Mock Test Paper - Series II: December, 2025

Date of Paper: 10th December, 2025

Time of Paper: 2 P.M. to 5 P.M.

FINAL COURSE: GROUP – II

PAPER – 4: DIRECT TAX LAWS & INTERNATIONAL TAXATION

SOLUTIONS

Division A – Multiple Choice Questions

MCQ No.	Most Appropriate Answer
1.	(b)
2.	(a)
3.	(c)
4.	(a)
5.	(b)
6.	(b)
7.	(a)
8.	(d)

MCQ No.	Most Appropriate Answer
9.	(a)
10.	(c)
11.	(c)
12.	(b)
13.	(c)
14.	(b)
15.	(a)

1. Computation of total income of Peacock Ltd. for A.Y.2025-26

	Particulars	₹	₹
I	**Profits & Gains of Business of Profession**		
	Net Profit as per Statement of Profit & Loss		27,22,000
	***Add:* Items debited but to be considered separately or to be disallowed**		
	- **Interest on money borrowed for purchase of land** [As per section 36(1)(iii), interest on borrowed capital till the asset is put to use has to be capitalized. Hence, interest on moneys borrowed is not allowable under section 36(1)(iii). Since it is already debited to statement of profit and loss, the same has to be reduced.]	2,00,000	
	- **Commission paid in February, 2025** [Commission paid in February, 2025 after deduction of tax is allowable as deduction during	Nil	

		the P.Y. 2024-25 since TDS has been deposited before the due date of filing return of income. Since commission is already debited to statement of profit and loss, no adjustment is required.]		
	-	**Commission paid in March, 2025** [30% of commission paid in March 2025 on which TDS was deducted and paid in subsequent year would be disallowed during the P.Y. 2024-25 and would be allowed as deduction in the year in which such tax has been paid. Hence, 30% of commission debited to statement of profit and loss would be added back]	37,500	
	-	**Travelling expenses on foreign tour in connection with new line of business** [Travelling expenses incurred on foreign tour of a director for initiating a new line of business is a capital expenditure. The same is, therefore, not deductible under section 37(1). Since it is already debited to statement of profit and loss, the same has to be reduced.]	90,000	
	-	**Interest on term loan converted into new term loan** [Under section 43B, interest on loan due to any scheduled bank, etc. is allowed as deduction, if such interest is actually paid irrespective of the method of accounting followed by the assessee. Conversion of arrear interest into a fresh loan by a bank cannot be considered as actual payment of interest. However, the amount of funded interest (i.e., converted loan) actually paid is allowable as deduction. Hence, out of ₹ 3 lakhs, only ₹ 50,000, being the funded interest was actually paid which is allowable as deduction while computing business income of P.Y. 2024-25. The balance of ₹ 2,50,000 has to be added back.]	2,50,000	
	-	**Excess depreciation provided on EPABX & Mobile phones not allowable as deduction** [EPABX and mobile phones are not computers and therefore, are not entitled to depreciation	11,25,000	

		@ 40%. It was so held by the Kerala High Court in *Federal Bank Ltd. v. ACIT (2011) 332 ITR 319*. Therefore, EPABX and mobile phones would be entitled to depreciation of ₹ 6,75,000, calculated by applying the rate of 15%, being the general rate applicable to plant and machinery, on the cost of ₹ 45,00,000 (₹ 18,00,000 × 100/40). The excess depreciation of ₹ 11,25,000 (being ₹ 18,00,000 – ₹ 6,75,000), debited to statement of profit and loss, has to be added back.]		
	-	**Contribution to S Ltd. (wholly owned subsidiary company)** [Contribution to a wholly owned subsidiary company for construction of a school for the benefit of its employees is allowable under section 37(1).]	-	
	-	**Provision for gratuity ₹ 6,00,000** ***Less:* Gratuity paid ₹ <u>1,50,000</u>** [Under section 40A(7), no deduction is allowed in respect of any provision made for the payment of gratuity to the employees on retirement or termination of employment for any reason. However, gratuity actually paid is admissible as deduction. Therefore, provision for gratuity of ₹ 6,00,000 is to be disallowed. Actual gratuity paid ₹ 1,50,000 debited to provision for gratuity account is allowable. Hence, only the net sum of ₹ 4,50,000 has to be added back.]	4,50,000	
	-	**Depreciation on new machinery** [Depreciation on new machinery has been calculated @15% and, consequently, ₹ 1,20,000 has been debited to statement of profit and loss. Since it was acquired in March 2025 only, 50% of normal depreciation is allowable. The excess depreciation of ₹ 60,000 is, hence, disallowed.]	60,000	22,12,500
				49,34,500

	***Less:* Items credited but to be considered separately and those not charged but to be allowed**		
	- **Long term capital gain on sale of equity shares** [Taxable under the head "Capital gains"]	3,00,000	
	- **Bonus paid on 15.11.2024 in respect of previous year 2023-24 disallowed last year but allowable in P.Y. 2024-25** [Provision for bonus for the previous year 2023-24 would have been disallowed under section 43B for non-payment by due date for filing of return of income for assessment year 2024-25. Payment of bonus made after the said date is allowed in the year of actual payment. However, such deduction allowable in the year of payment is subject to the provisions of section 40A(3). Hence, the sum of ₹ 34,000, being bonus paid by bearer cheque shall not be allowed as deduction in the year of payment.]	64,000	
	- **Dividend from P Ltd.** [Dividend is taxable under the head "Income from Other Sources"]	1,00,000	4,64,000
			44,70,500
II	**Capital Gains**		
	Long term capital gain on sale of equity shares [Taxable @12.5% on sum exceeding ₹ 1,25,000]		
	Sale consideration [10,000 x ₹ 130]	13,00,000	
	Less: Cost of acquisition	11,00,000	2,00,000
	Higher of		
	- Actual cost of ₹ 10 lakhs [10,000 x 100]		
	- Lower of fair market value as on 31.1.2018 of ₹ 11 lakhs or sale consideration of ₹ 13 lakhs		
III	**Income from Other Sources**		
	Dividend from P Ltd. [Dividend is taxable under the head "Income from Other Sources"]		1,00,000
	Total Income		**47,70,500**

2. (a) (i) Computation of Total income and tax liability of M/s Silver Green for A.Y. 2025-26

Particulars	₹	₹
Profits and gains of business or profession		
Unit in SEZ		24,00,000
Profit from operation of warehousing facility	30,00,000	
Add: Interest on capital @14%	11,48,000	
Salary credited to all partners [₹ 9,00,000 x 3]	27,00,000	
	68,48,000	
Less: Deduction under section 35AD	25,00,000	
[Capital expenditure incurred prior to commencement of business and capitalised in the books of account excluding the expenditure incurred for cost of land] [₹ 60 lakhs – ₹ 35 lakhs]		43,48,000
		67,48,000
Less: Interest to partners on capital [Maximum interest@12% is allowed as per section 40(b)] [₹11,48,000/14%*12%]		9,84,000
Book profits		**57,64,000**
Less: Partners' remuneration allowable under section 40(b)(v)		
(i) As per limit prescribed in section 40(b)		
On first ₹ 6,00,000 Higher of ₹ 3,00,000 or 90% of ₹ 6 lakhs	5,40,000	
On the balance ₹ 51,64,000 @60%	30,98,400	
	36,38,400	
(ii) Remuneration actually paid or payable to working partners [₹ 9,00,000 x 2]	18,00,000	
Whichever is less is allowed		18,00,000
PGBP/Gross total income		**39,64,000**
Less: Deduction u/s 10AA [₹ 24 lakhs x 90 lakhs/120 lakhs x 50%, since this is the sixth year]		9,00,000

Total income		30,64,000
Computation of tax liability		
Tax @ 30% on ₹ 30,64,000		9,19,200
Add: Health and Education cess @ 4%		36,768
Tax liability		9,55,968
Tax liability (Rounded off)		**9,55,970**

(ii) As per proviso to section 10AA(1), no deduction under section 10AA shall be allowed to an assessee who does not furnish a return of income on or before the 'due date' specified in section 139(1).

However, there is no such condition for claiming deduction under section 35AD.

Since M/s Silver Green files its return of income for A.Y. 2025-26 in December, 2025 i.e., after the due date of filing return of income, it cannot claim deduction under section 10AA in respect of profits derived from unit in SEZ. It will be eligible to claim the deduction under section 35AD.

(b) Computation of total income and tax liability of Mr. James for A.Y. 2025-26 as per Chapter XII-A and other provisions of the Income-tax Act, 1961

Particulars		Amount (₹)	Amount (₹)
Capital Gains			
Long term capital gain on sale of listed equity shares of A Ltd.			
Full value of consideration		6,00,000	
Less: Expenditure on Transfer		50,000	
Net consideration		5,50,000	
Less: Cost of Acquisition [Indexation benefit is not available]		1,10,000	
		4,40,000	
Less: Exemption under section 115F [4,40,000 x 2,20,000/ 5,50,000]		1,76,000	2,64,000
Income from Other Sources			
Interest on Government Securities [₹ 81,000/79.20% x 100%]		1,02,273	

Interest on deposits with public limited companies	3,25,000		
Less: Expenses incurred [Not allowed under section 115D]	NIL		
		3,25,000	
Interest on deposits with private limited companies		5,55,000	
			9,82,273
Gross total income/ Total income			12,46,273
Total income (Rounded off)			**12,46,270**
Computation of gross tax payable			
Tax on LTCG of ₹ 2,64,000 @10%		26,400	
Tax on investment income of ₹ 4,27,273@20% [₹ 1,02,273 + ₹ 3,25,000]		85,455	
Tax on other income of ₹ 5,55,000 at slab rate		23,500	
			1,35,355
Add: Health and education cess@4%			5,414
Gross tax payable			**1,40,769**
Gross tax payable (Rounded off)			**1,40,770**

3. (a) (i) Voluntary contribution of ₹ 95 lakhs received with a specific direction that it should form part of the corpus of the trust, would be eligible for exemption, since investment in shares of M/s Active Care Ltd. a public sector company is permissible mode of investment under section 11(5).

However as per provisions of section 11(5), where an investment is made in the shares of any public sector company and such public sector company ceases to be a public sector company, the investment so made shall be deemed to be an investment made for a period of three years from the date of such cessation.

Therefore, it would continue to be eligible for exemption for a period of 3 years from the cessation date i.e., 31.3.2025 on which M/s Active Care Ltd., ceases to be a public sector company due to the disinvestment.

(ii) A trust is required to deduct tax at source u/s 194J even if it is not subjected to tax audit u/s 44AB. Moreover, as per Explanation 3 to section 11(1),

where tax has not been deducted at source on any expenditure, 30% of disallowance of expenditure for non-deduction of tax at source under section 40(a)(ia) would mutatis mutandis apply to a trust in determining application of income.

Accordingly, ₹ 30,000 being 30% of ₹ 1,00,000 would not be treated as application of income for non-deduction of tax at source on the consultancy fees paid to Mr. Sachin by M/s Covid Care Foundation.

(b) (i) Section 115BBC provides for levy of tax @ 30% on anonymous donation received by, *inter alia*, charitable trusts or institutions referred to in section 11 in the following manner:

(a) the amount of income-tax calculated @30% on the aggregate of anonymous donations received in excess of 5% of the total donations received by the assessee or one lakh rupees, whichever is higher; and

(b) the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the aggregate of the anonymous donations received in excess of 5% of the total donations received by the assessee or ₹ 1 lakh, as the case may be.

Further, section 13(7) provides that the exemption provisions contained in sections 11 and 12 shall not be applicable in respect of any anonymous donation liable to tax under section 115BBC. As such, application of the anonymous donations received by the charitable trust for charitable purposes does not confer any exemption from tax. Therefore, the claim for non-taxability under section 115BBC of anonymous donations received by the charitable trust is not valid in law.

However, a view may be taken that anonymous donation upto higher of 5% of total donations or ₹ 1 lakh, which is taxable at normal rates would be eligible for application of income and thereby, the benefit of exemption under section 11 would apply.

(ii) Section 115BBC(2) provides that the provisions contained in section 115BBC(1) relating to the taxability of anonymous donations are not applicable to any trust or institution created or established wholly for religious purposes. As such, the trust established wholly for religious purposes is not liable to be taxed in respect of the anonymous donations

received by it. Therefore, the claim made by the trust is valid in law. The application or non-application of such anonymous donation for the purposes of trust during the relevant financial year is not germane to the issue of taxability under section 115BBC.

(c) Computation of total income of Mr. Ashu for A.Y.2025-26

Particulars	₹	₹
Income from House Property		
Rental income from property in Country Y[1]	3,60,000	
Less: Municipal taxes paid	12,000	
	3,48,000	
Less: Deduction u/s 24(a) @30%	1,04,400	
		2,43,600
Profits and gains from business or profession		
Royalty[2] from Country Y for writing article in journals [only the amount which is received during the previous year is includible, since he maintains cash system of accounting]		13,60,000
Income from Other Sources		
Dividend from N Ltd. an Indian company		5,50,000
Gross Total Income		**21,53,600**
***Less:* Deduction under Chapter VI-A**		
U/s 80E – deduction in respect of interest on educational loan for his son	36,000	
U/s 80QQB – No deduction is allowable since royalty income is for writing articles in journals and newspapers and not for writing books	-	36,000
Total Income		**21,17,600**

[1] *In the absence of any information relating to fair rent, municipal value and standard rent, rental income assumed to be gross annual value.*

[2] *Royalty can also be shown under the head "Income from other sources" instead of "Profits and gains from business or profession.*

Computation of net tax liability of Mr. Ashu for A.Y.2025-26

Particulars		₹
Tax on total income [30% of ₹ 11,17,600 + ₹ 1,12,500]		4,47,780
Add: Health and education cess @4%		17,911
		4,65,691
Less: Relief under section 91 -		
Average rate of tax in India [[i.e., ₹ 4,65,691/21,17,600 x 100]	21.991%	
Average rate of tax in Country Y	15%	
Doubly Taxed income [Rental income of ₹ 2,43,600 + royalty income of ₹ 13,60,000]	16,03,600	
Deduction under section 91 on ₹ 16,03,600 @15%, being lower average Indian tax rate and foreign tax rate.		2,40,540
Net tax liability		**2,25,151**
Net tax liability (rounded off)		**2,25,150**

4. (a) (i) By virtue of section 206C(1A), Mr. Rajkumar is not required to collect tax at source under section 206C(1), since Mr. Shubham has furnished a certificate to Mr. Rajkumar that the scrap purchased from him is for manufacturing process carried on by him and not for trading purposes.

However, TDS under section 194Q will be attracted in the hands of the buyer in cases covered under section 206C(1A), if the conditions specified under section 194Q are fulfilled.

In this case, tax is required to be deducted at source under section 194Q by the buyer, Mr. Shubham, since his turnover in the immediately preceding financial year i.e., F.Y.2023-24 exceeds ₹ 10 crores and he has purchased goods of the value or aggregate of such value exceeding ₹ 50 lakhs in the F.Y.2024-25. TDS u/s 194Q would be 0.1% of the sum exceeding ₹ 50 lakhs and the same has to be deducted at the time of payment or credit of such sum to the account of resident seller, whichever is earlier.

Therefore, in the present case, Mr. Shubham is required to deduct tax at source @ 0.1% of ₹ 5,00,000, being the amount exceeding ₹ 50 lakhs at the time of credit.

(ii) This issue has been clarified by the CBDT Circular No.8/2009 dated 24.11.2009. As per provisions of section 194J(1), any person, who is

responsible for paying to a resident any sum by way of fees for professional services, shall, at the time of credit of such sum to the account of the payee or at the time of payment thereof in cash or by issue of a cheque or draft or by any other mode, whichever is earlier, deduct an amount equal to 10% of such sum as TDS.

Further, as per clause (a) of *Explanation* to section 194J "professional services" includes services rendered by a person in the course of carrying on medical profession.

The services rendered by hospitals to various patients are primarily medical services and therefore, the provisions of section 194J are applicable on payments made by TPAs to hospitals, etc. Further, for invoking provisions of section 194J, there is no stipulation that the professional services have to be necessarily rendered to the person who makes payment to the hospital. Therefore, TPAs who are making payment on behalf of insurance companies to hospitals for settlement of medical/ insurance claims, etc. under various schemes, including Cashless Schemes, are liable to deduct tax at source under section 194J on all such payments to hospitals, etc.

In view of the above, all such transactions between TPAs and hospitals would fall within the ambit of provisions of section 194J.

(b) (i) Vega Ltd., an Indian company and Solaris Inc. of UK, are deemed to be associated enterprises as per section 92A(2), since Vega Ltd. guarantees 10% or more of total borrowings of Solaris Inc.

Further, the transaction of purchasing raw material falls within the meaning of "international transaction" under section 92B. Hence, transfer pricing provisions would be attracted in this case.

Computation of Arm's length price and adjustment to be made as per Comparable Uncontrolled Price Method

Particulars	₹ in crores
Price of imported goods charged by Solaris Inc. from Vega Ltd.	60.00
Less: Mark up earned @ 25% [₹ 60 crores x 25/125] from Vega Ltd.	12.00
	48.00

Add: Mark up earned in uncontrolled comparable transaction @ 20%	9.60
Add: Adjustment on account of brand value [Annual cost of brand value]	1.00
Add: Adjustment on account of cost of credit for 1 month [12% x 1/12 x 57.60]	0.576
Arm's length price of raw material purchase	**59.176**
Less: Price at which raw material was imported by Vega Ltd. from Solaris Inc.	60.000
Adjustment to be made to the income of Vega Ltd.	**0.824**

(ii) Vega Ltd. is required to furnish the audit report under section 92E on or before 31.10.2025, being the specified date i.e., date one month prior to the due date for furnishing the return of income under section 139(1) for the relevant assessment year.

(iii) If Vega Ltd. fails to furnish the audit report under section 92E, penalty of ₹ 1 lakh would be leviable.

5. (a) (i) Deduction of taxes at source is one of the methods of collecting tax. The tax deducted at source is part of the assessee's income and therefore, the gross amount is included in the total income and offered to tax. It is on this premise that the tax deducted at source would have to be treated as tax paid on behalf of the assessee.

Section 205 provides for restriction against direct demand on assessee to the extent to which tax has been deducted from that income. Thus, no recovery of TDS can be made from the deductee.

Further, the amount retained against remittance made by the payer is nothing but tax which the assessee/deductee has offered for tax by grossing up the remittance. If credit is not given, the Department would end up doing indirectly what they cannot do directly i.e., recover tax directly from the deductee.

The assessee had followed the regime put in place in the Act for collecting tax albeit, through an agent (deductor) of the Government. The recovery proceedings could only be initiated against the deductor, as the deductor, an agent for collecting tax, had failed to deposit the tax with the Government. Therefore, the deductee should be given credit for TDS

though it was not reflected in Form 26AS and no recovery towards TDS could be made from the assessee in terms of the provisions of section 205.

Thus, in the present case, the Department's action in recovering the tax due from Mr. Arjun on the ground that it is not reflected in Form 26AS, is bad in law

Note – The facts given in the question are similar to the facts in BDR Finvest Pvt. Ltd. v. DCIT [2024] 462 ITR 141 (Delhi). The above answer is based on the rationale of the Delhi High Court ruling in the said case.

(ii) **Issue Involved**: The issue under consideration is whether penalty u/s 271C and interest u/s 201(1A) both are leviable on late deposit of TDS.

Provisions applicable: Section 271C(1)(a) provides that if any person fails to deduct the whole or any part of the tax as required by or under the provisions of Chapter XVII-B, then, such person is liable to pay, by way of penalty, a sum equal to the amount of tax which such person failed to deduct. Section 201(1A) provides that in case a tax has been deducted at source but is subsequently remitted belatedly, such a person is liable to pay interest as provided under section 201(1A).

Analysis and Conclusion: On a plain reading of section 271C(1)(a), no penalty would be leviable on belated remittance of TDS after it is deducted by the assessee.

Similarly, section 276B speaks about prosecution for failure to pay the tax deducted at source to the credit of the Central Government within the prescribed time.

The words "fails to deduct" in section 271C(1)(a) cannot be read as "failure to deposit/pay the tax deducted".

Accordingly, no penalty would be leviable under section 271C on delay in remittance of the tax deducted at source after deducting it on time. However, interest u/s 201(1A) for late deposit of TDS is leviable.

Note – The above answer is based on the rationale of the Supreme Court in US Technologies International Pvt. Ltd. v. CIT [2023] 453 ITR 644.

(iii) The issue under consideration is whether, for the purpose of computing limitation period under section 143(2), the relevant date is the date of filing of the original return of income or the date of removal of defects in response to a notice issued under section 139(9).

The same issue came up before *Supreme Court in DCIT vs Travel Designer India Pvt. Ltd. vs (2025) 482 ITR 283.* In this case, the High Court noted that since the return was defective, the assessee was called upon to remove such defects, which was removed on 19th May, 2024, which is within the time allowed by the Assessing Officer. Therefore, upon such defects being removed, the return would relate back to the date of filing original return i.e., 15th September, 2023. Consequently, the limitation for issuance of notice under section 143(2) would be 30th June, 2024 i.e., three months from the end of the financial year in which the return under section 139(1) was filed.

In the present case, notice under section 143(2) has been issued on 21st June, 2025, which is much beyond the period of limitation. Therefore, such notice is barred by limitation and cannot be sustained.

Accordingly, the notice issued under section 143(2) is not a valid notice.

(b) In digital economy transactions like sale, purchase, payment, rendering services are performed through digital or virtual mode. In the digital domain, business does not actually occur in any physical location but instead takes place in "cyberspace."

Taxation issues in e-commerce

The typical taxation issues relating to e-commerce are:

(i) the difficulty in characterizing the nature of payment and establishing a nexus or link between taxable transaction, activity and a taxing jurisdiction,

(ii) the difficulty of locating the transaction, activity and identifying the taxpayer for income tax purposes.

The following are OECD recommendations under Action Plan 1 dealing with digital economy:

(1) Modifying the existing permanent establishment rule to provide for whether an enterprise engaged in fully dematerialized digital activities would constitute a PE, if it maintained a significant digital presence in another country's economy.

(2) a virtual fixed place of business in the concept of permanent establishments i.e., creation of a PE when the enterprise maintains a website on a server of another enterprise located in a jurisdiction and carries on business through that website.

(3) Imposition of a final withholding tax on certain payments for digital goods or services provided by a foreign e-commerce provider or imposition of equalisation levy on consideration for certain digital transactions received by a non-resident from a resident or from a non-resident having permanent establishment in other contracting state.

6. **(a)** Advance ruling pronounced by Board for Advance Rulings is not binding on SR Enterprises Pvt. Ltd. Section 245W provides that the applicant who is aggrieved by any ruling pronounced or order passed by the Board for Advance Rulings may appeal to the High Court against such ruling. He has to do so within sixty days from the date of the communication of that ruling or order, in the prescribed form and manner.

Accordingly, if SR Enterprises Pvt. Ltd. is aggrieved by the advance ruling pronounced by BAR, it can file an appeal before the High Court on or before 29th June 2025. The High Court can grant extension of a further period of 30 days for filing the appeal, if it is satisfied, on an application made by SR Enterprises Pvt. Ltd. in this behalf, that it was prevented by sufficient cause from presenting the appeal within the 60 days period as specified above.

(b) M/s Apex Metals Pvt. Ltd. has tried to take advantage of tax provisions by diverting profits from DTA unit to SEZ unit. This is not the intention of the SEZ legislation.

However, such tax avoidance is specifically dealt with through the provisions contained in section 10AA(9), as per which provisions of section 80-IA(8) would get attracted in such a case.

Further, if the aggregate of such transactions entered into in the relevant previous year exceed the threshold of ₹ 20 crore, domestic transfer pricing regulations under section 92BA would be attracted.

Thus, in this case, due to application of specific anti-avoidance provisions, no tax benefit can be derived by M/s Apex Metals Pvt. Ltd. by transferring the products from DTA unit to SEZ unit at less than fair market value.

Hence, the revenue need not invoke GAAR in such a case, though GAAR and SAAR can co-exist as per clarification given in the CBDT Circular.

(c) As per section 44AB, every person carrying on business or profession is required to get his accounts audited before the "specified date" by a Chartered Accountant, if the total sales, turnover or gross receipts in business exceeds ₹ 1 crore in any previous year.

However, tax audit is not required in case of such person carrying on business whose total sales, turnover or gross receipts in business ≤ ₹ 10 crore in the relevant previous year (P.Y.), if -

- aggregate cash receipts including amount received for sales, turnover, gross receipts in the relevant previous year ≤ 5% of such receipts; and
- aggregate cash payments including amount incurred for expenditure in the relevant P.Y. ≤ 5% of such payments

In this case, the percentage of cash receipts of ₹ 22 lakhs to aggregate receipts of ₹ 5.12 crore is 4.30% and the percentage of cash payments of ₹ 28 lakhs to aggregate payments of ₹ 5.50 crore is 5.09%.

Since the cash payments made during the year exceed 5% of aggregate payments, M/s Gupta Electronics is required to get its accounts audited under section 44AB and furnish audit report before the specified date, irrespective of the fact that its turnover does not exceed ₹ 10 crores and its cash receipts do not exceed 5% of total receipts.

Further, particulars of each receipt in an amount exceeding the limit specified in section 269ST i.e., ₹ 2 lakhs, in aggregate from a person in a day or in respect of a single transaction or in respect of transactions relating to one event or occasion from a person, during the previous year, where such receipt is otherwise than by a cheque or bank draft or use of electronic clearing system through a bank account is to be reported in Form 3CD.

In this case, M/s PQR Traders made payment of ₹ 2.5 lakhs by account payee cheque and the balance of ₹ 1 lakh in cash in aggregate during the P.Y. 2024-25 to M/s Gupta Electronics. Since the amount received in cash by M/s Gupta Electronics is less than ₹ 2 lakhs and the transaction is not covered u/s 269ST, there is no need to report this transaction in the tax audit report of M/s Gupta Electronics by his Chartered Accountant.