramnathan, Indian Citizen, is Vessel Manager in Pacific Ocean Transits Ltd which operates Freight voyage from Mumbai Port (India) to Colombo Port (Srilanka) on regular basis. It does not involve in transit of Passengers.

Mr. Ramnathan, being a Crew Member of Ship, provides you the following information about his voyage during the FY 2023-2024:

(a) Date entered into the Continuous Discharge Certificate (For Joining the ship) - 03.08.2023

(b) Date entered into the Continuous Discharge Certificate (Signing off) - 31.12.2023

(c) On 01.01.2024, he reached his native place of Mumbai and resigned his job.

Is he a Resident or not for the AY 2024-2025? Comment.

(5 Marks)

Solution :

Principles	1. U/s 6(1), any person who stays in India for a period of 182 days or more, during the Relevant Previous Year is a Resident for that year.		
	2. For a Member of the Crew of a Foreign-bound Ship leaving India, to determine the period of Stay in India, the following period shall not be included:		
	Period beginning From	Period ending to	
	Date entered into the Continuous Discharge Certificate in respect of joining the ship by the said individual for the eligible voyage	date entered into Continuous Discharge Certificate in respect of the signing off by that individual from the ship in respect of such voyage.	
Analysis	Period of Exclusion from Stay in India = From 03.08.2023 To 31.12.2023 = 150 days		
Conclusion	Since Mr. Ramnathan stayed in India for a period of 182 days or more, (365 days-150 days) during the relevant previous year 2023-2024, he is a Resident for AY - 2024-2025.		

Note: The above voyage is a Eligible Voyage as the Ship is engaged in the carriage of freight in international traffic having originated from a port in India, and has as its destination any port outside India (Mumbai Port to Colombo Port)

(b) State with reasons whether the following attract Income Tax in India in the hands of Recipients -

1. Interest on moneys borrowed from outside India ₹ 5,00,000 by a Non-Resident for the purpose of business within India say, at Mumbai.

2. Post Office Savings Bank Interest of ₹ 12,000 received by a Resident Assessee say, Mr. Ram.

3. Royalty paid by a Resident to a Non-Resident in respect of business carried on outside India.

4. Legal Charges of ₹ 5,00,000 paid to a Lawyer of United Kingdom who visited India to represent a case at the Delhi High Court.

(5 Marks)

Solution :

Particulars	Taxability	₹	Reason
1. Interest payment by a Non-Resident for carrying on Business or Profession in India (Mumbai)	Taxable	5,00,000	U/s 9(1)(v), Interest paid by Non-Resident for the purpose of carrying on Business or Profession in India is deemed to accrue or arise in India.
2. Post Office Savings Bank Interest of ₹ 12,000 received by Mr. Ram, a Resident.	Taxable	12,000	Interest paid by Government / Resident for specified purposes, is deemed to accrue or arise in India.
3. Royalty paid by a Resident to a Non-Resident for a Business carried on outside India	Not Taxable	NIL	Payment relating to a Business or Profession carried on outside India, not deemed to accrue or arise in India.

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4. Legal Charges paid to a Lawyer of UK who visited India to represent a case at Delhi HC.	Taxable	5,00,000	Legal Charges paid to a Non-Resident for earning any source of Income in India is deemed to accrue or arise in India.
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Question 2 Compute the Gross Total Income in the hands of an individual, if he is (a) a resident and ordinary resident; and (b) a non-resident for the A.Y. 2024-2025.

S.No.	Particulars	Amount ₹
(i)	Interest from German Derivatives Bonds (1/3 received in India)	21,000
(ii)	Income from agriculture land situated in Malaysia, remitted to India	51,000
(iii)	Income earned from business in Dubai, controlled from India (₹ 20,000 received in India)	75,000
(iv)	Profit from business in Mumbai, controlled from Australia	1,75,000
(v)	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000
(vi)	Dividend from Brown Ltd an Indian Co.	30,000
(vii)	Profit from business in Canada controlled from Mumbai (60% of profit deposited in a bank in Canada and 40% remitted to India)	60,000
(viii)	Amount received from an NRI for the use of know-how for his business in Singapore	8,00,000
(ix)	Dividend received from Foreign Company in India	25,000
(x)	Past years untaxed foreign income brought to India	50,000

(10 Marks)

Answer :

Computation of Total Income for the Assessment Year 2024-2025 (Amounts in ₹)

	Particulars	Options	
	Residential Status	NR	ROR
1.	Interest from German Derivatives Bonds (1/3 received in India)	7,000	21,000
2.	Income from agriculture land situated in Malaysia, remitted to India	-	51,000
3.	Income earned from business in Dubai, controlled from India (₹ 20,000 received in India)	20,000	75,000
4.	Profit from business in Mumbai, controlled from Australia	1,75,000	1,75,000
5.	Interest received from Mr. Ashok (NRI) on loan provided to him for business in India	35,000	35,000
6.	Dividend from Brown Ltd an Indian Co	30,000	30,000

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7.	Profit from business in Canada controlled from Mumbai (Assuming received in Canada and remitted to India)	—	60,000
8.	Amount received from an NRI for the use of know-how for his business in Singapore	—	8,00,000
9.	Dividend received from Foreign Company in India	25,000	25,000
10.	Past years untaxed foreign income brought to India	-	-
	Total Income	2,92,000	12,72,000

Q.3 Mr. Pawan, an employee of PQR Co. Ltd at Mumbai and covered by the Payment of Gratuity Act retires at the age of 64 years on 31.12.2023 after completing 33 years and 7 months of service. At the time of retirement, his Employer pays ₹ 20,51,640 as Gratuity and ₹ 6,00,000 as Accumulated Balance of Recognised Provident Fund. He is also entitled for a monthly pension of ₹ 8,000. He gets 75% of Pension commuted for Rs. 4,50,000 on 1st February 2024.

Determine the Salary chargeable to tax for Mr. Pawan for the Assessment Year 2024-2025, with the help of the following information -

Basic Salary (₹ 80,000 x 9)	₹ 7,20,000
Bonus	₹ 36,000
House Rent Allowance (₹ 15,000 x 9)	₹ 1,35,000
Rent paid by Mr. Pawan (₹ 10,000 x 12)	₹ 1,20,000
Employer Contribution towards Recognised Provident Fund	₹ 1,10,000
Professional Tax paid by Mr. Pawan	₹ 2,000

Note: Salary and Pension falls due on the last day of each month.

(10 Marks)

Solution :

Assessee: Mr. Pawan

Previous Year: 2023-2024

Assessment Year: 2024-2025

Computation of Taxable Salary

Particulars		₹
Salary	(80,000 x 9)	7,20,000
Pension	(8,000 x 1) + (8,000 x 25% x 2)	12,000
Bonus	Given	36,000
Taxable HRA	(W.N.1)	1,17,000
Employers' Contribution to Recognised PF above 12%	(1,10,000 - 7,20,000 x 12%)	23,600
Taxable Gratuity	(W.N.2)	4,82,409
Taxable Commuted Pension	(W.N.3)	2,50,000

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Accumulated Balance of Recognised PF	Exempt u/s 10(12) since Service > 5 years	NIL
Gross Salary		16,41,009
Less: Deduction u/s 16 (ia) Standard Deductions		(50,000)
Less: Deduction u/s 16 Profession Tax Given		(2,000)
Taxable Salary		15,89,009

Working Notes:

1. Computation of Taxable HRA u/s 10(13A)

Particulars	₹	₹
Amount of HRA Received (15,000 x 9)		1,35,000
Less: Amount exempt u/s 10(13A) = Least of the following -		
(a) Actual HRA Received	1,35,000	
(b) 50% of Salary (Being at Mumbai) = 50% of ₹ 7,20,000	3,60,000	
(c) Rent Paid Less 10% of Salary = (10,000 x 9) - (10% of 7,20,000)	18,000	(18,000)
Taxable HRA		1,17,000

Note: Salary = Basic + DA (Considered for Retirement Benefits) + Commission as a percentage of Turnover. = 7,20,000 + Nil + Nil = ₹ 7,20,000.

Rent paid is considered only for the period during which HRA is received, i.e. 9 months.

2. Taxable Gratuity u/s 10(10) [covered under Payment of Gratuity Act]

Particulars	₹	₹
Amount of Gratuity Received		20,51,640
Less: Amount exempt u/s 10(10) = Least of the following -		
(a) Actual Gratuity received	20,51,640	
(b) $\frac{15}{26} \times$ Last Drawn Salary \times No. of completed years of Service or part thereof ($\frac{15}{26} \times 80,000 \times 34$ Years) [Salary = Basic + DA, taken as ₹ 80,000 pm]	15,69,231	
(c) Notified Amount	20,00,000	(15,69,231)
Taxable Gratuity		4,82,409

3. Taxable Commuted Pension u/s 10(10A)

Particulars	₹
Commuted Pension Received	4,50,000

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Less: Exempt u/s 10(10A) = $\frac{1}{3}^{\text{rd}}$ of Full Value of Pension (Non-Govt Employee in receipt of Gratuity)	2,00,000
(Note: Full Value of Pension = ₹ 4,50,000 + 75% = 6,00,000)	
Taxable Commuted Pension	2,50,000

Note: The above computation has been computed under the assumption that the said assessee Mr. Pawan has not availed the benefits u/s 115 BAC. If so he availed, the Employment/professional tax as contained in Section 16 will not be allowable for computing **Taxable Salary** and it would be taxed at concessional rates prescribed.

Q.4 Mr. Singh is having a Trading Business and his Trading & Profit & Loss Account for the Previous Year 2023-2024 is as under:

Particulars	Amount	Particulars	Amount
To Opening Stock	1,00,000	By Sales	70,00,000
To Purchases	49,00,000	By Closing Stock	50,000
To Gross Profit	20,50,000		
Total	70,50,000	Total	70,50,000
To Salary to Employees (including Contribution to PF)	5,00,000	By Gross Profit b/d	20,50,000
To Donation to Prime Minister Cares Fund	1,00,000		
To Provision for Bad Debts	50,000		
To Bonus to Employees	50,000		
To Interest of Bank Loan	50,000		
To Family Planning Expenditure incurred on Employees	20,000		
To Depreciation	30,000		
To Income Tax	1,00,000		
To Net Profit	11,50,000		
Total	20,50,000	Total	20,50,000

Other information:

1. Depreciation allowable ₹ 40,000 as per Income Tax Rules.
2. No deduction of tax at source on payment of interest on bank loan has been made.
3. Payment of Bonus to workers made in the month of October on the occasion of Diwali festival.
4. Out of Salary, ₹ 25,000 pertains to his contributions to Recognized PF which was deposited after the due date but before filing return of Income u/s 139. Further, Employees Contribution of ₹ 25,000 was also deposited after the due

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date.

Calculate Profit & Gains from Business and Profession of Mr. Singh for the Assessment Year 2024-2025.

(10 Marks)

Solution :

Assessee: Mr. Singh

Previous Year: 2023-2024

Assessment Year: 2024-2025

Computation of Gross Total Income

Particulars	Deduction from Profit	Addition to Profit
Net Profit as per Profit and Loss Account		11,50,000
Employee's Contribution to RPF		25,000
Donation to PM CARES Fund		1,50,000
Provision for Bad Debts		50,000
Bonus to Employees paid in the month of October		50,000
Family Planning Expenses		20,000
Depreciation as per books		30,000
Depreciation as per Income Tax Rules	40,000	
Income Tax Paid		1,00,000
Sub-Total	40,000	15,75,000
Profits and Gains of Business or Profession (15,75,000 - 40,000)		15,35,000

Note:

- U/s 36(1)(iv), Contribution to RPF by Employer after due date of the relevant act but before filing Return u/s 43B is allowed as an Expense.

Attempt Q.5 or Q.5A

Q.5 Following is the Profit and Loss Account of Mr. Q for the year ended 31.03.2024:

Particulars	Amount	Particulars	Amount
To Repairs on Building	1,81,000	By Gross Profit	6,01,000
To Amount paid to IIT, Mumbai for an	1,00,000	By I.T. Refund	8,100
Approved Scientific Research Programme		By Interest on Company Deposits	6,400
To Interest	90,000		
To Banking Cash Transaction Tax	20,000		

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To Travelling	1,30,550		
To Net Profit	93,950		
Total	6,15,500	Total	6,15,500

Following additional information are furnished:

- Repairs on Building includes ₹ 1,00,000 being cost of laying a toilet roof.
- Interest payments include ₹ 50,000 paid to a Resident on which TDS has not been deducted and penalty for contravention of Pollution Control Act of ₹ 24,000.

Compute the Income chargeable under the head Profits and Gains of Business or Profession of Mr. Q for the year ended 31.03.2024 ignoring depreciation. (10 Marks)

Answer :

Assessee: Mr.Q

Previous Year: 2023-2024

Assessment Year: 2024-2025

Computation of Profits and Gains of Business or Profession

Particulars	Deduction from Net Profit	Addition to Net Profit
Net Profit as per Profit and Loss A/c		93,950
Current Repairs of Capital Nature on Building		1,00,000
Disallowed Interest - Interest paid to a Resident, without deduction of tax at source is disallowed to an extent of 30% u/s 40(a)(ia) [₹ 50,000 x 30%] (See Note)		15,000
Penalty for contravention of Pollution Control Act (payment for contravention of any provision of law is not an allowable expenditure u/s 37)		24,000
Income tax Refund - Does not form part of Income	8,100	
Interest on Company Deposits - Considered under Income from Other Sources	6,400	
Sub-Total	(14,500)	2,32,950
Profits and Gains of Business or Profession (2,32,950 - 64,500)		2,18,450

Note:

- Amount Paid to IIT for Approved Scientific Research Programme (100% is allowed as deduction u/s 35(2AA)). No Deduction is needed.
- Interest paid to Resident is disallowed to the extent of 30%. This will be allowed in the year of TDS Remittance.
- Banking Cash Transaction Tax is allowable as an expenditure u/s 36(1)(xiii).
- Depreciation at 10% can be claimed in respect of cost of laying Toilet Roof. However, since the Question requires solution ignoring depreciation, it has been ignored in respect of Capital Expenditure relating to Toilet Roof.

OR

Q.5A Mr. Anand is a regular employee of Malpani Ltd in Mumbai. He was appointed on 01-03-2023 in the scale of

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25,000-2,500-35,000. He is paid dearness Allowance (which forms part of Salary for Retirement Benefits) @ 15% of Basic Pay, and Bonus equivalent to one and a half month's Basic Pay as at the end of the year. He contributes 18% of his Salary (Basic Pay plus Dearness Allowance) towards Recognized Provident Fund and the Company contributes the same amount.

He is provided free housing facility which has been taken on Rent by the Company at ₹ 15,000 per month. He is also provided with following facilities:

- (i) The Company reimbursed the medical treatment bill of ₹ 40,000 of his dependent daughter.
- (ii) The monthly salary of ₹ 2,000 of a house-keeper is reimbursed by the Company.
- (iii) He is getting Telephone Allowance @ ₹ 1,000 per month.
- (iv) A Gift Voucher of ₹ 4,700 was given on the occasion of his marriage anniversary.
- (v) The Company pays Medical Insurance Premium to effect an insurance on the health of Mr. Anand ₹ 12,000.
- (vi) Motor Car running and maintenance charged fully paid by Employer of ₹ 36,600. (The Motor Car is owned and driven by Mr. Anand. The engine cubic capacity is below 1.60 litres. The Motor Car is used for both official and personal purpose by the Employee.)
- (vii) Value of Free Lunch provided during office hours is ₹ 2,200.

Note – Assessee opt out of the Default Tax regime.

(10 Marks)

Solution :

Assessee: Mr. Anand

Previous Year: 2023-2024

Assessment Year: 2024-2025

Computation of Income under the Head Salaries

Particulars	₹
Basic Salary ($₹ 25,000 \times 11$) + ($₹ 27,500 \times 1$)	3,02,500
Dearness Allowance ($₹ 3,02,500 \times 15\%$)	45,375
Bonus ($₹ 27,500 \times 1.5$)	41,250
Employer's Contribution to Provident Fund in excess of 12% [$(₹ 3,02,500 + ₹ 45,375) \times (18\% - 12\%)$]	20,873
Rent Free Unfurnished Accommodation [See Note below]	60,169
Medical Treatment of Daughter dependent on the Assessee	40,000
Medical Insurance Premium on self (Not Taxable being paid by Employer)	Nil
House Keeper's Salary reimbursed ($₹ 2,000 \times 12$)	24,000
Gift Voucher (Below ₹ 5,000. Hence not Taxable)	NIL
Telephone Allowance = ($₹ 1,000 \times 12$)	12,000
Motor Car = Amount incurred by Employer less 1,800 pm = [$36,600 - (1,800 \times 12)$]	15,000
Value of Free Lunch Provided - Fully Exempt (Assumed not exceeding ₹ 50 per meal)	Nil
Gross Salary	5,61,167
Less: Deduction u/s 16 (ia) Standard Deduction	(50,000)

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Income under the head “Salaries”	5,11,167
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Note: Valuation of Rent Free Unfurnished Accommodation

Particulars	₹
I. Computation of Salary for Valuation of Accommodation Facilities	
Basic + DA + Bonus + Telephone Allowance (₹ 3,02,500+ ₹ 45,375 + ₹ 41,250 + ₹ 12,000)	4,01,125
II. Computation of Taxable Value of Unfurnished Accommodation	
Rent paid by Employer or 15% of Salary, whichever is lower = 1,80,000 or 15% of 4,01,125	60,169
Less: Rent recovered from employee	Nil
Taxable Value of Unfurnished Accommodation	60,169

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